

# HOUSE OF CARDS

Big winners of the video subscription battle in Southeast Asia may see their dominance challenged.

BY LI-MEI FOONG

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It is hard to imagine a DVD rental company that started about two decades ago in Delaware, US, would today be showing satanic worship on the television screens of religion-sensitive Malaysia, producing a controversial series depicting the Philippine government's bloody drug crackdown, and launching a worldwide spring-cleaning frenzy with a cheery Japanese lady.

Yes, we are talking about Netflix, and yes, we are talking about its original productions *Chilling Adventures of Sabrina*, *Amo*, and *Tidying Up with Marie Kondo*. So are many other people.

We can't help it. Like the subscription video on demand (SVOD) platform itself, Netflix Originals have become a cultural phenomenon and social media wildfire – they pushed all kinds of boundaries, especially in conservative Asia.

Even geographical boundaries. From its US base, Netflix has expanded to 190 countries within seven years. Asia Pacific – forecasted by Digital TV Research in 2016 to be the top SVOD market this year – is among its landing field.

Netflix now has 148 million paid members globally, according to Kooswardini Wulandari, communications manager at Netflix (Indonesia and Malaysia). The US\$100-billion tech giant also reported 9.6 million new sign-ups

in the first quarter of this year – a record level. Of this, over 80% (7.86 million) came from markets outside of the US.

In 2016, the streamer entered Southeast Asia. The region was already a battleground of homegrown heavyweights. Malaysia's iflix and Singapore's Hooq packed a punch with catalogues of Western and Eastern shows. Viu, run by PCCW Media in Hong Kong, also played on the region's thirst for *oppas* and *unnies* by providing South Korean shows. All of them charge in the range of US\$2 to US\$3 per month. Netflix, in comparison, costs about US\$8 a month for its basic plan.

But, four years on, Netflix has risen to the top spot in Southeast Asia, according to Aravind Venugopal, vice president of media and telecoms analysis firm Media Partners Asia (MPA). "From a direct-to-consumer standpoint, our data showed that Netflix's paid subscription revenue is far bigger than iflix and Hooq combined. This is across all markets in Southeast Asia," Aravind tells *UNRESERVED*.

MPA data showed that, in terms of SVOD revenue (excluding advertising revenue) in 2018, Netflix takes 35% of the market. Its international rival, Amazon, only earns 1%. Hooq and iflix, in comparison, earn 9% each. Viu has 5%. The rest (40%) is divided among various other SVOD players.

This SVOD revenue includes direct paid subscription from users. It also comes from indirect revenues of wholesale fees paid by telcos to SVOD platforms as part of bundling and integration agreements – an arrangement that was once popular but is winding down across the region, according to Aravind.

While he declined to reveal data on direct-to-consumer paid subscriber numbers, Aravind notes that Netflix also comes out top in this aspect. Second place goes to Viu. This should not be surprising, given that Viu was among the first SVOD services in the region to run a "freemium" model. This means that users can use it for free – lowering the barrier of entry to the platform – if they do not mind that the content is three months to a year old, and comes with ads. For ad-free viewing of the latest shows, one can upgrade to Viu's paid subscription that costs around US\$2 a month, which people apparently do.

Although mum on specific revenue figures, Kingsley Warner, general manager of Viu Malaysia, reveals that half of its revenue is from paid subscriptions, while the other half comes from advertising. Netflix, on the other hand, had maintained that it will never run ads. However, some industry experts believe it may have to if it wants to grow.



*Sacred Games*, India's cat-and-mouse thriller that kept audiences on their feet and glued to the screen.

## CHANGING WINDS

While Netflix was the region's trendsetter two years ago, freemium model like Viu's is now all the rage. "When the SVOD operators in Southeast Asia first launched around 2015 or 2016, they all looked to Netflix as the model to mimic, which is a one-size-fits-all model with monthly subscription fees and so on," Aravind points out.

