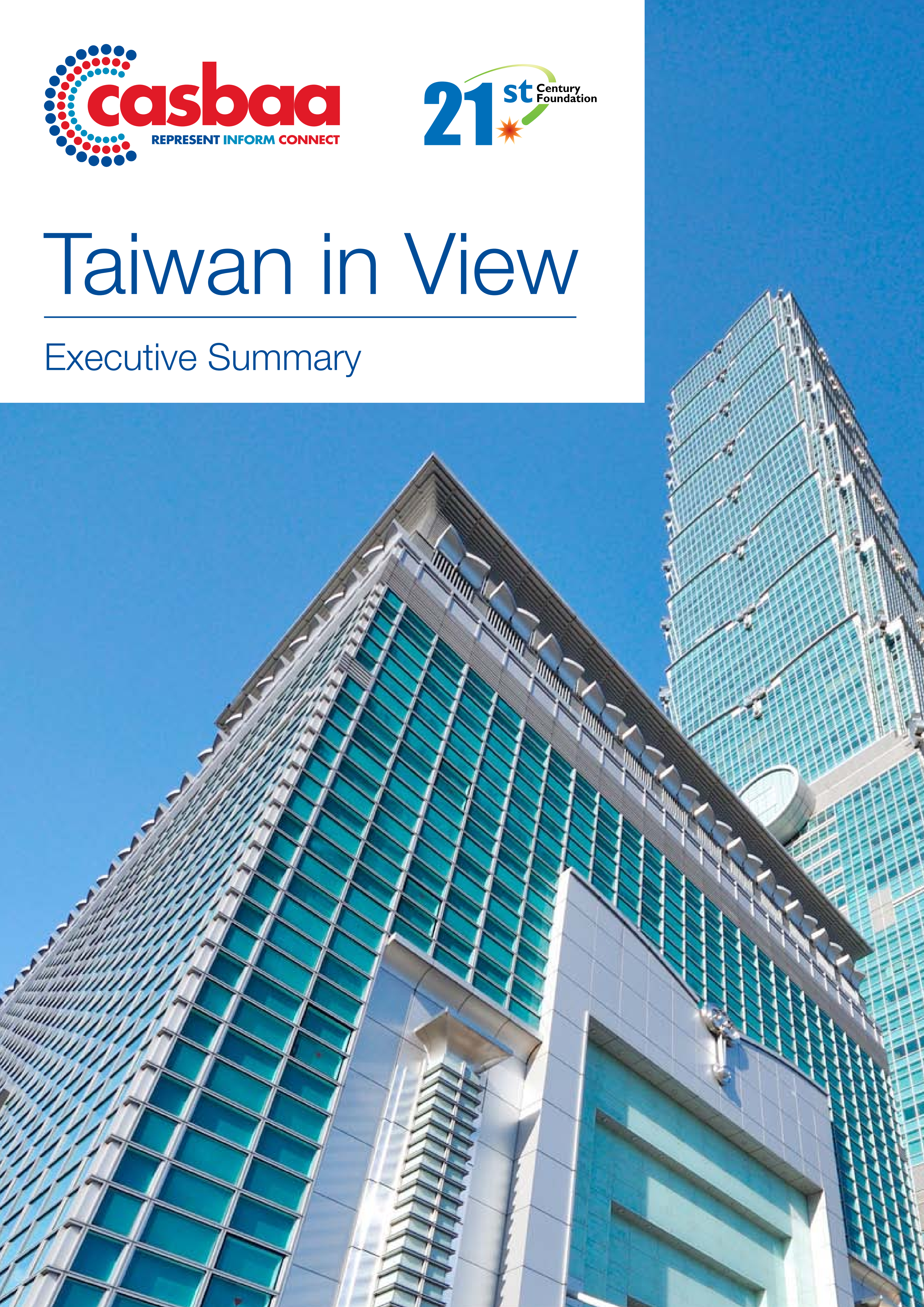
Taiwan in View

Executive Summary



1 Executive Summary

1.1 Pay-TV environment

The pay-TV market in Taiwan has remained steady over the past five years even as multiscreen video/OTT TV viewership has risen recently.

