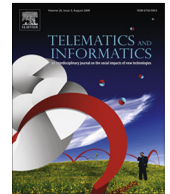




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# Competitive dynamics in the Korean video platform market: Traditional pay TV platforms vs. OTT platforms

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## ABSTRACT

Netflix is commonly referred as an over-the-top (OTT) media, and it takes a role of a video platform changing the market. The purpose of this research is to explain the competition in Korean video platform market, in particular competition between traditional pay TV and OTT. In this study, the theory of the niche is adopted to explain the competitive dynamics in video platform market in Korea. This theory is a unique framework to conceptualize and empirically measure the impact of new media on the old one. It explains and predicts the existence, displacement, and extirpation of players in the ecosystem. To make up for the previous researches, multiple resources such as gratification and time spent using media are measured in this study. The result indicates that the case of the Korean market was significantly different from the case of America, in that competition between traditional pay TV and OTT was not severe.

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## 1. Introduction

Netflix, the internationally acclaimed online video platform, was nominated in six categories at the 71st Golden Globe Awards in 2013, and won the Best Performance by an Actress in a Television Drama award for *House of Cards*. Famous for providing video-on-demand (VOD) streaming services globally, Netflix had recently commenced producing *House of Cards* as its first original content title, garnering enough attention to receive the award. Netflix uses the Internet to broadcast video content and is commonly referred to as over-the-top (OTT) media; meanwhile, HBO, a representative premium cable and satellite TV provider in the U.S., launched its own OTT service “HBO Go” in 2010. While both providers had forecast the changes in media usage patterns and recognized the value of Internet based services, Netflix managed to sell the same number of paid subscriptions as HBO by October 2013. Moreover, consumers who were subscribers of pay TV platforms including cable and satellite began switching to OTT, choosing it as their main video platform; meanwhile, some subscribers downgraded their pay TV service from a premium to regular package (Banerjee et al., 2014). The former change is referred to as “cord-cutting,” while the latter is “cord-shaving.” Such changes also occurred in the Korean video platform market, whereby the growth of global and local OTT services such as “YouTube,” “GomTV,” and “PandoraTV” stimulated traditional TV platform providers to launch Netflix-like OTT services such as “tving” and “pooq.”

According to the U.S. Federal Communications Commission (FCC), an OTT is defined as an online video distributor that delivers video programming content to consumers over the Internet (FCC, 2013). In the U.S., the total number of OTT

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subscribers was 53 million in April 2013, 39.4 million of whom were paid subscribers. The number of OTT subscribers in the U.S. is expected to surpass 81.2 million by 2017, when the penetration rate will reach almost 50% (IDC, 2013). Among the OTT service players, Netflix is the representative player. The Netflix was established in 1997 as an online DVD rental service and grew to become the world's biggest subscription based, digital content delivery service. The company's content library reportedly comprises more than ten thousand movies, and its service is compatible with more than 30 device types (FCC, 2013). Netflix earned total revenue of US\$1.5 billion by the end of 2014 from more than 36.3 million paid, streaming subscribers in the U.S., and recently extended its service areas to include South America and Europe.<sup>1</sup> Hulu, another famous U.S. service that was started by a terrestrial TV consortium consisting of FOX, NBC, and ABC, launched its OTT service in 2008. Hulu's force is derived from its content power and business models; that is, a brand loyalty regarding TV content already exists among the consumer bases of FOX, NBC, and ABC. Hulu succeeded in creating a well-organized business model that consists of both free-of-charge and ad-supported options, while a subscription fee distinguishes Hulu Plus from Hulu. Only users in Japan and the U.S. can currently access Hulu videos.<sup>2</sup> In South Korea, poq and tving are popular OTT services. MBC and SBS, the major terrestrial TV providers in South Korea, launched poq in 2012. This service obtained as many as 2.4 million subscribers in just 17 months.<sup>3</sup> Like Hulu, content power is poq's key asset, but poq obtains its content only from terrestrial TV; consequently, poq has had difficulty ensuring content diversity compared with its strongest competitor, tving, which also sources content from cable TV. CJ HelloVision, a multiple system program operator (MSP) that is one of the major cable TV providers in South Korea, launched the tving OTT service in 2010. Although tving is more expensive than other OTT services, it successfully attained 6 million subscribers<sup>4</sup>; furthermore, tving has the "first-mover advantage."

