



EUROREG 2011 – From Connected TV to Coherent Media. Impact on
the European broadcasting model

Impulse – Key broadcasting trends and challenges

14 November 2011 • Lluís Borrell

Agenda

- **Setting the scene** – context on connected TV and coherent TV, and the European broadcasting model
- **Trends** – some perspectives on key structural, cyclical and regulatory changes
- **Challenges** – some perspectives on future changes, uncertainties and scenarios
- **Open debate** – selected questions for the rest of the day

From connected TV to coherent media – does this mean the same to everyone?

Connected TV

- **Non-linear TV** or **non-scheduled TV** or on-demand TV
- **Streaming TV** or **over-the-top TV (OTT)** or audiovisual **social TV**
- **Professional** content, not UGC
- **Multiple devices (but primarily TV sets)** that are connected with sufficiently fast broadband connections
- Primarily **laid-back** consumption (TV) and **long-format** viewing
- Also relevant in an open environment
 - **time-shifting and PVRs**
 - **PPV, VOD and SVOD**

Coherent media

- **Seamless combination** of traditional linear TV and non-linear TV
- **Complex to define ‘future TV services’** vs traditional TV, mainly associated with a device (the ‘TV set’)
 - **Scheduled and unscheduled** differences – ‘timely programming and events’ versus ‘catalogue’
 - **Multiple platforms** and standards
 - **Multiple devices** (TV, tablets, etc.) – coherence and compatibility issues
 - **Multiple uses** – complementarity (simultaneous) or not
 - **Generational switch** – “us” vs the younger generation

Selected key pillars of the European broadcasting model – what impact will connected TV have?

- **Traditionally dominated by terrestrial distribution** and reception; growing importance of cable and satellite
- TV value chain dominated by **broadcasters/platforms, not content producers or ‘studios’**
- **Relative importance of public service broadcasting (PSB)**
 - followed by ‘historical’ **commercial TV** channels and the growing importance of **pay TV**
- **relatively concentrated** from an economic point of view – less competitive than the USA
- **Diversity** in terms of distribution platforms and mix of business models (PSB, commercial and pay)
- From a public policy and regulatory perspective, a focus on ‘consumer welfare’, at least in terms of:
 - **level of competition**
 - **levels and types of advertising**
 - **pluralism, diversity, protection of minors, etc.**
 - **local and European independent production** – importance of PSBs
 - **debate on scale/funding of PSBs**

A range of key factors are changing the European broadcasting model

STRUCTURAL
Changing consumer patterns and a more competitive landscape?

- **Digital (DTT/DSO)** – multiplication of offerings (diversity) and fragmentation
- **Enhanced TV quality** – move towards HD and 3D TV
- **Explosion of connected TV & new devices** – offering and adoption
- **Lower barriers to entry** – a shift of power in the value chain

CYCLICAL
Weaker underlying fundamentals?

- **Advertising** – Advertising downturn
- **PSB** – Pressure on public financing for PSBs (?)
- **Pay TV** – growing but weaker consumer spending (?)

REGULATORY AND PUBLIC POLICY
Lighter-touch ‘competition law’ and new ‘targets’ of regulation?

- **Advertising bans on national PSBs:** imposed on Spanish PSB (complete) and French PSB (partial)
- **Advertising limits:** higher for commercial thematic channels (France) and debate on asymmetric rules (UK, Ireland, etc.)
- **Greater focus on competition law** – general guidelines to focus on **economic** ex-post rather than ex-ante
- **Pay-TV competition rules** – action on key bottlenecks (UK, France)
- **Public policy** – what and who?

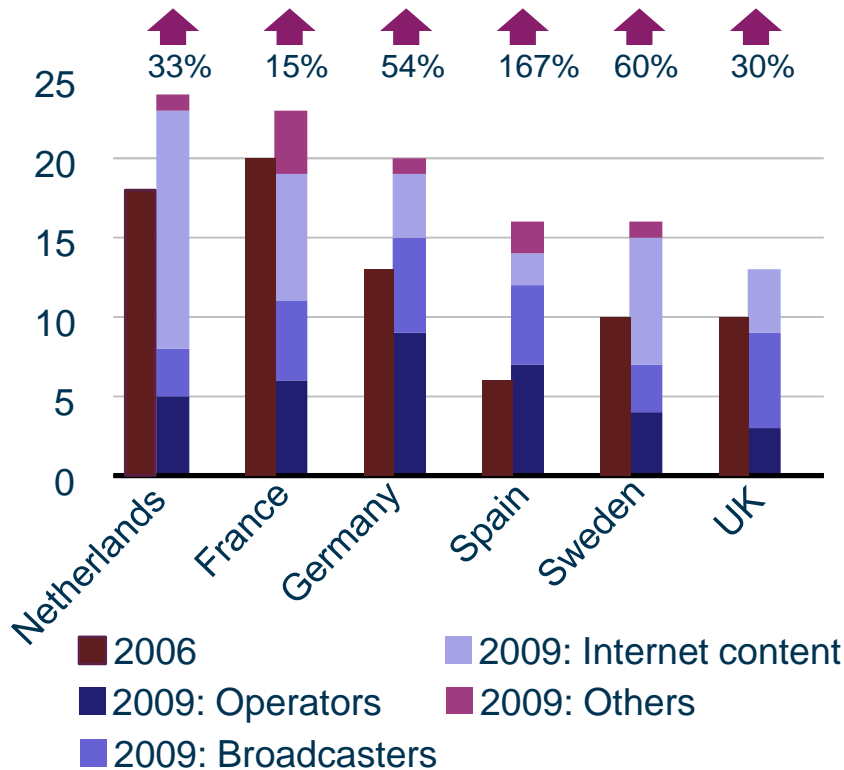
Selected trends in the evolution from connected TV to coherent media

Trends – providing some perspective

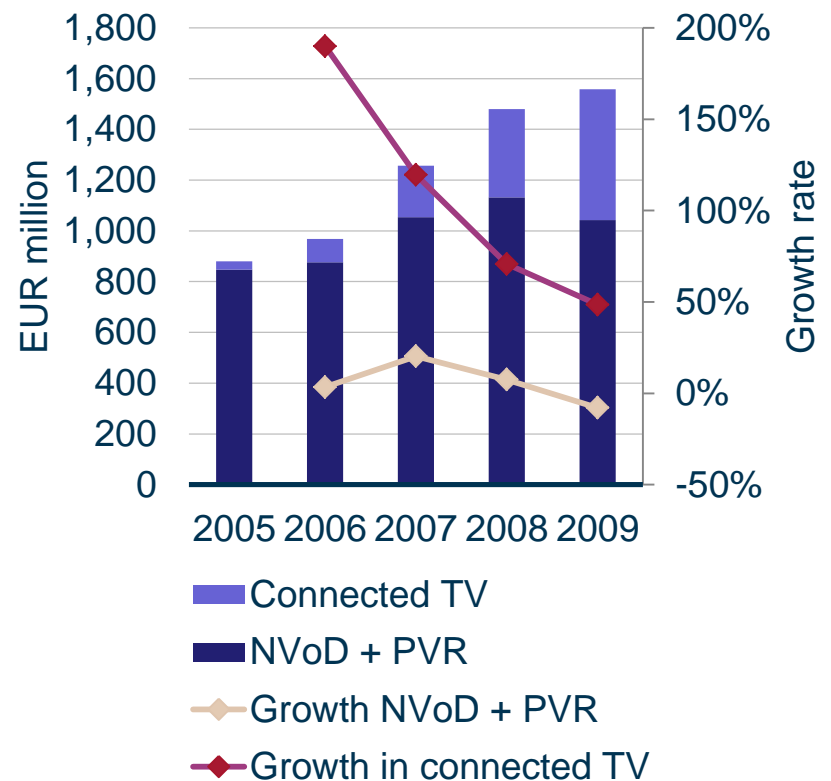
- Exponential growth of connected TV ... and resilience of linear TV
- Terrestrial and DTT/DSO – varies by country
 - proliferation of TV channels
 - fragmentation of audiences
- Pressure on performance of PSBs and commercial TV channels
- Continuing growth of pay TV
- Increased competition among TV channels
- TV channels adjusting to unfavourable market environment
- PSB retains a major role in local and European production

The number of non-linear TV services is growing, as are the associated revenues ...

Growth in number of VoD service providers (2006–9)



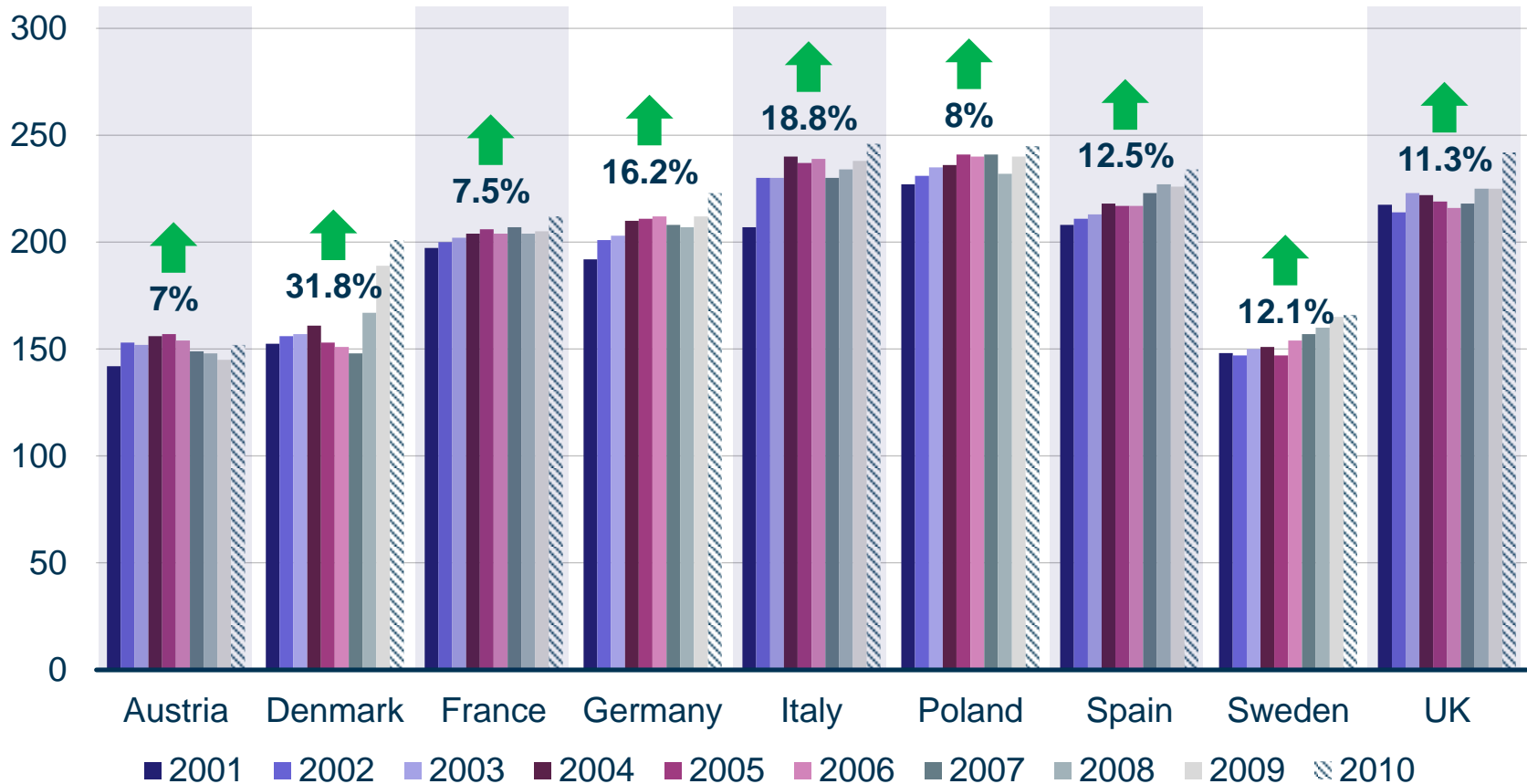
VoD and NVoD consumer revenues in the EU (2005–9)



