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Changes in the Global Audiovisual Market

By **Raul Katz** - February 18, 2020

How smart regulation could spur competition and benefit consumers

Prompted by technology innovation, the global audiovisual market has undergone almost constant changes in industry and competitive dynamics since the early 1960s. Up until then, the industry structure had been considerably stable, organized around vertically-integrated players, which received a fairly constant share of profits. On the other hand, consumers received a limited amount of programs made available in orderly linear fashion. The first wave of disruption begun with the explosive deployment of pay-TV, which altered audiovisual distribution. The second disruption wave was driven by the introduction of new consumer technologies, such as VHS and DVD video players, resulting in the emergence of small video stores first, followed by Blockbuster and Netflix which further upset the video distribution business. The third round of disruption, prompted by digitization and video-streaming, represented a challenge by Over the Top players to the pure play distributors of audiovisual content, such as pay-TV operators, as well as the producers of niche programming.

As of today, the audiovisual global market is affected by ferocious competition, where players are competing not only on video distribution but in other adjacent industries like program production on the basis of global scale, while adapting them to localized requirements. Netflix and Amazon alone are expected to invest over US$ 22 billion on film and TV programming in 2019, compared to US$ 21.7 billion in 2018 for NBC, ABC, and CBS, the three broadcasting networks in the United States. In 2018, Netflix had a $12.04 billion content budget, of which 85% was directed to develop original productions .

In addition to the investment of global players in both US and localized programming, non-US players are ramping up their content development capability. For example, Malaysia-based iFliix, which is available in 22 countries across Southeast Asia, the Middle East, and Africa , is investing in Malaysian and other original programs, and is planning to add 12 original series and 30 movies through a wholly-owned production company, Studio 2:15. In India, local video streaming platform Spuul is producing original shows , while other local platforms like Hotstar, Sony Liv, and Voot have increased their content spending significantly since Amazon and Netflix entered the Indian market. Showmax, the South African OTT platform launched in 2015 and operating in 70 countries is a leading producer of African based content .

The growth in content production is driven by strong consumer demand for local content. For example, growth in regional programs in Indian OTT platforms is "fueled by demand from both local viewers and the international diaspora" . In this context, consumers are benefitting massively – never have they had so much content available in so many forms at attractive price points.

In addition, the shift towards national films and series is a normal competitive response of locally based OTT platforms, which realize that to better compete with global players they need to leverage indirect network effects as propelled by local content. This is the virtuous cycle that fuels the development of localized programming across the world. For example, in Brazil local productions reached 17.7% of pay-TV program hours in 2017, while in 2019 national movies currently represent 6.3% of the libraries of the top seven OTT platforms, and series amount to 23.1%.

In this increasingly competitive environment, the primary strategy of all video distribution players (OTT and non-OTT) has been to vertically integrate towards program development to secure access to libraries in order to enhance service attractiveness, while reducing program acquisition costs. This move coincides with media companies needing to ensure control of distribution channels, which creates an alignment of objectives with regard to vertical integration. In addition, the development of the OTT industry has prompted pay-TV operators to enhance their VOD offer as a defensive strategy. They started including more developed interactivity and enriched customer services, adding to the traditional video-on-demand, content repackaging, games, music and information. Furthermore, recognizing the value conveyed to their customers, pay-TV operators now offer OTT services such as Netflix on their platforms, thus allowing to position themselves as content aggregators from a single access interface.

Vertical integration, which is a response to the different innovations and changes occurring in the market, represents one of the factors contributing to create more competition and more benefits for consumers (improved customer experience, increasing content variety, lower prices, ease of access). The evidence indicates that benefits greatly outweigh any disadvantages that can result from this process of consolidation. In addition to enhancements to consumer welfare such as program diversity, improved customer experience, and lowering of prices, vertical integration conveys benefits to industry players (improved efficiency in content acquisition, economies of scale and scope), some of which have a positive impact on consumers, while others contribute to overall industry sustainability.

In this context, we believe regulatory authorities should not try to over-regulate these businesses (through either content quotas or other restrictions, such as limits to vertical integration). Restrictions to vertical integration are both harmful to competition and detrimental to the protection of the local audiovisual industry. Regarding OTT platforms, governments should consider that, rather than regulate them as pay-TV services, it might make more sense to avoid imposing regulatory restrictions and burdens on those innovative services. The objective is to create a level-playing field for pay-TV providers to compete with OTTs, which can be better achieved by gradually eliminating unnecessary restrictions and regulatory burdens to all players. Going forward, regulatory authoritities around the world should allow the market to develop naturally, while monitoring it in terms of conventional market structure mechanisms, such as concentration ratios. If policy makers want to maximize diversity of programming, low prices, multiple offers for consumers, they need to eliminate restrictions to vertical integration and allow new entrants without regulatory impediments. This will not reduce competition; on the contrary, it will allow it to flourish.

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[2] *Spangler, T. (2018). "Netflix content chief says 85% of new spending is on originals," Variety, May 14. and Spangler, T. (2019). Netflix spent $12 billion on Content in 2018. Analysts expect that to grow to $15 billion this year", Variety, January 18.*

[3] *This includes Malaysia, Indonesia, the Philippines, Thailand, Brunei, Sri Lanka, Pakistan, Myanmar, Vietnam, the Maldives, Kuwait, Bahrain, Saudi Arabia, Jordan, Iraq, Lebanon, Egypt, Sudan, Cambodia, Nepal, Bangladesh and Morocco.*

[4] *Farveen, F. (2019). "iFlix gets aggressive with original content commissioning in 2019", Marketing, September 12.*

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