

# ASIA-ON-DEMAND: THE GROWTH OF VOD INVESTMENT IN LOCAL ENTERTAINMENT INDUSTRIES

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**alphaBeta**  
strategy x economics

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## GLOSSARY

The following terms have been used at various stages in this report.

### AVOD

“Ad-based video-on-demand”, where users have access to a video-on-demand service for free in exchange for watching advertisements before, during or after videos

### BROADCAST TV

A system by which TV programming is transmitted to TV sets of users by the broadcast of radio waves from a terrestrial transmitter of a TV station; can be free or via paid-for service

### CABLE TV

A system by which TV programming is transmitted to TV sets of users by cable; can be free or via paid subscription

### ENTERTAINMENT INDUSTRY

The entertainment industry that VOD services are involved with refers to the ecosystem that supports the development of TV series, films, documentaries, animations, and so on, and excludes live performances such as theater

### INTERNET PIRACY

The use of the internet to illegally copy and/or distribute content or software which is copyrighted by a content or software producer

### LOCAL CONTENT

Video content that is produced “locally” (e.g. in Asia), with underlying stories, casts, shooting locations, and post-production activities typically being “local”

### ONLINE VOD

Video-on-demand accessed via the internet; can be free, purchased or rented individually, or via paid subscription

### OTT

“Over-the-top”, refers to the internet-based implementation of traditional media and telecom services, such as phone calls, instant messaging and broadcast or cable TV

### PAY-TV

TV programming which viewers pay for via subscription to watch a pre-determined set of TV channels

### REGULATORS

Broadly classified as national agencies involved in the regulation of telecommunication services and media broadcasting

### SVOD

“Subscription video-on-demand”, where users subscribe to a video-on-demand service for a flat fee to access a pre-determined library of videos (including but not limited to TV series, movies and documentaries)

### TVOD

“Transaction-based video-on-demand”, where users pay to permanently or temporarily access video content from a pre-determined library of videos

### UGC

“User-generated content”; content including video, blogs, discussion forum posts, or other form of media that is created by end-users or consumers of an OTT application or service, and is publicly available to other end-users of the service

### VOD

“Video-on-demand”, a system in which viewers access the filmed entertainment of their choice, using a variety of devices (mobile phones, computers, tablets, smart TVs and so on) from an available selection of videos; can be free or via paid subscription

### VOD SERVICE

A service accessible via the internet from which users can access video-on-demand



# THE ECONOMIC IMPACT OF VOD IN ASIA:

## KEY FINDINGS



Video-on-demand (VOD) services are expected to invest **UP TO US\$10.1B** in Asia by 2022

Demand for local content will drive investment, with an emphasis on

### QUALITY OVER QUANTITY



Further benefits to local industry could be realized in the form of **financing production hubs, skills upleveling, low-cost distribution, and global partnerships**



VOD makes it easier for Asian entertainment to reach at least

### 450 MILLION PEOPLE GLOBALLY TODAY



Different Asian countries have the opportunity to

### SPECIALIZE AND CAPTURE VALUE

at different points of the content production value chain (e.g VFX or physical production hubs)



The **economic impact** on local industry and broader economy is expected to be

### 3X THE AMOUNT

VOD players spend on content



### OVER 80% OF VOD EXECUTIVES



cite a **welcoming investment environment, supportive regulations, and high-quality content production infrastructure** as key to driving content investment

## DIRECTIONS FOR POLICY REFORMS

1

### BUILD IT TOGETHER

by forming joint government / VOD industry working groups



2

### BE FLEXIBLE

in regulatory approaches, avoiding transplanting traditional industry rules onto VOD



3

### INVEST IN THE ECOSYSTEM

with a focus on skills development, infrastructure, and financing





“ VOD SERVICES REPRESENT A LARGE ECONOMIC PRIZE FOR BUSINESS IN ASIA, NOT JUST CONSUMERS, BUT POORLY DESIGNED POLICY SETTINGS COULD UNDERMINE HOW MARKETS CAPTURE THE OPPORTUNITY. ”



# EXECUTIVE SUMMARY

The use of the internet to consume entertainment is growing. “Video-on-demand” (VOD) services provide consumers with online access to curated films, TV series and others on demand and across a variety of devices. In recent years, a host of video streaming services have emerged in Asia, including local players like Thailand-based Doonee, India-based Hotstar, Malaysia-based iflix and Singapore-based HOOQ, as well as global ones like Netflix and Amazon Prime Video. Although the VOD market in Asia is nascent compared to Europe or Latin America, it is poised for strong growth. VOD services are expected to have over 400 million paying subscribers across Asia by 2022.<sup>1</sup>

The benefits of VOD services to consumers are clear. Past research by AlphaBeta indicates that being able to watch a large variety of curated content whenever and wherever they want, having full control and being able to use safety features such as PINs to prevent children from watching inappropriate content are key factors that drive value for consumers in this region.<sup>2</sup> Content is also key. Consumers choose, and are loyal to services, which can provide them with high-quality original content.<sup>3</sup> The value of original content commissioned by and produced for these services is growing with this consumer demand. There are also clear societal benefits in terms of reducing

VOD SERVICES ARE EXPECTED TO HAVE OVER 400 MILLION PAYING SUBSCRIBERS ACROSS ASIA BY 2022.

internet piracy, promoting cultural diversity, and driving digital adoption.

However, what has been explored less is the economic impact of VOD services for businesses in Asia, particularly in the entertainment industry.<sup>4</sup> The objective of this research is to fill this gap by providing a fact base on the potential value of the VOD industry for Asia, and best practices around capturing that potential value.

This report contains a critical message: **VOD services represent a large economic prize for business in Asia, but poorly designed policy settings could undermine how markets capture the opportunity.** The report draws upon a range of quantitative analysis, plus surveys of and interviews with VOD operators and local entertainment industry executives from across Asia.

In detail, this report will explore/investigate the following questions ...

1. Paying subscribers, i.e. Subscription VOD subscribers, have been reported here as estimates for these are readily available. However, the number of users of other VOD models are difficult to ascertain – for instance, transaction VOD (TVOD) platforms do not report number of transactions or unique paying users; and while visitors to ad-based VOD (AVOD) sites may be available, there is no breakdown between users viewing user-generated content (UGC), which is out of this report’s scope, and curated content.

Estimates for SVOD subscribers in Asia built using a range of sources, including Media Partners Asia report quoted in Variety (2016), “Online video set for further massive growth in Asia (report)” Available at: <https://variety.com/2016/digital/asia/online-video-further-growth-in-asia-report-1201755475/>; Statista (2018), Number of SVOD (subscription video on demand) subscribers in Australia in 2017 and 2022, by operator (in 1,000s). Available at: <https://www.statista.com/statistics/798911/australia-svod-subscribers-by-operator/>; and Roy Morgan (2018), “Netflix on verge of 2 million viewers in New Zealand” Available at: <http://www.roymorgan.com/findings/7701-roy-morgan-pay-tv-subscription-tv-netflix-lightbox-skytv-neon-vodafoneyt-youtube-june-2018-201808100738>

2. AlphaBeta (2017), The Screen Evolution: How video-on-demand boosts Asia’s economies and generates value for viewers, business and society. Available at: <https://www.alphabeta.com/wp-content/uploads/2017/10/The-Screen-Evolution.pdf>

3. Ofcom (2012), On-demand services: understanding consumer choices. Available at: [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0025/28906/research\\_report.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0025/28906/research_report.pdf); and AlphaBeta (2017), The Screen Evolution: How video-on-demand boosts Asia’s economies and generates value for viewers, business and society. Available at: <https://www.alphabeta.com/wp-content/uploads/2017/10/The-Screen-Evolution.pdf>

4. The entertainment industry that VOD services are involved with refers to the ecosystem that supports the development of TV series, films, documentaries, animations, and so on, and excludes live performances such as theater.

## WHAT IS THE EXPECTED INVESTMENT IN ASIAN CONTENT?

Globally, VOD operators spent around US\$21 billion in 2017, and this could more than double by 2022. While Asia accounted for only around US\$2.7 billion in content spending in 2017, this could rise by 3.7x by 2022 to **US\$10.1 billion**. Around US\$4 billion of this spending is in the form of foreign direct investment by global players. This is driven by a combination of the rapid growth in Asia's subscriber base, a preference for local content in Asia, and the growing popularity of Asian content overseas.

1

## WHAT DRIVES VOD SERVICES' INVESTMENT IN LOCAL CONTENT?

Asian audiences have a strong appetite for local content. Contrary to common belief, viewers in Asian countries spend equal time watching local and foreign content. Despite greater access to foreign content online, viewers exhibit equal preference for local and foreign entertainment. With paying subscribers in Asia expected to double over five years, VOD services will need to focus on producing **high-quality local content** to attract and retain consumers.<sup>5</sup>

2

## HOW IS VOD A VEHICLE FOR EXPORTING ASIAN CONTENT AND CULTURE?

VOD services are increasingly enabling the dissemination of Asian content to wider audiences abroad. For example, the TV series "Sacred Games" from India and the film "Okja" out of South Korea were both watched online by viewers in over **190 countries**, a reach unexpected with traditional distribution. In addition, this can potentially drive cultural influence and demand for Asian exports, including tourism.

3

## WHAT ARE THE TANGIBLE ECONOMIC BENEFITS THAT VOD INVESTMENT BRINGS TO ASIA?

The economic impact of local content spending is up to **3x** the size of the amount spent on content.<sup>6</sup> Direct spending by the industry in their core operations (e.g. equipment, transport, catering, marketing, hospitality, etc.) in turn drives indirect spending by suppliers (e.g. camera lenses, catering, transport fuel, etc.), and induced spending from workers employed spending their wages in the economy. Up to **736,000 jobs** could also be created by this spending in 2022. Finally, there are spillover benefits to other industries, such as tourism, music, merchandized products, etc.

4

5. As quoted in Variety (2016), "Online video set for further massive growth in Asia (report)"

Available at: <https://variety.com/2016/digital/asia/online-video-further-growth-in-asia-report-1201755475/>

6. This analysis accounts for impact at the following levels: direct content spending, indirect spending, and induced spending. Each level of impact is a subset of the total economy-wide impact, and relevant adjustments were made to account for double-counting; for example, when calculating net indirect spending, direct spending was subtracted from the gross economic impact; when calculating net induced spending, indirect spending was subtracted from gross induced spending, and so on.

## WHAT OTHER BENEFITS CAN VOD SERVICES BRING TO THE LOCAL ENTERTAINMENT INDUSTRY?

The benefits that VOD players provide to the local industry are not just through their content spending. **Investment in the local creative ecosystem**, particularly related to building local skills and **introduction of new technology** in order to enhance the service quality, are important channels through which VOD operators contribute. The ability of VOD operators to **broker partnerships** between local and international players can also be crucial in raising the international appeal of local content, as well as enabling **knowledge transfer** between entertainment industries around the world.

5

## HOW CAN COUNTRIES WITH SMALLER ENTERTAINMENT INDUSTRIES BENEFIT?

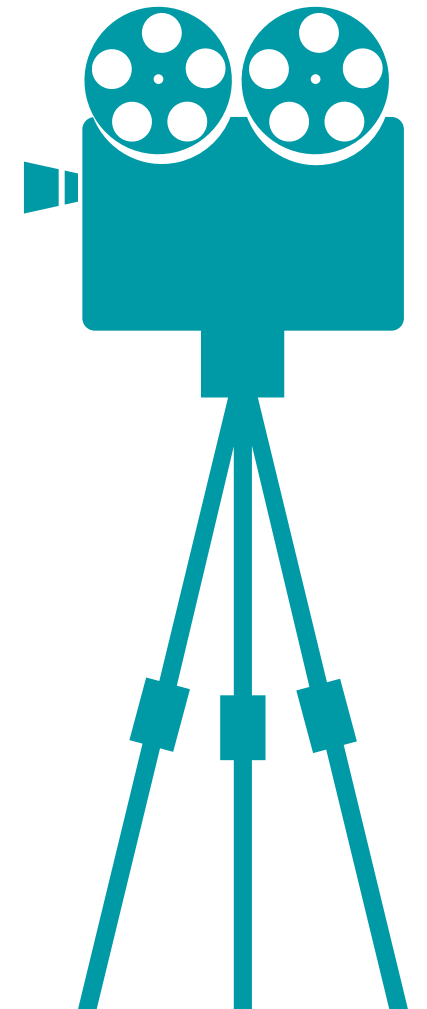
Entertainment production has become increasingly global, with many productions having more global footprints, as seen in the recent film "Crazy Rich Asians". With globalization, there is a greater opportunity for countries to capture value by **specializing in specific elements** of the value chain. For example, Malaysia and Thailand's world-class studio facilities and attractive production incentives allow these markets to attract content production from around the region and beyond. Singapore, on the other hand, is honing a hub for visual effects and animation. A rapidly evolving value chain, often driven by new technologies and a growing local content pipeline, leaves room for new entrants to thrive.

6

## WHAT ARE THE KEY DRIVERS THAT CAN HELP ASIAN COUNTRIES CAPTURE VOD CONTENT INVESTMENT?

VOD players identified the most important drivers for guiding investment in local content to be **active government support for content investment, supportive digital sector regulations and high-quality infrastructure** and resources to support content production. Policy reform in these areas can create **virtuous cycles** where local content investment rises, investment in the broader creative economy follows, demand for high-quality content increases, and results in further investment and growth in the sector. A growing number of Asian markets are already reaping the benefits by focusing on these policy drivers instead of counterproductive policies, for example, local content quotas that instead can result in a **negative spiral** in terms of quality and demand.

7





Why does all this matter? It is often said that what we don't measure, we don't value. This holds true for VOD services. The nascent form of and rapid growth in the industry has meant that the size of the opportunity is not properly understood. As such, there is a risk that efforts to regulate VOD, with the good intention of protecting local industry, may inadvertently undermine the value that VOD can bring to the local industry and economy.

In particular, regulation that was designed for the traditional broadcasting sector could prove counterproductive due to VOD's vastly different features and incentive structures. Overly onerous content regulation could result in quantity over quality of local content, when fixed production budgets need to be stretched to meet content quotas, and the industry rushes simply to meet these requirements instead of focusing on remaining competitive. Unlike traditional broadcast television and films in cinemas, where there is competition for a fixed set of screens, the on-demand VOD model means, low-quality content simply goes unwatched. What the research tells us is that consumer demand will drive a more thriving local content opportunity. Restrictive policies could therefore unintentionally undermine the industry potential by failing to focus on developing high-quality content that can appeal to local and international audiences.

What does this mean for policymakers? A few key aspects are worth keeping in mind:

- **Build it together.** Adopting a collaborative approach with the VOD industry in developing regulations and the enablers for the local industry is most likely to bring success. For example, VOD operators in ASEAN have recently developed a Subscription Video-on-Demand Industry Content Code (Code)

to ensure safe and appropriate content.<sup>7</sup> Partnering with the industry on such efforts and other drivers (e.g. skills development), can maximize the chances of success and reduce the burden on governments.

- **Be flexible.** The industry is evolving and there is a risk that heavy-handed regulations can retard industry growth, particularly if transplanted from traditional mediums to VOD. For example, while local content quotas may have been appropriate in an era of the traditional television and film industry, they lose their relevance in a VOD landscape. The on-demand model makes mandated content ineffective, artificially restrictive and diminish the local industry's potential. The unique characteristics that distinguish VOD from traditional broadcasting, and the growth opportunity this new industry presents, should be taken into account when constructing policies and regulations for this industry.
- **Invest in the industry ecosystem.** Industry can best be supported through developing high-quality training programs (e.g. Singapore in visual effects) and investment in supporting infrastructure. Strong focus on copyright protection and prevention of piracy can also increase the incentives for VOD players to invest locally. Such policy can be the catalyst for aforementioned "virtuous cycles". Supportive regulation and investment in the entertainment industry raises the potential quality of local content, making it an attractive investment for VOD services. Making this high-quality local content available online drives demand for the VOD service and more local content, incentivizing further investment in the broader creative economy, kick-starting another cycle.

## STRUCTURE OF THIS PAPER

The paper is structured as follows: 7 key facts of the VOD industry and the relevance for local content are provided in the following chapters, with a final chapter

discussing the policy implications in further detail. The appendix provides details on the methodology used in this research.

# VOD INVESTMENT IN LOCAL ASIAN CONTENT COULD GROW 3.7X BY 2022

VOD players like Netflix, iflix, Amazon Prime Video and HOOQ have all committed to growing their presence in the region – how much of their spending will be on local content?



# FACT 1

7. Marketing Interactive (2018), "ASEAN VOD providers unite to create code tackling inappropriate content". Available at: <http://www.marketing-interactive.com/asean-vod-providers-unite-to-create-code-tackling-inappropriate-content/>



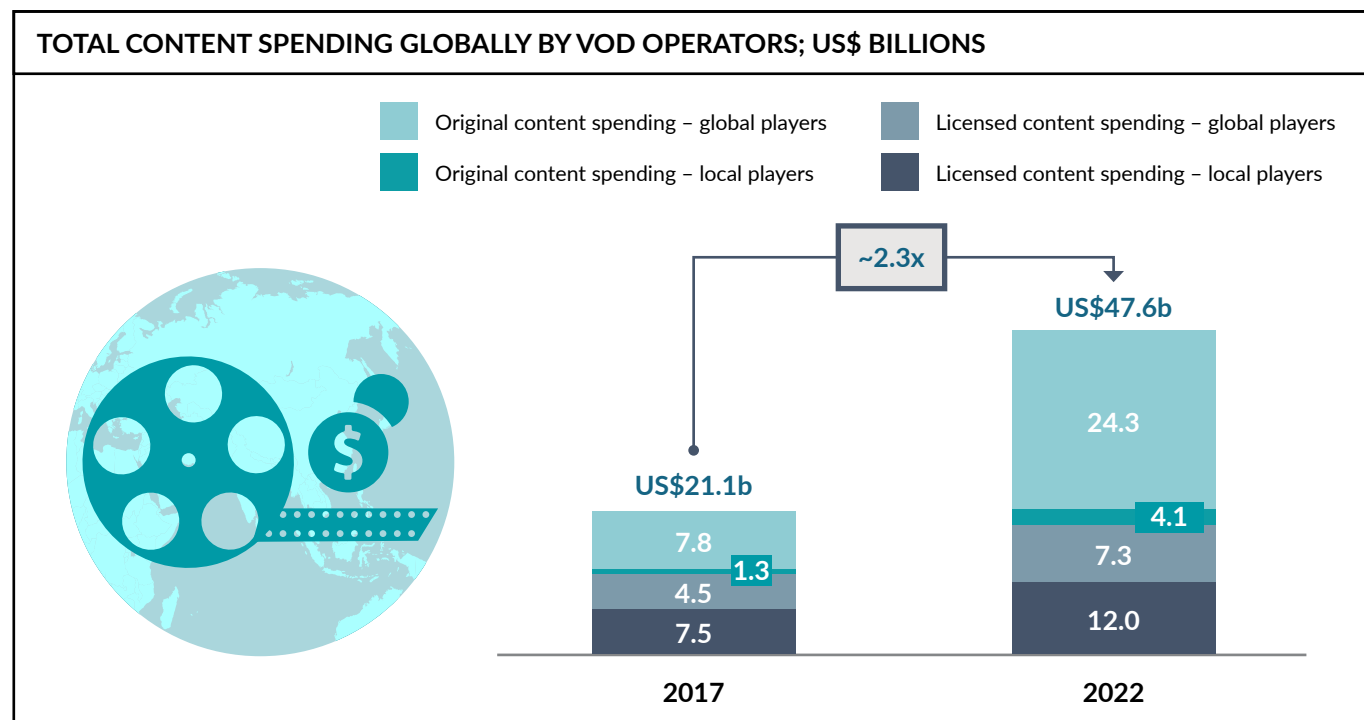
As demand for online entertainment grows, VOD operators are significantly increasing their content investments globally. In 2017, it is estimated that operators spent more than US\$21 billion on content both in terms of original content, as well as for acquired or licensed content (Exhibit 1).<sup>8</sup> This level of spending could more than double by 2022 – reaching nearly US\$48 billion.<sup>9</sup> What this means for consumers is a more diverse, high-quality library of entertainment that they can watch anytime and on any device. What this means for consumers is a more diverse, high-quality library of

