



The IPTV Conundrum in Asia

A Parks Associates White Paper

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1.0 Fertile Ground and an Early Start

Asia is clearly at the forefront of the IPTV movement. Hong Kong leads the world in IPTV penetration with over 500,000 subscribers, substantial deployments have already been made in Taiwan and Japan, and China, thanks to its size, is poised to dominate the global market for IPTV equipment. Several factors make Asia fertile ground for IPTV service. For one, many countries in the region have robust broadband access networks boasting connection speeds that are the envy of the world. The bulk of the infrastructure needed for IPTV service is thus already in place. Asian content providers have also been willing to fill those pipes sooner rather than later. As early as 2000, mainstream Asian films and programming were available online, priming the pump for Internet-based TV services. Finally, IPTV benefits from the relative weakness of pay-TV alternatives (see **Figure 1**). Digital CATV infrastructure is particularly scant in Asia.

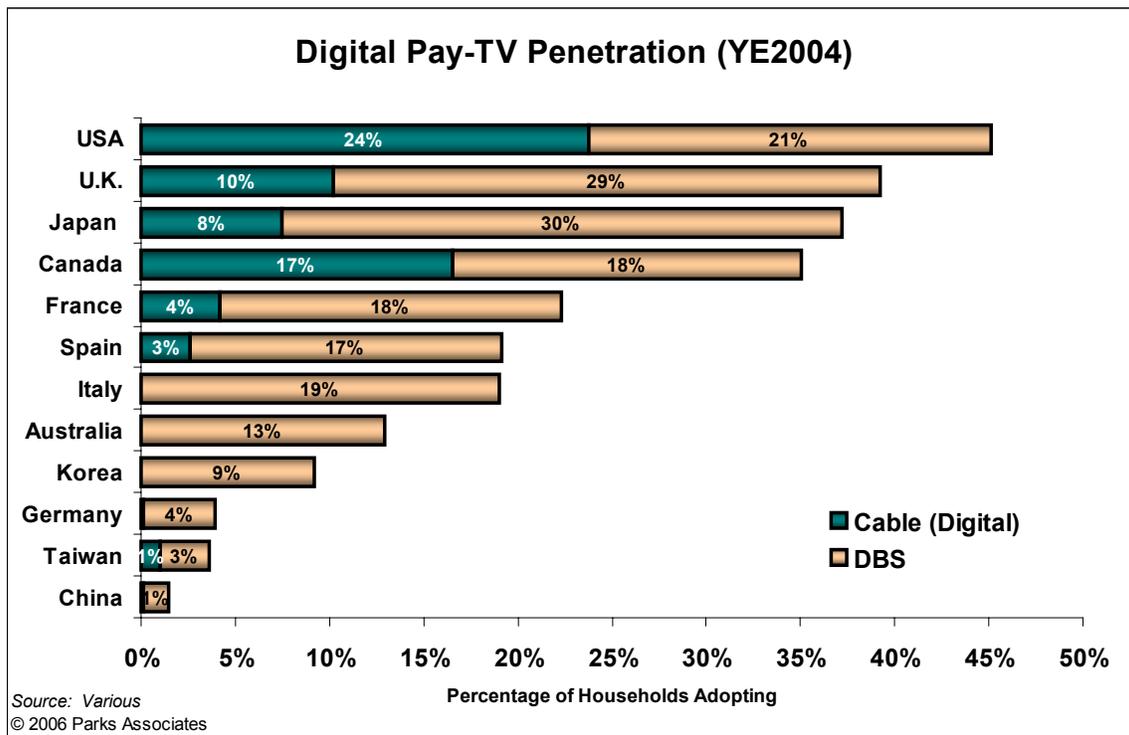


Figure 1 Digital Pay-TV Penetration

Asian service providers have also accumulated considerable experience with Internet-based video relative to their international peers. Some of the earliest attempts to provide Internet video services were found in Asia, including SingTel's Magix service, Thrunet's Korea.com, and PCCW's original NOW service. Although not all of these ventures posted impressive results,

they moved operators further up the learning curve and set the stage for future success. For example, PCCW's NOW Broadband TV, a successor to the original NOW service, boasted over 550,000 subscribers as of 2H 2005—roughly one-third of all broadband households in Hong Kong.

