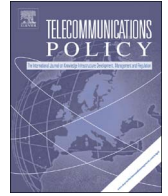


Contents lists available at [ScienceDirect](#)

Telecommunications Policy

journal homepage: www.elsevier.com/locate/telpol

Willingness to pay for over-the-top services in China and Korea

 Min Sung Kim^a, Eun Kim^a, ShinYoung Hwang^a, Junghwan Kim^b, Seongcheol Kim^{a,*}
^a School of Media & Communication, Korea University, Seoul, South Korea^b Internet Research Team, NAVER, South Korea

ARTICLE INFO

Keywords:

Willingness to pay (WTP)
Over-the-top (OTT)
Conjoint analysis
Recommendation system
Resolution

ABSTRACT

The increasing penetration of broadband and multiscreen availability has encouraged the development of premium video consumption through over-the-top (OTT) services. Netflix, the leading global OTT provider, is aggressively expanding its international operations and has ambitiously entered the Asian market. To prepare for the shift that the streaming service giant will bring, a proper understanding of consumer acceptance and intent to pay for OTT services is crucial. Therefore, this empirical study uses conjoint analysis to investigate the key attributes and to examine consumers' marginal willingness to pay (WTP) for OTT services. We identified recommendation systems, resolution, and viewing options as important product attributes of OTT services that influence the WTP of Chinese and Korean consumers. The most important attribute for Chinese consumers of OTT services was resolution, followed by the recommendation system and viewing options. For Korean consumers, the recommendation system was ranked as the most valuable attribute, followed by viewing options and resolution. The overall WTP of Chinese consumers was 22.6 yuan (3.4 USD) per month, while Korean consumers' intent to pay amounted to a total of 3530 won (3.1 USD) for OTT services.

1. Introduction

The rapid growth of broadband network and smart devices has changed the pattern of content consumption and encouraged the development of various over-the-top (OTT) services. OTT is defined as “video content offered through an Internet or other Internet Protocol (IP)-based transmission path” (FCC, 2015). The leading global OTT provider is Netflix, which now offers services in over 190 countries worldwide with a subscriber base of 83 million, of which 35 million members are projected to be international members outside of the USA. Around one-third of its revenue comes from international markets.¹ Netflix continues to expand its international operations and is ambitiously seeking to enter the Asian market. On September 2, 2015, Netflix marked its first entrance into the Asian market by launching its service in Japan. On January 2016, Netflix surprised the industry by announcing a simultaneous launch in 130 additional new regions, including Korea, in a move that marked “the birth of a global Internet TV network.”

Despite forecasts that Netflix would collaborate with local IPTV providers in Korea, the global OTT service provider started its business as a stand-alone OTT service. Some anticipate that Netflix will shake up the current video content consumption paradigm by offering a wide variety of global content and a marketing mindset unseen among incumbent Korean content providers. However, others doubt the impact of Netflix due to the sluggish growth and mediocre performance of current OTT players in Korea. With a one-month free trial period, Netflix Korea is eager to reach out to domestic users. However, the impact of Netflix seems quite meager

* Corresponding author.

E-mail address: hiddentrees@korea.ac.kr (S. Kim).¹ <http://ir.netflix.com> (Accessed date: 2016, July 24)<http://dx.doi.org/10.1016/j.telpol.2016.12.011>

Received 29 July 2016; Received in revised form 19 December 2016; Accepted 23 December 2016

0308-5961/© 2016 Elsevier Ltd. All rights reserved.

in comparison with early expectations, due to various reasons possibly including its comparatively high price.

Netflix plans to reach 200 countries and officially enter mainland China in the near future (Forbes, 2015a). China is a lucrative market for OTT services. With low pay TV penetration and robust population growth, China's pay TV market assures incumbents and new players significant profit potential (Forbes, 2015b). Successful expansion into China is vital for major OTT players like Netflix as it promises an increase in subscribers, profits, and revenues for future investments in high-quality original content (Shaw, 2016). Unfortunately, Netflix is challenged by strict government control and piracy issues in China. While many users illegally download or watch online videos for free, potential local allies such as Alibaba Group Holding Ltd., Baidu Inc., and Tencent Holdings Ltd. offer similar video services. Global OTT players need a comprehensive understanding of the market and discrete strategies to expand their operations successfully.