The number of total households in Taiwan grew from 8.19 million in 2012 to 8.56 million in 2016, 99 percent of which have access to TV services. Consumers stating they rely primarily on terrestrial TV were estimated at about 12.27 percent of HHs in 2015, a slight increase from 10.9 percent in 2012 when digital terrestrial broadcasting began.

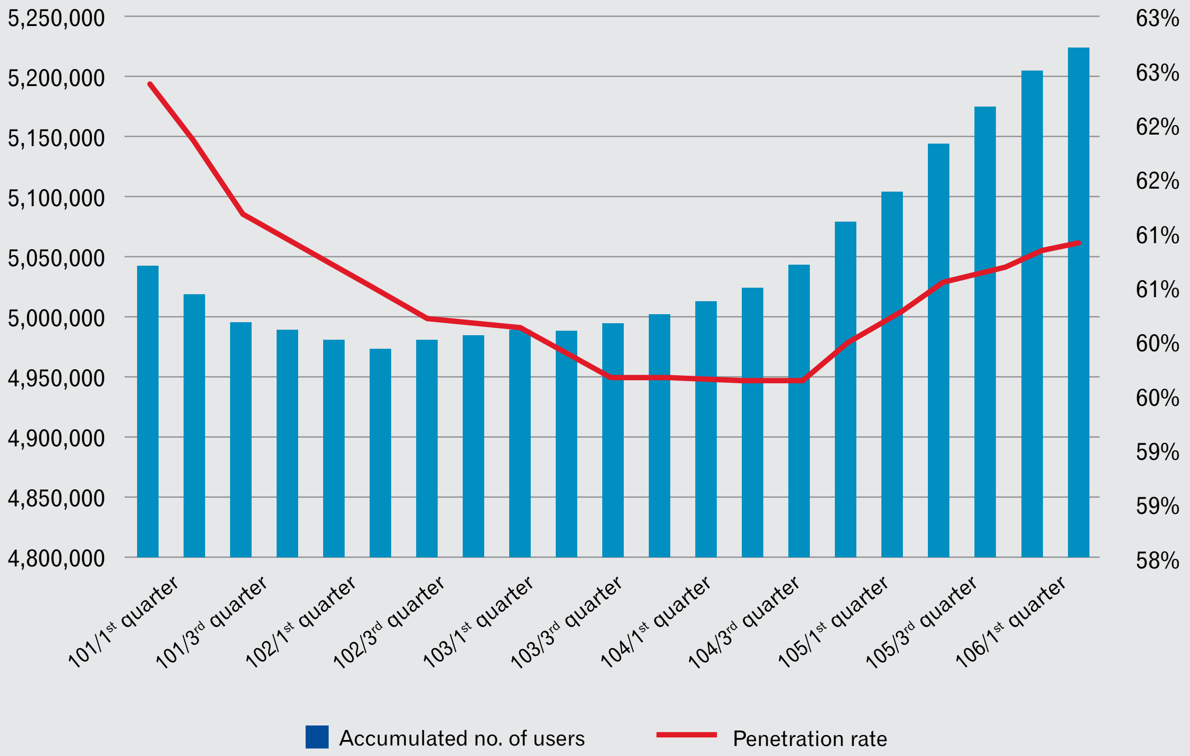
Cable TV still claims the vast majority of viewership although its growth looks stagnant. The penetration rate of cable TV reached a peak of 64.06 percent in 2010 and decreased to 60.8 percent in 2016. The NCC statistics show that there was a continuous negative trend in cable TV households between 2011 and 2013. It seems that the trend turned up after 2013; however, this increase was largely confined to new entrants to the cable network business. When the NCC promulgated an opening of some cable TV franchises to competition in 2013, the rival entrants started to actively market their services and won a 3.32 percent market share by 2016.