The collective Asian experience with IPTV has yielded two rules-of-thumb for the region:

- Video-on-demand (VOD) is nice, but regular TV is a must—consumers may like the instant gratification offered by video-on-demand, but they won't live without the linear programming they are accustomed to. IPTV services must offer a linear (i.e., traditional) TV experience if they are to be successful.
- Cheap is good; free is better—consumers are skeptical about IPTV services and hesitant to purchase expensive equipment from operators. Low-cost set-top boxes have thus become a key ingredient for success.

2.0 The Appeal of Integration

In order to better understand the global market for digital products and services, Parks Associates launched an unprecedented survey of thirteen nations, including Japan, China, India, South Korea, and Taiwan. The results provide insight into the Asian market for IPTV services. Asian Internet households express substantially more interest in “networked” IPTV features than their North American and European counterparts. For example, 53% of Internet households in Asia are interested in the ability to pull digital photos from a computer and display them on a TV. This compares with just 43% in Europe and 28% in North America (see **Figure 2**). The trend is mirrored by interest in other networked features such as surfing the Web or sending text messages or e-mail via TV.

These trends clearly foreshadow greater PC-to-TV convergence in Asia and underscore the region’s comfort in using computers as an entertainment platform. Moreover, they point to an intriguing “platform agnosticism.” Asian consumers are more comfortable than other people in the world in using a computer like a TV and a TV like a computer. In Asia, “convergence” has already occurred in terms of how consumers view the various platforms.