New VoD services grew by 15–167% from 2006–9; connected TV grew the fastest (>50% per annum), albeit from a very low base

... but consumption of traditional linear TV has also increased and remains strong

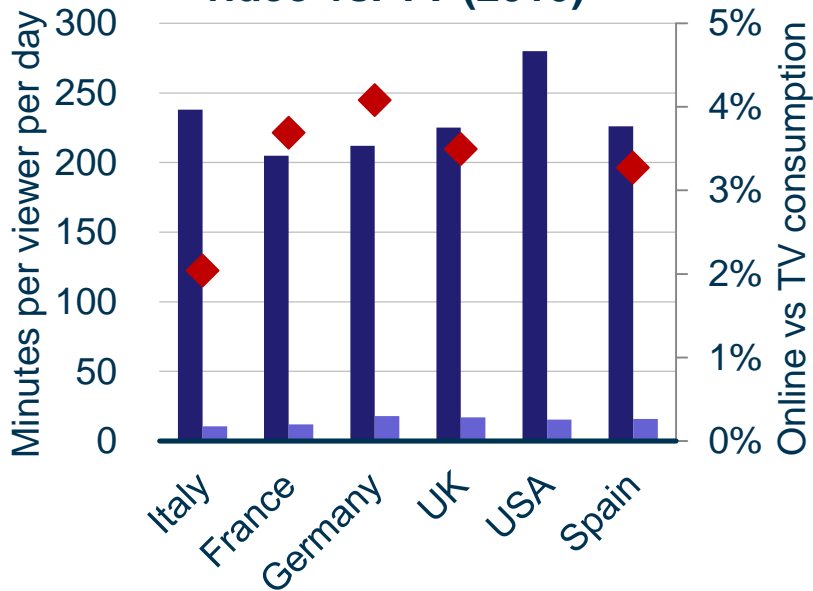
Average television viewing per person in Europe (2001–10)



In most countries linear viewing rose by between 7% and 32% over the last decade

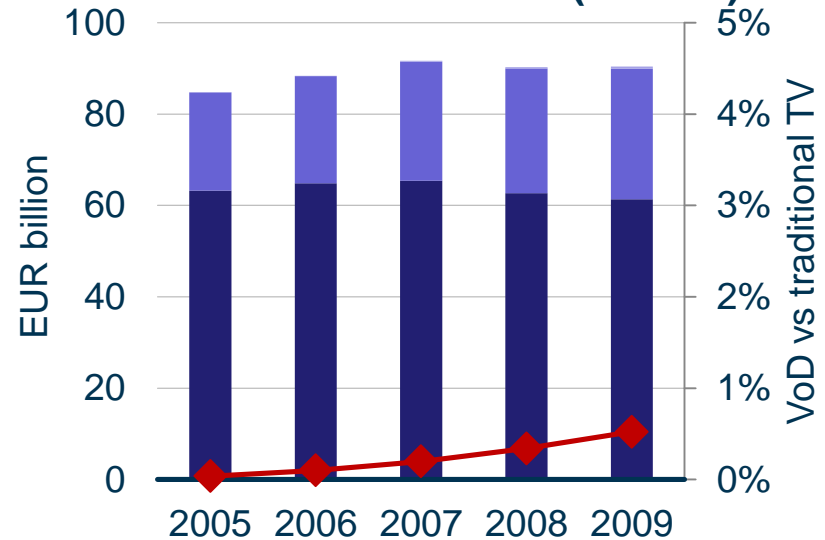
Despite rapid adoption of connected TV, this seems to have had only limited impact overall

Consumption of online video vs. TV (2010)



- TV consumption
- Online video consumption
- ◆ Online video vs TV consumption

Traditional TV vs. connected TV revenues in the EU (2005–9)

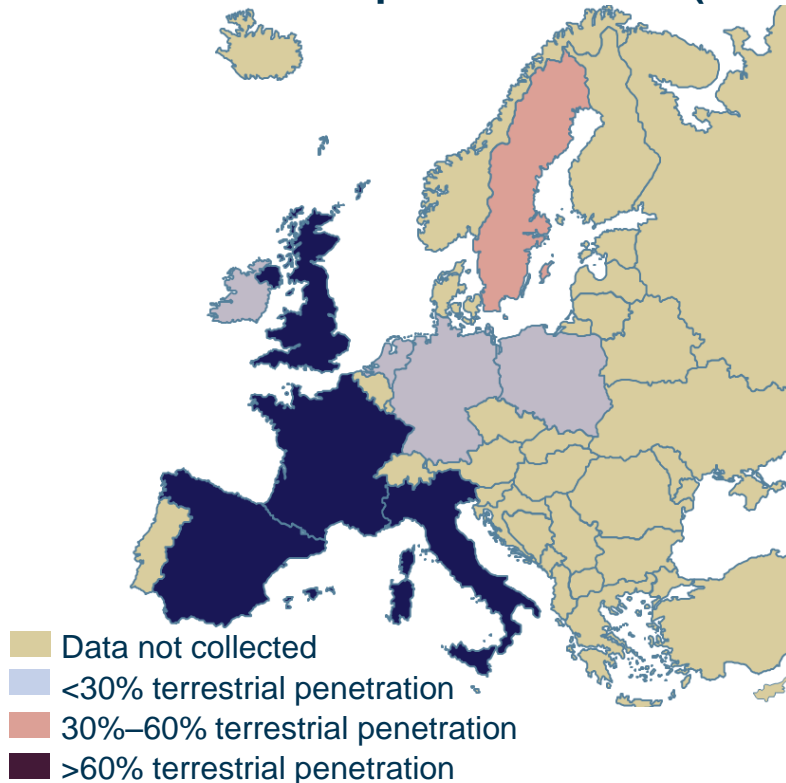


- VoD online + SVOD
- Pay TV
- Broadcasters' net revenues (ads etc.)
- ◆ VoD vs traditional TV

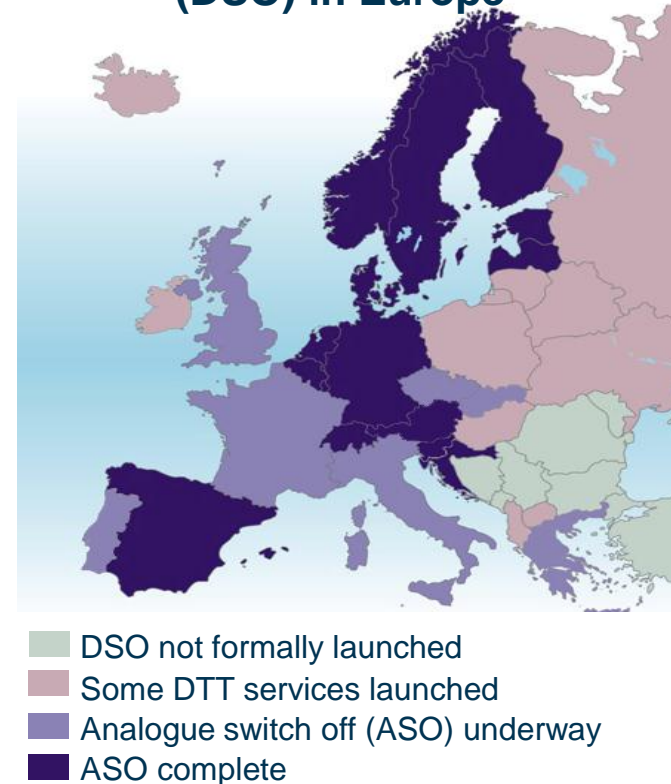
Despite exponential growth, online minutes of video viewing still make up less than 4% of linear TV minutes. In terms of revenues, non-linear represents less than 1% of linear TV revenues

DTT/DSO has been a major driver of change in Europe, with marked variations

Household terrestrial penetration in selected European countries (2009)