**THIS LEVEL OF SPENDING COULD MORE THAN DOUBLE BY 2022 – REACHING NEARLY US\$48 BILLION.**

entertainment that they can watch anytime and on any device, a critical driver of the consumer experience for paid online VOD.<sup>10</sup>

While the VOD market is nascent in Asia, is poised for strong growth. The VOD industry is expected to count

**EXHIBIT 1: GLOBALLY, VOD SERVICES' SPENDING ON CONTENT COULD MORE THAN DOUBLE BETWEEN 2017 TO 2022 – REACHING ~US\$48 BILLION**



SOURCE: Media reports; Analyst reports; AlphaBeta modelling

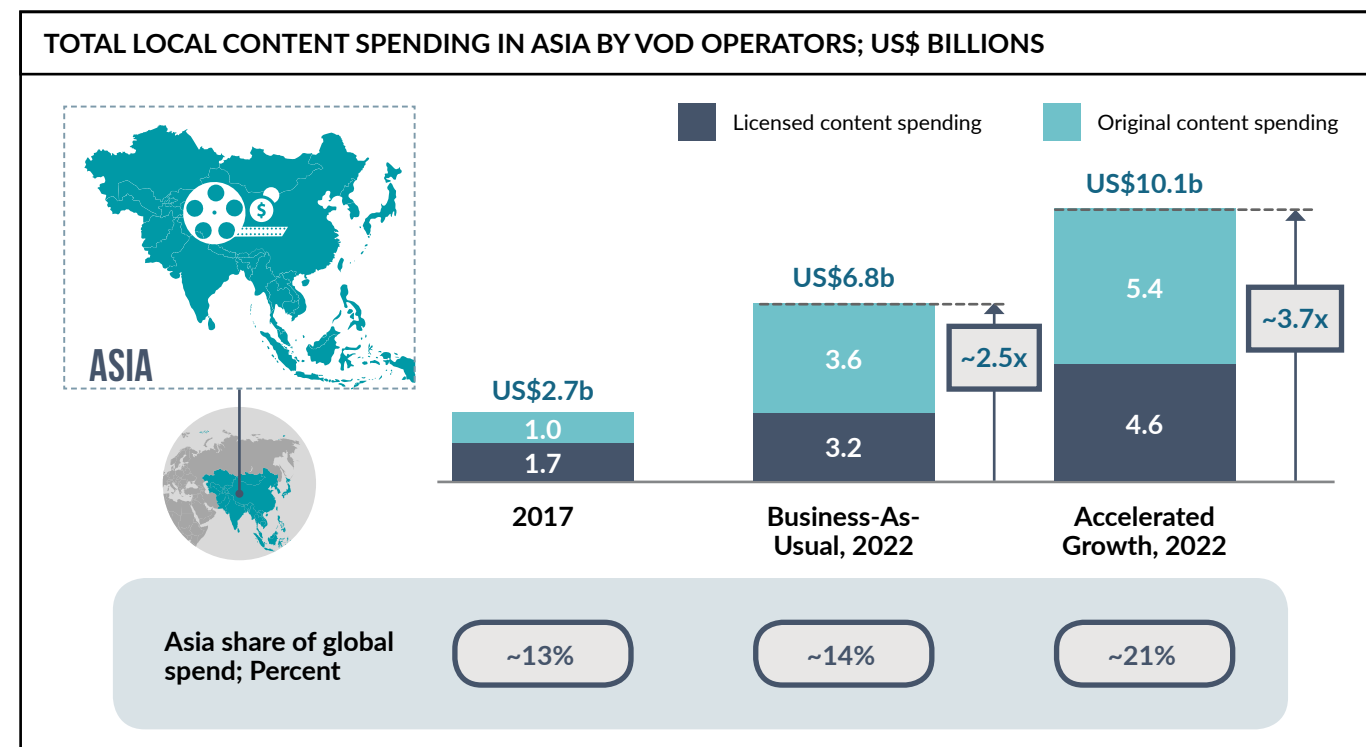
8. Content spending was analyzed for both original and licensed spending. Original content is defined as a TV series, film or other form of curated video content commissioned or licensed by a VOD player that it has exclusive rights to release or distribute. Licensed content is defined as a TV series, film or other form of curated video content that has been produced for another VOD player, TV station or film production house, for which the rights for distribution have been sold to a VOD player. This estimate is based on analysis of publicly available information about the VOD industry. AT Kearney provides data on market revenue of VOD industry in 2017. Original and licensed content spending estimates were gathered for a range of global and local VOD services (Netflix, Amazon Prime Video, Apple, HBO, Hulu, Tencent Video, Youku Tudou and HOOQ) based on media and analyst reports. Global VOD players are taken to be players that operate in two or more continents, across 10 or more countries (such as Netflix, Amazon Prime Video, HBO Now/Go, etc.). Next, ratios of original and licensed content spending relative to revenues were then calculated for each company. These ratios were used to estimate the original and licensed content spending of the remaining VOD services for which data was not available. Please refer to Appendix for detailed methodology.

9. Forecasts of content spending in 2022 were estimated separately for original and licensed content. The weighted average of original content spending growth rates of Netflix, Amazon and Apple between 2017 and 2022 was used to forecast the original content spending of other players in the VOD industry. Licensed content spending was assumed to grow at a lower rate, equal to the overall content production spending growth rate between 2011-16. Please refer to Appendix for detailed methodology and sources.

10. AlphaBeta (2017), The Screen Evolution: How video-on-demand boosts Asia's economies and generates value for viewers, business and society. Available at: <https://www.alphabeta.com/wp-content/uploads/2017/10/The-Screen-Evolution.pdf>

11. Estimates for SVOD subscribers in Asia built using a range of sources, including Media Partners Asia report quoted in Variety (2016), "Online video set for further massive growth in Asia (report)" Available at: <https://variety.com/2016/digital/asia/online-video-further-growth-in-asia-report-1201755475/>; Statista (2018), Number of SVOD (subscription video on demand) subscribers in Australia in 2017 and 2022, by operator (in 1,000s). Available at: <https://www.statista.com/statistics/798911/australia-svod-subscribers-by-operator/>; and Roy Morgan (2018), "Netflix on verge of 2 million viewers in New Zealand" Available at: <http://www.roymorgan.com/findings/7701-roy-morgan-pay-tv-subscription-tv-netflix-lightbox-skytv-neon-vodafone-tv-youtube-june-2018-201808100738>

**EXHIBIT 2: WHILE ASIA ACCOUNTED FOR ONLY ~US\$2.7 BILLION IN TOTAL CONTENT SPENDING IN 2017, THIS COULD RISE BY 3.7X IN 2022**



SOURCE: Media reports; Analyst reports; AlphaBeta modelling

over 400 million paying subscribers across Asia by 2022.<sup>11</sup> With growing demand for online entertainment options and a strong preference for local content, VOD operators are investing significant amounts in building original local content. In India, for example, media reports indicate that Amazon spent close to US\$300 million on Indian content alone in 2017 and is producing more than 20 original series in India.<sup>12</sup> Netflix additionally announced that it would make seven local series in 2018 out of India.<sup>13</sup>

Local players are also driving spending – production spend by Asian online video companies in East and South Asia grew by 80 percent last year and accounted for 30 percent share of incremental production investment.<sup>14</sup>

**THE VOD INDUSTRY IS EXPECTED TO COUNT OVER 400 MILLION PAYING SUBSCRIBERS ACROSS ASIA BY 2022.**

Driven by the popularity of its original programming, iflix recently announced plans to quadruple its content slate in 2019 – at least 12 new TV series and 30 movies are expected.<sup>15</sup> Chinese giant Tencent's video content budget was estimated to be US\$2 billion in 2017, while Alibaba's Youku service spent US\$1.1 billion during the same period.

AlphaBeta estimates that up to US\$10.1 billion could be spent on content in Asia by 2022 – an almost four-fold

12. The Economic Times (2016), "Amazon stitching content deals for possible Diwali launch of Prime Video" Available at: <http://economictimes.indiatimes.com/industry/media/entertainment/amazon-stitching-content-deals-for-possible-diwali-launch-of-prime-video/articleshow/54554614.cms>

13. LA Times (2018), "Big-budget TV meets Bollywood as Amazon and Netflix do battle in India"

Available at: <http://www.latimes.com/world/asia/la-fg-india-netflix-amazon-2018-story.html>

14. Media Partners Asia conducted this analysis for seven Asian countries. See Variety (2018), "Streaming, Pay-TV rivals drive 8% growth in Asia Content Spend (Report)" Available at: <https://variety.com/2018/data/asia/streaming-pay-tv-drive-growth-in-asia-content-spend-report-1202868981/>

15. Marketing Interactive (2018), "iflix gets aggressive with original content commissioning in 2019"

Available at: <https://www.marketing-interactive.com/iflix-to-get-aggressive-with-original-content-commissioning-in-2019/>

16. Original and licensed content spending in Asia was calculated by determining the amount of global content spending allocated to Asia. There are three drivers for spending in Asia – growth in Asia's user base, preference for local content, and opportunity to export Asian content to international markets. Publicly available subscriber data was considered. Preference for local content was calculated from the results of AlphaBeta's survey of more than 2,000 paid online consumers, covering 5 markets – India, Indonesia, Malaysia, Taiwan and Thailand. Export opportunity for Asia is determined based on assumptions about viewership of Asian content overseas. This does not include localization of foreign content. Please refer to Appendix for detailed methodology and full list of sources.



ALPHABETA ESTIMATES THAT UP TO US\$10.1 BILLION COULD BE SPENT ON CONTENT IN ASIA BY 2022.

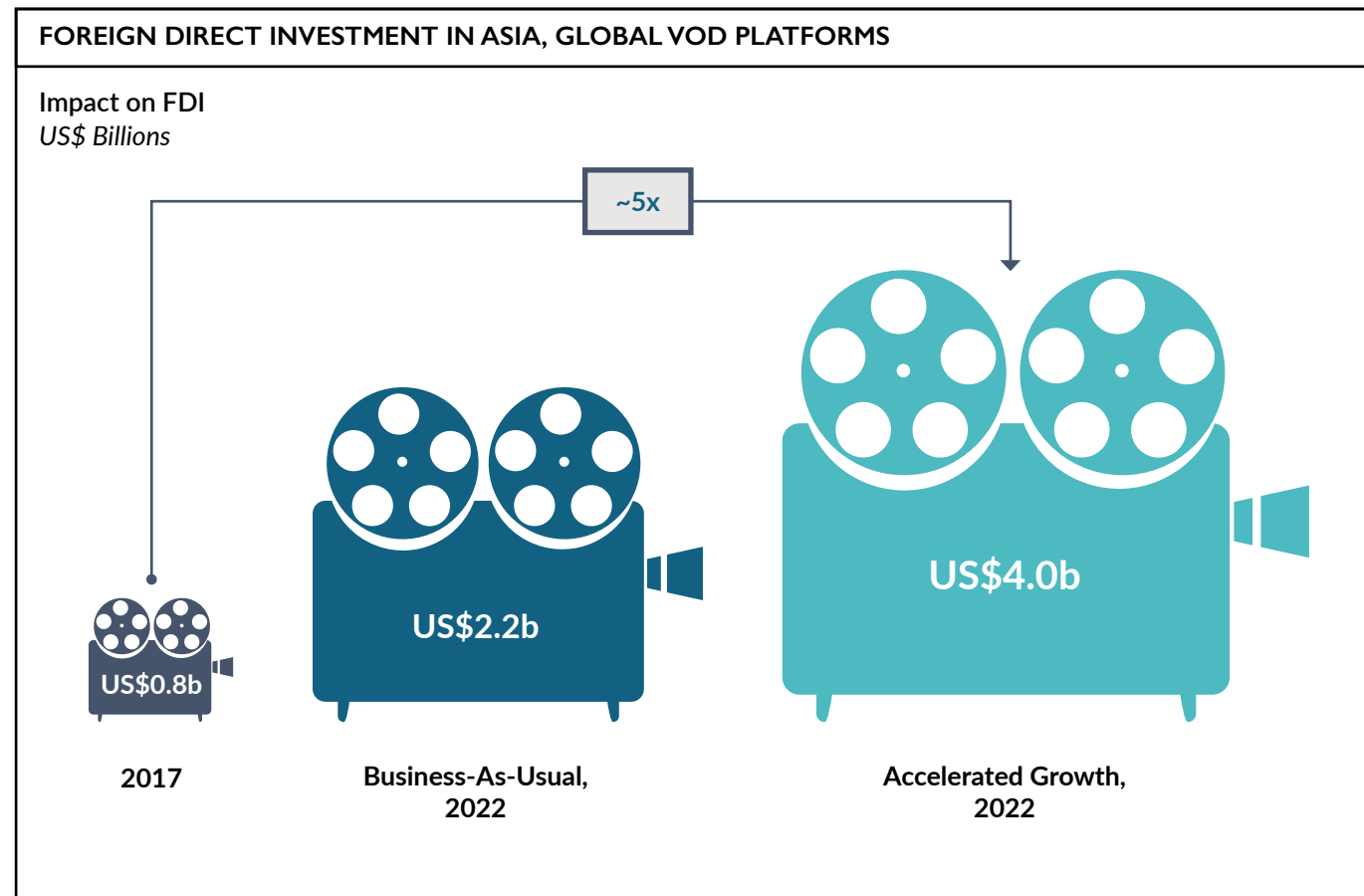
increase from 2017 (Exhibit 2).<sup>16</sup> A detailed methodology can be found in the Appendix.

With VOD spending being largely driven by global players, Foreign Direct Investment (FDI) in local content in Asia is expected to get a boost. Just focusing on the spend of global VOD players (excluding locally based players), the potential FDI could reach US\$4 billion by 2022 (Exhibit 3).<sup>17</sup> To put that in perspective – potential FDI inflow to Asia from global VOD players could be equivalent to 1.2 times that of New Zealand.<sup>18</sup>



Director Bong Joon-Ho with actress Anh Seo-hyun on the production set of "Okja"

**EXHIBIT 3:**  
FOREIGN DIRECT INVESTMENT IN LOCAL CONTENT BY GLOBAL PLAYERS IS A KEY FEATURE OF DIRECT ECONOMIC IMPACT, RISING BY 5X BETWEEN 2017-22



SOURCE: Media reports; Analyst reports; AlphaBeta modelling

17. FDI in Asia was calculated as the amount of local content spending in Asia by global VOD players.  
18. In 2017, New Zealand received US\$3.3 billion in net inflows of FDI, World Bank (2018), Foreign direct investment, net inflows (BoP, current US\$). Available at: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

# STRONG CONSUMER DEMAND INCENTIVIZES INVESTMENT IN HIGH-QUALITY LOCAL ENTERTAINMENT ONLINE

VOD services are increasingly popular worldwide and Asia is emerging as a key growth region, with a strong domestic demand for Asian content. This growth provides an opportunity for the local entertainment industry in Asia, provided it can produce high-quality content for these audiences.



# FACT 2



While online entertainment becomes increasingly global in nature, Asian consumers on VOD services continue to show a strong appetite for local content. AlphaBeta commissioned a survey of internet users watching paid online VOD once a month or more in India, Indonesia, Malaysia, Taiwan and Thailand. Viewers in these countries exhibited a relatively equal preference for watching local and foreign content (Exhibit 4). Third-party research shows that this preference for local-language content is as high as 78 percent for viewers in India.<sup>19</sup>

This preference is uniform across age groups (Exhibit 5), contrary to perceptions that VOD's easy access to foreign (i.e. Hollywood) content would reduce local demand and dilute cultural values. With strong consumer demand for local content, VOD players will have to increasingly provide high-quality local content to align with these preferences. Already, many VOD players in Asia have developed "hyper-local" strategies in content investment – with a focus on producing high-quality shows that also differentiate their offerings in a competitive market. For example, tonton reports that 60 percent of their content offering in Malaysia is Malay/Malay-Chinese content.<sup>20</sup> Looking to be the "local VOD service of choice", iflix has plans to quadruple their local original slate by the end of 2019,<sup>21</sup> saying "Pushing boundaries both through the creative process and challenging the status quo in local programming, is at

**SURVEYED ASIAN VOD USERS EXHIBITED A RELATIVELY EQUAL PREFERENCE FOR WATCHING LOCAL AND FOREIGN CONTENT.**

**WITH STRONG CONSUMER DEMAND FOR LOCAL CONTENT, VOD PLAYERS WILL HAVE TO INCREASINGLY PROVIDE HIGH-QUALITY LOCAL CONTENT TO ALIGN WITH THESE PREFERENCES.**

the heart of our originals strategy."<sup>22</sup> Hong Kong-based Viu has plans to introduce over 70 originals from China, South Korea, India and Indonesia in 2018.<sup>23</sup>

Global players such as Amazon, too, have recognized the need to go local in Asia. Amazon's local content libraries in Japan and India are already over 70 percent of all available video content, with Asia-Pacific Content Head James Farrell adding, "It is probably going to get higher than that. We are going to keep skewing towards local content."<sup>24</sup>

In addition, these companies are increasingly focused on becoming more locally relevant, with subtitles dubbing, music and animation to better suit local tastes. "Locally-relevant" content is the cornerstone of global strategy for many video content producers, particularly companies such as Disney.<sup>25</sup> For instance, for the iconic film "Moana", Disney hired popular young singer-songwriters from the Philippines, Indonesia, Thailand, Malaysia and Vietnam to interpret and record the song "How Far I'll Go" in local languages prior to its release in Southeast Asia.<sup>26</sup>

Further, it appears that consumers - wherever they live - are demanding high-quality rather than quantity of local content. High-quality content has two dimensions

19. Money Control (2017), "Predictions 2018: Top 7 trends to watch out for in India's VOD industry"

Available at: <https://www.moneycontrol.com/news/business/startup/predictions-2018-top-7-trends-to-watch-out-in-indias-vod-industry-2470947.html>

20. Interview with tonton executives.

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– technological (i.e. state-of-the-art picture quality, visual effects, high-quality audio, and so on) and artistic (i.e. unique narratives, compelling storylines, innovative direction and a high standard of acting, and so on).

In the US, around half of all respondents in a Deloitte consumer survey agreed that "quality of the original content offered" on a VOD service drove their continued subscription.<sup>27</sup> In the UK, regulator Ofcom recognized

an increase of perceived "low-quality" content as a key driver for consumers shifting from traditional TV to VOD.<sup>28</sup> Similar trends are expected in Asia, given how Asian consumers rate quality of the viewing experience as the most important decision-making criteria for subscribing to a VOD service.<sup>29</sup> Boxes 1 and 2 provide examples of how high-quality local content can attract a large domestic audience on VOD.

