



Presentation for Circom's 31<sup>st</sup> Annual conference

# Scenarios for a convergent world: Non-linear TV and the online challenge – Where is the European TV industry heading?

10 May 2013 • Lluís Borrell

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# Agenda

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- **Setting the scene**
  - Context on linear and non-linear TV
  - The European broadcasting model
  - A structured perspective
  
- **The evolution so far**
  - Linear TV and audience fragmentation
  - The ‘explosion’ of non-linear TV
  - Putting things in perspective
  
- **The policy and regulatory debate moving forward**
  - Key issues and leading perspectives in EU

## Setting the scene

The evolution so far

The policy and regulatory debate moving forward

## Linear TV and non-linear TV – do we understand the difference? How is this evolving? (1/2)

Element	Traditional or linear TV	New TV or non-linear TV (in this presentation)
<b>Scheduling</b>	<ul style="list-style-type: none"> <li>▪ Broadcast or <b>scheduled</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Non-linear TV or non-scheduled TV or <b>on-demand</b> TV</li> </ul>
<b>Device</b>	<ul style="list-style-type: none"> <li>▪ <b>TV set</b></li> <li>▪ STB</li> <li>▪ EPGs</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Time-shifting and PVRs</b></li> <li>▪ <b>Multiple devices (primarily TV sets increasingly PC, smartphones, tablets)</b> that are connected with sufficiently fast broadband connections</li> <li>▪ <b>Search engines, apps</b></li> </ul>
<b>Consumption</b>	<ul style="list-style-type: none"> <li>▪ Primarily <b>laid-back</b> consumption (TV)</li> <li>▪ Primarily <b>family</b> or group</li> </ul>	<ul style="list-style-type: none"> <li>▪ Primarily <b>laid-back</b> consumption (TV) and <b>long-format</b> viewing, but also short video clips</li> </ul>
<b>Transmission</b>	<ul style="list-style-type: none"> <li>▪ <b>Over broadcast networks (multiplatform):</b> terrestrial, satellite, cable, IPTV</li> <li>▪ <b>Multicast streaming</b> over Internet</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Over two-way broadband Internet networks:</b> streaming TV or over-the-top TV (OTT)</li> <li>▪ Audiovisual <b>social TV</b></li> </ul>

## Linear TV and non-linear TV – do we understand the difference? How is this evolving? (2/2)

Element	Traditional or linear TV	New TV or non-linear TV (in this presentation)
Type of service / content	<ul style="list-style-type: none"><li>▪ <b>Managed</b> service</li><li>▪ <b>High quality</b> (SDTV, HDTV, UHD TV)</li><li>▪ <b>Professional</b> (films, sports, news, TV series, etc..)</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Non-managed</b> service</li><li>▪ <b>Low to high quality</b> (size of screen)</li><li>▪ <b>Usage driven by professional</b> content but also UGC</li></ul>
Business model	<ul style="list-style-type: none"><li>▪ FTA, commercial or PSB, and pay TV</li></ul>	<ul style="list-style-type: none"><li>▪ Pay OTT, online TV, FTA, etc.</li><li>▪ Also relevant: <b>PPV, VOD and SVOD</b></li></ul>

## What will we call the future TV services? (1/2)

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- **Complex to define ‘future TV services’** – mainly due to issues associated with the device (the ‘TV set’)
- **Seamless combination** of traditional linear TV and non-linear TV
  - **Scheduled and unscheduled programmes** – ‘timely programming and events’ as well as ‘catalogue-driven’
  - **Multiple transmission platforms** and standards – open or closed, one-way and two-way
  - **Many layers of service provision** – scheduled TV channels, EPGs, search engines, apps, etc.
  - **Multiple devices** (TV, PC, smartphone, tablet, etc.) – issues of coherence and compatibility
  - **Multiple uses and consumption** – complementary (simultaneous) or not, individual vs. family or group
  - **Generational switch?**– “Us” vs. the younger generation

## What will we call the future TV services? (1/2)

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- We are seeing a **change in the paradigm for TV services** ...
- ... the old **measuring tools are getting obsolete** ...
- ... and thus we can only have an **unreliable approximation** of the scale and timing of the impact of changes
- Despite this uncertainty, the industry needs to **plan commercial strategies, policy and regulation**

## Looking at the pillars of the European broadcasting model – what impact will connected TV have?

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- **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 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

## Looking at the pillars of the European broadcasting model – what impact will connected TV have?

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- 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 TVs and new devices** – offering and adoption
- **Lower barriers to entry** – a shift of power in the value chain

## CYCLICAL

Weaker underlying fundamentals?

- **Advertising** – downturn in advertising revenues
- **PSB** – pressure on public financing for PSB
- **Pay TV** – growing but weaker consumer spending

## REGULATION AND PUBLIC POLICY

Lighter-touch 'competition law' and new 'targets' for regulation?