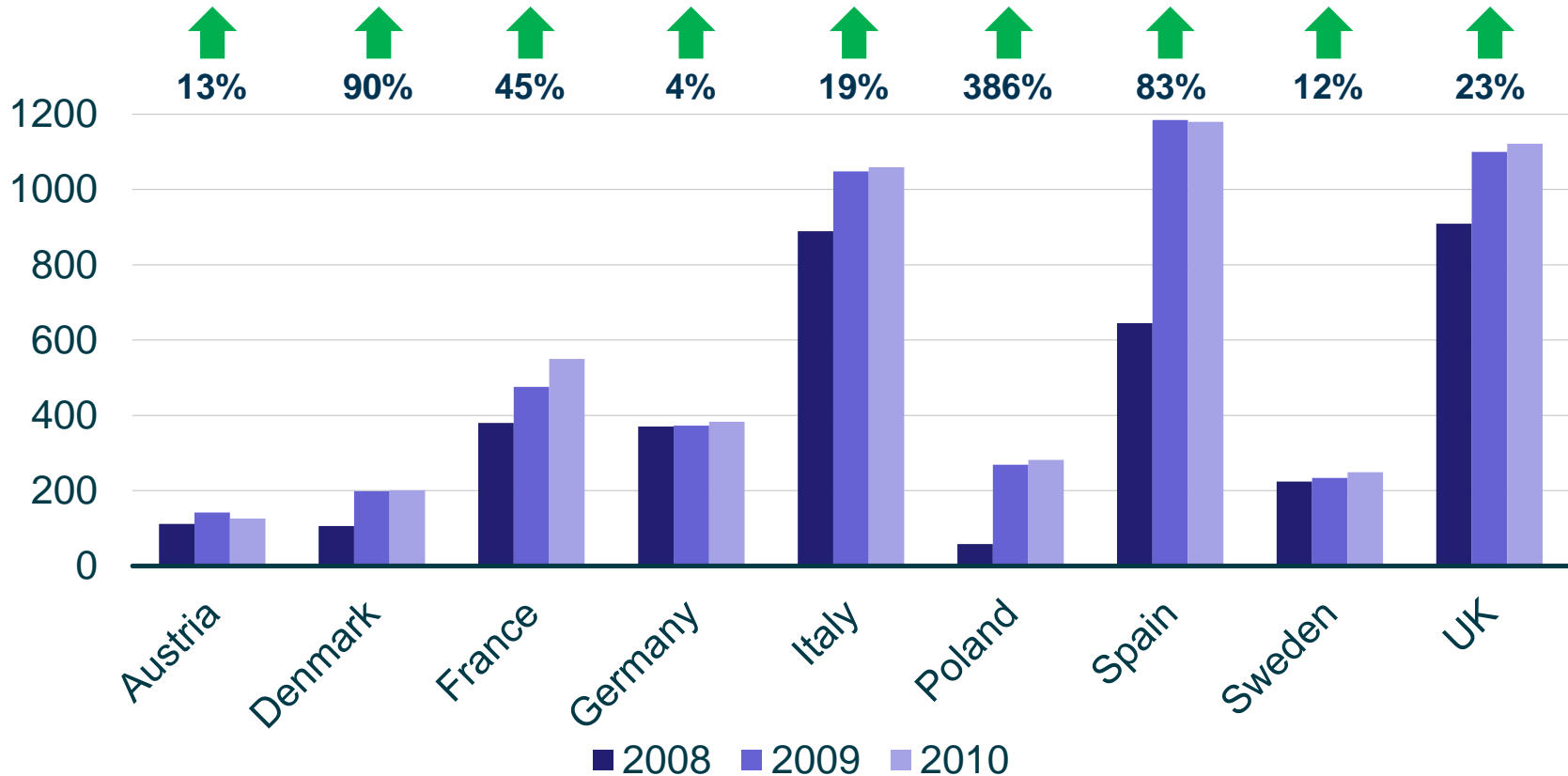
Progress of digital switch-over (DSO) in Europe



Terrestrial remains the most important TV distribution platform in the EU (mainly due to the UK, France, Spain and Italy), but DTT/DSO has had a significant effect on the structure of the TV market

The proliferation of linear TV channels has been significant across Europe

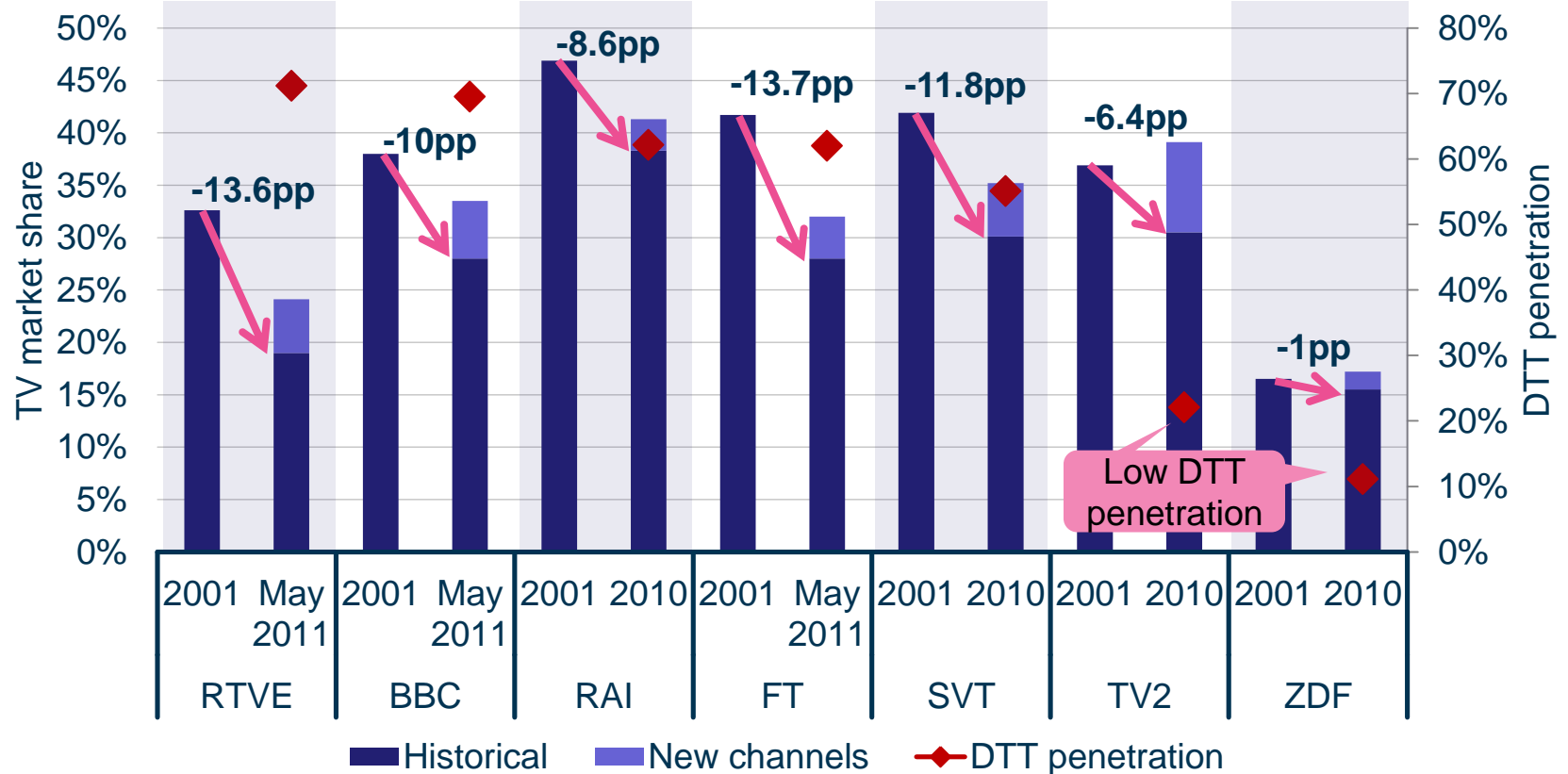
Growth of TV channels in selected European countries (2008–10)



The DTT/DSO, and digitalisation in general, has brought a proliferation of channels in most markets – Germany, Sweden and Austria seem an exception

The linear TV viewing share of PSBs has fallen, especially in countries with high DTT penetration

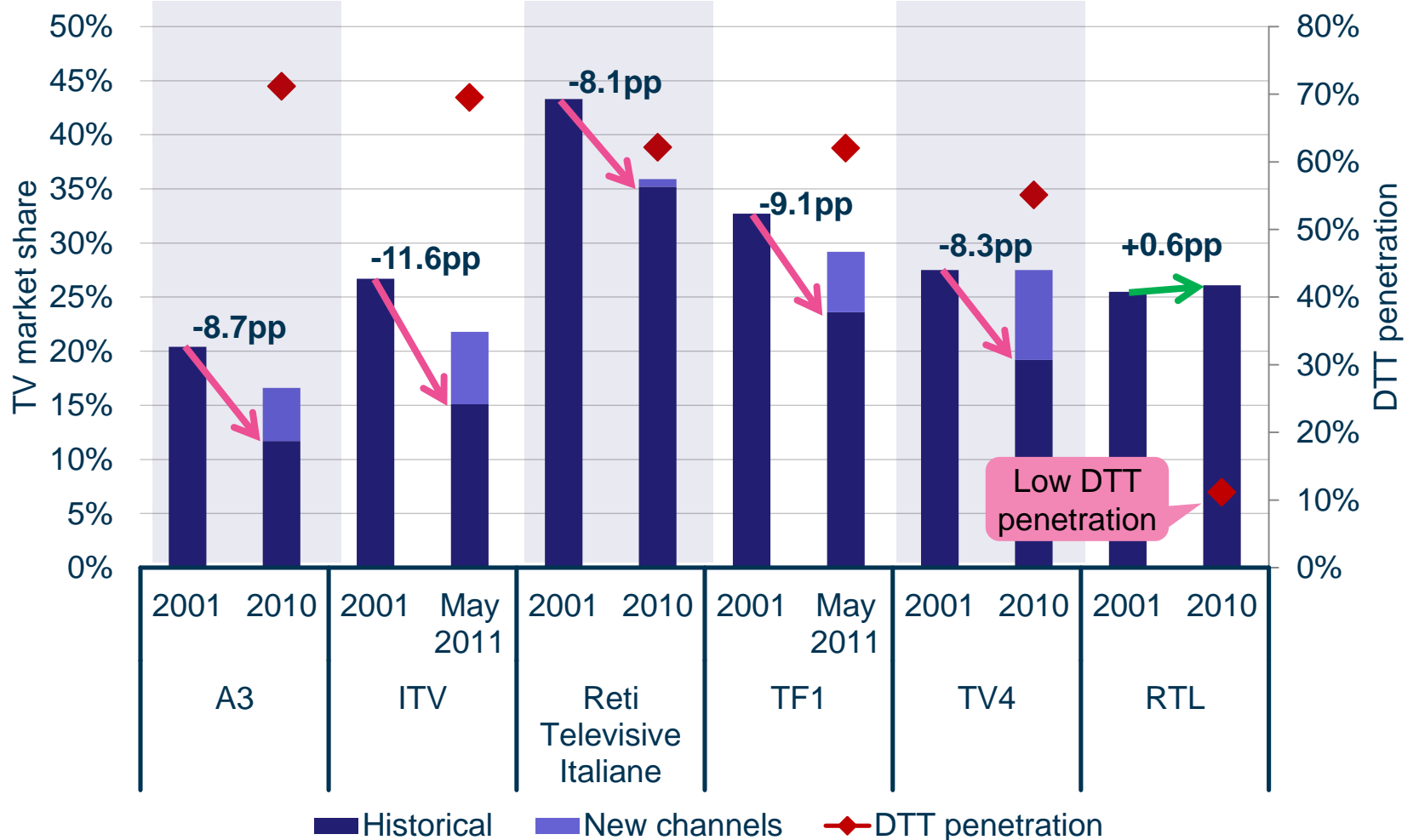
Evolution of TV viewing share of PSBs in selected European countries (2001–10)



DTT/DSO has cut the share of major PSB channels by 6–14 percentage points, reducing their perceived impact – but will this affect their future on connected TV?