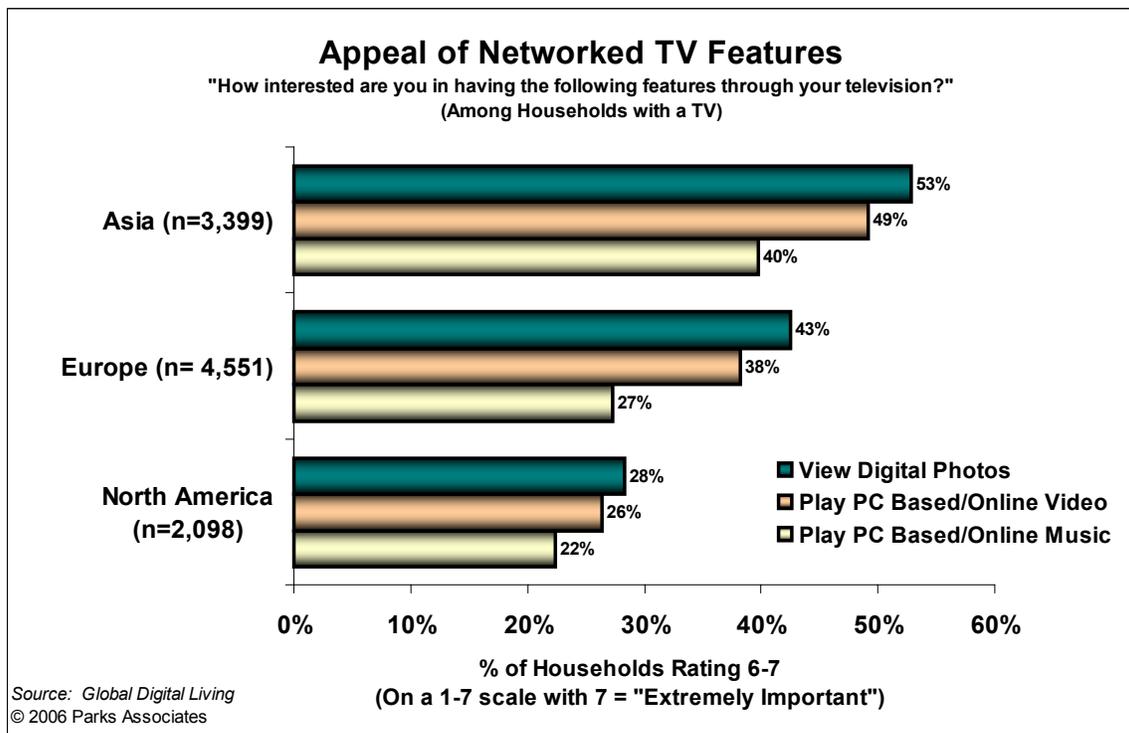


Figure 2 Appeal of Connected TV Features: Digital Media

At the same time, the interest in Asia in non-networked features is comparable to or lower than other regions. Basic functions typically associated with digital TV are no more appealing in Asia than elsewhere. For example, 28% of Asian Internet households are interested in an interactive program guide for their TV, compared with 31% in Europe and 41% in North America (see **Figure 3**).

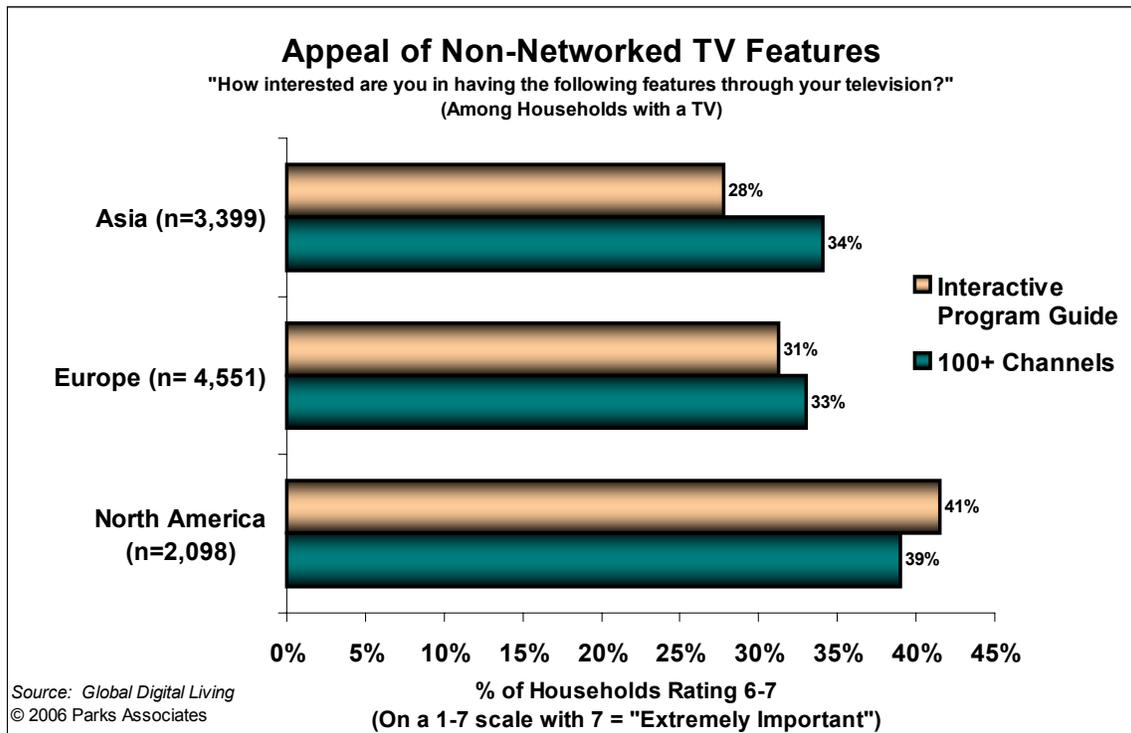


Figure 3 Appeal of Non-Networked TV Features

Strong interest in networked features could be a powerful tool for service providers to gain market share. IP set-top boxes that are integrated with home computers and Internet access offer a myriad of possibilities. But getting Asians to pay for the features they desire will be difficult.

3.0 Low Cost, Little Value

We presented consumers with a range of potential services and asked them what they would be willing to pay each month in exchange. Asian households consistently value services lower than their North American or European peers. For example, the average monthly price consumers in Asia are willing to pay for a video-on-demand service is only \$7 per month compared with \$11 elsewhere—a discount of roughly 40% (see **Figure 4**). Notably, gaming services are comparably valued across the regions, a fact that testifies to the popularity of gaming in Asia.