Table 1.1 Cable TV market

	CABLE TV HOUSEHOLDS	CABLE TV PENETRATION (%)	THE GROWTH RATE OF CABLE TV HOUSEHOLDS	CABLE TV HOUSEHOLDS SERVED BY NEW ENTRANTS	MARKET SHARE OF NEW ENTRANTS (%)
2009	4,980,251	63.80%	-	-	-
2010	5,084,491	64.06%	2.09%	-	-
2011	5,061,737	62.82%	-0.45%	-	-
2012	4,989,155	60.94%	-1.43%	-	-
2013	4,985,222	60.16%	-0.08%	-	-
2014	5,002,216	59.67%	0.34%	-	-
2015	5,078,876	59.97%	1.53%	59,597	1.17%
2016	5,205,562	60.80%	2.49%	172,897	3.32%

Source: NCC Statistics

Graph 1.1 Cable TV households and penetration rate



Despite the rise of OTT services and user generated content on social media, the number of cable TV households has not declined sharply. That is, the supposed cord-cutting impacts entailed by OTT services are insignificant in Taiwan. Our interviews point to two underpinnings: first, the comparatively low tariffs of cable TV, about US$17 per month, make OTT services that cost about US$ 10 per month hardly attractive to consumers; secondly, the cable TV operators have embarked on a digital switchover that enables them to provide services in high-definition quality, as well as interactive services such as video on demand and multiscreen services, all at the original tariff level.

The digitization of cable TV in Taiwan lagged far behind other markets in the Asia-Pacific region, reaching only less than 10 percent in 2010 (Chou, 2014). Facing the threat from rapid expansion of Chunghwa Telecom's MoD service during the 2008 and 2012 Olympic Games, the cable TV operators engaged in a swift switchover. In addition, the National Communication Commission (NCC) since 2013, has promulgated a subsidy plan to encourage cable TV operators to undertake digitization[1] (NCC, 2015). The percentage of digital cable TV almost doubled every year between 2011 and 2013, and continued to increase up to a digital penetration level of 95.84 percent in 2016.

Table 1.2 Digital switchover of cable TV in Taiwan

	DIGITAL CABLE TV HOUSE-HOLDS	PERCENTAGE OF CABLE DIGITIZATION (%)	SUBSCRIB-ERS OF DIGITAL PREMIUM SERVICE	PENETRA-TION RATE OF DIGITAL PREMIUM SERVICES (%)
2009	256,727	5.20%	146,586	57.10%
2010	391,462	7.70%	276,984	70.76%
2011	570,727	11.28%	428,984	75.07%
2012	1,049,321	21.03%	585,655	55.81%
2013	2,275,194	45.64%	972,262	42.73%
2014	3,947,507	78.92%	1,212,630	30.72%
2015	4,563,243	89.85%	1,329,730	29.14%
2016	4,988,968	95.84%	1,418,710	28.44%

Source: National Communications Commission Statistics

The second largest segment of pay-TV services in Taiwan lies in IPTV. Chunghwa Telecom (CHT) started from scratch in providing IPTV services, branded as MoD (media on demand), as early as 2004. CHT was able to drive its subscriber number to 1.2 million by 2012; however, it failed to maintain a proportional increase in its subscribers afterwards. The penetration rate of IPTV is now about 15 percent of households.

Table 1.3 IPTV market

	IPTV HOUSEHOLDS	IPTV PENETRATION RATE (%)	GROWTH RATE OF IPTV HOUSEHOLDS (%)
2009	668,541	8.56%	-
2010	815,579	10.28%	1.68%
2011	1,064,138	13.21%	1.52%
2012	1,205,760	14.73%	1.60%
2013	1,265,111	15.27%	1.22%
2014	1,284,557	15.32%	1.16%
2015	1,298,012	15.33%	1.03%
2016	1,331,545	15.55%	1.09%

Source: National Communications Commission Statistics

Despite the fact that satellite TV (DBS) is popular in the Asia-Pacific region, the satellite TV operators never achieved a critical mass in providing the service in Taiwan. The historical data as of 2012 showed that the number of its subscribers was less than 35,000.

The NCC mandates that all channels broadcast on pay-TV platforms must file for (satellite) TV channel licenses. The combined number of channel programmers, domestic and international, was 124 in 2016, and a total of 304 channels were broadcast, up 71 compared to 233 in 2009.