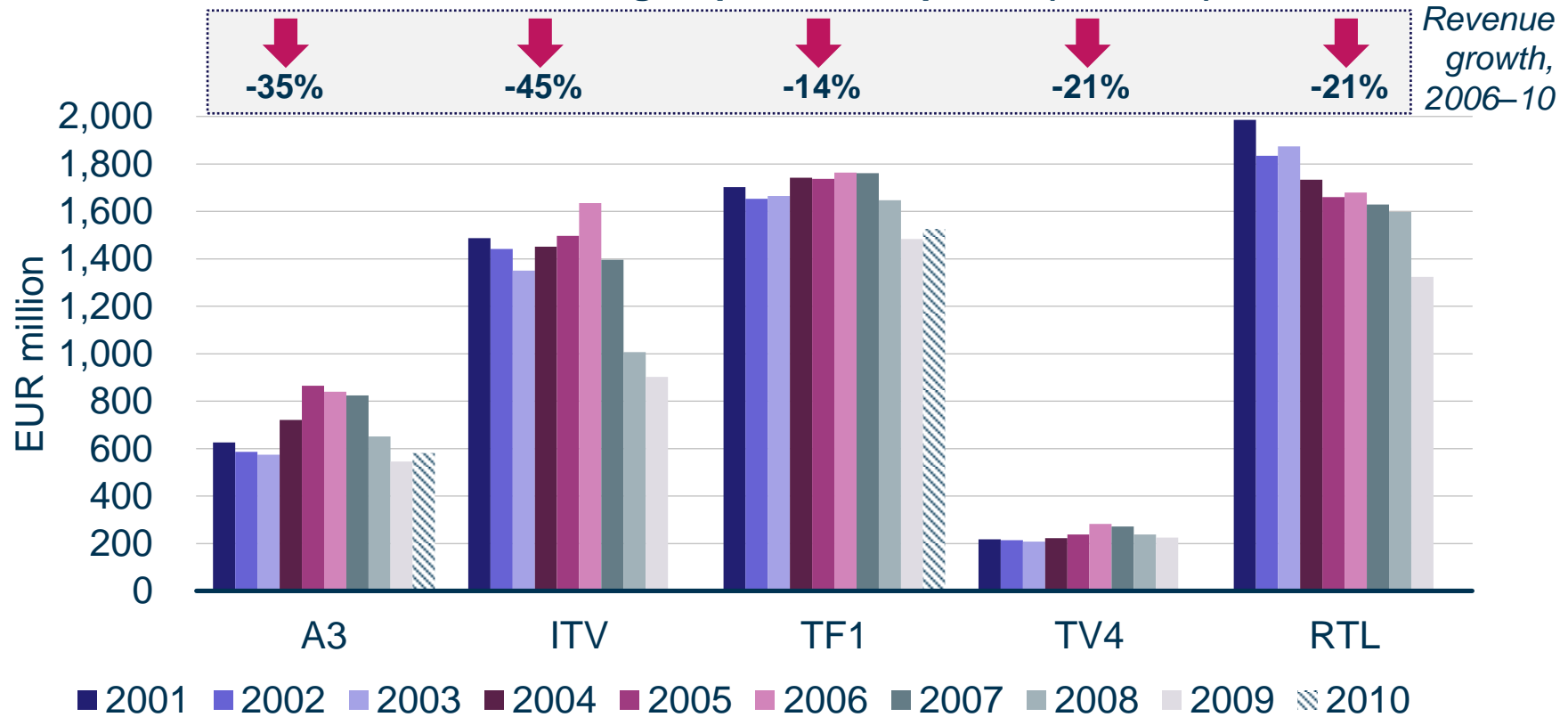
Historical commercial channels have suffered similar erosion where DTT penetration is high ...

Evolution of TV viewing share of historical commercial channels (2001–10)



... which is putting pressure on their finances

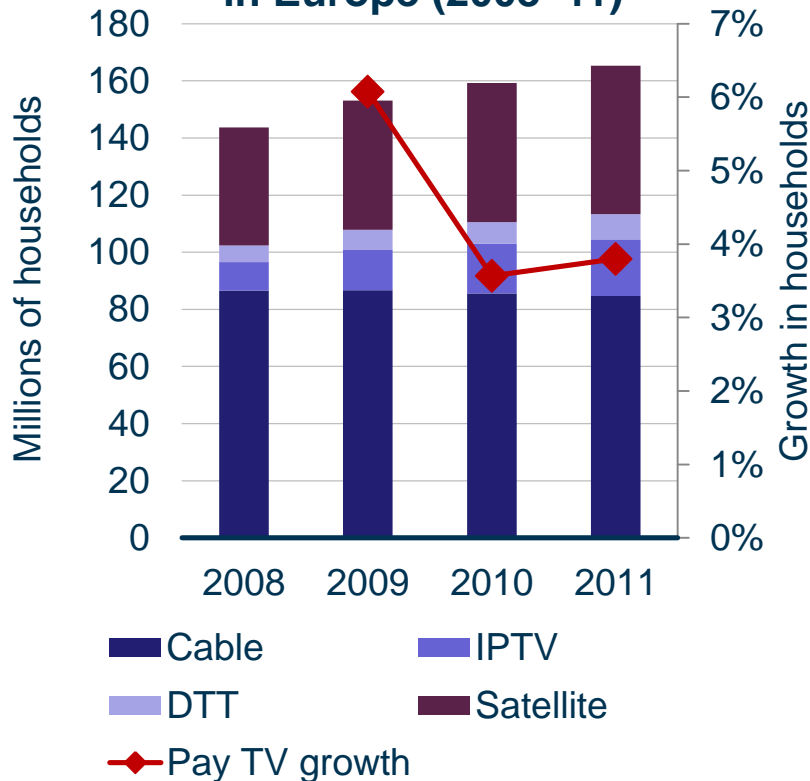
Evolution of operating revenues for Europe's major commercial TV groups, at 2005 prices (2001–10)



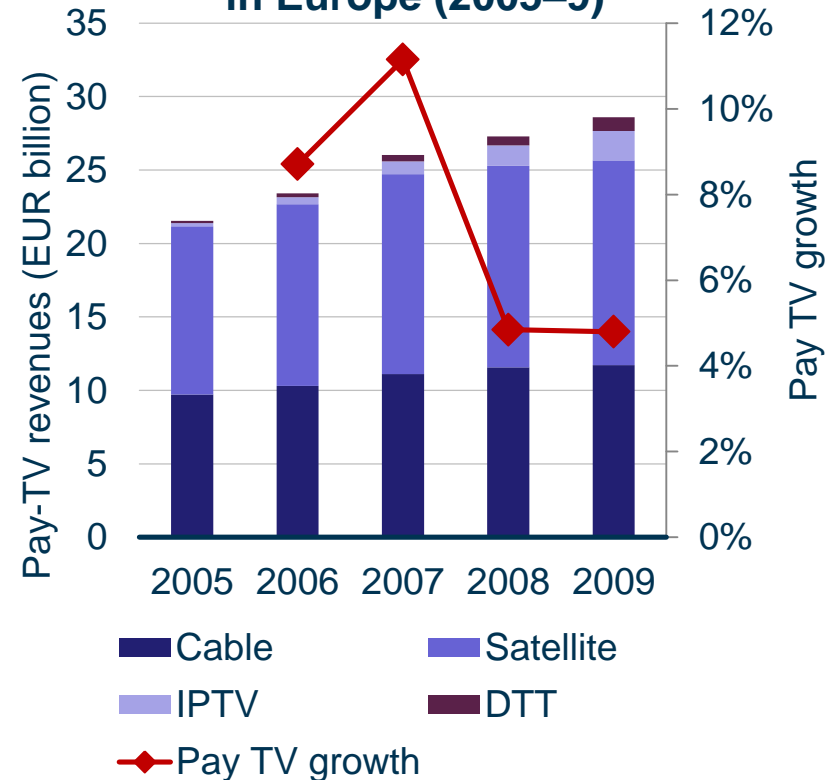
Cuts in operating revenue could affect the scale and timing of investment in connected TV by commercial TV channels

Pay TV has benefited from strong growth, but this has now slowed

Evolution of pay-TV subscribers in Europe (2008–11)



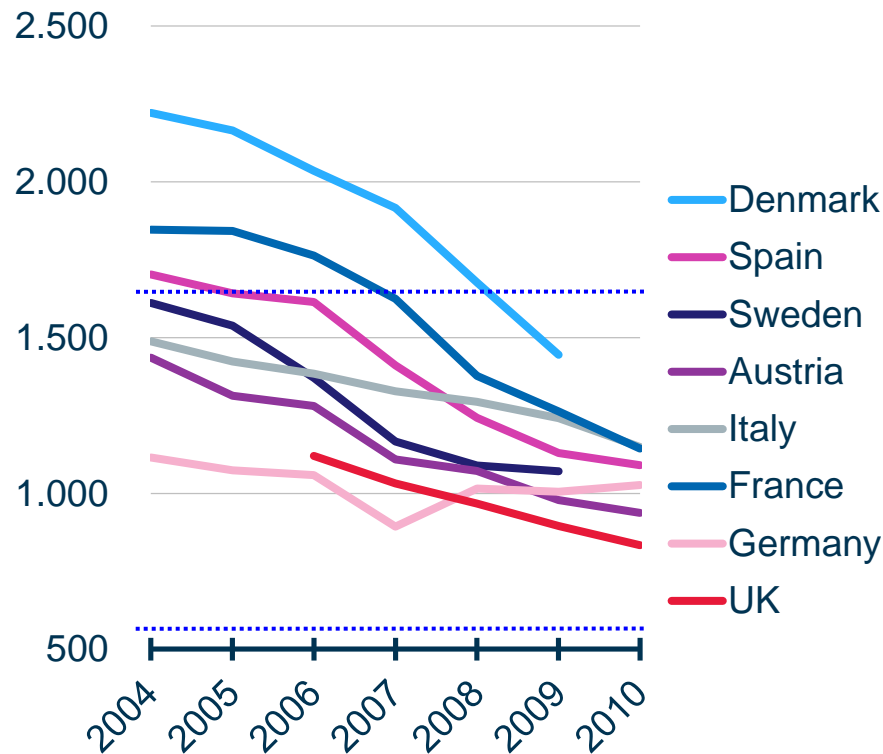
Evolution of pay-TV revenues in Europe (2005–9)



Pay-TV channels and operators seem to be in a better economic position to invest in connected TV

EU broadcasting markets are getting more competitive in terms of number of channels ...