But, he notes, these players quickly realised that the region is too diverse in preference and price-consciousness for a homogenous playbook. "Over the last two years, everyone had to go back to the drawing board. You start to see operators move from a monthly subscription model to daily or weekly packs, dabbling in the freemium model, and even offering linear channels," says Aravind.

iflix and Hooq had both switched to a freemium model last year. "We've learned that payment flexibility is crucial since old business models don't necessarily apply in emerging markets. We've also learned that local execution is essential to our success and that any preconceived ideas about what will work from models in the West are not always true in the markets we operate in," says Craig Galvin, global head of content for iflix. Even Netflix seems to be dipping its

toes in change – it has started testing a mobile-only plan that costs US\$4 in Malaysia and India.

Meanwhile, Southeast Asia is seeing a rising appetite for SVOD services. Its 40.3 million SVOD users in 2018 are expected to more than double to 86 million in the next five years, according to research firm Analysys Mason.

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The potential for growth means that more giants are coming for our eyeballs. Disney+, the SVOD platform of Disney, is expected to drop in Asia after its US

debut this November. China's biggest streamer iQiyi recently announced its expansion to Southeast Asia. So did a video streaming service started by South Korea's biggest broadcasters to taekwondo-chop Netflix's hold on Koreans.

Regional players are defending their turf. Hooq is getting on a ride with Grab. The popular Southeast Asian ride-hailing behemoth will integrate the video on demand service into its app, allowing Hooq the possibility of tapping into Grab's 130 million registered users.

iflix is doubling down too. The Malaysia-born company had shed its African business to reinforce "iflix's commitment to our core markets in Asia, particularly Indonesia, Malaysia and the Philippines", as CEO Mark Britt said in a press statement in December.

Amid the intensified rivalry, it remains to be seen if Netflix can still rule over the game of thrones in Southeast Asia. But one thing is clear – the content glut is coming.

## ASIA FIRST

"Originals" is the new black. Every major SVOD player is pumping money into exclusive productions to differentiate from the competition. Last year, Netflix committed US\$8 billion on original pro-

*Chilling Adventures of Sabrina* and *Tidying Up with Marie Kondo* are just two of Netflix's scores of original content.





Netflix's South Korean zombie series Kingdom has gained mass popularity in the region.

gramming. The streamer recently announced that it will raise another US\$2 billion in debt to fund its content spending and other expenses.

It could be worth it. Netflix's superhero family drama *The Umbrella Academy* tops the list of top 10 most in-demand digital originals across Southeast Asia from February to April 2019, according to Samuel Stadler, VP of marketing at TV data analytics firm Parrot Analytics. At second place is CBS All Access' *Star Trek: Discovery*, and third goes to the British motoring TV series by Amazon, *The Grand Tour*.

Another five Netflix shows also made it into the top 10 – *Stranger Things*, *Chilling Adventures of Sabrina*, *Narcos*, Marvel's *Daredevil* and *You*. This is measured by what the firm calls "demand expressions", which include social media mentions and peer-to-peer (P2P) downloads or streaming. The ranking does not take locally-produced originals into account.

While shows from the West have clout, the most potent combo for Southeast Asia is "original" and "localisation". "In Southeast Asia, it seems that providing original and local content allows an

## The most potent combo for Southeast Asia is "original" and "localisation".

OTT (over-the-top) player to 'prove' that paying for a premium service is worth it, especially for countries where piracy is still an issue and consumers are not yet accustomed to paid video content," says Abigail Cruz, associate research analyst at S&P Global Market Intelligence.

Netflix announced that it has close to 100 new and returning Originals from Asia in 2019. From this alone, 25 will be from Southeast Asia. One of them is *The Ghost Bride*, a six-episode Mandarin Original helmed by award-winning Malaysian directors.

This is on top of its burgeoning library of licensed and original local content. Some of its Asian series have made waves across continents – a rare achievement for homegrown productions. Think cat-and-mouse-chase thriller *Sacred Games* from India, zombie palace drama *Kingdom* from South Korea, and mind-bending anime *Devilman Crybaby* from Japan.