1. Liu et al (2015) corroborates the policy impacts of the subsidy plan on the degree of cable TV digitization.

2. Because of various business models, the measurement of OTT subscribers lacks consistent and standardized definitions. Therefore, we define OTT subscribers as the ones who keep the account (subscription) at least 3 months. By this definition, trial accounts are excluded from estimation.

3. Pages analyzed included those of all 15 Taiwan OTT service providers, plus pages concerning their top 10 content choices during the period. Interactions monitored included likes, shares, comments, etc. Data was cross-referenced to remove multiple postings by individuals and produce numbers of unique authors.

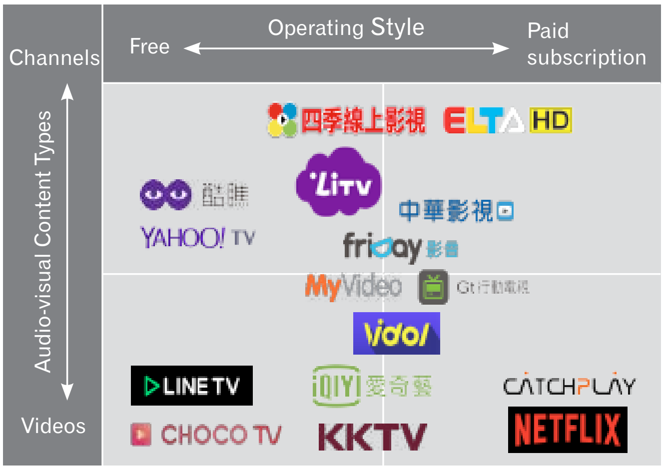
4. Note that this comparison does not take account of multiple wireline broadband users in a single household.

1.2 OTT (over-the-top) services

The first OTT service provider, myVideo, was founded by Taiwan Mobile Co. in 2012, and there are currently 15 OTT service providers, excluding pirate ones, in Taiwan. OTT services are generally categorized into three types, according to their the pricing schemes: AVOD (advertising-supported video on demand), HVOD (hybrid VoD), and SVOD (subscription VoD). AVOD does not charge customers but feeds them advertisements in exchange for free content. Yahoo! TV, Line TV and Choco TV belong to this category. In contrast, SVOD operators charge customers a monthly fee or pay per view in order to avoid advertisements. SVOD includes Netflix, Catchplay, ELTA, and other services provided by telecommunications firms such as myVideo, friDay, 中華影視 and Gt TV. The rest adopt the hybrid model, where in some content is free for viewing, other content requires payment. Iqiyi, LiTV, KKTV, vidol, 酷瞧 and 四季影視 provide HVOD.

Among the HVOD and AVOD services, iqiyi, Line TV, vidol, and KKTV are the leading four, while Netflix is the top player in SVOD service.

Graph 1.2 Types of OTT services by genre and paid subscription



There is no official data released regarding OTT penetration. Instead, we estimated the number of OTT subscribers by extrapolating survey results and Facebook topic data. Assuming the number of OTT subscribers[2] demonstrates a linear growth pattern, we found that the subscribers could have reached over one million in 2016 from 300,000 in 2012. This is equivalent to a 13.5 percent penetration in 2016 and a 4 percent rate in 2012.