Evolution of level of competition (HHI*) by market in selected countries (2004–9)

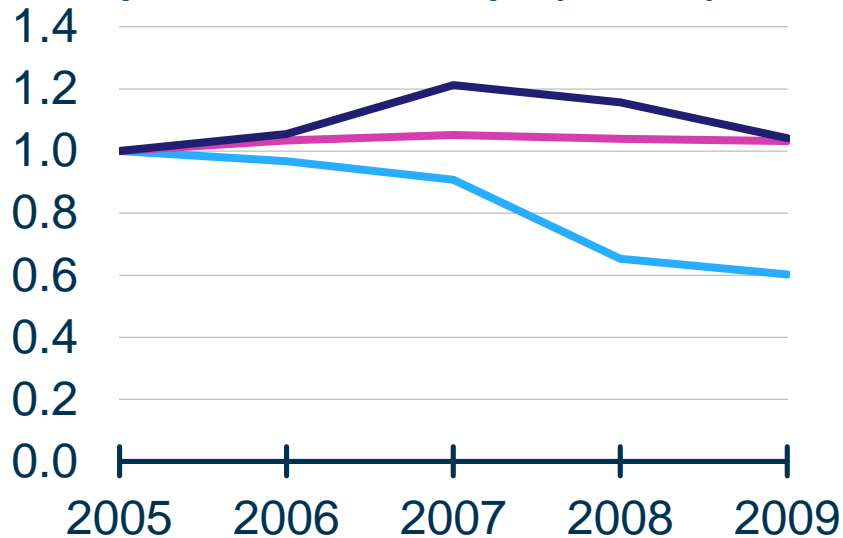


- Overall, as a guideline, if:
 - $HHI > 1800$, a market is concentrated
 - $1800 > HHI > 1000$, a market is moderately concentrated
 - $HHI < 1000$, a market is more competitive
- TV markets in the EU have become more competitive in the last ten years, but in economic terms they are still largely 'moderately concentrated'
- In the USA, HHI is < 1000 , so the market is far more competitive (similar to what could be expected with connected TV)

The competitive landscape appears to have changed less in terms of revenues, as many new TV channels are controlled by PSBs and historical commercial broadcasters

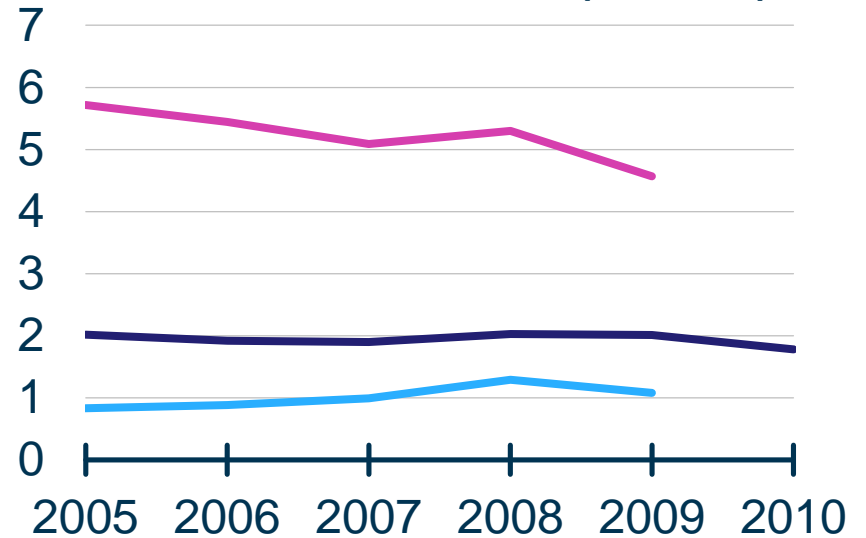
... and most broadcasters seem to be adapting to negative market conditions

'Normalised operating budget' of top 50 PSBs in Europe (2005–9)



- Channel 4 – commercial PSB
- Top 50 PSBs in Europe
- Top 40 commercial broadcasters

Employees/turnover ratio of commercial broadcasters and PSBs (2005–10)

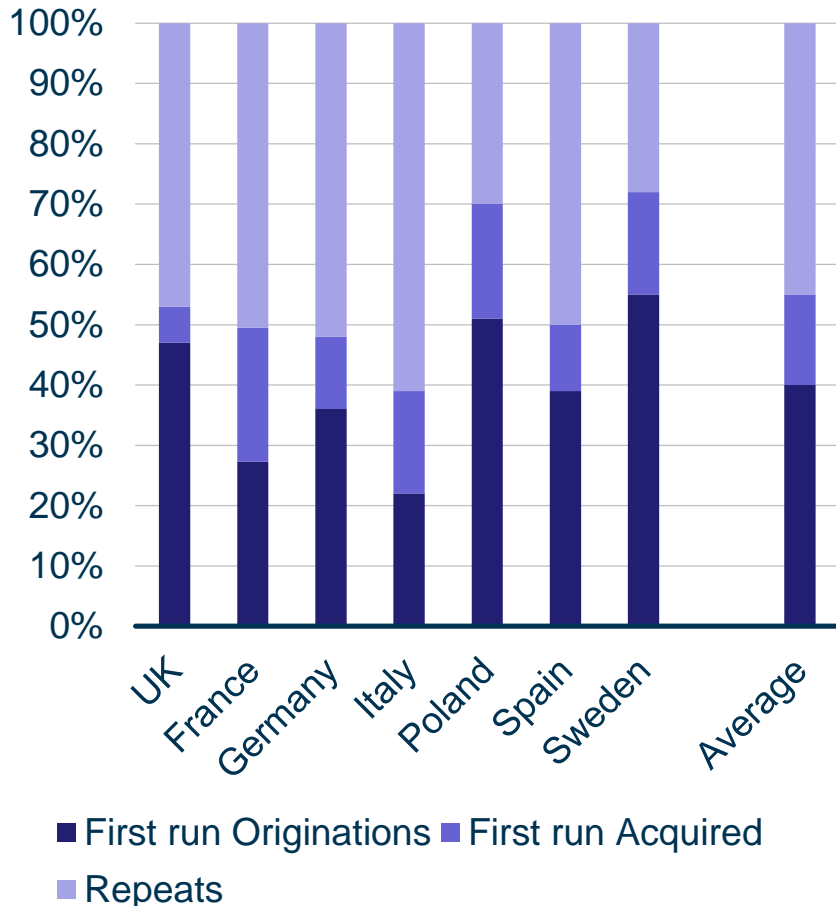


- Channel 4
- PSB average
- Commercial average

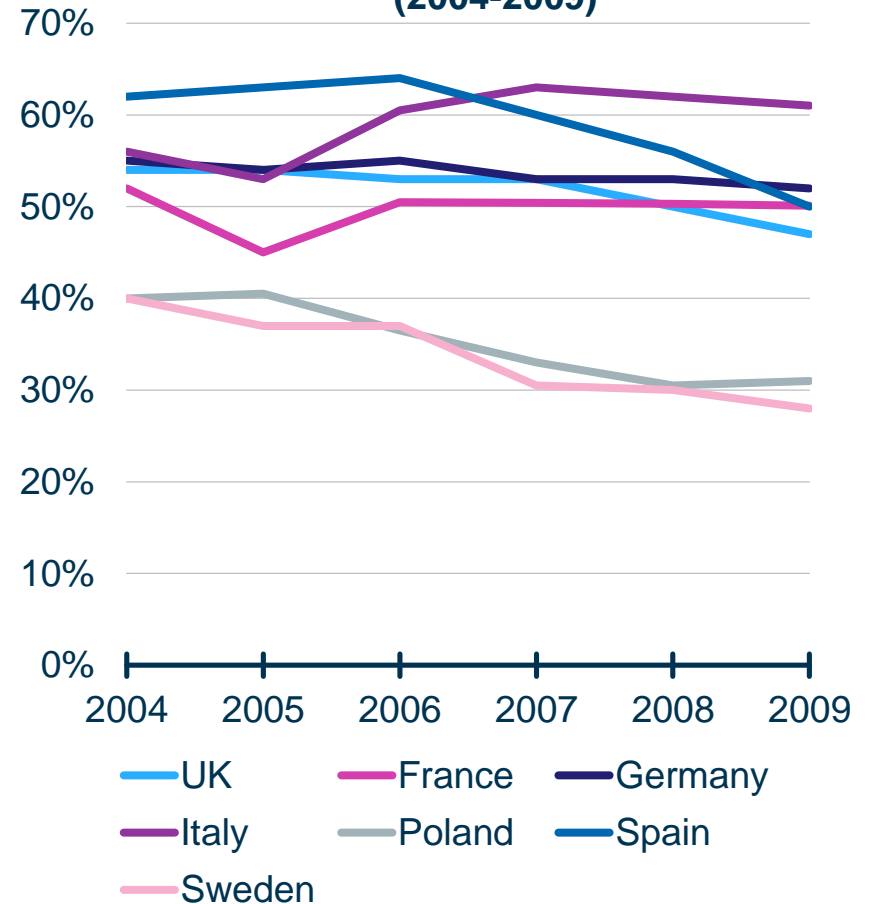
In addition, the need to invest in new thematic TV channels and connected TV initiatives is putting pressure on all broadcasters' margins and on the costs per hour of production

In this context, there seems to be some reduction on the creation of local contents

Origin of PSB programmes in Europe (2009)



First run origination trends in Europe (2004-2009)



Selected challenges in the evolution from connected TV to coherent media

Challenges – short or long term?

- Mass-market connected TV may up to 30Mbit/s broadband
- Networks need developing (current connectivity and the Digital Agenda)
- Uncertainty about monetising connected TV – small for incumbents but significant for new entrants
- The new battle of the value chain – broadcasters/pay-TV platforms adapting to a new ecosystem
- Final direction of public policy debate – advertising, premium TV rights and exclusivities, support for production
- Looking into the ‘crystal ball’ – there are many views about the scale and speed of connected TV

6–25Mbit/s broadband might be sufficient for mass-market connected TV, including HDTV

Required broadband connection speeds, based on multi-usage and quality of service

Illustrative

Speed per type of service format

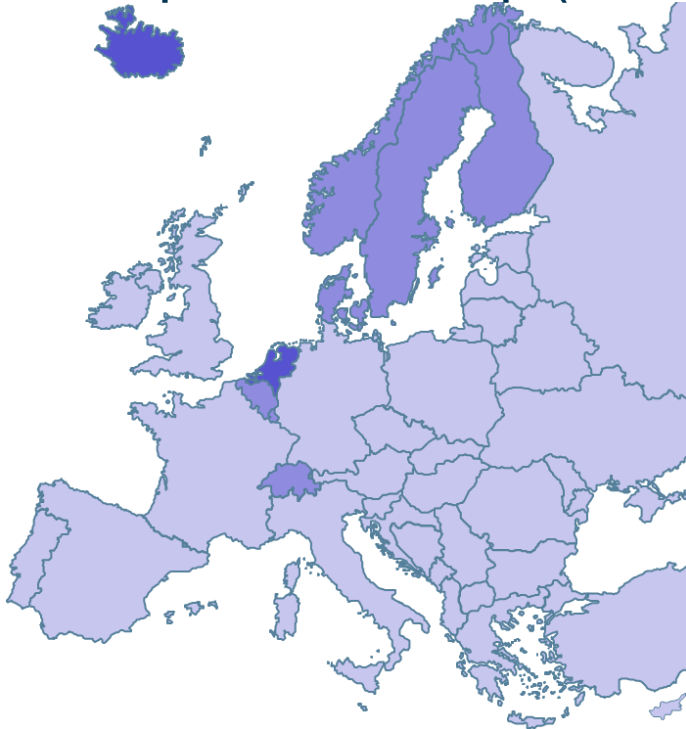
Example of service format	Speed per type of service format				
	Audio	Music	SD TV	HD TV	3D TV / online game
1	Few kbit/s	320kbit/s	1–2 Mbit/s	6–8 Mbit/s	12–16 Mbit/s
2	Few kbit/s	640kbit/s	2–4 Mbit/s	12–16 Mbit/s	24–32 Mbit/s
3	Few kbit/s	960kbit/s	3–6 Mbit/s	18–24 Mbit/s	36–48 Mbit/s
4	Few kbit/s	1280kbit/s	4–8 Mbit/s	24–32 Mbit/s	48–64 Mbit/s
5	Few kbit/s	1600kbit/s	5–10 Mbit/s	30–40 Mbit/s	60–80 Mbit/s
6	Few kbit/s	1920kbit/s	6–12 Mbit/s	36–48 Mbit/s	72–96 Mbit/s