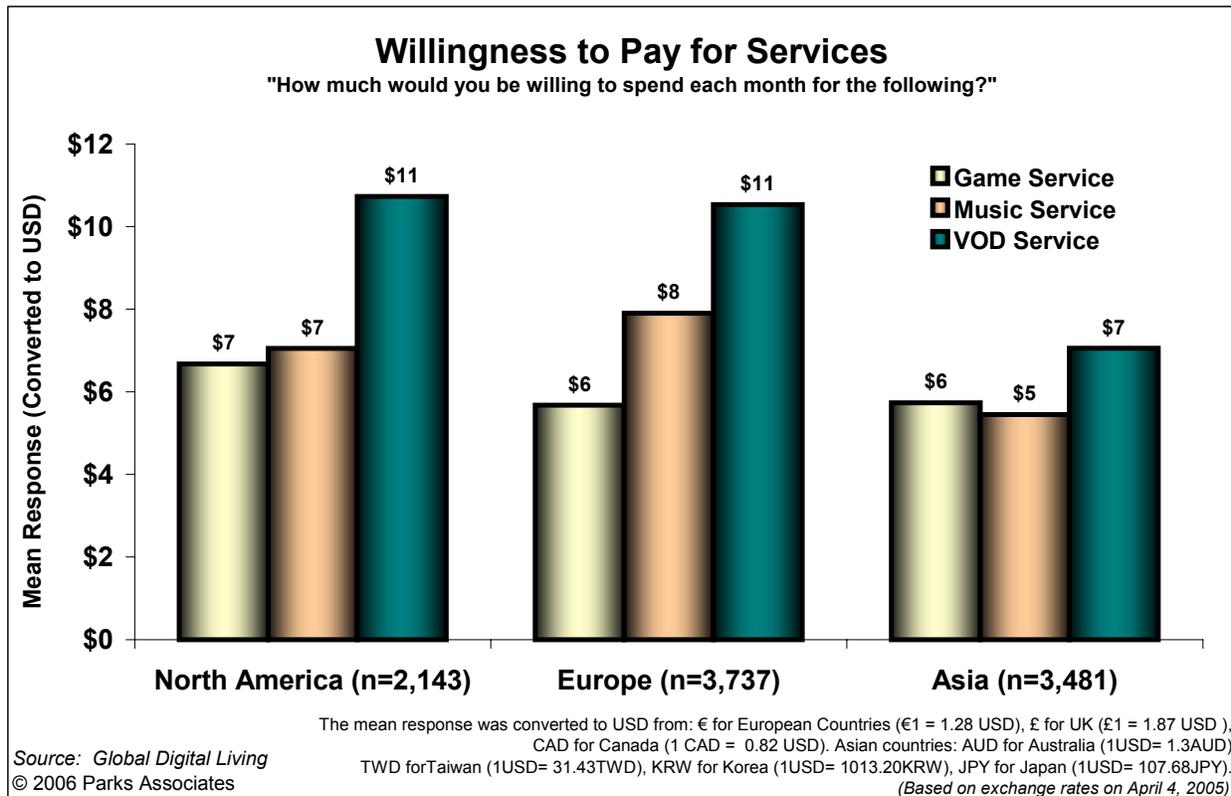


Figure 4 Willingness to Pay for Services

Differences in valuation are not simply due to purchasing power variances between the countries. (That is to say, it is not because \$1 goes farther in Asian countries than non-Asian countries.) Breaking down the mean response by country, we see that even in Japan, where the cost of living is very high, consumers are not willing to pay much for digital services (see **Figure 5**).