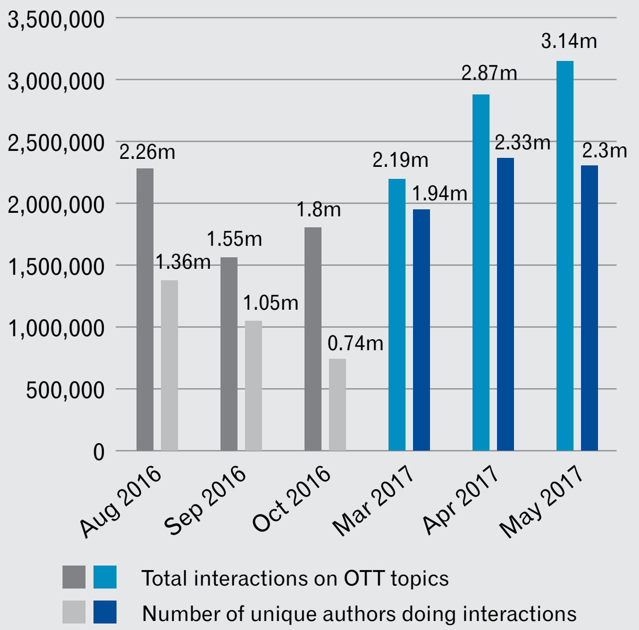
Table 1.4 Estimation of OTT subscribers

	OTT (STREAMING TV) SUBSCRIBERS	STREAMING TV PENETRATION (% OF HOUSEHOLDS)
2012	327,457	4.00%
2013	520,584	6.28%
2014	747,737	8.92%
2015	912,321	10.77%
2016	1,154,931	13.49%

Source: National Communications Commission Summary of Consumer Use in the Communications Market in 2015

We also estimated OTT penetration by analyzing the number of users who interacted on Facebook pages concerning OTT topics during a given time period[3]. 1.3 million Facebook users interacted on such topics in August 2016 while 2.3 million users did so in May 2017. We identify these two numbers as including OTT subscribers in addition to users who either have trial accounts or free access to the OTT content during the given period.

Graph 1.3 Estimation of OTT subscribers in Taiwan



1.3 New business models

The penetration rate of mobile broadband connectivity has soared since 4G communication services were made available in the middle of 2014. It was 92.44 per 100 capita in 2016, compared with a mere 24.14 for wireline broadband[4]. The high mobile broadband penetration implies the coming of individualized mobile connectivity and large shifts in personal viewership.

Table 1.5 Wireline broadband and mobile broadband subscribers

	WIRELINE BROAD-BAND SUBSCRIB-ERS	WIRELINE BROADBAND PENETRATION (% OF HOUSEHOLDS)	WIRELINE BROAD-BAND PER 100 HEAD (%)	MOBILE BROADBAND SUBSCRIBERS	MOBILE BROADBAND PER 100 HEAD (%)
2009	4,923,791	63.08%	21.30	14,212,297	61.47
2010	5,245,962	66.09%	22.65	16,485,522	71.17
2011	5,440,542	67.52%	23.43	17,732,270	76.35
2012	5,535,580	67.62%	23.74	15,237,885	65.35
2013	5,602,914	67.62%	23.97	17,977,146	76.91
2014	5,665,815	67.59%	24.18	15,426,628	65.83
2015	5,652,846	66.75%	24.06	19,083,682	81.23
2016	5,683,007	66.38%	24.14	21,759,177	92.44

Source: National Communications Commission Statistics
Note: mobile broadband refers to 3G and 4G data service subscribers. (4G from 2014)

Audiences in the mobile data era demand “any content, anytime, anywhere” viewing experiences. The cable TV and IPTV operators have therefore developed their respective multiscreen services – subscribers, no longer limited to traditional TV viewing, can download apps and log in to watch programming on their mobile devices. With fully digitized networks, the operators are able to offer various functions, such as electronic program guides (EPG), personal video recorders (PVR), VoD, interactive music and games, and eventually augmented reality (AR) and virtual reality (VR), all of which enhance the personal viewing experience.

Observing the Netflix model, the pay-TV operators also began to align with content providers or be involved in procurement of rights that allow them to retain their subscribers with exclusive content.

1.4 Regulatory issues facing the industry

There are four major regulatory/policy issues confronting the pay-TV industry:

1. *Price regulation and tiering of cable programming*: The basic tier of cable TV is subject to price regulation. The basic tier contains over 100 channels and the price cap is very low. Reform of the basic tier has been proposed, to provide greater flexibility for cable operators, but industry players are divided by the reform proposals.

2. *Reform of the must-carry rule*: Taiwan has a must-carry rule that cable operators must re-transmit signals of all wireless TV stations to their audience. For terrestrial TV, Taiwan completed “digital switchover” in 2012. Now each terrestrial TV station provides four digital channels. The legal issue becomes how many channels each terrestrial TV cable operator should be required to carry, one or many?