27. Deloitte (2018), "Digital media trends survey"

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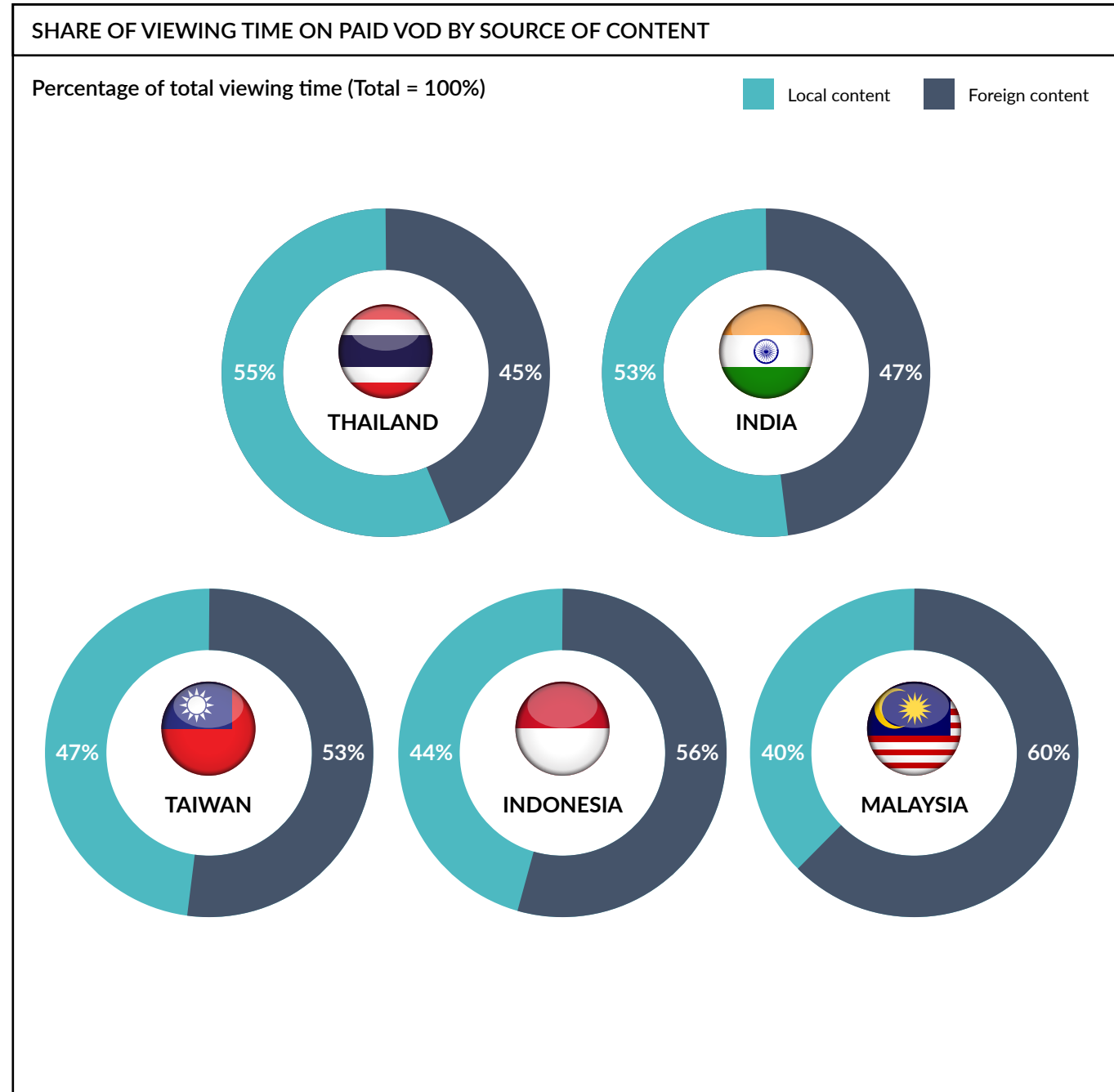
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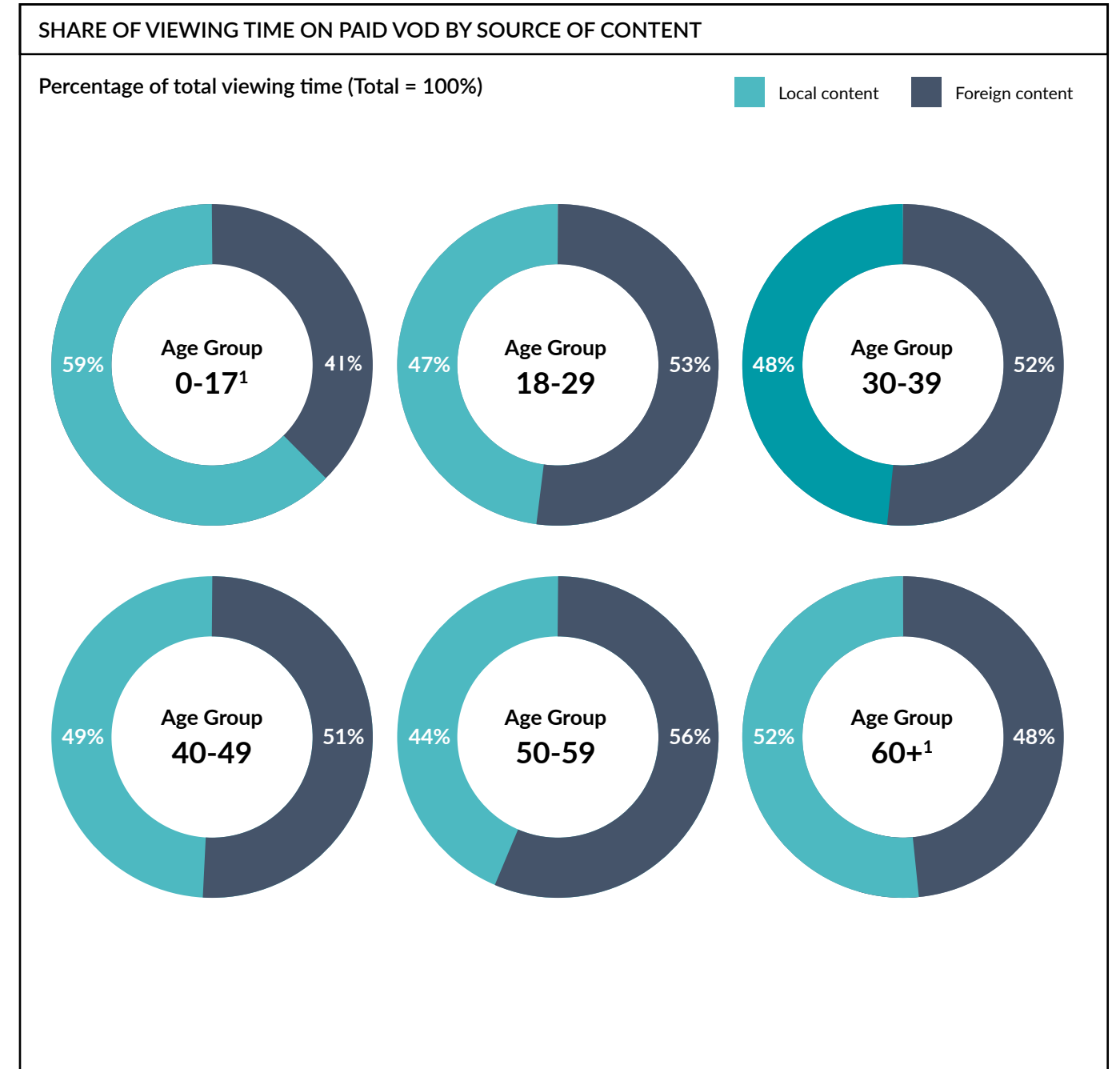
Available at: [https://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations\\_FA.pdf](https://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations_FA.pdf)

### EXHIBIT 4: PAID ONLINE VOD USERS IN SURVEYED ASIAN MARKETS EXPRESS EQUAL PREFERENCE FOR LOCAL AND FOREIGN CONTENT



SOURCE: AlphaBeta consumer survey of internet users watching paid online VOD once a month or more – in India (460), Indonesia (438), Malaysia (597), Taiwan (418) and Thailand (435). Viewers were asked the following question: "When you watched paid online VOD over the last week, how much time did you spend watching local and foreign content (in terms of hours watched)?"

### EXHIBIT 5: RELATIVE PREFERENCE BETWEEN LOCAL AND FOREIGN CONTENT IS UNIFORM ACROSS ALL AGE GROUPS OF PAID ONLINE VOD USERS



1. Due to limited observations in the age groups of 0-17 and 60+ results for these age groups are not statistically significant.

SOURCE: AlphaBeta consumer survey of internet users watching paid online VOD once a month or more - in India (460), Indonesia (438), Malaysia (597), Taiwan (418) and Thailand (435)



## HIGH-QUALITY LOCAL CONTENT ATTRACTS LOCAL AUDIENCES

### BOX 1. “KL GANGSTER: UNDERWORLD”<sup>30</sup>



“KL Gangster: Underworld” is an iflix original TV series, which released in August 2018. The series

is a spinoff of the iconic Malaysian movie series of the same name, originally produced by reputed Malaysian entertainment production house, Skop Productions. The series chronicles Kuala Lumpur’s dark and dangerous criminal underbelly, centering around gritty feuds between rival factions trying to capitalize on a power vacuum.

iflix worked closely with local studios to identify this potential spin-off series for smaller screens

on online VOD, with a goal to maintain the high production standards of a full-length feature film. The combination of a compelling narrative filmed in world-class facilities, with local players brought in to maintain the story’s authenticity, resonated well with Malaysian subscribers. **Within 30 minutes of the “KL Gangster: Underworld” release on iflix, it began trending and claimed the number one spot on viewership charts.**

The film was praised by the press for clever cinematography and “pushing boundaries, whilst still [being] respectful of local culture”. iflix executives, buoyed by the series’ domestic success, have planned a slate of high-quality originals for the Malaysian market.

### BOX 2. “SACRED GAMES”



Netflix’s first original foray into Indian TV came in the form of the “Sacred Games” series, which released in July 2018. The series, based on the successful Indian novel by Vikram Chandra, is an exploration of Mumbai’s criminal underbelly and follows the captivating

good-versus-evil story of a dedicated Mumbai policeman and a calculating, cunning mob boss.<sup>31</sup> Regarded as a “statement” release, the series stars seasoned Bollywood actors Saif Ali Khan,

Nawazuddin Sidiqqi and Radhika Apte, with “A-list” director Anurag Kashyap being the creative brains behind the show.<sup>32</sup>

**Within 100 days of its launch, “Sacred Games” was viewed by 2 out of 3 subscribers on Netflix in India.**<sup>33</sup> The domestic success “Sacred Games” is representative of the broader popularity of high-quality Indian TV shows proving popular on VOD. For instance, “Side Hero”, Indian media giant Eros International’s first original series developed for its OTT platform, received over 10 million online views for its trailer alone in under a week.<sup>34</sup>

# THROUGH VOD, ORIGINAL CONTENT PRODUCED IN ASIA IS GETTING INCREASED ACCESS TO GLOBAL AUDIENCES

Online VOD services provide video content with instant access to global online audiences, improving the landscape of media distribution through the power of the internet. This exposure can potentially increase global demand for Asian content, and help content producers find greater acclaim, generate cultural appeal, as well as increasing other exports such as merchandise and tourism.



# FACT 3

30. Interview with iflix executives.

31. Thrillist (2018), “Netflix’s ‘Sacred Games’ is the twisted, gritty crime drama you’re missing out on” Available at: <https://www.thrillist.com/entertainment/nation/sacred-games-netflix-review#>

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34. Business Wire (2018), “Eros Now’s Original Series Side Hero Trailer Generates Over 10 Million Views in Less Than a Week”

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## LOCAL STORIES ARE GETTING LARGER GLOBAL AUDIENCES

The global entertainment industry is changing rapidly. The global audience is showing a greater appetite for content that is diverse in nature, and this opportunity has already proven to be driving the success of existing TV series and films in a number of Asian countries. In the film industry, for example, Hollywood has historically dominated global content viewership, supported by local film industries catering for local markets ("local for local" production).<sup>35</sup> However, today, the global film industry looks very different (Exhibit 6). Local content from a range of countries is reaching global audiences – and this is increasingly the case for Asian content.

Content produced in Asia is proving extremely popular in foreign markets – for instance, many Indian films

## VOD IS ACCELERATING GLOBAL ACCESS TO ASIAN STORIES

The VOD industry is accelerating this transformation by enabling Asian filmmakers to distribute their content to international audiences through more platforms than ever before – opening them up to at least 450 million subscribers online today.<sup>39</sup> For instance, the domestically-popular "Sacred Games" was released around the world, all at once, localized in 24 languages – resulting in the series being viewed in over 190 countries. Viewers and critics alike have been captivated by the show's gritty storyline and clever cinematography – it received a 9.1 rating on IMDB, with over 40,000 reviews and counting including strong reviews in international publications like The New York Times.<sup>40</sup> Media Prima's Malay language "Agent Ali" performed extremely well on tonton, Media Prima's

**LOCAL CONTENT FROM A RANGE OF COUNTRIES IS REACHING GLOBAL AUDIENCES – AND THIS IS INCREASINGLY THE CASE FOR ASIAN CONTENT.**

such as "PK", "Dangal" and "3 Idiots" earned more than 30 percent of box office revenues from overseas.<sup>36</sup> Meanwhile, Chinese film exports have been growing fast, with TV series and films gaining viewership in Europe, North America and Africa, in addition to traditional Asian markets.<sup>37</sup> The globally acclaimed South Korean film industry also saw continued growth in exports, up by 17.5 percent in 2017 to US\$118.8 million.<sup>38</sup>

VOD service. The show is available in 40 countries through a distribution arrangement with Disney and has seen successful licensing and merchandising across all markets.<sup>41</sup>

K-drama (Korean drama TV shows) is a popular TV genre in South Korea which has seen unprecedented global demand once made available online. For instance, subscriptions for the SVOD service, Viki, jumped by 200

**"SACRED GAMES" WAS RELEASED AROUND THE WORLD, ALL AT ONCE, LOCALIZED IN 24 LANGUAGES – RESULTING IN THE SERIES BEING VIEWED IN OVER 190 COUNTRIES.**

35. Queensland University of Technology (2007), Hollywood's dominance of the movie industry: How did it arise and how has it been maintained? Available at: [https://eprints.qut.edu.au/16687/1/Jonathan\\_Derek\\_Silver\\_Thesis.pdf](https://eprints.qut.edu.au/16687/1/Jonathan_Derek_Silver_Thesis.pdf)

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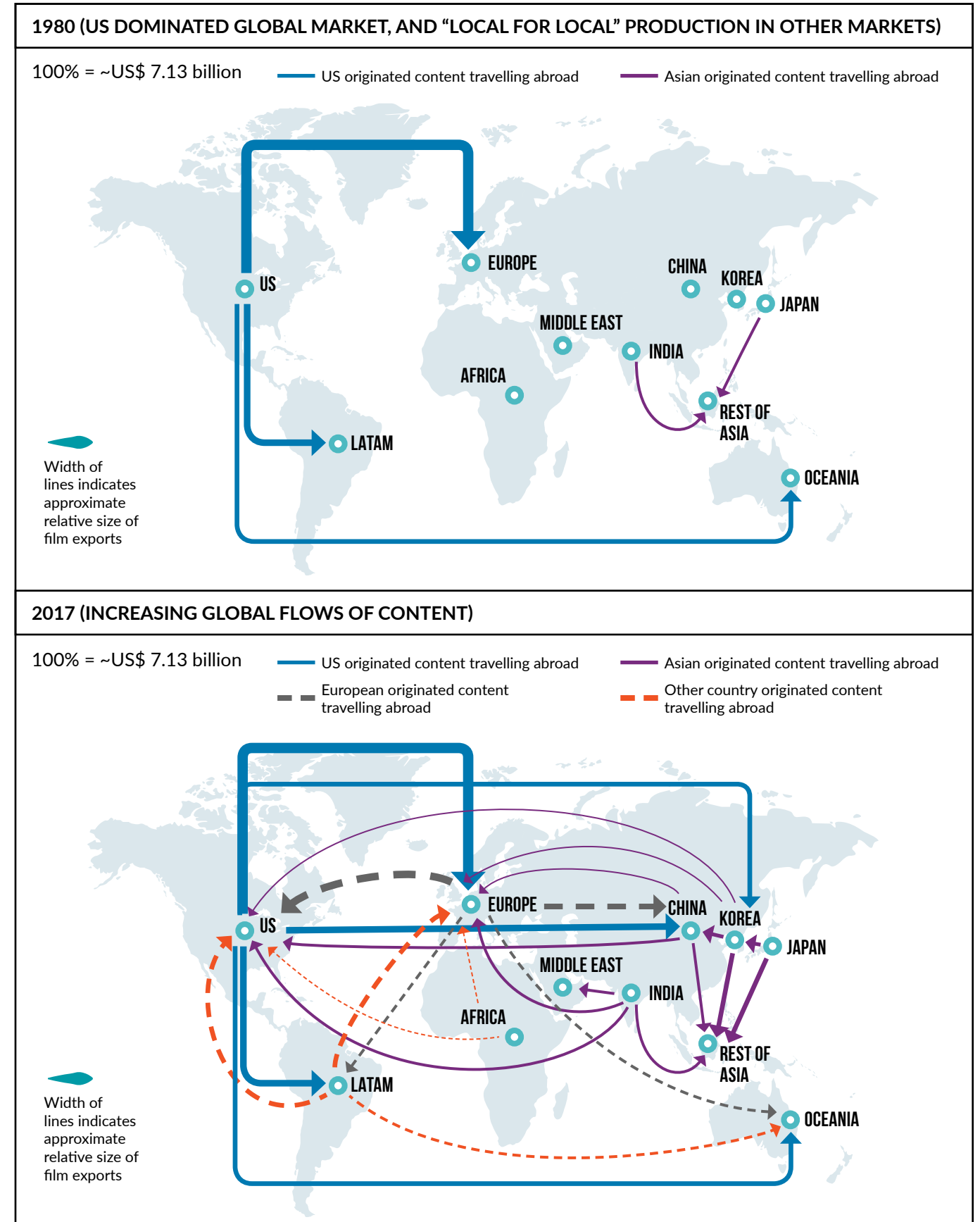
39. The global audience would be significantly higher when considering users of curated advertising-based VOD (CAVOD) services such as Popcornflix and transactional VOD (TVOD) services such as the iTunes movie store. It would be even higher if one considers multiple subscribers using a single account. For global SVOD subscribers, see Statista (2018), Video Streaming (SVOD). Available at: <https://www.statista.com/outlook/206/100/video-streaming--svod-/worldwide#market-revenue>

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41. Interview with tonton executives.

## EXHIBIT 6:

### THE FLOW OF CONTENT IN THE FILM INDUSTRY IS CHANGING RAPIDLY, WITH VOD ENABLING LOCAL CONTENT TO GO GLOBAL



SOURCE: Statista, Literature Review



percent when the service made TV shows such as “Kill Me Heal Me” and “Inspiring Generation” released on the same day as on traditional TV channels (i.e. licensed content) accessible only to paid users – and this was mostly driven by demand in the United States.<sup>42</sup> As the VOD industry grows in Asia and looks to focus on quality local stories that can be brought to the world, they become platforms for Asian content to get on the global awards stage. For instance:

- **“The Assassin”**, a martial art epic available worldwide on Amazon Prime, was selected as the Taiwanese entry for the Best Foreign Language Film at the Academy Awards in 2016.<sup>43</sup> The film was praised at the Cannes Film Festival in 2015 for its historically accurate fight sequences.<sup>44</sup>
- **“First They Killed My Father”**, was a product of a partnership between Angelina Jolie and Cambodian-born human-rights activist Loung Ung. Jolie and Ung co-wrote the script for the film based on Ung’s memoir. Jolie later enlisted Rithy Panh, the Oscar-nominated director of the Cambodian genocide documentary “The Missing Picture”, as co-producer.<sup>45</sup> The film has been nominated for a Golden Globe in the Best Foreign Film category and was Cambodia’s official foreign language selection for the Oscars.<sup>46</sup>
- **“Marlina: The Murderer in Four Acts”**, a movie co-produced by HOOQ, was nominated by Indonesia this year as the country’s entry in same category at the Oscars.<sup>47</sup> Set in eastern Indonesia’s Sumba island, it covers the emerging cultural theme of female empowerment and justice, claimed the NETPAC award for new Asian cinema at the Five Flavours Asian Festival in Poland.
- **“Birdshot”**, a Filipino film available worldwide on Netflix, won Best Picture in the Asian Future

category at the Tokyo International Film Festival in 2018. The film, a coming-of-age story of a young Filipino girl, touches on issues of police brutality and climate conservation.<sup>48</sup> The film’s director Mikhail Red cited the film’s global reach on VOD as a “dream come true”, adding that he hoped its international recognition would help “open doors for other Filipino filmmakers” to access global audiences.<sup>49</sup>

Through such international recognition, VOD provides a powerful channel to share deeply emotional dramas of historical or cultural relevance across borders, educating audiences in Asian history and culture. Such international exposure can generate cultural appeal and increase demand for Asian content as well as other exports such as film merchandize, tourism and exports from other domestic industries.