- **Advertising bans on national PSB channels:** imposed in Spain (complete) and France (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 regulation rather than ex-ante
- **Pay-TV competition rules** – action on key bottlenecks (UK, France)
- **Public policy** – open debate across EC

Setting the scene

**The evolution so far**

**Linear TV**

Non-linear TV

Putting things into perspective

The policy and regulatory debate moving forward

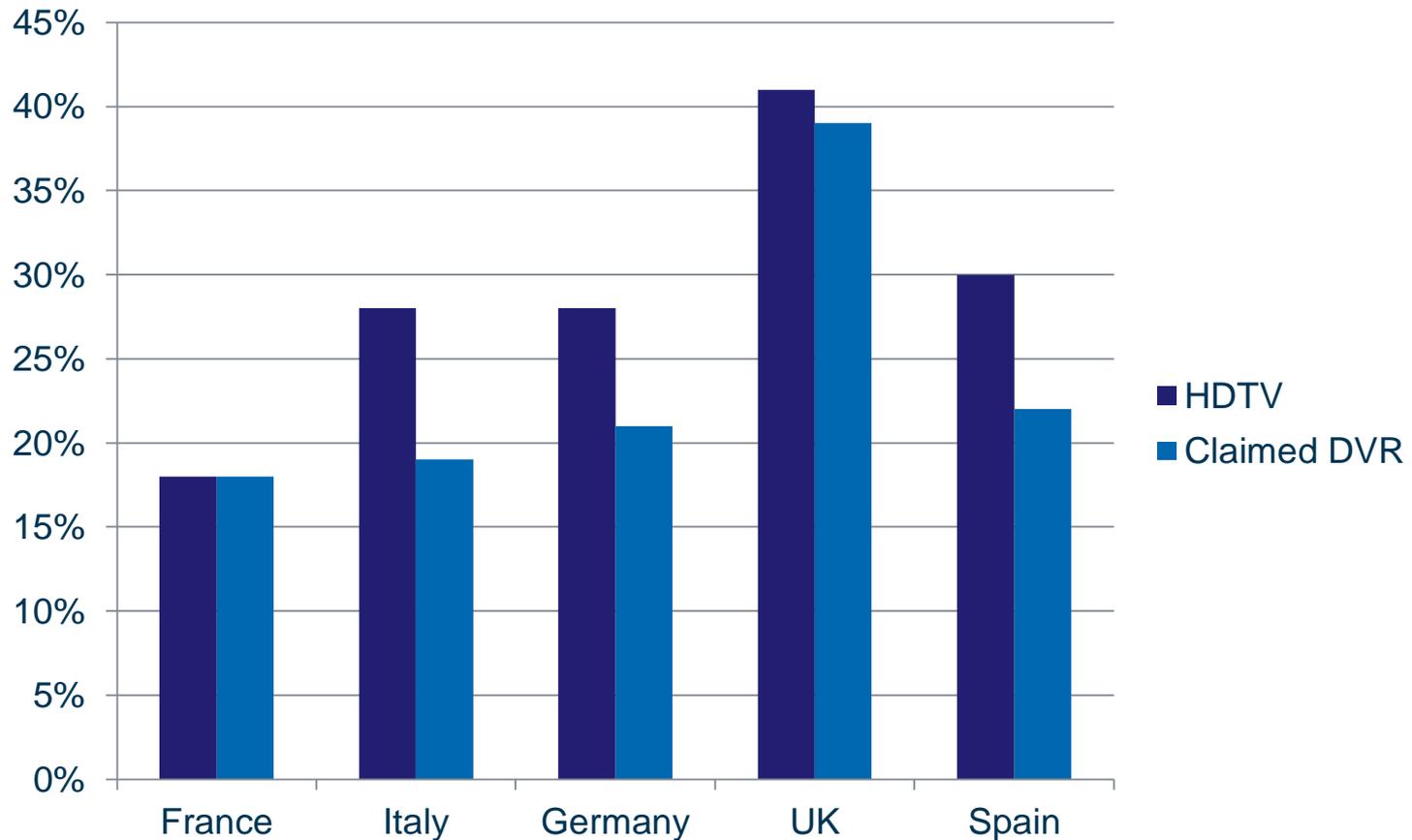
## Key trends in linear TV over the last 10 years

Element	Key trends over last 10 years
<b>Scheduling</b>	<ul style="list-style-type: none"> <li>▪ Groups of families instead of single TV channel scheduling</li> </ul>
<b>Device</b>	<ul style="list-style-type: none"> <li>▪ Evolution in complexity of STBs, DVRs and EPGs – zapper, thick box, thin box, gateways, etc.</li> </ul>
<b>Transmission</b>	<ul style="list-style-type: none"> <li>▪ <b>DTT/DSO as catalyst – multiplication of TV channels and fragmentation of audiences</b> <ul style="list-style-type: none"> <li>– all Western European countries have completed DSO, while some Central and Eastern European countries are yet to follow</li> </ul> </li> </ul>
<b>Consumption</b>	<ul style="list-style-type: none"> <li>▪ <b>Growing/sustained consumption</b> – average viewership of linear TV has been increasing in most countries and is expected to continue to increase</li> <li>▪ <b>Multi-room</b> services</li> </ul>
<b>Type of service / content</b>	<ul style="list-style-type: none"> <li>▪ <b>High quality</b> – emergence of HDTV transmission (simulcast) and 3D TV</li> <li>▪ <b>Professional</b> – sophistication in production to increase quality, participation</li> </ul>
<b>Business model</b>	<ul style="list-style-type: none"> <li>▪ <b>Evolving business model</b> – in terms of revenue, we see a different trend:           <ul style="list-style-type: none"> <li>– overall growth in TV revenues</li> <li>– PSBs are suffering most from the economic crisis</li> <li>– lower growth or decline in advertising-based broadcasters</li> <li>– medium/high growth in subscription-based TV</li> </ul> </li> </ul>