Others are not lagging behind. Hooq has announced 100 new original productions for this year alone, following its award-winning Indonesian film *Marlina the Murderer in Four Acts* last year. iflix promises to quadruple its original content slate from last year's 14. Viu has eight of its own in the works, including a remake of the Malaysian sitcom, *Kopitiam*.

These platforms appear to be on the money. MPA's Aravind reveals that according to internal data from SVOD players that he sighted, "the ratio of content viewing is either 50:50 to 30:70 favouring local content over international ones."

Galvin of iflix sees local content leading the charge in terms of performance. Take Indonesian show *Magic Hour: The Series* produced by iflix, for example. It

outperformed popular international series *The Flash* and Korean drama *Goblin* in terms of "binge index", according to the platform's press release.

Netflix's Kooswardini also notes that while Hollywood movies and western content remain prominent in some markets in the region, consumer preferences are slowly tilting towards Asian programming.

"Recently, in Malaysia, we have seen the response to (Malaysian) movie *Paskal* coming up to par with Hollywood action film *Triple Frontier*," she says.

### CRIMINAL CONTENT

In a press release to the Malaysian media earlier this year, Netflix says that it gives consumers control to watch what they want, when they want, without being forced to sit through advertisements. "This has changed the entertainment landscape forever by putting power in the consumers' hands," it reads.

Except Southeast Asians have always had that power. It's called piracy. Easily accessed and ethically murky, illegal torrent sites have long been the region's source of censorship-free, region-free, and plain free (besides the Internet bills) content. SVOD platforms were hailed as heroes to beat piracy. For a while, it seems to work. Studies showed that streaming services reduced illegal download activities.

Recently, however, research and

network firm Sandvine found that usage of torrent services like BitTorrent in the US has increased after years of decline. Cam Cullen, vice president of global marketing at Sandvine, suspects that the battle of exclusivity among SVOD platforms could be bringing illegal torrenting back.

"More sources than ever are producing 'exclusive' content available on a single streaming or broadcast service – think *Game of Thrones* for HBO, *House of Cards* for Netflix, *The Handmaid's Tale* for Hulu, or *Jack Ryan* for Amazon. To get access to all of these services, it gets very expensive for a consumer, so they subscribe to one or two and pirate the rest," he wrote in a blog post that summarises a more in-depth report.

Viu is poised for a race with the pirates. Besides having a free tier, Viu also puts up subtitles in various local languages within four to eight hours of uploading new licensed content – which totals about 70 to 100 hours a week.

"For every dollar we invest in content, we are doing the same in terms of operations and localisations," says Viu's Warner. "We are able to make subtitles available in [various local] languages, whether it is Chinese, Malay, Bahasa Indonesia, local Philippine languages, plus English, and that's really been the secret sauce." Such scale of localisation is expensive to run, Warner says.

Unfortunately, pirates are also giving SVOD platforms less financial room



Malaysian drama Salon is exclusively on Viu.

to fight them. "Overall, Southeast Asia is a large OTT market with a lot of potential growth. By 2023, nearly a third of all households in the region will use SVOD services. However, the price of OTT services is very low, mainly due to piracy, limiting revenue growth," says Remy Giraud, analyst of Analysys Mason.

He projects that the SVOD revenue in Southeast Asia will grow from US\$1.43 billion in 2018 to US\$3.18 billion by 2023 – considerably lower than in North America (US\$20.5 billion in 2023) or Western Europe (US\$12.2 billion in 2023).

Meanwhile, content pirates are upping their game. Illicit streaming devices (ISDs), also known as TV boxes, allow users to access hundreds of pirated television channels and video on demand content.

In its recent survey, the Asia Video Industry Association (AVIA) finds that the usage of ISDs leads to Asians cancelling their paid subscriptions to legal services. For example, the survey reports that 25% of Malaysians use ISDs. Among them, "35% asserted that they cancelled their subscriptions to a Malaysian-based online video service as a direct consequence of owning an ISD." Another 19% said they cancelled subscription to an international platform.

Netflix, the binge-television evangelist, once tweeted that "Sleep is my greatest enemy". It may have to rethink that. **UN**

KL Gangster Underworld is available on iflix.