Local content can have broad appeal to markets both within Asia and across continents, particularly for content in languages such as Chinese, Bahasa Indonesia and Hindi given the large diaspora from these countries.



Photo Source: <https://www.kimstim.com/film/marlina-the-murderer-in-four-acts/>

42. The Wall Street Journal (2016), “US Viewers seek out foreign shows in real time”

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45. South China Morning Post (2017), “Angelina Jolie on her Cambodian epic First They Killed My Father and the power of family”

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46. NBC News (2018), “With ‘First They Killed My Father,’ Cambodian activist wanted to honor her parents”

Available at: <https://www.nbcnews.com/news/asia-america/first-they-killed-my-father-cambodian-activist-wanted-honor-her-n833316>

47. Variety (2018), “Oscars: Indonesia Selects ‘Marlina the Murderer’ in Foreign-Language Category”

Available at: <https://variety.com/2018/film/asia/oscars-indonesia-selects-marlina-the-murderer-1202947642/>

48. Variety (2017), “Film Review: Birdshot” Available at: <https://variety.com/2017/film/reviews/birdshot-review-1202510687/>

49. Coconuts Manila (2018), “Award-winning Filipino film ‘Birdshot’ to premiere on Netflix on Monday”

Available at: <https://coconuts.co/manila/lifestyle/award-winning-filipino-film-birdshot-premiere-netflix-monday/>

## THE ECONOMIC IMPACT OF LOCAL CONTENT INVESTMENT IS 3X LARGER THAN WHAT VOD PLAYERS SPEND

On the surface, it may appear that spending on local content by VOD services is the only channel of impact on the local economy. However, this is simply the “direct” or visible impact of this spending. Scratching under the surface reveals that the broader economic activity spurred by content spending is much larger than just the amount spent.



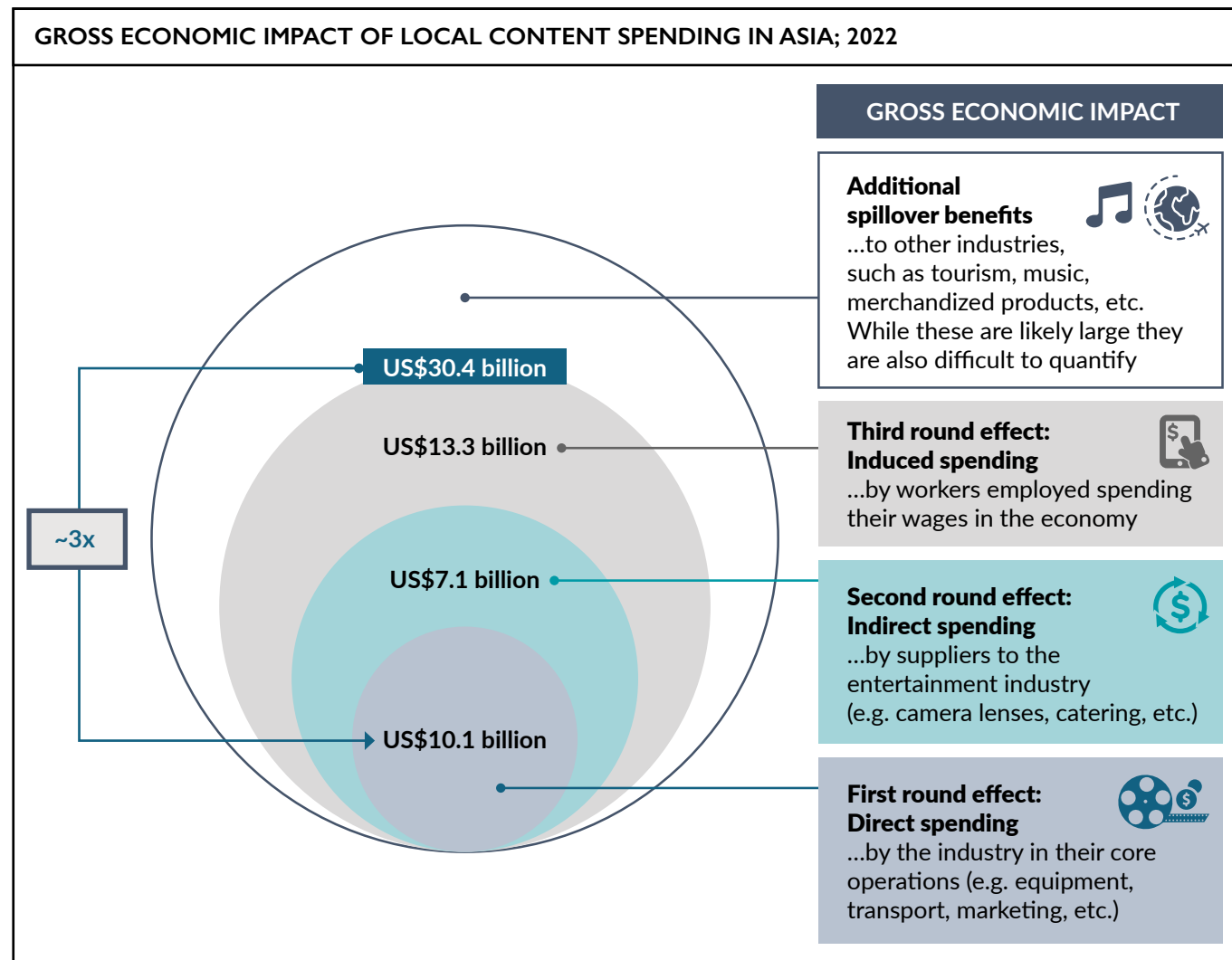
# FACT 4



AlphaBeta estimates that the overall economic activity, in terms of spending in the economy, that could be supported by content investment in Asia by VOD players could be worth up to US\$30.4 billion in 2022 – greater than direct spending by a factor of 3x (Exhibit 7).<sup>50</sup> **Direct spending** reflects the total estimated content spending by online VOD players (as shown earlier in this research). I.e. this is spending that occurs in the local entertainment industry. However, this direct spending has important multiplier effects on other parts of the industry and the economy at large.

The direct spending on local content leads to **indirect spending** by the entertainment industry with suppliers to the film, television and OTT industries. For example, businesses may need to purchase supplies such as lenses for cameras from the manufacturing sector, food for the catering provided during filming from the hospitality sector, or services from within their own industry e.g. casting agencies, set production etc. This means the direct spending will lead to additional spending and production across the economy. This in turn implies that the direct spend in the entertainment industry, plus this

### EXHIBIT 7: THE ECONOMIC IMPACT OF LOCAL CONTENT SPENDING IS ACTUALLY 3X THE SIZE OF THE AMOUNT SPENT



SOURCE: Media reports; Analyst reports; AlphaBeta modelling

50. This analysis accounts for impact at the following levels: direct content spending, indirect spending, and induced spending. Each level of impact is a subset of the total economy-wide impact, and relevant adjustments were made to account for double-counting; for example, when calculating net indirect spending, direct spending was subtracted from the gross economic impact; when calculating net induced spending, indirect spending was subtracted from gross induced spending, and so on.

BY 2022, THERE COULD BE **736,000 JOBS** DIRECTLY LINKED TO LOCAL CONTENT SPENDING COMING FROM VOD PLAYERS IN ASIA.

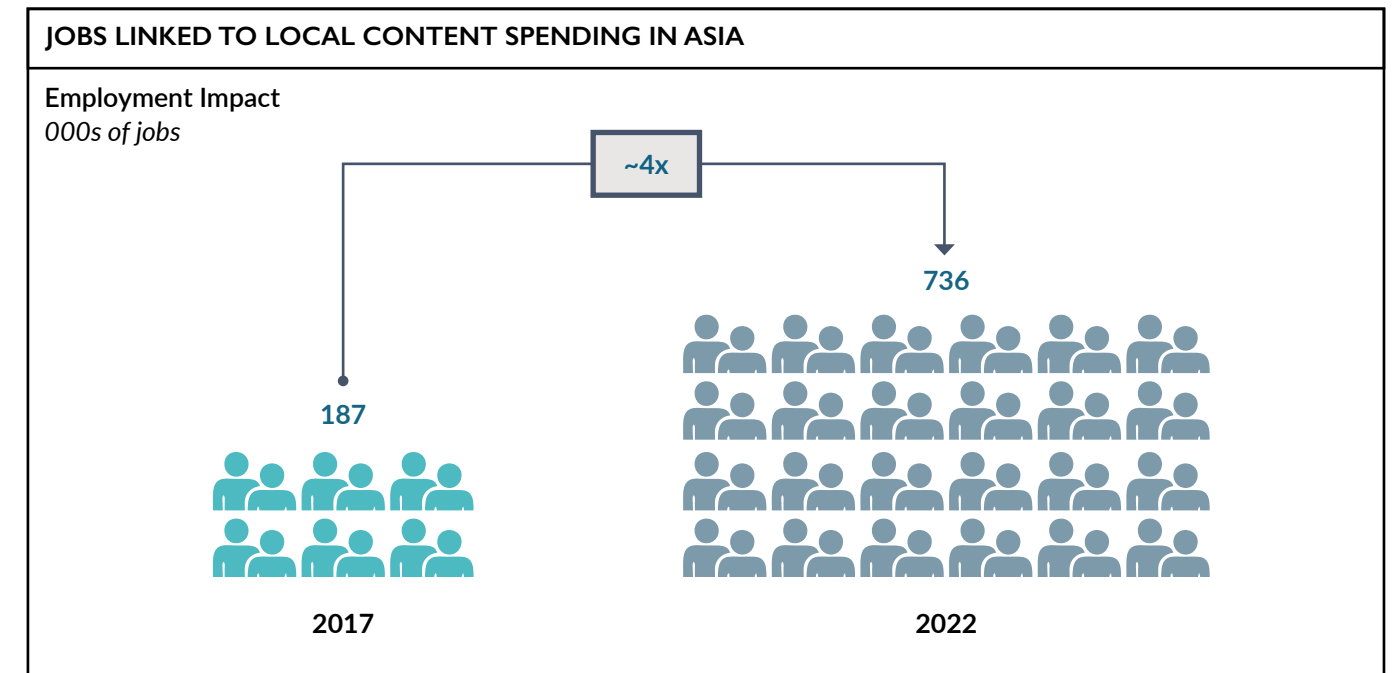
indirect spending will amount to more than the initial content investment made by VOD players. Additional economic activity from indirect spending alone can create an additional US\$7.1 billion of economic impact in terms of gross economic activity.<sup>51</sup>

A further impact is created by the employment linked to this local content spending. By 2022, there could be

736,000 jobs directly linked to local content spending coming from VOD players in Asia (Exhibit 8).<sup>52</sup> The **induced spending** linked to these workers' incomes could create an additional US\$13.3 billion of economic impact in 2022.<sup>53</sup>

These economic benefits do not include the broader benefits to adjacent sectors, which could potentially be large, but are difficult to quantify. **Spillover benefits** to other industries, such as tourism, music, merchandizing and so on, would amplify the economic impact of content spending ever further. Although these have not been quantified in this study, Box 3 describes the potential impact a popular movie could have on tourism.

### EXHIBIT 8: THE EMPLOYMENT IMPACT COULD ALSO BE SIGNIFICANT, GENERATING 736,000 JOBS IN ASIA BY 2022



SOURCE: Media reports; Analyst reports; AlphaBeta modelling

51. Indirect economic impact of original content spending and that of licensed content spending were calculated separately. Original content spending leads to new content production, which in turn requires inputs from all supplier industries. On the other hand, licensed content spending does not result in new content production and its economic impact is limited to select supplier industries. To estimate the indirect economic impact across Asia, what is referred to as the "Type I multiplier" was used, based on relevant industries in China, India, South Korea and Malaysia. These multipliers were calculated from each country's Input-Output (IO) table obtained from government statistics offices. These multipliers were then used as proxies for remaining countries/territories in Asia to construct a weighted average Asia multiplier. Please refer to Appendix for detailed methodology.

52. Employment impact across Asia was calculated by constructing an employment multiplier for Asia. The employment multiplier, which shows the number of jobs created per dollar increase in output by industry, was derived from Input-Output (IO) tables obtained from national/federal government statistics websites. Employment multipliers for China, India, South Korea and Malaysia were used as proxies to determine employment multipliers for the remaining countries/territories. Please refer to Appendix for detailed methodology.

53. Similar to indirect spending, the economic impact of induced spending was also calculated separately for original content spending and licensed content spending. To estimate the induced economic impact across Asia, what is referred to as the "Type II multiplier" was used, based on relevant industries in China, India, South Korea and Malaysia. These multipliers were calculated from each country's Input-Output (IO) table obtained from national/federal government statistics websites. These multipliers were then used as proxies for remaining countries/territories in Asia to construct a weighted average Asia multiplier. Please refer to Appendix for detailed methodology.



## BOX 3. IMPACT OF THE ENTERTAINMENT INDUSTRY ON TOURISM



Tourists from around the world are influenced by the video content they consume when choosing destinations to visit, often choosing to travel to less-visited locations highlighted by films. Tourism Competitive Intelligence estimated that, in 2012, more than 40 million international tourists chose their destination primarily because they saw a film shot in that location.<sup>54</sup> Iconic examples of popular films that have had a profound impact on tourism include the classic “Sound of Music”, which still attracts up to 300,000 visitors to Salzburg in Austria every year. There are many such examples of TV

series and films from around Asia boosting tourism – with the popular Hindi film “3 Idiots” providing a useful recent case study.<sup>55</sup> Deloitte estimates that, over a three-year period, the movie increased tourist arrivals by 2.4x or 98,000 additional visitors to Pangong Lake, Ladakh in the Indian Himalayas – the location for the film’s last few scenes.<sup>56</sup> This resulted in an overall impact of US\$155 million in additional tourism revenue that created 83,000 jobs as a result. “TV tourism” is on the rise as well – TripAdvisor revealed that one in five tourists visited a destination based on a series they watched.<sup>57</sup>

54. Motion Picture Association of America (2014), *Infographic: Touring Film and TV around the Globe*. Available at: <https://www.mpa.org/press/infographic-touring-film-and-tv-around-the-globe/>

55. Deloitte & World Bank (2016), *Economic Contribution of the Indian Motion Picture and Television Industry*. Available at: <https://www2.deloitte.com/in/en/pages/technology-media-and-telecommunications/articles/economic-contribution-of-motion-picture-and-television-industry.html>

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The potential impact on tourism of such TV series and films available on VOD services is similar, given their international reach. The Japanese reality show “Terrace House”, which was originally aired on Fuji Television, made its global debut on Netflix in 2015. Since then, the series has achieved a cult following internationally with four seasons set in different locations – Shonan, Tokyo, Hawaii and Nagano.<sup>58</sup> The series has been credited with drawing attention to the titular house in the Karuizawa town of the Nagano district, as well as in Shonan and Tokyo.<sup>59</sup>

The global phenomenon of the rise of interest in South Korea, is termed as the Korean Wave or “Hallyu”, and tourists are driven to the country by their interest in K-dramas and K-pop. Fan clubs have sprouted around the world, including

in unexpected locations such as Iran and Peru. There is evidence of this impact having roots in VOD – for instance, Chinese fans of the drama “My Love from the Star” viewed its episodes 14.5 billion times online.<sup>60</sup> “Hallyu” was reported to have created more than 100,000 new jobs in 2014, with about 25,000 coming from the tourism industry.<sup>61</sup> The Korean government has mobilized K-pop and K-drama stars such as Song Joong-ki from popular drama “Descendants of the Sun” to be the face of Korean Tourism 2016, capitalizing on his global appeal.<sup>62</sup> Exports of Korean cosmetics and skincare products have also benefited, increasing from US\$1 billion in 2012 to US\$2.6 billion in 2015.<sup>63</sup> The Korean brand “Nature Republic” has capitalized on growing domestic and overseas sales during this period to expand rapidly across China, ASEAN, and North America.<sup>64</sup>



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59. Project Yui (2018), “Terrace House: Opening new doors” Available at: <http://karuizawa.osusumewa.jp/terracehouse/house.html> and NBC News (2017), “On Netflix’s ‘Terrace House,’ the Reality Show Becomes ‘Good-Natured’”

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60. Financial Post (2014), “How Korea became the world’s coolest brand”

Available at: <http://business.financialpost.com/news/retail-marketing/how-korea-became-the-worlds-coolest-brand>

61. Korea Joongang Daily (2015), “K-Wave boosts economic growth” Available at: <http://koreajoongangdaily.joins.com/news/article/Article.aspx?aid=3003773>

62. Visit Korea (2016), “Song Joong Ki: The new face of Korean Tourism 2016”

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# VOD PLAYERS OFFER BENEFITS TO THE LOCAL INDUSTRY - WELL BEYOND LOCAL CONTENT INVESTMENT

Content investment and the associated economic impact is one of many channels through which VOD players contribute to the entertainment industry. Beyond this, there are a variety of advantages that VOD services bring to the local industry, for example in brokering partnerships, development of industry hubs and technology transfers.

# FACT 5

## DIRECT ADVANTAGES TO LOCAL INDUSTRY

There are five key advantages local producers and directors enjoy when working on projects directly with VOD players:

- Low-cost distribution.** Distributing content via online VOD can be cheaper, relative to alternative distribution channels. This is enabled by lower capital expenditure in reel production, and centralized storage and streaming enabled by cloud computing.<sup>65</sup> Amazon, for example, has rolled out “Amazon Video Direct (AVD)”, which provides a free self-service channel for producers to distribute their films without complex contract negotiations; as long as films meet Amazon Video guidelines and contain subtitles. This initiative aims to give filmmakers “another avenue if they don’t feel they will secure distribution”, said AVD head Eric Orme.<sup>66</sup>

Online VOD also provides an affordable alternative for marketing of films and TV series. With the advertising costs associated with the opening weekend of a typical wide release for independent films ranging from US\$20 million to more than US\$150 million, VOD companies are able to digitally promote shows to viewers and find new audiences well after release.<sup>67</sup> Box 4 illustrates this through a case study of hit TV show “Breaking Bad”.