No. of simultaneous flows per HH

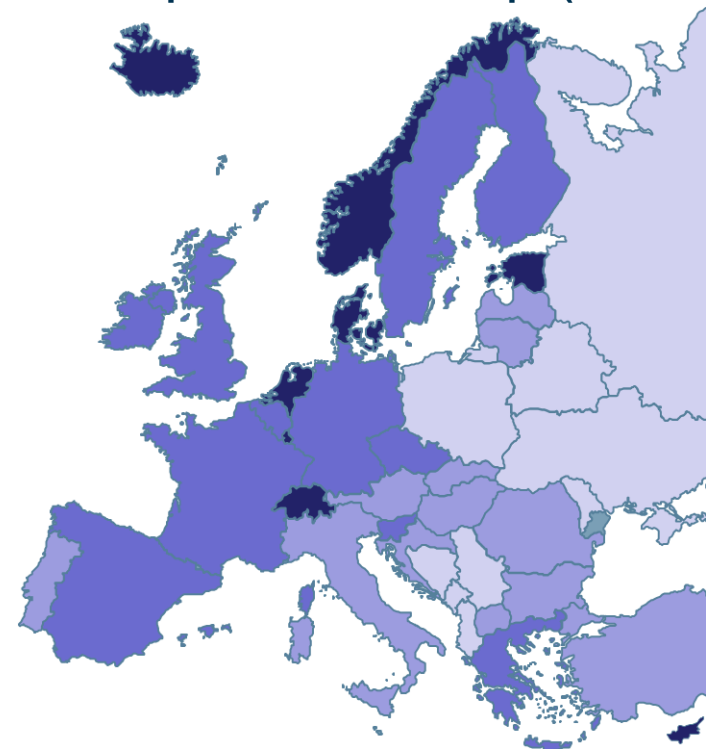
ADSL sufficient
 ADSL sufficient for a large proportion of HHs
 Fibre or DOCSIS 3.0 required

Broadband penetration has risen rapidly in Europe between 2005 and 2011 ...

Broadband penetration in Europe (Dec. 2005)



Broadband penetration in Europe (June 2011)



Light purple: HH broadband penetration below 40%

Medium purple: HH broadband penetration between 40% and 60%

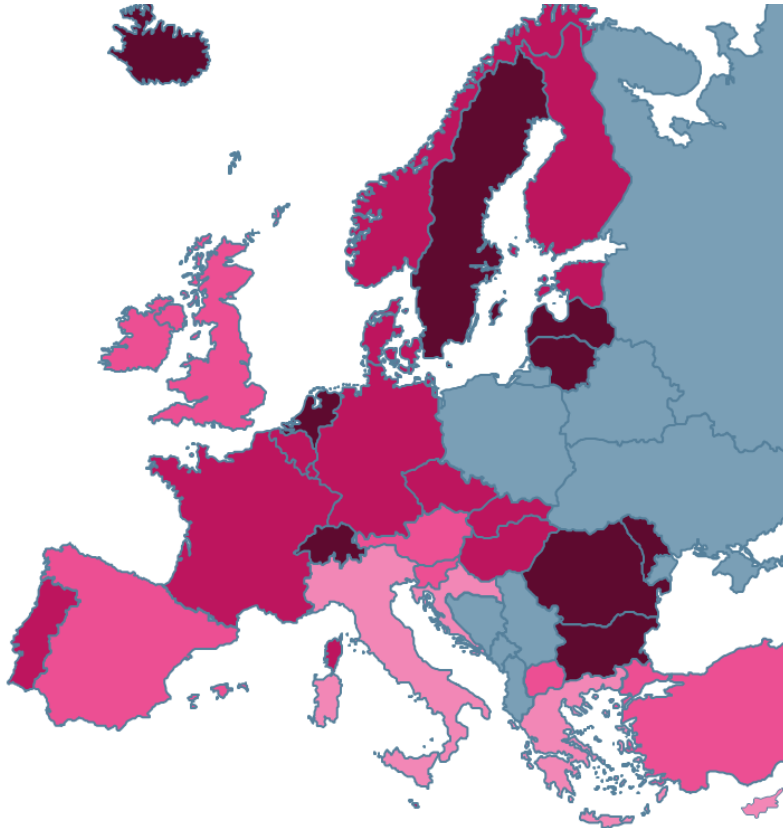
Dark purple: HH broadband penetration between 60% and 80%

Black: HH broadband penetration above 80%

With broadband penetration of >60% of HHs in most countries, the EU seems prepared for mass-market connected TV – but the quality of the experience needs more detailed assessment

... but mass-market connected TV will require an improvement in the average speeds achieved

Average downlink speed in Europe (2011)



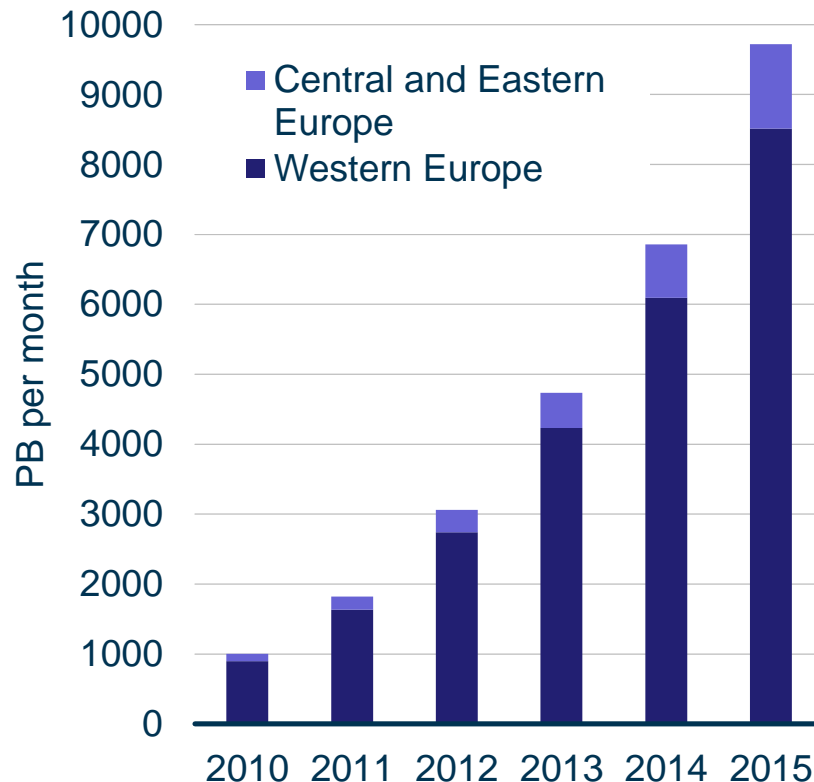
- Digital Europe plans are essential to ensure the mass-market take-up of connected TV
- The EC's *Digital Agenda for Europe* aims to achieve the following objectives:
 - 100% broadband penetration in 2013
 - **network speed above 30Mbit/s in 2020**
 - 50% of households to have access to superfast broadband (100Mbit/s) in 2020
- These targets would allow for most connected TV applications
- However, many analysts view the 2020 targets as ambitious and complex to achieve

- Average speed below 6Mbit/s
- Average speed between 6Mbit/s and 12Mbit/s
- Average speed between 12Mbit/s and 18Mbit/s
- Average speed above 18Mbit/s

Sweden, Netherlands and Switzerland seem prepared for mass-market connected TV. Other countries are just at the low end of the requirements, but the 30Mbit/s Digital Agenda target suggests there could be a mass market for connected TV by 2020

Vendors forecast an explosion of video traffic, suggesting significant consumer adoption ...

Internet video traffic in Europe (2010–15)

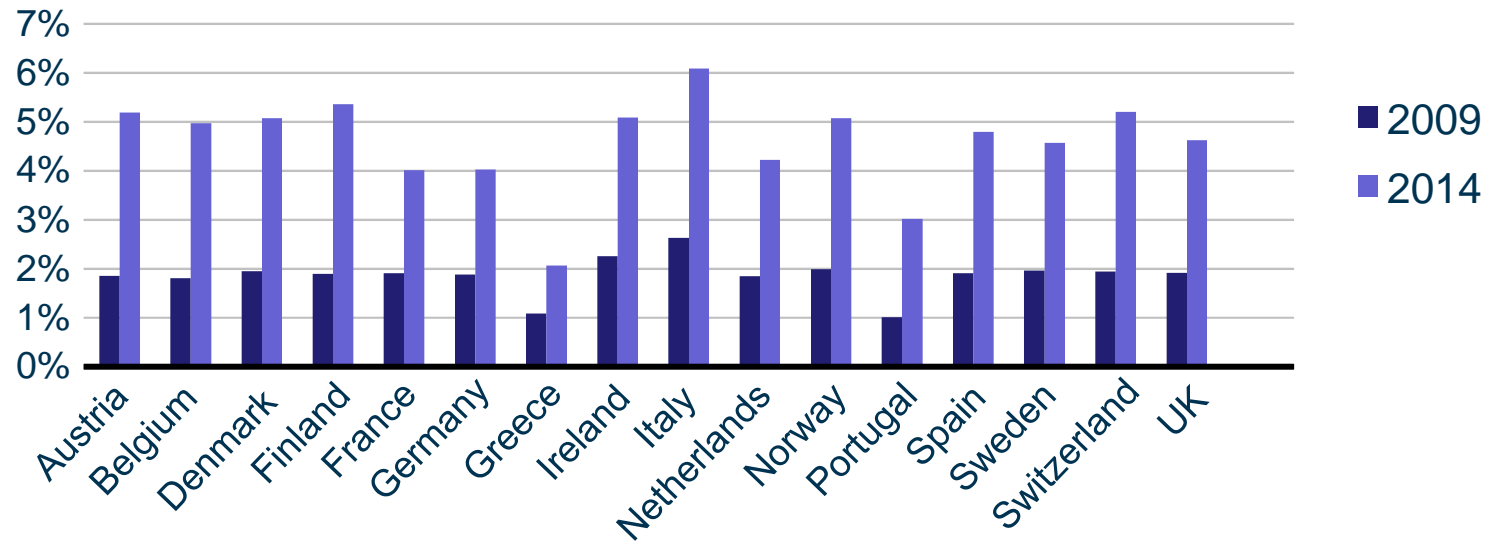


- Internet video-to-TV traffic will increase 14-fold in Western Europe and 24-fold in Eastern Europe between 2010 and 2015
- In the UK, consumption of video delivered through the Internet to a video screen will rise from 8% of total Internet video traffic in 2010 to 14% in 2015
- In Germany, Internet video will account for more than half of all Internet consumption by 2013
- In France, 67% of broadband connections will exceed 10Mbit/s in 2015, up from 36% today
- The average broadband speed in Central and Eastern Europe in 2015 will be 20Mbit/s

With a 58% CAGR over five years, this forecast would support more-aggressive and disruptive developments in connected TV

... but some analysts suggest more moderate advertising revenues from non-linear TV ...