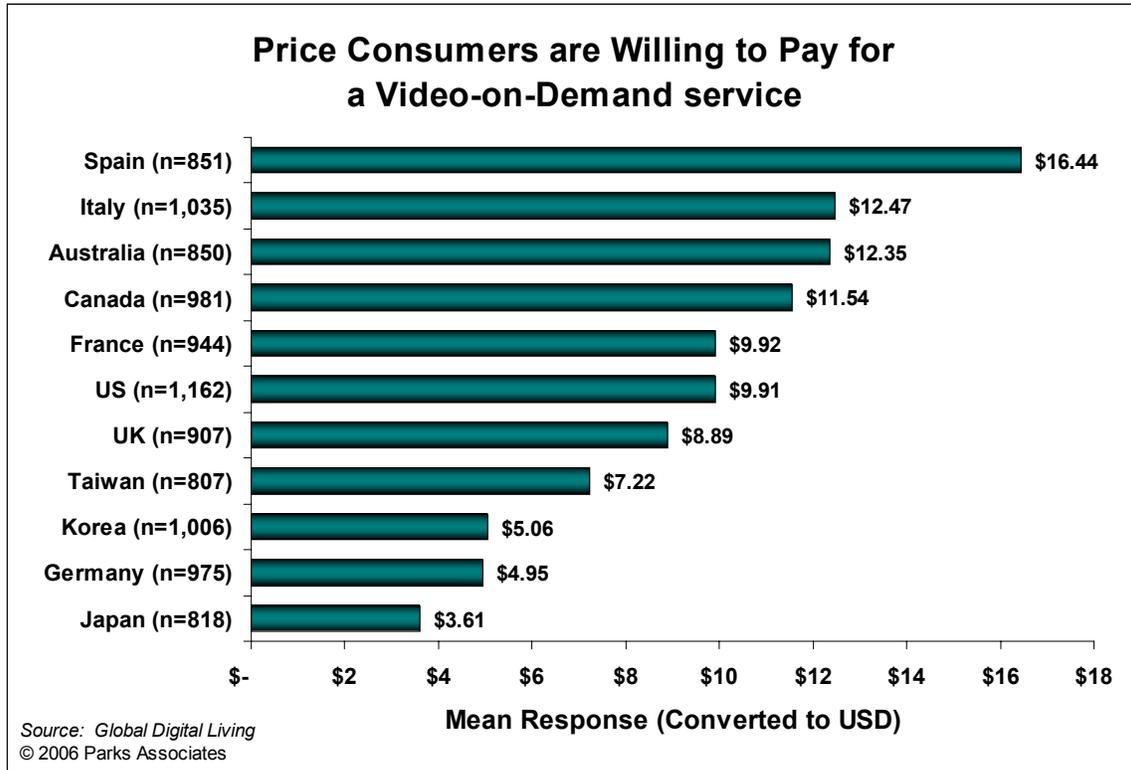


Figure 5 Price Consumers are Willing to Pay for VOD

Low willingness to pay for services relates directly to the current cost of entertainment services. That is to say, Asians spend far less for entertainment services than do Europeans and North Americans. On average, Internet households in Asia spend \$13 per month on TV services while European and North American households spend \$21 and \$41, respectively. Households naturally value new services in relation to existing services, and a low willingness to pay for new services goes hand-in-hand with low expenditure.