- Dissemination channel for independent producers and niche genres.** Small, independent producers that typically lack big marketing budgets benefit from the lower-cost distribution and also attract global audiences they may not have traditionally had access to. For instance, Amazon purchased five independent films at Sundance Film Festival in 2016, including “Manchester by the Sea” for a total of US\$10 million. “Manchester by the Sea” went

WORKING WITH VOD SERVICES GIVES LOCAL TV AND FILM INDUSTRY PLAYERS **FLEXIBILITY IN CONTENT PRODUCTION**, PARTICULARLY WITH REGARDS TO **SUBJECT MATTER, SERIES LENGTH AND EPISODE FORMAT**.

on to be one of the most decorated international movies of that year.<sup>68</sup> “Shirkers”, a local Singaporean Indie film, that did not have a mainstream release, also found an audience through VOD.<sup>69</sup> The film is directed by Sandi Tan, who won Best Director for World Cinema Documentary at the Sundance Film Festival 2018, making her the first Singaporean to win a major documentary award at the prestigious festival. “It’s truly remarkable when I stop to think about it: images from a tiny island’s stolen past can now be seen in 190 countries, subtitled in 25 languages, around the world.”<sup>70</sup> said Tan, “Now I can’t wait for kids in smaller towns around the world, away from the media centres, to see the film and realize that, with today’s technology, the power to tell their own stories sits in their hands and they should heed their desire to capture the beauty of their world for everyone else to see.”<sup>71</sup>

- Creative freedom.** Working with VOD players can often offer local TV and film industry players more flexibility in content production, particularly with regards to subject matter, series length and episode format. Anurag Kashyap, director of “Sacred Games” as well as other short VOD films, has lauded the flexibility in content length, saying “...the drama takes its own time, in the sense that we are not under pressure to ‘cut it short’ or ‘move it faster’...I get to tell the whole story and I’m focusing only on performance.”<sup>72</sup> Creators are exploring previously

65. Cisco (2017), *Why is media distribution so complicated (and expensive)?*

Available at: <https://www.cisco.com/c/dam/en/us/solutions/collateral/service-provider/service-provider-video-solutions/cis-mdc-white-paper.pdf>

66. Business Insider (2017), “How Amazon is trying to lure in indie filmmakers with a \$100,000 bonus”

Available at: <https://www.businessinsider.com/amazon-video-direct-self-distribution-platform-2017-1/?IR=T>

67. Variety (2017), “Hollywood’s Soaring Marketing Cost Dilemma”

Available at: <https://variety.com/2017/biz/news/hollywoods-soaring-marketing-cost-dilemma-1202530305/>

68. IMDB (2018), *Manchester by the Sea - Awards*. Available at: <https://www.imdb.com/title/tt4034228/awards>

69. Interview with Netflix executives.

70. Interview with Netflix executives.

71. Prestige (2018) “*Coulda, Woulda, Shirkers: Singapore-Born Filmmaker Sandi Tan On Her Almost-Lost Movie*”.

Available at: <http://prestigeonline.com/sg/art-culture/-/coulda-woulda-shirkers-singapore-born-filmmaker-sandi-tan-almost-lost-movie/>

72. CNN (2018), “*Sacred Games: Anurag Kashyap Interview | Netflix Web Series | CNN News 18*” Available at: <https://www.youtube.com/watch?v=D2dY4yTn-04>





Director Angelina Jolie and writer Luong Ung on the production set of "First They Killed My Father" in Cambodia

niche subjects, breaking the traditional family drama mould that has dominated Indian TV for decades.<sup>73</sup>

- Brokering partnerships.** The ability of VOD operators to broker partnerships between local players and renowned international studios is a boon to the development of local entertainment industry, enabling transfer of best practices from overseas. Hong Kong based platform Viu connects young Indonesian filmmakers with award-winning producers, directors and scriptwriters via a crowd sourcing style event called "Viu Pitching Forum".<sup>74</sup> "First They Killed My Father", based on the memoir of Cambodian-born human-rights activist Loung Ung, featured the Oscar-nominated director of the Cambodian genocide documentary "The Missing Picture", Rithy Panh, as co-producer.<sup>75</sup> The film has been nominated for a Golden Globe in the Best Foreign Film category was Cambodia's official foreign language selection for the Oscars.<sup>76</sup>

- Video localization.** Another advantage of VOD services is in their multi-market presence. As they look to service this audience, they in hand enable content creators reach international audiences by providing greater levels of content localization – dubbing, subtitling and audio description. Such tools help tailor content to audiences in diverse regions while retaining the authenticity of the original content. For instance, dubbing and subtitling is made available in 25 languages to content creators on Netflix. The company maintains the Netflix Post Partner Program (NP3), which collaborates with post-production partners to ensure quality control related to language dubbing and audio descriptive services.<sup>77</sup> As mentioned in Fact 2, localization is key to The Walt Disney Company's rollout of productions around the world – providing new business opportunities to dubbing and subtitling services as well as musical talent in overseas markets.<sup>78</sup>

73. BBC (2018), "How a lesbian love story is bypassing the Indian censors" Available at: <https://www.bbc.com/news/business-45678376>

74. CSI Magazine (2018), "PCCW's Viu embarks on massive original content spree" Available at: <http://www.csimagazine.com/csi/Viu-embarks-on-massive-original-content-sprees.php>

75. South China Morning Post (2017), "Angelina Jolie on her Cambodian epic First They Killed My Father and the power of family" Available at: <https://www.scmp.com/culture/film-tv/article/2111341/angelina-jolie-her-cambodian-epic-first-they-killed-my-father-and>

76. NBC News (2018), "With 'First They Killed My Father,' Cambodian activist wanted to honor her parents" Available at: <https://www.nbcnews.com/news/asian-america/first-they-killed-my-father-cambodian-activist-wanted-honor-her-n833316>

77. Information available at: <https://np3.netflixstudios.com/>

78. PhilStar Global (2016), "Janella sings theme song of Disney's Moana"

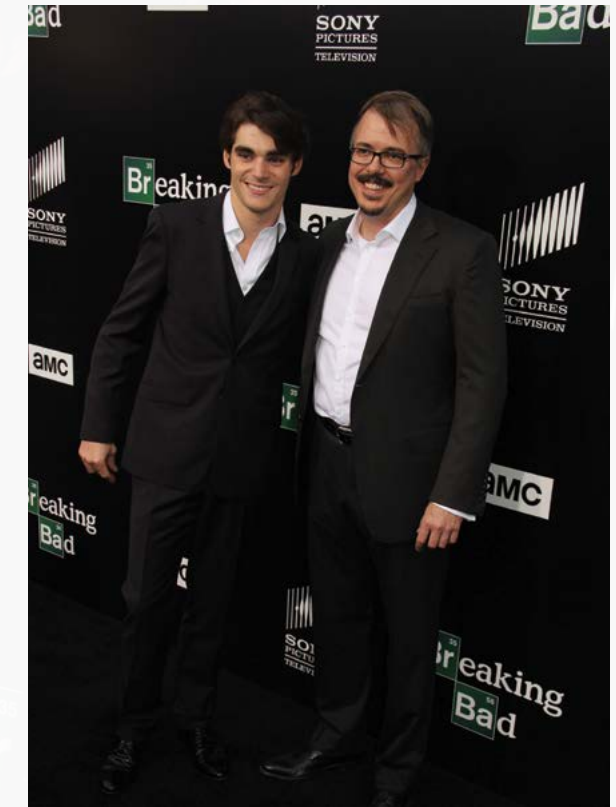
Available at: <https://www.philstar.com/entertainment/2016/11/12/1641608/janella-sings-theme-song-disneys-moana#yeHdG1RtCD86teH4.99>

## BOX 4. LOW-COST DISTRIBUTION REVIVED HIT SHOW "BREAKING BAD"

"Breaking Bad" was a hit TV show that premiered in 2008 on American TV network AMC. The series followed the story of a compelling protagonist, the cancer-ridden Walter White, who dealt with issues of morality and survival as he navigated through the murky world of illegal drug trade in a bid to secure his family's financial future.<sup>79</sup> The show is widely regarded as an artistic and commercial success, earning several nominations (and wins) at the Emmy's.<sup>80</sup>

Despite being regarded as one of the most popular American dramas in recent memory, its production almost met a premature end after the second season.<sup>81</sup> AMC found itself unable to justify expenditures on production and advertising for the TV show, given then-levels of TV ratings. At this crucial juncture, VOD distribution breathed new life into the fledgling series. "Time-starved" viewers were able to pace themselves and catch up with the series when convenient to them. Not only this, new viewers were made aware of the series through personalized VOD recommendation algorithms.

The additional revenue from online VOD streaming, at extremely low distribution costs, kept the show "...on the air", according to "Breaking Bad" Director Vince Giligan. The series went on to complete five full seasons, with the final episode earning 10.3 million viewers –



Director Vince Giligan with actor RJ Mitte celebrating the final episodes of "Breaking Bad" in 2013

AMC's second-highest rated episode of all time as of 2013.<sup>82</sup>

VOD is building a reputation for reviving content.<sup>83</sup> Even in Asia, this trend is evident – for instance, HOOQ has plans to produce a sequel to the Filipino movie "On The Job", many years after the first film released.<sup>84</sup>

79. IMDB (2018), Breaking Bad. Available at: <https://www.imdb.com/title/tt0903747/>

80. Forbes (2013), "Why 'Breaking Bad' is the best show ever and why that matters" Available at: <https://www.forbes.com/sites/allenjohn/2013/09/16/why-breaking-bad-is-the-best-show-ever-and-why-that-matters/#445e526e650e>

81. Mashable (2013), "Emmys Winners List: Netflix Makes History With 3 Wins This Emmy Season"

Available at: <https://mashable.com/2013/09/23/emmys-winners-list-netflix-wins-history/#VFSJ9EYNr8qb>

82. Mashable (2013), "Breaking Bad' Finale Didn't Quite Break Twitter or Facebook"

Available at: <https://mashable.com/2013/09/30/breaking-bad-finale-twitter-facebook/#OwT0kRgC8sqw>

83. Variety (2017), "Amazon goes big and increasingly local in Asia"

Available at: <https://variety.com/2017/digital/asia/amazon-goes-big-and-increasingly-local-in-asia-1202625286/>

84. Rappler (2017), "10 streaming services in the PH: Which one is right for you?"

Available at: <https://www.rappler.com/technology/features/188463-best-streaming-services-philippines-which-one-is-right>



## LONG-TERM CHANNELS OF IMPACT

There are four channels of impact through which VOD services contribute to the long-term development of local entertainment industries:

- **Contribution to local production hubs.** VOD services can play an important role in funding production facilities. As they invest in more local productions, these companies are incentivized to invest in markets to meet their business needs. For instance, iflix has opened a dedicated short-form production studio called “Studio 2:15” in Malaysia, which will help with production of around 2,500 individual episodes.<sup>85</sup> Amazon has also announced plans to introduce a film studio in India.<sup>86</sup>
- **Technological transfer.** As VOD services grow, they rely on new technologies to scale and support overall improvements for the industry. For example, Netflix provides production crews with a newly-developed suite of apps under the Prodicle program which helps digitize shoot management and post-production activities, leveraging on historical data for scheduling, cloud computing for call sheets and scripts, and real-time access to cast and crew through smartphones.<sup>87</sup> It has also worked with the device industry to bring higher technological standards to smart TVs that

**THE PRESENCE OF VOD SERVICES CAN ACT AS A “SIGNAL” THAT INDICATES A LARGE MARKET WITH LONG-TERM POTENTIAL, STIMULATING INVESTMENT, BOTH DOMESTIC AND FROM OVERSEAS.**

drive online viewing. The Netflix Recommended TV program has raised overall industry standards for Smart TVs; they also unveiled the “Calibrated Mode” with Sony that looks to preserve the quality of video to the standard of the director’s cut in a movie production studio.<sup>88</sup>

- **Training and certification.** As VOD services scale, so does their vested interest in the development of the local entertainment industry. This includes training and certification courses, running workshops and partnering with local educational institutes to develop emerging talent through apprenticeship programs etc. Box 5 provides detailed examples of how these programs bring substantial benefits to participants.
- **Signaling effect.** The presence of VOD services can act as a “signal” that indicates a large market with long-term potential, stimulating investment, both domestic and from overseas. Previous AlphaBeta research highlighted that the signaling effect from early investments is a key element in the development of a successful digital economy.<sup>89</sup> For instance, the large-scale 2015 launch of Hotstar in India, which was supported by a multi-million-dollar marketing budget to build consumer awareness, helped attract the attention of global players to India. International VOD players entered soon after.<sup>90</sup> Many industry players in Southeast Asia perceived the entrance of these players as a positive sign – “a great news from an industry perspective”, according to iflix Group CEO, Mark Britt.<sup>91</sup>

85. Marketing Interactive (2018), “iflix gets aggressive with original content commissioning in 2019”

Available at: <https://www.marketing-interactive.com/iflix-to-get-aggressive-with-original-content-commissioning-in-2019/>

86. Interview with Netflix executives.

87. Gadgets 360 [NDTV] (2018), “Can Netflix use technology to reinvent TV and movie production?”

Available at: <https://gadgets.ndtv.com/entertainment/features/can-netflix-use-technology-to-reinvent-tv-and-movie-production-1823779>. See also

Netflix (2018), Move, Powered by Prodicle. Available at: [https://drive.google.com/file/d/0B\\_c2D6r41PxSdG1fUTZNb0hTV28/view](https://drive.google.com/file/d/0B_c2D6r41PxSdG1fUTZNb0hTV28/view)

88. Finder (2017), “Netflix’s flexibility leads to a rise in Smart TV sales” Available at: <https://www.finder.com.au/netflix-flexibility-leads-to-a-rise-in-smart-tv-sales>; and

Variety (2018), “Sony unveils Netflix-optimized 4k Ultra HD TVs designed to deliver on filmmaker’s vision” Available at: <https://variety.com/2018/digital/news/sony-unveils-netflix-optimized-4k-ultra-hd-tvs-designed-to-deliver-on-filmmakers-vision-1202890888/>

89. AlphaBeta (2017), Digital Nation: Policy levers for investment and growth. Available at: [https://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations\\_FA.pdf](https://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations_FA.pdf)

90. Forbes (2017), “Amazon Prime Video, Netflix & Hotstar Slug It Out For India’s \$272M Video Streaming Market” Available at: <https://www.forbes.com/sites/kmkashyap/2017/03/21/amazon-prime-video-netflix-hotstar-slug-it-out-for-indias-272m-video-streaming-market/#55711086a385>

91. Channel News Asia (2016), “Netflix in Southeast Asia: iflix, HOOQ welcome competition”

Available at <https://www.channelnewsasia.com/news/asia/netflix-in-southeast-asia-iflix-HOOQ-welcome-competition-8217416>

## BOX 5. SUPPORTING LOCAL CONTENT INDUSTRIES AROUND THE WORLD

Netflix has recently announced a program called “Netflix Post Technology Alliance” which aims at helping Netflix Originals artists and producers select the right tools for delivering their content to its streaming service. Vendors certified under the program are “committed to better interoperability and faster innovation cycles.”<sup>92</sup> They will gain early access to the company’s technical road map, including application programming interfaces (APIs) and the opportunity to collaborate with Netflix on technical support, training, and updates.

Another technical certification program is the Netflix Preferred Fulfillment Partner (NPFP) program. This is a network of media fulfillment companies that meet various strict standards ranging from technical abilities to project management. The top companies are awarded with the Preferred badge.<sup>93</sup>

In Canada, Netflix has committed to help foster the local film market through a range of partnerships with local institutions from the “cultural community”.<sup>94</sup> The VOD service partnered with Montreal’s L’institut national de l’image et du son (INIS), a film, television and interactive media training center, to develop a production apprenticeship program in Quebec. The six-month intensive program is open to all local communities with the aim to accelerate the professional development of local content creators.<sup>95</sup> The service has also partnered with



the Academy of Canadian Cinema and Television on the Apprenticeship for Women Directors Program, which is aimed at providing emerging female directors with professional development opportunities through a similar six-month program.<sup>96</sup> In addition to mentorship programs, Netflix provides scholarships for emerging professionals from indigenous and under-represented groups in Quebec to access INIS’s regular programs.<sup>97</sup>

92. Variety (2018), “Netflix Launches Program to Certify Post-Production Tools for Original Programming”

Available at: <https://variety.com/2018/digital/news/netflix-post-production-technology-alliance-certification-program-1202942037/>

93. Tech Crunch (2018), “Netflix’s newest program certifies post-production tools for Netflix Originals”

Available at: <https://techcrunch.com/2018/09/14/netflixs-newest-program-certifies-post-production-tools-for-netflix-originals/>

94. Netflix Media Center (2018), “A busy first year for Netflix Canada”

Available at: <https://media.netflix.com/en/company-blog/a-busy-first-year-for-netflix-canada>

95. PlayBack (2018), “Netflix to develop training program with Quebec’s INIS”

Available at: <http://playbackonline.ca/2018/04/20/netflix-to-develop-training-program-with-quebecs-inis/>

96. TV, Eh? (2018), “The Canadian Academy partners with Netflix on the apprenticeship for women directors program” Available at: <https://www.tv-eh.com/2018/05/17/the-canadian-academy-partners-with-netflix-on-the-apprenticeship-for-women-directors-program/>

97. PlayBack (2018), “Netflix to develop training program with Quebec’s INIS”

Available at: <http://playbackonline.ca/2018/04/20/netflix-to-develop-training-program-with-quebecs-inis/>



# THE CONTENT PRODUCTION VALUE CHAIN IS BECOMING MORE GLOBAL AND DIVERSE, ALLOWING ASIAN COUNTRIES TO SPECIALIZE

With higher demands for diverse stories from around the world, the content production value chain is becoming increasingly globalized and unbundled. There is an opportunity for countries in Asia to develop a stake in this by specializing in different segments that make up entertainment production, for example, visual effects, animation or physical production studios. This opportunity is particularly significant with VODs scaling up their investments around the world.

# FACT 6



The global entertainment industry is changing rapidly. As shown in Chapter 3, the global trade in content formats has grown significantly with Western content traveling to Asia and vice versa. The production value chain is also becoming increasingly “unbundled” into distinct segments, as well as “globalized”, similar to other traditional industries.<sup>98</sup> No longer is production done in just one country, but increasingly it is spread across

multiple locations, taking advantage of different forms of expertise and comparative advantages. Box 6 provides examples of global footprint of modern productions. This provides an opportunity for Asian countries who may not be able to develop full end-to-end production capabilities to specialize and capture content investment value at different segments of the value chain.