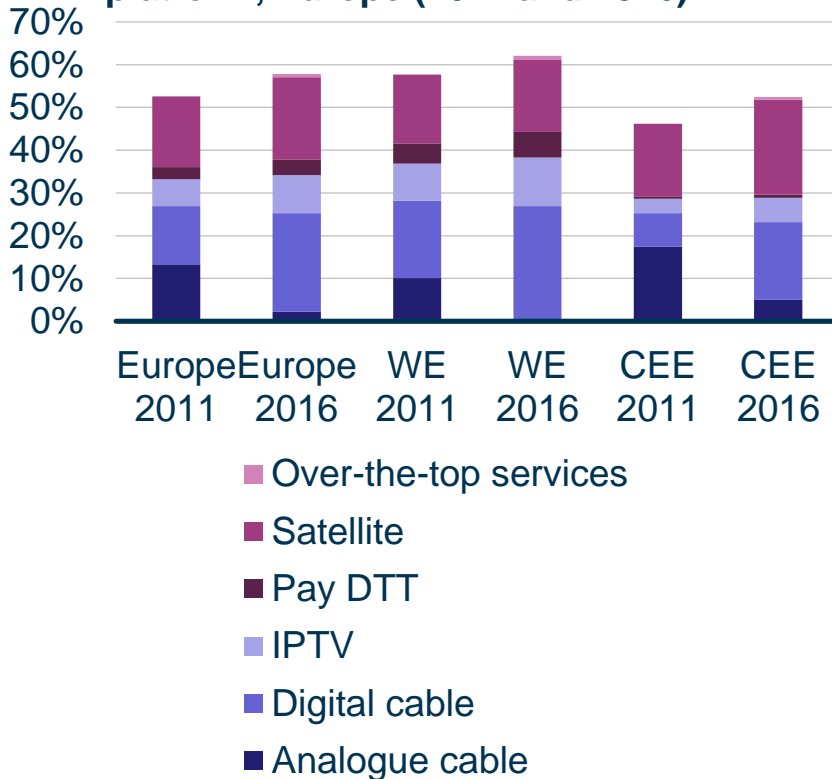
Revenues from online TV advertising and mobile TV as share of total TV advertising revenues in selected EU countries (2009 and 2014)



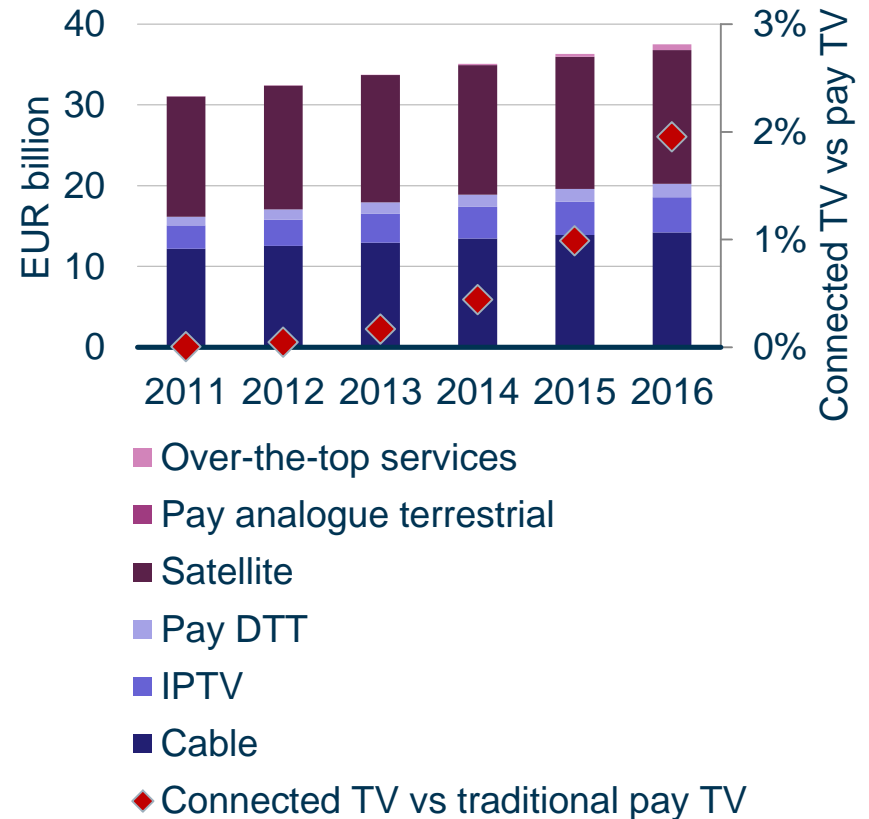
Similarly, advertising connected TV revenues might be **only between 2% and 6%** of total TV advertising by 2014. However, online and mobile TV advertising are forecast to account for approximately **30%** of *incremental* revenues from TV advertising in Europe over 2009–2014

... and even more moderate forecasts for paid-for OTT

Household penetration of primary services by platform, Europe (2011 and 2016)

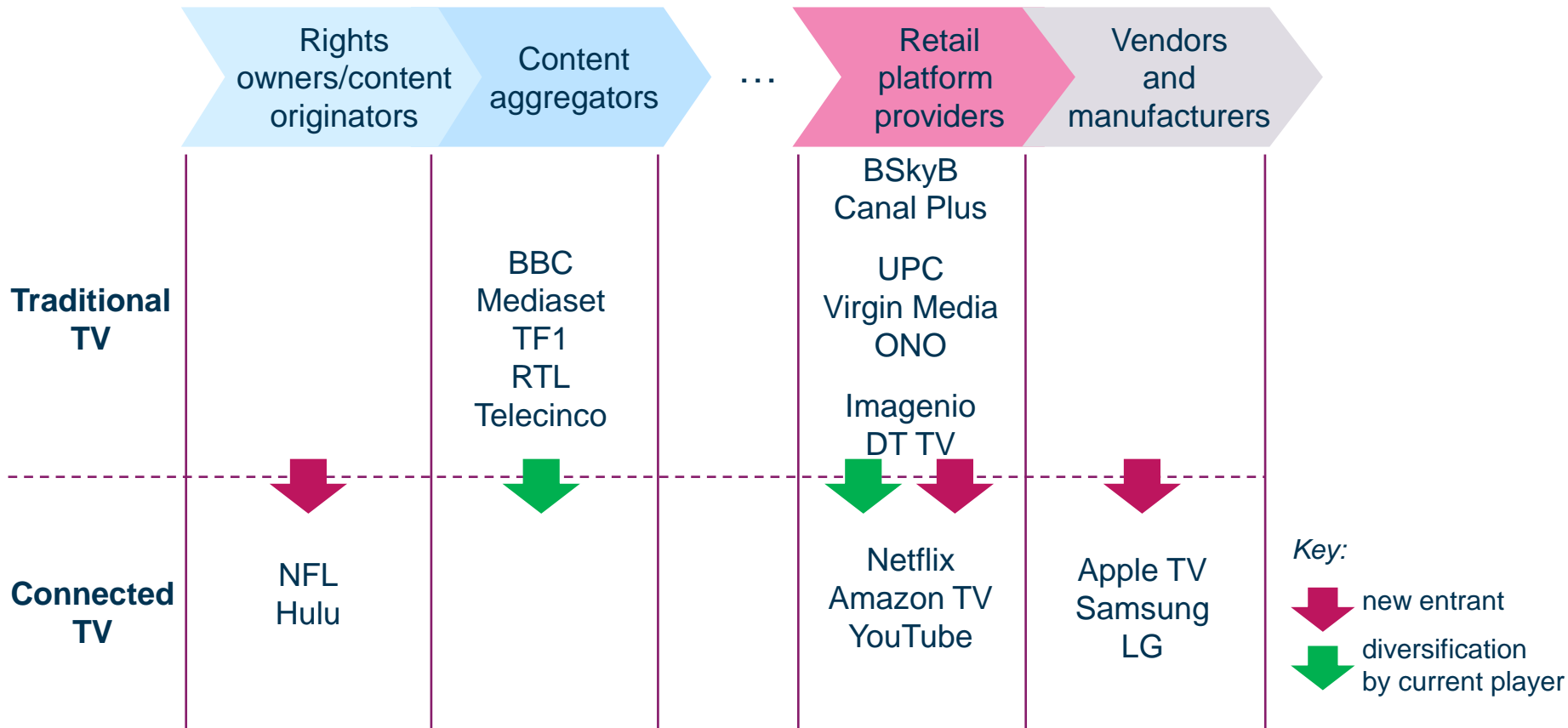


Pay-TV service revenues in Europe (2011–16)



Paid connected TV (OTT) revenues are forecast to be **marginal or less than 3%** of pay-TV revenues by 2016 – but they might be sizeable for new entrants

In the short term, existing and new entrants are ‘tactically’ collaborating and competing



The lack of a clear business model and the threat of cannibalisation might slow down the growth of connected TV

Some regulators may change the advertising rules in a multi-channel and multi-platform environment

UK debate on asymmetry of advertising rules

- **Context:** currently different for PSB and non-PSB TV channels
- **Issue:** Ofcom consulted on whether to amend the “COSTA rules” on the amount of advertising which can be shown by PSB and non-PSB channels
- **Decision:** pending

Ofcom study – scenarios and potential impact

Scenario	Description	% change in total TV advertising revenues
Harmonising up	7 to 9 minutes/hour (+28% minutes), (+17% impact)	-4.1%
Harmonising down	9 to 7 minutes/hour (-22% minutes), (-12% impact)	+1.5%