"Mobile" and "Internet" are keywords of the new media ecosystem. The emergence of the Internet has had numerous effects on traditional media, whereby consumers' media usage patterns have consequently evolved (Bondad-Brown et al., 2012). The diffusion of mobile devices such as smartphones and tablet PCs is another important factor, whereby consumers can use the technologies to enjoy unlimited content anywhere and at anytime. The changes in the video platform market posed the following major question for not only the practical field, but also the academic area: "Do online video platforms have a displacement effect on traditional TV platforms?" This has also been a foremost question for many researchers including Cha (2013), Cha and Chan-Olmsted (2012), and Precourt (2013); however, a research has not yet attempted to directly measure the competition between the OTT and traditional TV platforms.

In this study, the theory of the niche is adapted to explain the competitive dynamics in the video platform market. This theory is a unique framework for the conceptualization and measurement of the economic impact of new media on the older versions (Dimmick et al., 1992). Niche theory also explains and predicts the existence, displacement, and extirpation of players in the ecosystem (Dimmick et al., 2000), along with the indices of niche breadth, niche overlap, and competitive superiority. The purpose of this research is to explain the competition in the video platform market and to draw implications for not only OTT service providers, but also for traditional pay TV platform providers. The fulfillment of this purpose will contribute to both practical and academic fields, with the latter contribution derived from the literatures analysis on niche theory that is presented in this paper.

## 2. Theoretical background and research questions

### 2.1. Media competition: displacement or reinforcement effect

The emergence of new media has not only affected consumers' media usage patterns, but it has also changed the research field – especially regarding its relationship with older media. Previous studies on the relationship between new and old media can be divided into two major streams. The first stream is a longstanding media displacement effect that was introduced by Lazarsfeld (1940), after he performed pioneering research on the displacement effect of radio on the print media. Since then, many researchers have tried to examine displacement effects with the advent of new technologies such as TV, cable TV, VCR, Internet, the smartphone, and those that are used in computer mediated communication. The displacement effect is based on the limited amount of time that a consumer has to spend on media consumption (Dutta-Bergman, 2004). Previous research on the displacement effect assumed a "zero-sum game" regarding the competition for the time that consumers can spend on a medium. New media can succeed only by diverting resources from the older media (Dimmick, 1997), and displacement occurs when the emergence of new media reduces a consumer's time allocation toward existing, older media (Dutta-Bergman, 2004; Kim et al., 2013; McCombs and Nolan, 1992); this effect can be explained by the principle of relative constancy (McCombs & Nolan, 1992). The following researchers are among many who have adapted their perspectives to incorporate the principle of relative constancy: Lin (1999) argued for the concept of media substitution in relation to TV exposure and online-service access; Okazaki and Hirose (2009) examined media displacement effects between traditional media, PC, and mobile Internet, using several specific scenarios such as "dining out" and "travel planning" to measure the effects in Japan; Stempel et al. (2000) found that the consumption of Internet news content led to a decrease in the amount of time that people used traditional media to access the news; Choi (2013) concluded that the consumption of traditional

<sup>1</sup> <<http://ir.netflix.com>>.

<sup>2</sup> <<http://www.hulu.com/about/news>>.

<sup>3</sup> <[http://www.dt.co.kr/contents.html?article\\_no=2014020602010831759002](http://www.dt.co.kr/contents.html?article_no=2014020602010831759002)>.

<sup>4</sup> <<http://www.metroseoul.co.kr/news/newsview?newsCd=2014040300283>>.

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