## NEW TECHNOLOGIES TO CREATE OPPORTUNITIES AND DRIVE SCALE

The evolution of the production value chain is driven by new emerging technologies and the increasing complexity of content. Companies around the world can capitalize on this. For example, the need for second-screen applications and video games, and the use of minicams, special rigs, and unmanned aerial vehicles (UAVs) for filming is providing a host of opportunities for niche companies that are often new to the entertainment industry.<sup>99</sup> For example, Skyshot is Asia’s leading time-lapse and aerial filming company, based out of Singapore and operates joint ventures in India, Malaysia and Thailand. The company has provided its services to local and international broadcasters including HBO, Discovery Channel and the BBC.<sup>100</sup>

and trying to establish itself as a new hub for ancillary production services. For example, local visual-effect artists were involved in the latest King Kong movie.<sup>102</sup> Indian studios have capitalized on the country’s talent and cost advantages and are now capable of doing end-to-end post-production. The Indian animation and visual effects (VFX) industry grew by 16.4 percent in 2016 to just shy of US\$1 billion, dominated by outsourced projects from entertainment industries, with several OTT platforms signing content licensing deals with Indian studios.<sup>103</sup>

This unbundling of tasks in the content production value chain creates opportunities for countries – even those with small domestic markets. Even individual cities and neighborhoods can build a vibrant industry with global scale. They can do so by attracting companies and

**THE INDIAN ANIMATION AND VISUAL EFFECTS (VFX) INDUSTRY GREW BY 16.4 PERCENT IN 2016 TO JUST SHY OF US\$1 BILLION, DOMINATED BY OUTSOURCED PROJECTS FROM ENTERTAINMENT INDUSTRIES, WITH SEVERAL OTT PLATFORMS SIGNING CONTENT LICENSING DEALS WITH INDIAN STUDIOS.**

98. Chalaby (2016), *Television and Globalization: The TV Content Global Value Chain*. *Journal of Communication*. Available at: [https://www.researchgate.net/profile/Jean\\_Chalaby/publication/291384429\\_Television\\_and\\_Globalization\\_The\\_TV\\_Content\\_Global\\_Value\\_Chain/links/59dc900c458515e9ab4c6a55/Television-and-Globalization-The-TV-Content-Global-Value-Chain.pdf?origin=publication\\_detail](https://www.researchgate.net/profile/Jean_Chalaby/publication/291384429_Television_and_Globalization_The_TV_Content_Global_Value_Chain/links/59dc900c458515e9ab4c6a55/Television-and-Globalization-The-TV-Content-Global-Value-Chain.pdf?origin=publication_detail)

99. Chalaby (2016), *Television and Globalization: The TV Content Global Value Chain*. *Journal of Communication*. Available at: [https://www.researchgate.net/profile/Jean\\_Chalaby/publication/291384429\\_Television\\_and\\_Globalization\\_The\\_TV\\_Content\\_Global\\_Value\\_Chain/links/59dc900c458515e9ab4c6a55/Television-and-Globalization-The-TV-Content-Global-Value-Chain.pdf?origin=publication\\_detail](https://www.researchgate.net/profile/Jean_Chalaby/publication/291384429_Television_and_Globalization_The_TV_Content_Global_Value_Chain/links/59dc900c458515e9ab4c6a55/Television-and-Globalization-The-TV-Content-Global-Value-Chain.pdf?origin=publication_detail)

100. More information available at: <https://www.skyshot.sg/>

101. IBISWorld (2017), “Video postproduction services in the US: market research report” Available at: <https://www.ibisworld.com/industry-trends/market-research-reports/information/motion-picture-sound-recording-industries/video-postproduction-services.html>

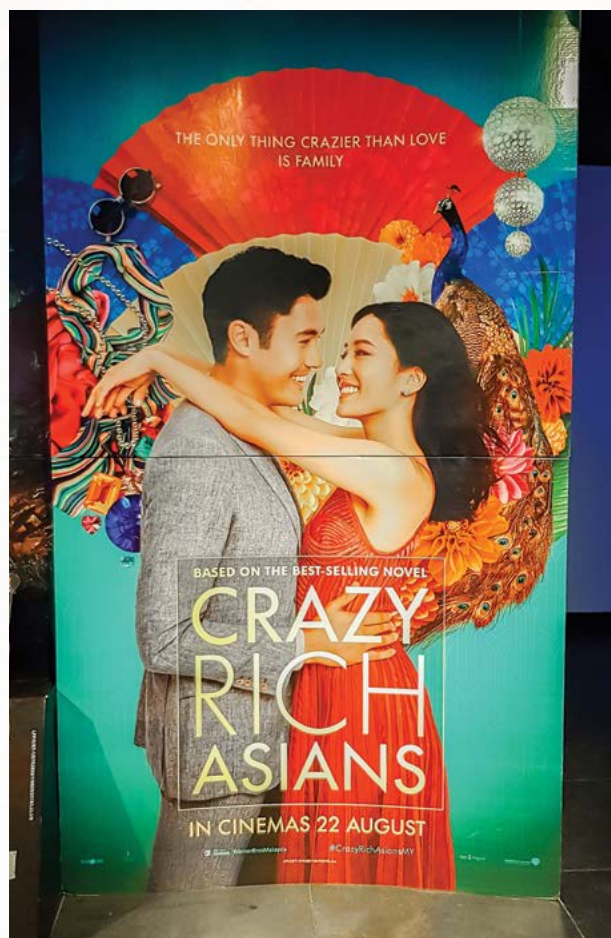
102. The Straits Times (2017), “Singapore connection: team behind visual effects for ‘Kong: Skull Island’” Available at: <http://www.straitstimes.com/lifestyle/singapore-connection-team-behind-visual-effects-for-kong-skull-island>

103. KPMG India and Federation of Indian Chambers of Commerce and Industry (2017), *Media for the masses: The Promise unfolds*. Available at: <https://assets.kpmg.com/content/dam/kpmg/in/pdf/2017/04/FICCI-Frames-2017.pdf>

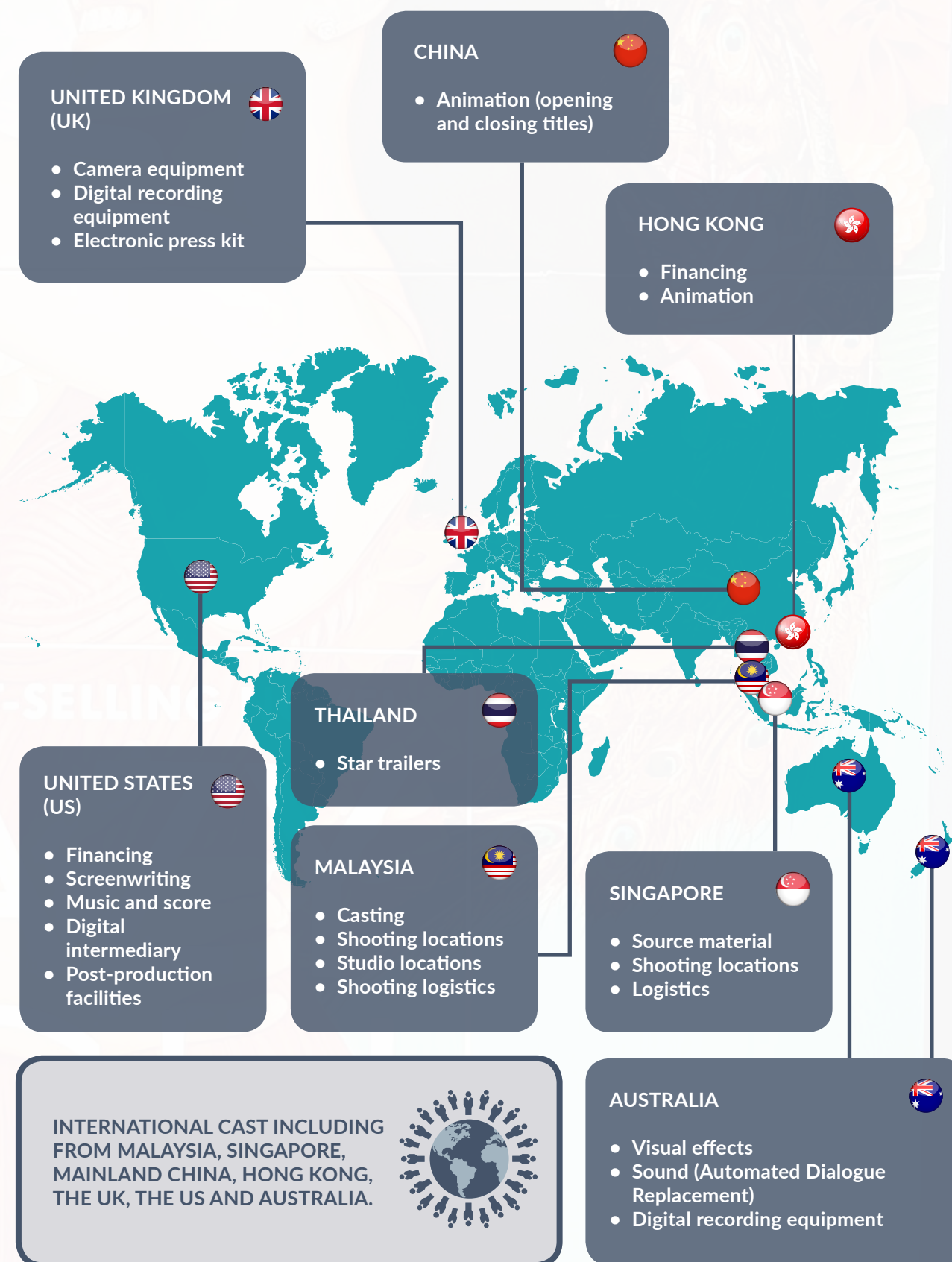


## BOX 6. THE NEW GLOBAL VALUE CHAIN: THE EXAMPLE OF “CRAZY RICH ASIANS”

2018’s “Crazy Rich Asians” was a commercial success, grossing over US\$164 million worldwide as of September 2018.<sup>104</sup> The movie, set in Singapore, was filmed across multiple locations in Malaysia and Singapore, with an international cast from a variety of countries including Malaysia, Singapore, mainland China, Hong Kong, the UK, the US and Australia. Production was headed by US-based Asian film investment group Ivanhoe Pictures with local support, for example on casting by Kuala Lumpur based Biscuit Films, sounds stages at Pinewood Iskandar Malaysia Studios in the Johor region, and logistics by Singapore based Infinite Studios.<sup>105</sup> Post-production services were provided by, amongst others, Method Studios’ team in Melbourne Australia, who delivered 280 largely invisible VFX shots.<sup>106</sup> yU+co based out of Los Angeles, Hong Kong and Shanghai provided the closing credit titles and sound post-production as well as Automated Dialogue Replacement (ADR) was provided by Big Bang Sound in Sydney.<sup>107</sup> Digital Recording equipment for the film was provided by Codex Digital based out of London Los Angeles and Wellington.



## THE GLOBAL PRODUCTION FOOTPRINT OF “CRAZY RICH ASIANS”



104. The Hollywood Reporter (2018) “Crazy Rich Asians’ Producer Ivanhoe Pictures Launches Indonesian Film Slate” Available at: <https://www.hollywoodreporter.com/news/crazy-rich-asians-producer-ivanhoe-pictures-launches-indonesian-film-slate-1142023>  
 105. The Urban Wire (2018), “Crazy Rich Asians: How It’s Filmed in Singapore” Available at: <https://www.theurbanwire.com/2018/08/crazy-rich-asians-how-its-filmed-in-singapore/>  
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 107. IMDB (2018) “Crazy Rich Asians: Company Credits” Available at: <https://www.imdb.com/title/tt3104988/companycredits> and 3DArtist Online (2018) “Crazy Rich Asians’ end titles have come full circle.” Available at: <https://www.3dartistonline.com/news/2018/08/crazy-rich-asians-end-titles-have-come-full-circle/>

SOURCES: IMDB, Company websites and media articles, AlphaBeta Analysis



cultivating the eco-system. There are many successful examples of this worldwide. For example, in London, Soho has developed into a post-production cluster. The combined turnover of the top 50 post-production companies in the UK stood at GBP529 million (~US\$846 million) in 2012.<sup>108</sup> In New Zealand, “Wellywood” – the local film industry cluster in Wellington – has similarly

developed a specialization in visual effects.<sup>109</sup> The industry has produced internationally acclaimed visual effects companies like Weta Digital which first rose to fame in the 1990’s for its work on the “Lord of the Rings” series, and earlier this year picked up four awards from the global Visual Effects Society, while earning Oscar nominations as well.<sup>110</sup>

## INCENTIVIZING SPECIALIZED INDUSTRY HUBS AS VOD OPPORTUNITIES GROW

According to ATKearney, Asian countries in particular are well positioned to take advantage of ‘production offshoring’ due to low cost but high-quality labor and talent.<sup>111</sup> In particular China, India, Korea, Malaysia, Thailand, Philippines, Singapore and Taiwan have leveraged this opportunity. As a result, for example, many international visual effects companies (e.g. Industrial Light & Magic, Rhythm & Hues, Double Negative) have begun building a presence in the region. Being able to seize new opportunities online relies on countries taking the right measures such as using IP laws to incentivize creativity (such as introducing terms of trade allowing producers to retain rights to formats, meaning they can be sold on), not restricting international trade, and taking into account the global nature of the content value chain to help local firms position themselves accordingly.<sup>112</sup>

There are good examples of Asian countries that are actively driving the development of such specialized industry hubs. In Singapore for example, the InfoComm Media Development Authority (IMDA) supports the



development of animation sector closely, providing funding assistance for production, marketing and talent development. This includes supporting local institutions with courses in digital media and linking local players with global ones to enable skills transfer. Popular co-production efforts include the pre-school animated series “Dinosaur Train”, which involved Singaporean firm Sparky Animation and The Jim Henson Company. Leading global companies in this field, such as Lucasfilm Animation, have now set up offices in Singapore.<sup>113</sup> Singapore’s strong IP protection framework reinforces the country’s attractiveness as a visual effects hub.<sup>114</sup>

108. Televisual (2012), “The UK’s top 50 post production companies”

Available at: [http://www.televisual.com/blog-detail/The-UKs-top-50-post-production-companies\\_bid-392.html](http://www.televisual.com/blog-detail/The-UKs-top-50-post-production-companies_bid-392.html)

109. New Zealand Tourism (2018), “Wellington is the world’s coolest little film capital”

Available at: <https://media.newzealand.com/en/story-ideas/wellington-is-worlds-coolest-little-film-capital/>

110. Stuff NZ (2018), “Weta Digital running out of homes for award winning team”

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112. Chalaby (2017), Can a GVC-oriented policy mitigate the inequalities of the world media system? Strategies for economic upgrading in the TV format global value chain, International Journal of Digital Television. Available at: [https://www.researchgate.net/publication/316250181\\_Can\\_a\\_GVC-oriented\\_policy\\_mitigate\\_the\\_inequalities\\_of\\_the\\_world\\_media\\_system\\_Strategies\\_for\\_economic\\_upgrading\\_in\\_the\\_TV\\_format\\_global\\_value\\_chain](https://www.researchgate.net/publication/316250181_Can_a_GVC-oriented_policy_mitigate_the_inequalities_of_the_world_media_system_Strategies_for_economic_upgrading_in_the_TV_format_global_value_chain)

113. IMDA (2018), Industry development – Sectors – Media – Animation. Available at: <https://www.imda.gov.sg/industry-development/sectors/media/animation>

114. IMDA (2017), “Opening doors for Singapore through visual effects”

Available at: <https://www.imda.gov.sg/infocomm-and-media-news/in-conversation-with/2016/1/opening-doors-for-singapore-through-visual-effects>

# THE KEY DRIVERS TO CAPTURING THE VOD CONTENT OPPORTUNITY ARE INVESTMENT INCENTIVES, SUPPORTIVE REGULATION, AND HIGH-QUALITY INFRASTRUCTURE

The potential economic impact of increased VOD content spending in Asia is large and appealing. To make decisions on content spending, VOD services consider a range of factors, including access and availability of local talent, tax considerations, government support, production facilities, and so on. Which of these factors should Asian policymakers focus on to ensure that content spending is maximized in their countries?



# FACT 7



Survey results and interviews with VOD executives reveal that over 80 percent of respondents believed that three factors incentivize investment in local content:

- i. active government support for content investment;
- ii. supportive digital sector regulations and
- iii. high-quality infrastructure and resources to support content production.

Policy reform in these areas can create “virtuous cycles” where local content investment rises, investment in the broader creative economy follows, demand for high-quality content increases, and this results in further investment and growth in the sector. A growing number of Asian markets are already reaping the benefits of focusing on these policy drivers.

## 1. ACTIVE GOVERNMENT SUPPORT FOR CONTENT INVESTMENT

There are three key channels through which governments can actively support content investment by VOD players:

- **Production incentives.** VOD executives have highlighted that low cost of production is a key driver of content investment decisions. This is particularly important given the decentralized content production value chain – shooting and filming can occur in the most cost-effective locations with post-production activities occurring elsewhere. Production incentives supported by government agencies are thus key differentiators, and typically include tax incentives, subsidies and cash rebates. Many Asian markets have experienced strong revenue growth in their film industries after the implementation of such grants and schemes. Government agencies also play a critical role in connecting local players with foreign studios and producers – partnerships enable the transfer of best practices between film industries.
- **Welcoming environment for investments.** Previous AlphaBeta research placed “creating a supportive tech investment climate” as one of the top 3 policy levers to create a vibrant digital ecosystem.<sup>115</sup> 88 percent of over 300 local Asian startups, financial investors and multinationals surveyed for the research agreed that a positive investment climate increases the availability of start-up funding and fosters innovation. Several factors can adversely affect the investment climate in a country – including rules that protect minority investors, shareholder governance, and FDI restrictions.
- **Fostering international collaboration and showcasing local industry.** Governments should actively support international collaboration and showcase local industry. This can be achieved by hosting events such as award ceremonies or film festivals at home or organizing and marketing film festivals showing domestic content abroad (for example, the Royal Thai Embassy presented the first Thai Film Festival in Malaysia in 2017).<sup>116</sup>

Production incentives in Latin America have proven conducive to the growth of the VOD industry in recent years – some key policy drivers from the region that Asian policymakers could look to for best practices are detailed in Box 6.

115. AlphaBeta (2017), *Digital Nation: Policy levers for investment and growth*. Available at: [https://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations\\_FA.pdf](https://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations_FA.pdf)

116. KL Expat Malaysia (2017) “THAI FILM FESTIVAL 2017 – GSC PAVILION KL, 1 UTAMA, MID VALLEY”. Available at: <http://www.klexpatmalaysia.com/2017/04/17/thai-film-festival-2017/>

## EXAMPLES OF GOOD PRACTICES:

### TAIWAN

The Taipei Film Commission has launched a co-production incentive program – offering qualifying co-productions between Taiwanese and foreign film companies the chance to apply for up to US\$1m in funding.<sup>117</sup> In order to qualify, co-productions between Taiwanese and foreign film companies must either be filmed in Taipei, hire Taiwanese actors and main creative staff, or employ post-production or visual effects companies in Taiwan.

### THAILAND

In 2017, Thailand's Film Office introduced a 15 to 20 percent cash rebate incentive for video productions filming in the country, subject to a minimum spend of THB50 million (US\$1.4 million).<sup>118</sup> This incentive succeeded in increasing international features by over 60 percent, rising to 80 in 2017, with the largest increase coming from Japan, which contributed 130 projects to the Thai film industry.

### MALAYSIA

Malaysia has developed a range of incentive schemes to encourage investment in local content and upskilling of local industry players. For instance, the government-backed “Film in Malaysia” incentive scheme run by the National Film Development Corporation (FINAS) has helped producers bring more Malay-language projects to Malaysia since it was established in 2013, after the government allocated MYR200 million (~US\$50 million) to the scheme.<sup>119</sup> Incentives such as the 30 percent rebate on production investment over ~MYR4.8 million (~US\$1.2 million) were critical in bringing production of successful international films, such as the recently released “Crazy Rich Asians”, to Malaysia.<sup>120</sup>

### SOUTH KOREA

South Korea hosts many International Film Festivals, including the Jeonju International Film Festival and the Busan Film Festival – which is the largest in the country. While catering to many markets, these festivals are instrumental in introducing new films and first-time directors to audiences, as well as attracting younger audiences. They are also a “breeding ground” for connecting new directors and emerging screen talent to production houses.

### SINGAPORE

The Singapore Film Commission (SFC), set up in 1998 under the IMDA, manages four grants, including the Production Assistance and New Talent Feature Grant for first and second-time feature filmmakers. VOD executives have credited the scheme for its fair distribution of grants based on perceived quality of the proposed content, as opposed to the financials of the media house proposing potential projects. In the first five years of SFC's formation, the average Singapore film output per year was four. This grew to eight in the next five years. In the last five years, the average output has reached 11 movies.

117. Screen Daily (2018), “Taipei Film Commission to launch co-production incentive”

Available at: <https://www.screendaily.com/news/taipei-film-commission-to-launch-co-production-incentive/5129248.article>

118. The Location Guide (2018), “Thailand's film industry breaks records under new incentive”

Available at: <http://www.thelocationguide.com/2018/01/thailands-film-industry-breaks-records-under-new-incentive/#>

119. Global Islamic Economy Gateway (2018), “Out of focus: Malaysia's Malay film industry in search of quality”

Available at: [https://www.salaamgateway.com/en/story/out\\_of\\_focus\\_malaysias\\_malay\\_film\\_industry\\_in\\_search\\_of\\_quality-SALAAM31052018073428/](https://www.salaamgateway.com/en/story/out_of_focus_malaysias_malay_film_industry_in_search_of_quality-SALAAM31052018073428/)

120. KFTV (2018), “Crazy Rich Asians filmed Malaysia as global locations” Available at: <https://www.kftv.com/news/2018/09/13/crazy-rich-asians-filmed-malaysia-as-global-locations>



## BOX 7. PRODUCTION INCENTIVES IN LATIN AMERICA

The VOD industry in Latin America has recently experienced strong growth, driven by improved access to broadband internet and production of higher quality content.<sup>121</sup> SVOD subscriber penetration in South America is 7.5 percent today and is projected to reach 10.6 percent by 2022.<sup>122</sup> Global VOD players are now investing heavily in the region – for instance, Netflix currently has 50 new and returning original productions in Latin America. Over 20 new comedians from Argentina, Chile, Colombia, Mexico and Brazil have also been commissioned for stand-up specials – a popular genre on the platform. In 2017, HBO had 14 original

productions in Brazil alone.<sup>123</sup> Series such as “3%” from Brazil, “Narcos” from Colombia and the political drama “Ingobernable” from Mexico have generated unexpected fandom in foreign countries like Italy, Turkey, Korea, Thailand and Australia.<sup>124</sup>

There are two key policy levers that have encouraged this growth:

- **Tax incentives for local productions** contribute to the attractiveness of Latin America as a content investment market. Brazil’s Audiovisual Act allows video distribution companies to



obtain a 70 percent tax deduction if they invest an equivalent amount producing independent Brazilian feature films, television films or series. Mexico provides VAT reimbursement for foreign productions (up to 16 percent of all incurred expenses in Mexico) if they manage activities through a resident tax firm. Colombia offers a cash rebate for films partially or fully produced in Colombia – at 40 percent of the amount spent for “film services” and 20 percent for “film logistics services”. Investors interested in building studios or soundstages in the Dominican Republic enjoy a 15-year 100 percent income tax exemption and custom duties exemption on imports related.<sup>125</sup>

- **Co-production incentives for local and international players** have spurred original content production. Argentina’s Cablevision has partnered with foreign networks such as TNT, Canal 13 and Pol-ka to co-produce 20 hours of original series a year to promote its Flow SVOD platform.<sup>126</sup> In Mexico, Televisa, the largest producer of Spanish-language TV content, has revealed its plan to produce original content to be distributed on Amazon Prime Video.<sup>127</sup> Not only do these co-production projects bring investment and international expertise to the local film industry, but they also provide opportunities to disseminate Latin American content globally.