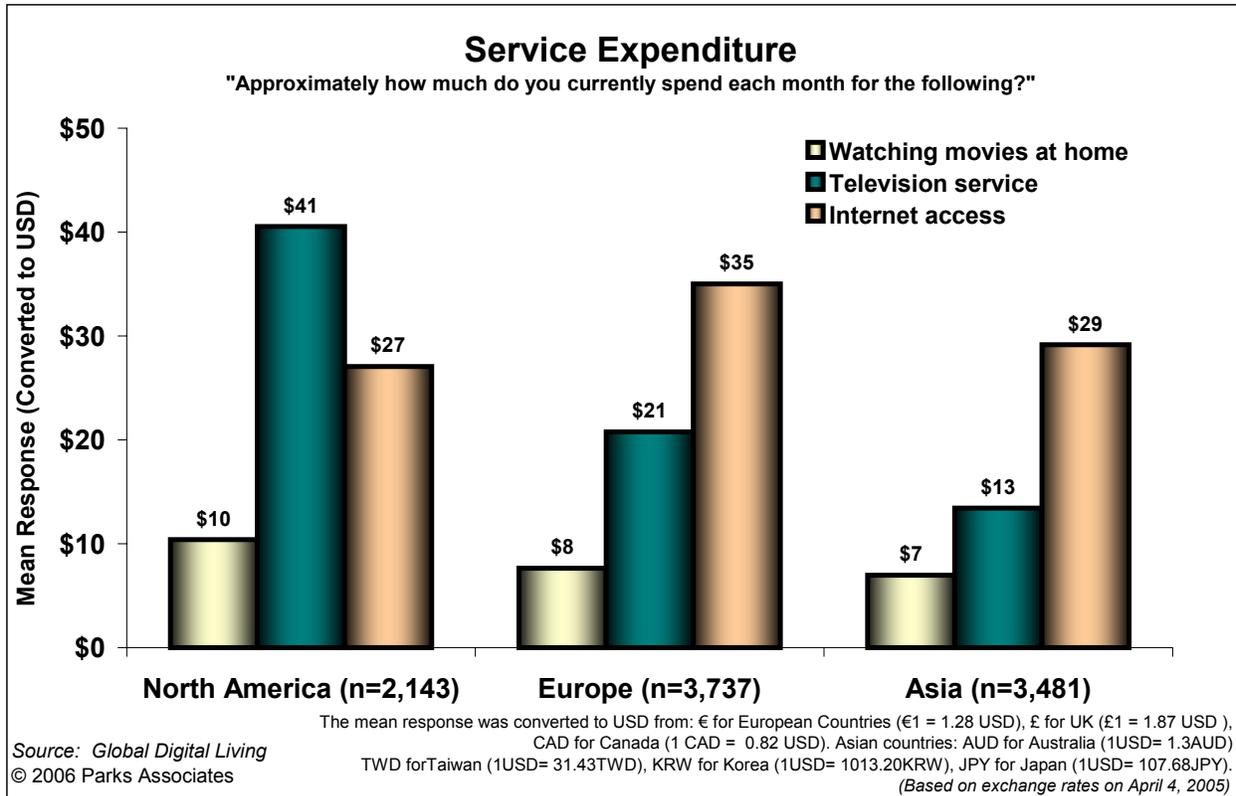


Figure 6 Service Expenditure

4.0 Conclusions

Strong interest in networked IPTV features but low price expectations present a conundrum for Asian service providers. Networked features cannot be provided cheaply; therefore, turning a profit from IPTV will be challenging. Consumers in Asia have proven reluctant to subscribe if they must first purchase an expensive set-top box. Yet their low willingness to pay for this service reduces the flexibility operators have in offering subsidized equipment. The result is a trend of rolling out only the most basic feature sets combined with free or very low cost set-top boxes, a trend that is unlikely to change in the near term.

For equipment vendors, the cost will be an extremely important factor in selling their wares to service providers. Feature-rich devices and services will be too expensive to deploy in the short run. This raises the intriguing possibility of home-grown Asian manufactures (which typically offer cheaper equipment) establishing a stronghold in the market for IP STBs and back-end equipment—particularly when we recall that China will be the key market globally for IPTV equipment.

In the long run, it is certainly possible that service providers could coax Asian consumers into paying more for feature-rich services. Yet a reluctance to pay will counterbalance Asia's current advantages and its head start in IPTV services. The slower-moving markets in Europe and North America thus could leapfrog ahead of Asia. A higher willingness to spend in these countries gives service providers more freedom to experiment with features until they discover the ones that resonate with the market. More robust deployments in the West may therefore ultimately prove more profitable than the proliferation of basic IPTV service in Asia.

About Parks Associates: Parks Associates is a market research and consulting firm focused on all product and service segments that are “digital” or provide connectivity within the home. The company's expertise includes home networks, digital entertainment, consumer electronics, broadband and Internet services, and home systems.

Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, multiclient studies, consumer research, workshops, and custom-tailored client solutions. Parks Associates also hosts multiple executive seminars throughout the year and co-hosts CONNECTIONS™ (in partnership with the Consumer Electronics Association) in the U.S. and Europe. www.parksassociates.com.