A debate is also taking place about how to regulate advertising on connected TV, to provide a level playing field for competition

The focus has been on premium exclusivities, but territoriality of rights is also topical

Specific regulatory actions involving pay TV

■ Pay-TV exclusivities

- **UK:** a “wholesale must-offer” obligation was imposed on BSkyB
- **Singapore:** a wide-ranging “cross-carriage measure” came into effect in 2011
- **USA:** an addition to the “programme access rules” in 2010 extended the limitations imposed by the Cable Act
- **France:** the exclusivities of Orange and Canal Plus are “under observation”
- **Spain:** premium football rights and exclusivities are reviewed regularly

■ Territoriality of rights

- **UK/pan-European:** An ECJ ruling on 4 October 2011 favouring a single market for rights has the potential to spark fundamental changes in the way TV rights are sold in the EU – although probably not in the short term

Territoriality of rights and exclusivities are likely to be a major issue for connected TV in the EU. Copyright protection is also key to protecting the current market from potential erosion due to ‘piracy’ over connected TV

Some regulators have taken steps to support independent production

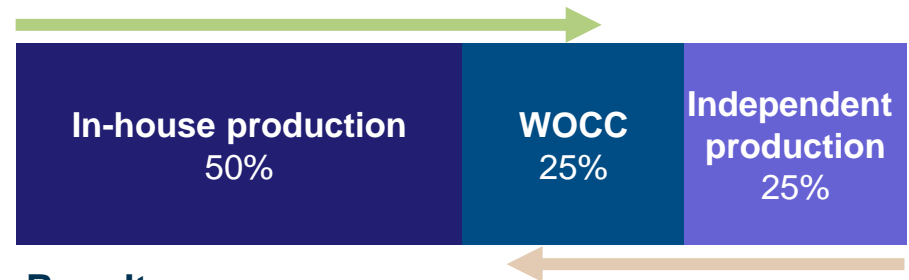
UK – Terms of Trade (2003)

- The 2003 Communication Act specified that **independent producers retain rights to their programmes** even if they are mostly financed by broadcasters ...
 - ... in exchange for conceding a licence for the so-called broadcast and ‘catch-up’ windows
- **Results:** the Terms of Trade have
 - **fundamentally improved the independent production sector** and its exports
 - **benefited broadcasters** through improved standards and quality and reduced costs

UK – WOCC (2006)

- Aimed to “address the **imbalance in negotiating strength** between the main terrestrial broadcasters and independent producers”
 - reaffirmed use of the **Codes of Practice** and the independent production quota

BBC supplier share objectives (% hours)



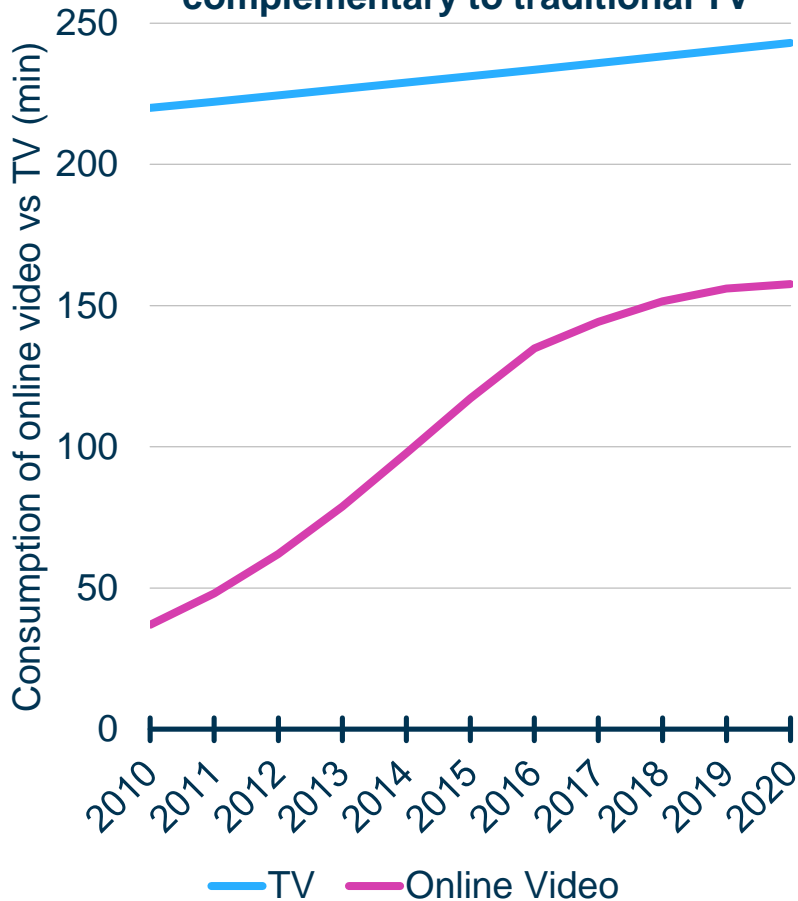
▪ Results

- the BBC Trust’s 2008 review of the WOCC found it was encouraging **greater competition and efficiency**

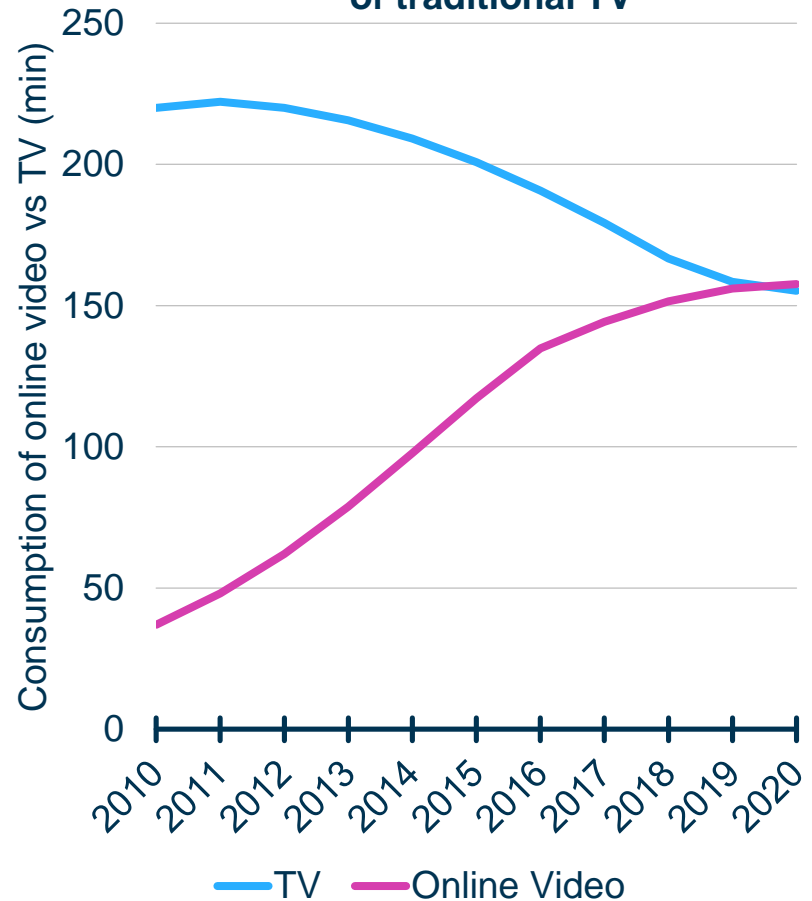
Similarly, regulators might take specific action to encourage local and European production for connected TV (as is the case with linear TV)

Coherent TV consumption – will connected TV and linear TV be complementary or substitution?

Scenario 1 - Online video is complementary to traditional TV



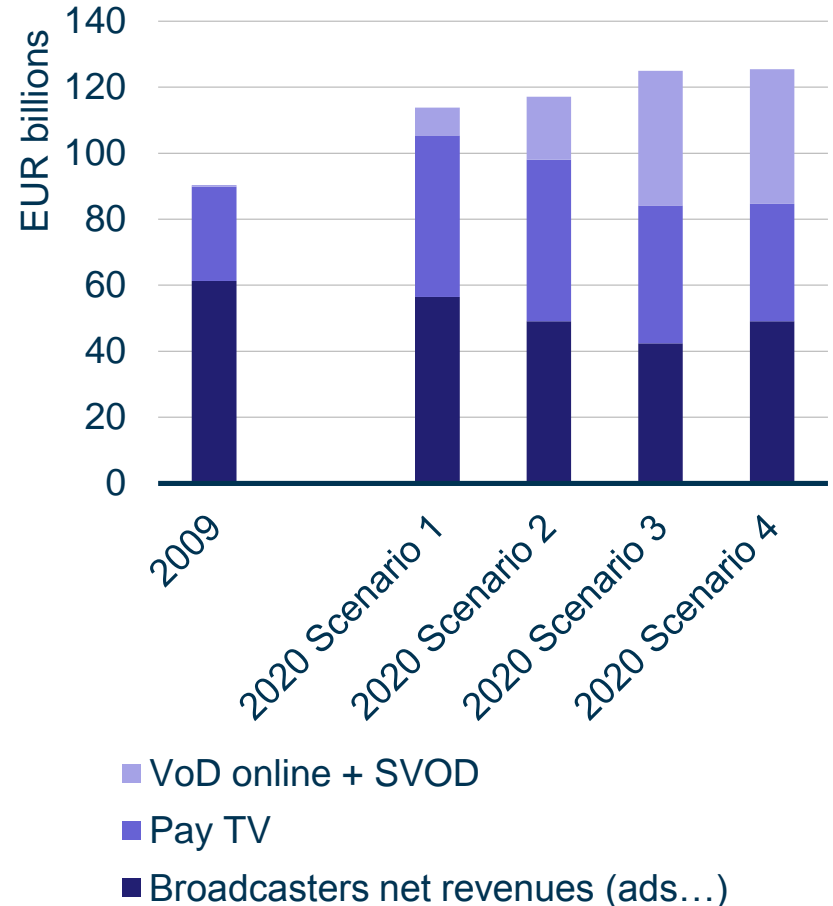
Scenario 2 - Online video as a substitute of traditional TV



In terms of revenues, will connected TV develop into a mainstream TV model comparable to FTA or payTV?

Scenarios of TV revenue growth in Europe (2020)

Scenarios in 2020	Connected TV	PSB + Commercial TV	Pay TV
Scenario 1	Lower growth (CAGR 30%)	Historical trend	Historical trend
Scenario 2	Medium growth (CAGR 40%)	Connected TV mainly FTA Lower growth	Historical trend
Scenario 3	Higher growth (CAGR 50%)	Connected TV mainly FTA Lowest growth	Historical trend Erosion from connected TV
Scenario 4	Higher growth (CAGR 50%)	Connected TV strong FTA Lower growth	Connected TV strong pay Lowest Pay TV revenues



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