121. Many countries such as Brazil, Mexico and Colombia have launched national plans to improve access to broadband internet. Previous research from the World Economic Forum has shown that higher content quality is a result of improvement in broadband infrastructure, and these are both elements in a virtuous cycle. World Economic Forum (2015), “Understanding digital content and services ecosystems: the role of content and services in boosting internet adoption”, Global Information Technology Report 2015. Available at: <http://reports.weforum.org/global-information-technology-report-2015/1-3-understanding-digital-content-and-services-ecosystems-the-role-of-content-and-services-in-boosting-internet-adoption/>

122. Statista (2018), Video Streaming (SVoD) – South America. Available at: <https://www.statista.com/outlook/206/103/video-streaming--svod-/south-america>

123. Rapid TV News (2017), “HBO ramps up Brazilian production” Available at: <https://www.rapidtvnews.com/2017031146475/hbo-ramps-up-brazilian-production.html#axzz5SOPePSb9>

124. Netflix (2017), “Netflix Expands its Latin America Investments, Announcing New Original Series, Diablero, Filmed Entirely in Mexico” Available at: <https://media.netflix.com/en/press-releases/netflix-expands-its-latin-america-investments-announcing-new-original-series-diablero-filmed-entirely-in-mexico>

125. Sheppard Mullin (2014), “Film Tax Incentives in Latin America” Available at: <https://www.latinolawblog.com/2014/07/articles/other/film-tax-incentives-in-latin-america/>

126. Variety (2018), “MIP: Latin American TV Producers Look for Partners” Available at: <https://variety.com/2018/tv/markets-festivals/mip-gael-garcia-bernal-1202746217/>

127. Reuters (2018), “Mexico’s Televisa to create content for Amazon Prime” Available at: <https://www.reuters.com/article/us-mexico-televisa-amazon/mexicos-televisa-to-create-content-for-amazon-prime-idUSKCN1G621T>



## 2. SUPPORTIVE DIGITAL SECTOR REGULATIONS

There are three dimensions to supportive digital regulation:

- **Strong anti-piracy laws.** VOD executives cite online piracy of video content as one of the largest deterrents to content investment.<sup>128</sup> Likened to “robbing a bank”, piracy denies producers large chunks of revenue from their intellectual property – this despite many services implementing internal piracy controls such as video encryption and content “fingerprinting”. Reduced profitability in turn reduces incentives for content investment.
- **Stable and equitable fiscal regimes.** Previous AlphaBeta research has highlighted that the simplicity, predictability and fairness of government regulation, particularly taxes, is more important than the tax rate itself.<sup>129</sup> Many VOD executives interviewed for this study have echoed this concern – citing that long-term content investment decisions are difficult to justify when regulations are prone to sudden changes.
- **Multi-stakeholder approach to content regulation and online safety.** Industry and regulators have a shared responsibility to ensure that viewers do not get exposed to harmful content, or content deemed inappropriate by local standards. However, the vast amount of content available online makes it a very challenging task for regulators to review and monitor all infringements. As a result, there is a risk that haphazardly designed regulation, such as content restrictions or local content quotas, can have counterproductive impacts and erode content investment incentives (see more below). To tackle this issue, “self-regulation” is a more practical alternative, and is supported by many VOD executives. Under this approach, VOD players implement common-sense content ratings and safety controls on their services, and are encouraged to resolve possible violations reported by consumers. An example of this is the VOD self-regulation content code signed by VOD players in Southeast Asia – highlighting a commitment to ban prohibited content.<sup>130</sup>

128. Online video piracy is the illegal sharing of free or paid-for content available on the internet by entities that do not hold copyrights to the content being shared.  
 129. AlphaBeta (2017), “Digital Nation: Policy levers for investment and growth” Available at: [http://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations\\_FA.pdf](http://www.alphabeta.com/wp-content/uploads/2017/05/DigiNations_FA.pdf)  
 130. Asia Video Industry Association [AVIA] (2018), “Subscription video-on-demand service providers in ASEAN introduce content code to safeguard consumer interests” Available at: <https://asiavia.org/2018/06/25/subscription-video-on-demand-service-providers-in-asean-introduce-content-code-to-safeguard-consumer-interests/>  
 131. Cable and Satellite Broadcasting Association of Asia [CASBAA] (2016), Same Same But Different? Video Policies for Asian Pay-TV and OTT. Available at: <http://www.casbaa.com/publication/same-same-but-different-video-policies-for-asian-pay-tv-and-ott/>  
 132. Cable and Satellite Broadcasting Association of Asia [CASBAA] (2016), Same Same But Different? Video Policies for Asian Pay-TV and OTT. Available at: <http://www.casbaa.com/publication/same-same-but-different-video-policies-for-asian-pay-tv-and-ott/>  
 133. Asia Video Industry Association [AVIA] (2018), OTT TV Policies in Asia. Available at: <https://asiavia.org/wp-content/uploads/2018/08/PUB-OTT-TV-Policies-in-Asia-2018.pdf>  
 134. Asia Video Industry Association [AVIA] (2018), OTT TV Policies in Asia. Available at: <https://asiavia.org/wp-content/uploads/2018/08/PUB-OTT-TV-Policies-in-Asia-2018.pdf>  
 135. The Economic Times (2018), “Netflix, Amazon explore voluntary censorship” Available at: <https://economictimes.indiatimes.com/industry/media/entertainment/media/netflix-amazon-explore-voluntary-censorship/articleshow/65676976.cms>  
 136. Safer Internet Day (2017), “About Safer Internet Day” Available at: <https://www.saferinternetday.org/web/sid/about>  
 137. Bernama Media Relations and Event Management [MREM] (2017), “Keeping children safe is everyone’s responsibility” Available at: <http://mrem.bernama.com/viewsm.php?idm=28444>  
 138. New Straits Times (2018), “Beware, digital pirates” Available at: <https://www.nst.com.my/lifestyle/bots/2018/05/366702/beware-digital-pirates>

### EXAMPLES OF GOOD PRACTICES:

#### HONG KONG

Hong Kong’s government is broadly considered “technology-neutral” with respect to disruptive technologies.<sup>131</sup> OTT is covered under prevailing regulations for internet, copyright and sensitive content (such as nudity, violence and obscenity).<sup>132</sup> Many VOD executives have credited Hong Kong as a market with stable regulations, where the government seeks industry guidance and provides ample time before implementing new regulation. For instance, Hong Kong recently ruled out introducing licensing for over-the-top (OTT) services, following a public consultation with business and consumer groups.<sup>133</sup>

#### INDIA

India maintains a flexible regulatory approach where OTT services are free to distribute content without quotas, subject to prevailing advertising and content regulations which prohibit depravity and obscenity.<sup>134</sup> VOD services are encouraged to “self-regulate” their content, and have recently convened to explore a voluntary censorship code for online content.<sup>135</sup>

#### MALAYSIA

Malaysia has been lauded by VOD executives and local entertainment industry representatives alike as a regulatory “gold standard”:

1. Collaborative approach to regulation: The Malaysian government works closely with industry players, with VOD executives lauding the “self-regulation” principle in Malaysia. Initiatives such as the annual “Safer Internet Day” promote positive use of internet and comprise a series of multi-stakeholder engagement events.<sup>136</sup> One such event held as a part of this initiative in 2017 was the Digital Citizenship Dialogue, with speakers from the Family Online Safety Institute, Malaysian Communications and Multimedia Commission, Cyber Security Malaysia

and UNICEF discussing best practices for keeping younger citizens online safe through research, policy and parental control.<sup>137</sup>

2. Attempts to curb online piracy: Recognizing the threat that piracy poses to the industry, the Malaysian government has taken steps to discourage piracy, including stricter implementation of fines, removal of websites with pirated content, and implementation of a voluntary complaint register at the Intellectual Property Corporation of Malaysia (MyIPO) for content owners.<sup>138</sup> MyIPO also works with industry partners to raise awareness through public engagements, including at schools. Awareness of patent and trademark applications has reportedly risen by 5-10 percent in recent years.

#### TAIWAN

The National Communications Commission of Taiwan has recently drafted a “Digital Communications Act”, which emphasizes the need for a “light touch” in internet governance.<sup>139</sup> This is complemented by a proposal to loosen traditional Pay-TV broadcasting regulation, possibly to facilitate competition with OTT services.<sup>140</sup>

#### SINGAPORE

InfoComm Media Development Authority (IMDA) has developed a model standard for the regulation of OTT services and their providers. Key features include:

1. Automatic class-licensing: OTT service providers are automatically class-licensed and are required to comply with the class license conditions and the Internet Code of Practice.<sup>141</sup> Simple requirements include basic safeguards for restricted content, such as verification of age for new subscribers.<sup>142</sup>

2. Self-rated content: IMDA subjects OTT service providers to national standards for sensitive or “R21” content ratings as well as copyright infringements, without holding them to traditional broadcasting rules.<sup>143</sup> For content ratings, this includes alerts for recommended viewing age and potentially harmful content (such as violence, sex and nudity).

3. Consumer empowerment: In Singapore, consumers are required to self-declare their age and are offered access controls (such as PINs) on OTT services; practices that recognize the consumer’s central role in the enforcement of content restrictions for themselves and their families.

Local creators also cite Singapore’s strong IP protection framework and stable economy as reasons that reinforce Singapore’s attractiveness as a visual effects hub.<sup>144</sup>

139. National Communications Commission (2017), “NBTC visits NCC to discuss OTT TV and other communications issues” Available at: [https://www.ncc.gov.tw/english/content\\_field\\_detail.aspx?site\\_content\\_sn=215&is\\_history=0&pages=0&srn\\_f=85](https://www.ncc.gov.tw/english/content_field_detail.aspx?site_content_sn=215&is_history=0&pages=0&srn_f=85)  
 140. Cable and Satellite Broadcasting Association of Asia [CASBAA] (2016), Same Same But Different? Video Policies for Asian Pay-TV and OTT. Available at: <http://www.casbaa.com/publication/same-same-but-different-video-policies-for-asian-pay-tv-and-ott/>  
 141. IMDA (2017), “Class License Registration for Internet Content Providers” Available at: <https://www.imda.gov.sg/regulations-licensing-and-consultations/licensing/licences/class-licence-scheme/class-licence-registration-for-internet-content-providers>  
 142. IMDA (2016), “Information Circular in respect of MDA’s required baseline safeguards for over-the-top content services offering R21 content” Available at: <https://www.imda.gov.sg/about/newsroom/archived/mda/media-releases/2016/information-circular-in-respect-of-mdas-required-baseline-safeguards-for-overthetop-content-services-offering-r21-content>  
 143. Variety (2016), “Singapore is evolving, says IMDA CEO Gabriel Lim” Available at: <http://variety.com/2016/digital/asia/singapore-is-evolving-imda-ceo-gabriel-lim-1201933178/>  
 144. IMDA (2017), “Opening doors for Singapore through visual effects” Available at: <https://www.imda.gov.sg/infocomm-and-media-news/in-conversation-with/2016/1/opening-doors-for-singapore-through-visual-effects>

### 3. INFRASTRUCTURE TO SUPPORT HIGH-QUALITY CONTENT PRODUCTION

There are two key infrastructural elements that support high-quality content production:

- **World-class production facilities.** New technology such as virtual sets and increasingly cost-effective visual effects enable directors and filmmakers to produce authentic, engaging content regardless of where filming took place. It is essential for any aspiring film industry to build state-of-the-art studio facilities in their specialized segments of the content production value chain to attract both local and foreign production houses.
- **Access to film industry talent.** The requirement for capable technical talent goes hand-in-hand with advanced studio facilities – it is imperative for countries to develop talent in their fields of expertise through training and knowledge transfer programs.

#### EXAMPLES OF GOOD PRACTICES:

##### THAILAND

Thailand is drawing local and international producers alike to The Studio Park – a US\$158 million, 9-hectare facility owned by the Royal Thai Army via the Bangkok Broadcasting and TV PLC (BBTV).<sup>145</sup> The Studio Park has five sound stages, integrated workshops and sets, and an open-air lot; support infrastructure such as training facilities, hotels, catering services, hospitals and shopping complexes has cropped up in the surrounding Bangkok suburb. Designed to cater to the “increasing demands on TV in the digital era”, the facility has reportedly filmed close to 1,400 projects since 2016.

##### MALAYSIA

Malaysia has invested heavily in support infrastructure for the entertainment industry. The state investment fund, Khazanah, opened a Southeast Asian outpost for Britain's Pinewood Studios in the state of Johor – a 20-hectare facility reported to cost US\$170 million.<sup>146</sup> Pinewood has five “world-class” sound stages that have proven popular with local and foreign producers alike. Hollywood director Michael Mann brought part of the 2015 production of “Blackhat”, a US\$70 million cyberthriller to Pinewood. It also hosted two seasons of Netflix's historical drama “Marco Polo”.<sup>147</sup>

##### TAIWAN

In 2016, the Taiwan Land Development Corporation announced plans to develop a studio park called Huallywood in the picturesque eastern Hualien County, as a part of the ongoing development project that would include residential properties, hotels, cinemas and retail spaces.<sup>148</sup> Services at Huallywood are envisioned to cover the entire value chain of activities from finance to content distribution, including eight sound stages and post-production facilities. The goal is for the studio park to promote the vibrant local content industry, encourage local production and draw international producers to the scenic county.

##### SINGAPORE

The SFC's stated goal is to “nurture, support and promote Singapore talent in filmmaking, the production of Singapore films and a film industry in Singapore” through funding, training and public education.<sup>149</sup> SFC schemes and initiatives include scriptwriting workshops, film labs programs, and a film mentorship initiative to support those who have been selected to participate in key international film project labs overseas. In addition to the SFC's activities, the IMDA has also set up Pixel Studios, together with a range of industry partners such as Dailymotion and Disney's Maker Studios, which functions as a creator's filming space, a conduit for investment into start-ups (over 60 supported thus far), and an event space for technical workshops and networking sessions.<sup>150</sup>

145. The Studio Park (2018), About us. Available at: <https://www.thestudioparkthailand.com/about-us/>

146. Global Islamic Economy Gateway (2018), “Out of focus: Malaysia's Malay film industry in search of quality” Available at: [https://www.salaamgateway.com/en/story/out\\_of\\_focus\\_malaysia\\_malay\\_film\\_industry\\_in\\_search\\_of\\_quality-SALAAM31052018073428/](https://www.salaamgateway.com/en/story/out_of_focus_malaysia_malay_film_industry_in_search_of_quality-SALAAM31052018073428/)

147. KFTV (2018), “Crazy Rich Asians filmed Malaysia as global locations” Available at: <https://www.kftv.com/news/2018/09/13/crazy-rich-asians-filmed-malaysia-as-global-locations>

148. Taipei Times (2016), “Huallywood” film studio planned for Hualien County” Available at: <http://www.taipetimes.com/News/biz/archives/2016/06/22/2003649160>

149. Today Online (2018), “Singapore's film industry has come a long way in 20 years” Available at: <https://www.todayonline.com/commentary/singapores-film-industry-has-come-long-way-20-years>

150. Variety (2017), “Singapore IMDA chief explains new initiatives” Available at: <https://variety.com/2017/film/asia/singapore-imda-chief-new-initiatives-120262793/>



## POTENTIAL IMPLICATIONS OF INEFFECTIVE POLICY

“Virtuous cycles” of investment as described above are driven by the already strong demand for high-quality local content (see Fact 2). It is this market demand that naturally incentivizes VOD services to invest in local content and policies listed above can further support, or even kickstart, such a cycle. However, countries employing policies that dampen the attractiveness of their entertainment industries potentially run the risk of breaking the cycle, thereby creating the opposite – a “negative spiral”. In a “negative spiral” content investment could be discouraged, or result in high in volume but low in quality content, permanently damaging the reputation of and future investment flows into local industry. Regulation mandating local content production, such as screen quotas, can be an example of such policies. Similarly, a lack of the right government action can be as detrimental to entertainment industry success. For example, many Asian markets have not taken sufficient steps to curb ‘rampant’ online piracy.<sup>151</sup> VOD executives have cited dampened revenues despite content being made available legally and affordably. For instance, 70 percent of iflix’s “KL Gangster: Underworld” series’ views were pirated on websites without copyrights.<sup>152</sup>

Regulation mandating local content production, such as screen quotas, which are often implemented for local content on television and in the cinemas, is often seen as a “quick-fix” policy to increase the amount of desirable content. However, applying such legacy frameworks to VOD is generally seen as an ineffective way of incentivizing local content investment as such frameworks do not account for key differences in the VOD model versus that of traditional media. Exhibit 9 provides an overview of some key distinctions which have implications for local content regulations. Overall, VOD does not operate on fixed screen time

and relies on a “pull” or demand-driven model for content consumption, unlike traditional entertainment. If local content quotas combined with fixed budgets force VOD players to purchase greater quantities of lower quality content, the end result would simply be content that is unlikely to be watched, nor would be appealing to foreign audiences. Recent studies have established negative correlations between the quantity of productions by VOD services and the quality of such content.<sup>153</sup> Often, screen quotas can actually have an opposite effect to their original intentions – instead of stimulating viewership of local productions, the content produced does not appeal to audiences. Screen quotas can have adverse effects because they stand in direct conflict to their original intentions, and can erode natural market incentives for VOD services to produce high-quality content, as is demanded by consumers. Economists sometimes refer to this as an “overcorrection”, and it can lead to the creation of above-mentioned “negative spiral”.