3. *“No state/party ownership” rule*: The “no state/party ownership” statue became effective in 2005, and prohibits any government agencies, political parties, or elected officials from investing either in cable system operators or TV channels (The rule does not apply to telcos such as Chunghwa Telecom, whose operation of an IPTV service comes under the jurisdiction of the Telecommunication Act). The “no state/party ownership” rule is so strict that not even a single share ownership is allowed, and the need to comply with this rule has interfered with several cable investment transactions. Amendments to relax the rule were discussed in the Legislative Yuan several times but ultimately failed to pass.

4. *“Digital Communication Act” and network neutrality*: In 2017, the NCC drafted a new “Digital Communication Act”, in which a few sections seem to address the issue of neutrality. The draft is expected to be discussed in the Legislative Yuan later this year.

1.5 Challenges in the digital TV age

LACK OF MUST-HAVE DIGITAL CONTENT AND APPLICATIONS

Table 1.2 shows that the percentage of digital premium service subscriptions continuously dwindles when more and more subscribers are able to receive other (non-premium) service digitally. Only 28.44 percent of cable TV households subscribe to premium services besides the basic one. This means that cable TV subscribers are less interested in obtaining premium services even if they are able to do so. This pattern may jeopardize the financial health of the industry in the future because – should it persist – the revenue streams are constrained to only those of the basic. Likewise, the IPTV penetration rate has remained stagnate at 15 percent through recent years. It is said that CHT MoD lacks the mainstream news channels that can drive subscriptions. Therefore, it seems that a priority for the pay-TV industry must lie in providing must-have content and applications.

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The intensive competition among OTT services highlights the winning formulas: either mass content; or, exclusive must-have content. The MSOs and CHT have consequently engaged in seeking to acquire content rights. Nevertheless, both mass content and exclusive must-have content are costly to acquire. Unrestrained piracy, which sees copyrighted content made illegally accessible via cross-border websites, further deteriorates the business model. Like OTT service providers, the pay-TV operators are now beginning to consider the production of their own content as a hedge against piracy and pricey copyrights.

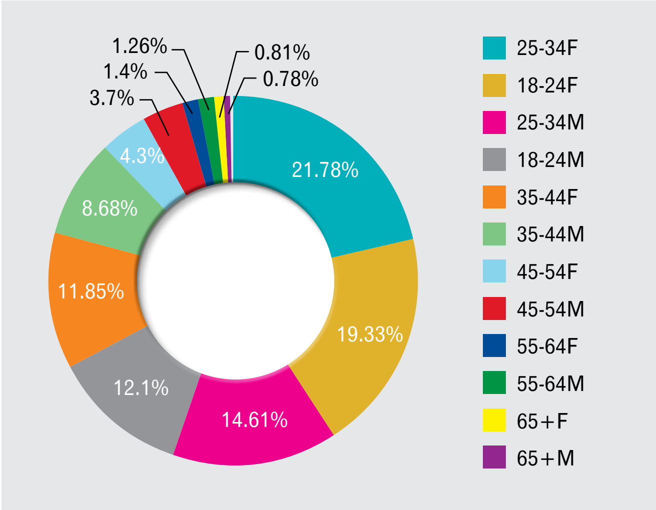
SUBSTITUTE RELATIONSHIP BETWEEN PAY-TV AND OTT SERVICES?

Graph 1.1 and Table 1.3 together corroborate that the rise of OTT services until now has not caused substitution impacts on the cable TV and IPTV ones. It seems that we can assume a complementary relationship between them.

However, on closer examination, generational differences appear important. The revolutionary change in viewing habits is particularly evident among young generations. Graph 1.4 shows that the majority of OTT users are young women aged 18-34, about 42 percent of total users. Together with males aged 18-34, the age group of 18-34 accounts for almost 70 percent of OTT users.

In this sense, the elder generations are used to traditional TV screens, and still subscribe to pay-TV services, even though the young generation has totally dropped the cord. These polarized viewing behaviors indeed require new thinking for both programming and promotion of services.

Graph 1.4 Demography of Facebook users who are interested in the OTT topic



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