Given the characteristics of the Korean and Chinese markets, it is difficult to predict the impact of Netflix on the OTT industry. To prepare for the shift that the streaming service giant will cause, a proper understanding of consumers' acceptance and intent to pay for OTT services is crucial. Especially, China and Korea are both regarded as good test markets for the study of OTT services. First of all, China has a very large population and huge market size. Furthermore, since the OTT industry in China is still in its infancy, it has enormous growth potential. Korea has been regarded as an important test bed in the IT industry, and it is drawing attention of various OTT service providers including Netflix due to its high penetration of video and broadband. Since the Asian OTT market is perceived to have significant growth potential, studying the cases of China and Korea are important reference for business growth in Asia. One key determinant of success will be pricing, because Netflix has a strong price competitiveness overseas compared with the expensive cable subscription fees in the USA. However, critics doubt that Netflix's subscription fees will be a competitive factor in Korea and China, where consumers are considered to have lower willingness to pay (WTP). In assessing Netflix's potential success in Korea and China, this paper identifies how Korean and Chinese consumers perceive the potential utility of a successful global streaming VOD service by assessing their marginal WTP (MWTP) for OTT services. This paper not only evaluates the potential value of OTT services to consumers, but also indicates practical implications for current and prospective video content providers in terms of promoting strategies.

The remainder of the paper proceeds as follows. Section 2 reviews the OTT market based on previous work on OTT services. Section 3 describes our research design, including important attributes defined for the purpose of a conjoint analysis, which is a way of constructing discrete choice sets and survey design. Section 4 explains the methodology of the research, that is, a random utility model used to estimate consumers' MWTP. Section 5 presents the results of our study and Section 6 adds conclusions and implications.

2. Literature Review and Theoretical Background

2.1. Overview of OTT services

Increasing broadband penetration and multiscreen availability have encouraged the development of premium video consumption through OTT services. Derived from the concept of a TV set-top box, an OTT service is generally understood to be the distribution of online premium video content using Internet Protocol (IP) over a public network (Goncalves, Evans, Alves, & Ballon, 2014). The FCC offers a similar interpretation, yet specifies that the service comes from online video providers (OVDs) that offer video content through an "Internet or other Internet Protocol (IP)-based transmission path provided by a person or entity other than the OVD" (FCC, 2015). Slight variations may exist, but the literature on OTT video services consistently emphasizes that they must bypass multiple-system operators such as cable or satellite TV and deliver content via broadband connections (Hansell, 2009; Kwon & Lee, 2015).

The development of OTT services has attracted consumers, who can watch content anytime, anywhere, and on any device (Moyler & Hooper, 2009). With Netflix as the pioneer OTT service provider, numerous players of different origins have joined the bandwagon to participate in the new trend. For example, OTT services are delivered through platform and device providers (e.g., Apple), network operators that enable consumers to watch content on multiscreen formats (e.g., Comcast), VOD platforms and content providers (e.g., Netflix), and TV operators that allow consumers to catch up with TV content (e.g., BBC's iPlayer). Kwon and Lee (2015) also include mobile IPTV and Stick OTT service providers as an example of a new mix of platform, content, and device-related services.

The global OTT market has grown significantly from \$4.2 billion in 2010 to \$21 billion in 2014 and is expected to reach \$51.1 billion by 2020 (Digital TV Research, 2015). The global OTT video market is perceived to have significant growth potential as consumers continue to adopt OTT subscription video on demand (SVOD) services (PWC, 2015). North America's TV market has the most active established OTT players so far. The dominant success of Netflix has disrupted the domestic TV landscape and challenged traditional players to offer new OTT services and content. Therefore, the efforts of HBO's new stand-alone SVOD service, Amazon Prime, to create original content, and AT & T's acquisition of DirecTV are some examples of how the TV industry is evolving within the USA.

While consumers benefit from the rival services that companies offer, competition between OTT service providers are pushing companies to search for foreign markets. Netflix, the largest provider of paid streaming services, dominates as the pioneer in extending its OTT services to international markets. Since the company launched its online streaming service in 2007, Netflix has aggressively entered and dominated the OTT markets of other countries. Beginning with Canada in 2010, Netflix has acquired significant market share in Latin America and Europe. Now the company is strategically targeting the Asian market. After entering Australia, New Zealand, and Japan in 2015, Netflix entered Korea in January 2016 and ambitiously seeks to enter China in the near

Download English Version:

<https://daneshyari.com/en/article/4973312>

Download Persian Version:

<https://daneshyari.com/article/4973312>

[Daneshyari.com](https://daneshyari.com)