A good example of how screen quotas were found to be irrelevant can be found in the success of **South Korean** cinema, which instead focused on developing high-quality content with universal appeal.<sup>154</sup> Following the enforcement of content quotas in film in 1986, the Korean film industry experienced record lows in admissions and market share (~16 percent) compared to foreign films as the “artificial” demand for local content resulted in an oversupply of low-quality films. Instead, the success of the Korean film industry since then has been attributed to enhanced creativity due to the elimination of government censorship and reduction in content controls; and increased investment in R&D for local films, supporting programs that develop the workforce skills, and international marketing for Korean content.<sup>155</sup> The industry picked up around the turn of

151. The Straits Times (2017), “Rampant piracy in Singapore calls for crackdown from Hollywood, sports titans” Available at: <https://www.straitstimes.com/singapore/rampant-piracy-in-singapore-sparks-calls-for-crackdown-from-hollywood-sports-titans>

152. Interview with iflix executives.

153. Streaming Observer (2018), “Analysis: Netflix trails Hulu, Amazon, and several cable networks in quality of original shows” Available at: <https://www.streamingobserver.com/best-original-shows/>

154. Patrick Messerlin and Jimmyn Parc (2014), The effect of screen quotas and subsidy regime on cultural industry: A case study of French and Korean film industries. Journal of International Business and Economy (2014) 15(2): pp 57-73. Available at: [http://gem.sciences-po.fr/content/publications/pdf/audiovisual/Messerlin\\_Parc\\_ScreenQuotas&Subsies122014.pdf](http://gem.sciences-po.fr/content/publications/pdf/audiovisual/Messerlin_Parc_ScreenQuotas&Subsies122014.pdf)

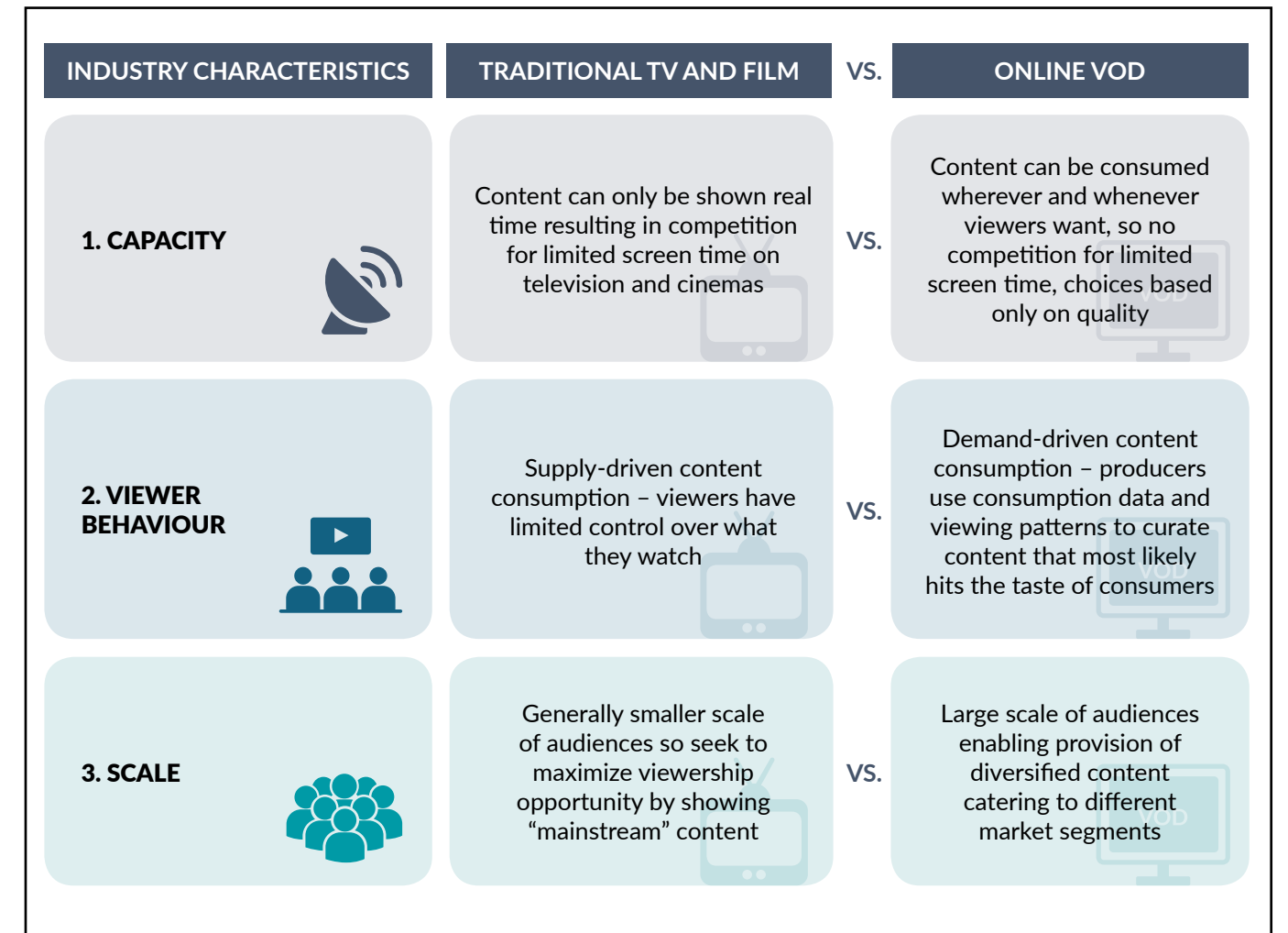
155. Korea Research Institute, The University of New South Wales, Australia (2013), From censorship to active support: The Korean state and Korea’s cultural industries. Available at: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.838.4064&rep=rep1&type=pdf>

the century as business models restructured and pro-competition measures were introduced, resulting in a strong period of growth that has resulted in record

market shares (~65 percent) in recent years – this despite quotas being cut in half due to intense pressure during free trade negotiations with the US in 2006.<sup>156</sup>

### EXHIBIT 9:

#### CONTENT QUOTAS WOULD HAVE LOW IMPACT ON ONLINE VOD VIEWERSHIP, AS KEY CHARACTERISTICS ARE DIFFERENT TO TRADITIONAL TV AND FILM



SOURCE: Literature review; AlphaBeta analysis

156. Patrick Messerlin and Jimmyn Parc (2014), The effect of screen quotas and subsidy regime on cultural industry: A case study of French and Korean film industries. Journal of International Business and Economy (2014) 15(2): pp 57-73. Available at: [http://gem.sciences-po.fr/content/publications/pdf/audiovisual/Messerlin\\_Parc\\_ScreenQuotas&Subsies122014.pdf](http://gem.sciences-po.fr/content/publications/pdf/audiovisual/Messerlin_Parc_ScreenQuotas&Subsies122014.pdf)

# IMPLICATIONS FOR POLICYMAKERS

How can Asian countries take full advantage of the VOD industry as a runway for innovation and investment? Three broad lessons emerge from a review of the most successful VOD-related entertainment industries in Asia and elsewhere: adopting a collaborative approach with VOD players, creating flexible regulatory regimes, and investing in the local industry ecosystem.



# FINAL THOUGHTS

The previous chapter highlighted some of the best practices seen across countries. Bringing this together, three consistent themes emerge for how countries in Asia can maximize their chances of success in attracting local content spend from VOD players (Exhibit 10):

- Adopting a collaborative approach with VOD players.** Given the benefits provided by VOD players, not just in terms of local content spending but also in terms of international market access, capability building and partnership brokering, it is crucial to work closely with these players to build the local industry. There are many good examples of how countries can do this. For example, Taiwan has convened working groups with VOD players and local industry representatives to discuss key issues of concern and how to address them.
- Creating flexible regulation.** Some of Asia's most successful economies have created thriving digital sectors by simplifying regulation for technology

companies and startups in the online VOD sphere. Given the rapidly evolving nature of the VOD industry, it is important to not develop regulations that may become quickly obsolete or are not consistent with the characteristics of the industry. One key trap to avoid is to transplant regulatory approaches of the traditional television and film industry to VOD, with local content quotas being a prime example.











- Investing in the local ecosystem.** There are a range of opportunities for policymakers to support the local entertainment ecosystem that VOD will contribute to, ranging from training programs, to film festivals, and investment in world-class facilities.

The VOD industry has transformed the viewing habits of consumers around the world. Whether it also transforms the local entertainment industries in Asia will be largely dependent on the ability of countries to incorporate these lessons in their approaches.





**EXHIBIT 10:****KEY LESSONS FOR HOW COUNTRIES IN ASIA CAN CAPTURE THE BENEFITS OF VOD LOCAL CONTENT SPENDING**

COUNTRY LESSONS	EXAMPLES OF BEST PRACTICES
<b>ADOPTING A COLLABORATIVE APPROACH WITH VOD PLAYERS</b>	<ul style="list-style-type: none"> <li> <b>Multi-stakeholder approaches</b> to regulation and attractive incentives for local film production</li> <li> <b>Co-production incentives</b> between Taiwanese and foreign film companies</li> </ul>
<b>CREATING FLEXIBLE REGULATION</b>	<ul style="list-style-type: none"> <li> <b>“Light touch”</b> in internet governance</li> <li> <b>“Technology-neutral”</b> legislation</li> <li> <b>Automatic class-licensing</b> processes for OTT players</li> <li> <b>Regulatory exceptions</b> for the nascent VOD industry</li> </ul>
<b>INVESTING IN THE LOCAL INDUSTRY ECOSYSTEM</b>	<ul style="list-style-type: none"> <li>  <b>Investment in world class facilities</b></li> <li> <b>Funding, training and public education</b> to promote the local film industry</li> <li> <b>Investment grants and local film festivals</b></li> </ul>

SOURCE: AlphaBeta analysis, expert interviews, literature review


  
**METHODOLOGY**
**APPENDIX**



This appendix provides a brief overview of the methodology used in the quantitative analysis for this report. A more detailed appendix, including data sources, can be found under [www.alphabeta.com/our-research/asia-on-demand/](http://www.alphabeta.com/our-research/asia-on-demand/).

This report describes the economic impact of VOD investment in local content in Asia. As part of this analysis, the current and future size of content spending by VOD services in Asia was estimated. It should be noted that this amount is for original and licensed local content and does not include spending on making foreign content locally-relevant (e.g. through dubbing with local talent etc.). Further, the total gross economic impact on Asian economies from this direct spending in local entertainment industries through indirect and induced spending is reported. The impact on employment as well as Foreign Direct Investment (FDI) was also sized. These are gross benefits, some of which can be quantified and others which can be described in qualitative terms. This gross economic activity does not account for activity that may have been displaced by VOD services. Hence, the methodology does not attempt to estimate the incremental impact of VOD services in Asian economies beyond what would be the case if VOD services did not exist but other technologies like it did. The hypothetical scenarios required to calculate the truly incremental benefits of VOD services are highly speculative and beyond the scope of this report.

The quantitative analysis was complemented with a range of case studies developed through desk research, interviews VOD services and local entertainment industry executives.

### **SIZING CONTENT SPENDING BY VOD SERVICES**

There are three types of VOD revenue models – advertising-based VOD (AVOD), transactional VOD (TVOD) and subscription-based VOD (SVOD).<sup>157</sup> AlphaBeta's analysis revealed that SVOD had approximately 69 percent of global market share in 2017, followed by TVOD (25 percent) and curated AVOD (6 percent).<sup>158</sup>

### **GLOBAL CONTENT SPENDING**

To obtain global content spending, a six-step approach was used:

- 1. Sizing VOD market revenues.** Market revenues of global VOD industry, broken down by revenue model (i.e. AVOD, TVOD and SVOD) were obtained. Further, revenues by a range of major global and local VOD services (including Netflix, Amazon Prime Video, HBO, Hulu, Tencent Video, Youku Tudou and HOOQ) were gathered. Where data was not available, market revenues were estimated based on the number of SVOD subscribers and Average Revenue Per User (ARPU) estimates.
- 2. Gathering public data on content spending.** Content spending in 2017 and 2022 by VOD services was obtained from publicly available analyst reports and media releases. Estimates were made based on historical data where actual data was unavailable.

157. See Glossary for definitions.

158. These estimates rely on publicly available analyst reports as well as AT Kearney (2018), *OTT Streaming in the Limelight: Four Trends and Predictions for the Media Industry*. Available at: <https://www.atkearney.com/documents/20152/1151498/OTT+Streaming+in+the+Limelight+Four+Trends+and+Predictions+for+the+Media+Industry.pdf/0cc812ae-09f9-0185-ef15-92feebcdf705>

159. Boston Consulting Group (2016), *The Future of Television: The Impact of OTT on Video Production Around the World*.

Available at: <https://www.bcg.com/publications/2016/media-entertainment-technology-digital-future-television-impact-ott-video-production.aspx>

160. The underlying assumption behind using SVOD revenues as a proxy for overall VOD revenues being that SVOD has the largest revenue share across VOD models, as discussed earlier.

161. AlphaBeta consumer survey of internet users watching paid online VOD once a month or more – in India (460), Indonesia (438), Malaysia (597), Taiwan (418) and Thailand (435). Viewers were asked the following question: "When you watched paid online VOD over the last week, how much time did you spend watching local and foreign content (in terms of hours watched)?"

### **3. Disaggregating spending on original versus licensed content.**

Spending was disaggregated by expenditure on original and licensed content, based on AlphaBeta's analysis of publicly available data, and interviews with VOD services. This is an important step, as the economic impact of original content spending is different from that of licensed content spending.

### **4. Calculating content spending relative to revenue.**

Content spending (both original and licensed) per dollar of revenue was calculated by VOD service provider. The derived ratios were then multiplied with the corresponding market revenues. Content spending figures were summed up for all global SVOD players (including Netflix, Amazon, HBO and Apple) and local SVOD players (including Hulu, Tencent Video, Youku Tudou, HOOQ) and the remaining players. The split between spending by global and local players was assumed to be the same for content spending by AVOD players.

### **5. Forecasting future content spending.**

For original content spending, the average compounded annual growth rate (CAGR) of Netflix, Amazon Prime, and Apple's content spending between 2017-22 was applied. For licensed content spending, the CAGR of the overall video content production market between 2011-16 was applied.<sup>159</sup> These CAGRs were selected based on market consensus that, in order to remain competitive, VOD players will need to expand their content offering and are increasing their original content spending at a higher rate than they are acquiring licensed content.

### **LOCAL CONTENT SPENDING IN ASIA**

Local content spending was calculated by determining how much of global spending on content by VOD services is allocated to producing Asian content. There are three drivers for spending on Asian content – subscription revenue, preference for local content and opportunity to export Asian content to international markets. These three drivers were factored into the disaggregation of global spending into local content spending in Asia in 2017 as follows:

- 1. Asia share of global VOD revenue.** The relative size of revenue source by market is a key determinant of content spending allocation between regions – following the economic principle that investments are commensurate to where revenue (i.e. demand) is generated. Asia's share of global SVOD revenue was used to determine the "base" level of global content spending allocated to Asia.<sup>160</sup>
- 2. Preference for local content.** The degree to which Asian subscribers exhibit a preference for local versus foreign content will determine how much of the "base" spending allocated to Asia is spent on local content. Preference for local content in this study was calculated based on results of an extensive consumer survey of paid online users commissioned by AlphaBeta, covering over 2,000 consumers in five countries – India, Indonesia, Malaysia, Taiwan and Thailand.<sup>161</sup>

### **3. Export opportunity.**

Asian content is consumed by both Asian and non-Asian VOD subscribers alike. However, for 2017, it was assumed that total content spending already factored in overseas demand for Asian content.

Variations in the underlying assumptions behind the three drivers above were used to forecast two scenarios of spending on local Asian content by VOD services in 2022, utilizing the forecasted global content spending in the same year:

- **Business-as-usual (BAU) scenario.** Assumptions in this scenario were based on historical trends and expected growth of the three drivers.
- **Accelerated growth scenario.** Assumptions in this scenario were based on expectations of accelerated growth of the three drivers.

### **FOREIGN DIRECT INVESTMENT IN LOCAL CONTENT IN ASIA**

FDI in local content in Asia was calculated as the amount of content spending allocated to Asia by global VOD players. Similar to the methodology used to estimate local content spending in Asia discussed above, this is driven by three factors – growth in Asia's subscriber base, preference for local content and opportunity to export Asian content to international markets. However, only content spending by global VOD services was considered in this case.

### **ESTIMATING THE ECONOMIC IMPACT OF LOCAL CONTENT SPENDING**

Economic impact of content spending in Asia by VOD services was calculated at three levels:

1. Direct spending by VOD services during core operations (e.g. equipment, transport, marketing, catering, etc.);
2. Indirect spending by suppliers to the VOD industry (e.g. lenses for cameras, food demand for catering, fuel for transport, etc.); and
3. Induced spending by workers employed as a result of direct and indirect spending across all sectors in the economy.

Economic impact in terms of gross output as well as employment was quantified for direct, indirect and induced spending. The approach taken follows the academic literature on the economic impact of the TV, film and entertainment industry, with this report being the first piece of research looking exclusively at the impact of VOD content spending.<sup>162</sup>

For each level, the economic impact of original content spending and that of licensed content spending were estimated separately. This is because original content spending leads to new content production, which in turn requires inputs from all supplying industries; licensed content spending does not result in new content production and therefore only impacts a limited number

162. See for example, Deloitte (2018), *Economic Contribution of the Film and Television Industry in India, 2017*.

Available at: [https://www.mpa-i.org/wp-content/uploads/2018/05/India-ECR-2017\\_Final-Report.pdf](https://www.mpa-i.org/wp-content/uploads/2018/05/India-ECR-2017_Final-Report.pdf)

163. Input-output (IO) tables provide detailed information about the supply and disposition of commodities in an economy and about the structure of inter-relationships between industries within the respective economy. The following publication provides an introduction to the construction, interpretation and usage of IO multipliers: Australian Bureau of Statistics (n.d.), *Information Paper Australian National Accounts: Introduction of Input-Output Multipliers*. Catalogue No. 5246.0. Available at: [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/FFD0BAE851EDCB8CA2570C9007ECE04/\\$File/52460+-+Information+Paper+-+Introducion+to+Input+Output+Multipliers.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/FFD0BAE851EDCB8CA2570C9007ECE04/$File/52460+-+Information+Paper+-+Introducion+to+Input+Output+Multipliers.pdf)

164. Oxford Economics (2017), *The economic contribution of film and television in China in 2016*.

Available at: [https://www.mppa.org/wp-content/uploads/2018/03/MPPA\\_China\\_2016\\_WEB-2.pdf](https://www.mppa.org/wp-content/uploads/2018/03/MPPA_China_2016_WEB-2.pdf)

of supplying industries.

To calculate the impact of content spending in the overall Asian economy, gross output multipliers and employment multipliers were derived from Input-Output (IO) tables of different countries in Asia.<sup>163</sup> An IO table shows the relationship between an initial shock (such as content spending) and final output across the whole economy. Both Type I and Type II multipliers were calculated in this study. The Type I multiplier shows the direct as well as indirect impact along the supply chain while Type II multiplier factors in the induced impact which arises from workers spending their wages on goods and services. IO tables were obtained from the respective country's national statistics website and in alignment with existing literature, an adjustment for double-counting was made to multipliers by setting the own-sector purchases to zero.<sup>164</sup>

### **ECONOMIC IMPACT OF LICENSED CONTENT SPENDING**

The impact for licensed spending followed a similar approach. However, unlike original content spending, which leads to new content production, licensed content spending only requires inputs from a limited number of industries such as ICT, banking, legal, business services, marketing and communication. Therefore, all sectors of the economy that would be involved in the production of new content such as transportation, hotel and accommodation services, food and beverage, etc. were "switched off" by setting their own-sector purchases to zero. Adjustment for double-counting was similarly made by setting the own-sector coefficient to zero.

### **UNDERSTANDING PERSPECTIVES OF LOCAL INDUSTRY PLAYERS AND VOD EXECUTIVES**

AlphaBeta conducted an exclusive survey for this study, incorporating responses from 15 executives from 9 VOD services. While the names of interviewees will remain confidential, AlphaBeta expresses its gratitude not only for their provision of valuable insights and opinions, but also for their support in facilitating connections with members of their extensive networks.

There were two themes to this survey. The first theme explored perceptions on the impact of VOD on local entertainment industries. Respondents were asked to rank positive and negative impact in order of importance. In the survey for entertainment industry representatives, respondents were also asked if their perceptions on a range of potential benefits of directly working with VOD services.

The second theme explored perceptions on relative performance (top performers and fastest improving) of 13 key markets across different aspects of the video content production value chain in Asia and policy levers to drive VOD content investment in Asia. These countries were – Bangladesh, Hong Kong, India, Japan, Malaysia, Pakistan, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. Respondents were also provided an opportunity to recommend potential policy options to strengthen the contribution of VOD operators to local entertainment industries across Asia.





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Prepared by AlphaBeta for Netflix