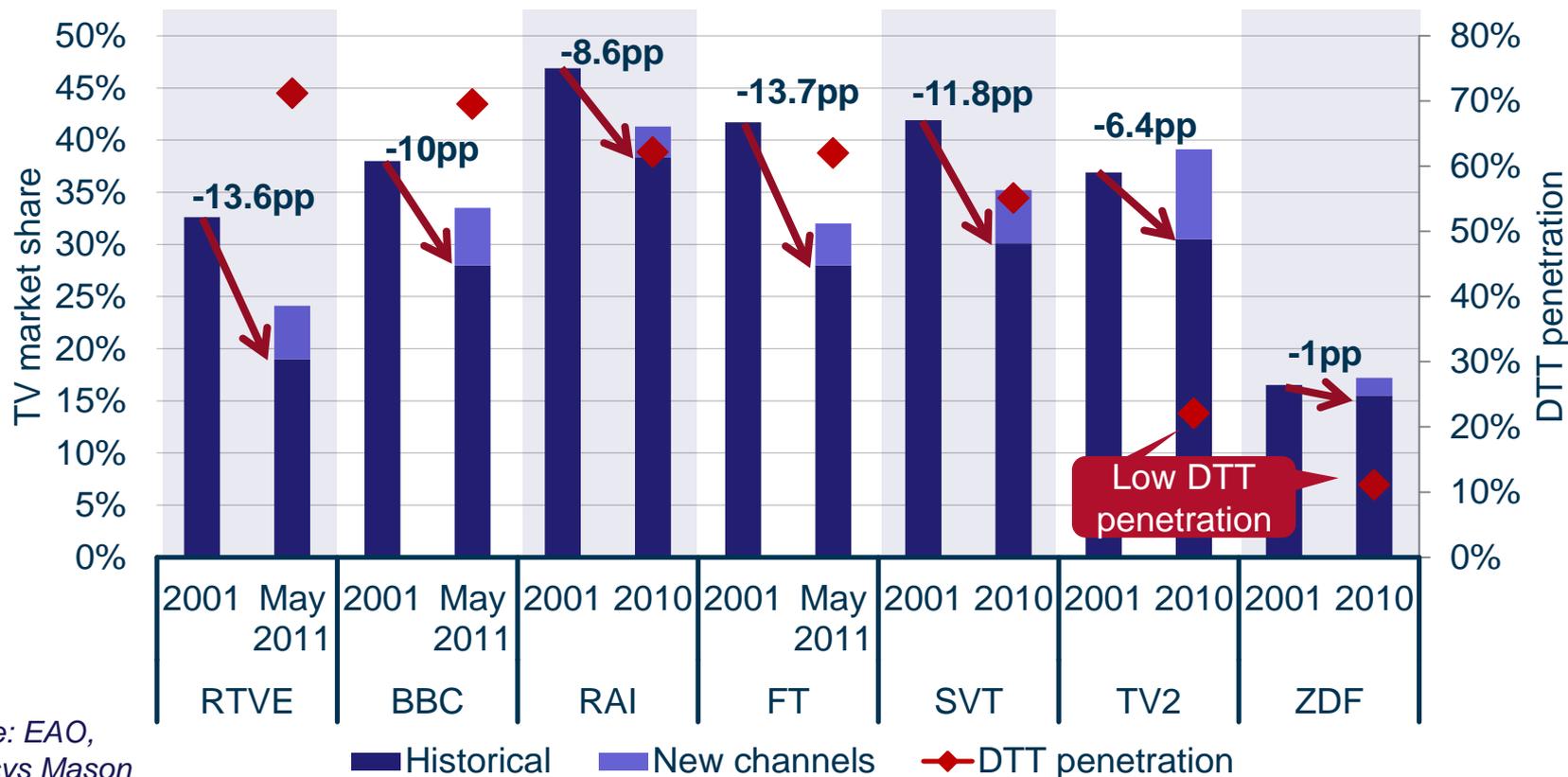
## In terms of new devices and formats, penetration of HDTV and DVRs/time shift have grown to similar levels

Take-up of HDTV and DVR in larger EU countries in 2012 (% of households)



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

Change in TV viewing share of selected PSB channels between 2001 and 2010

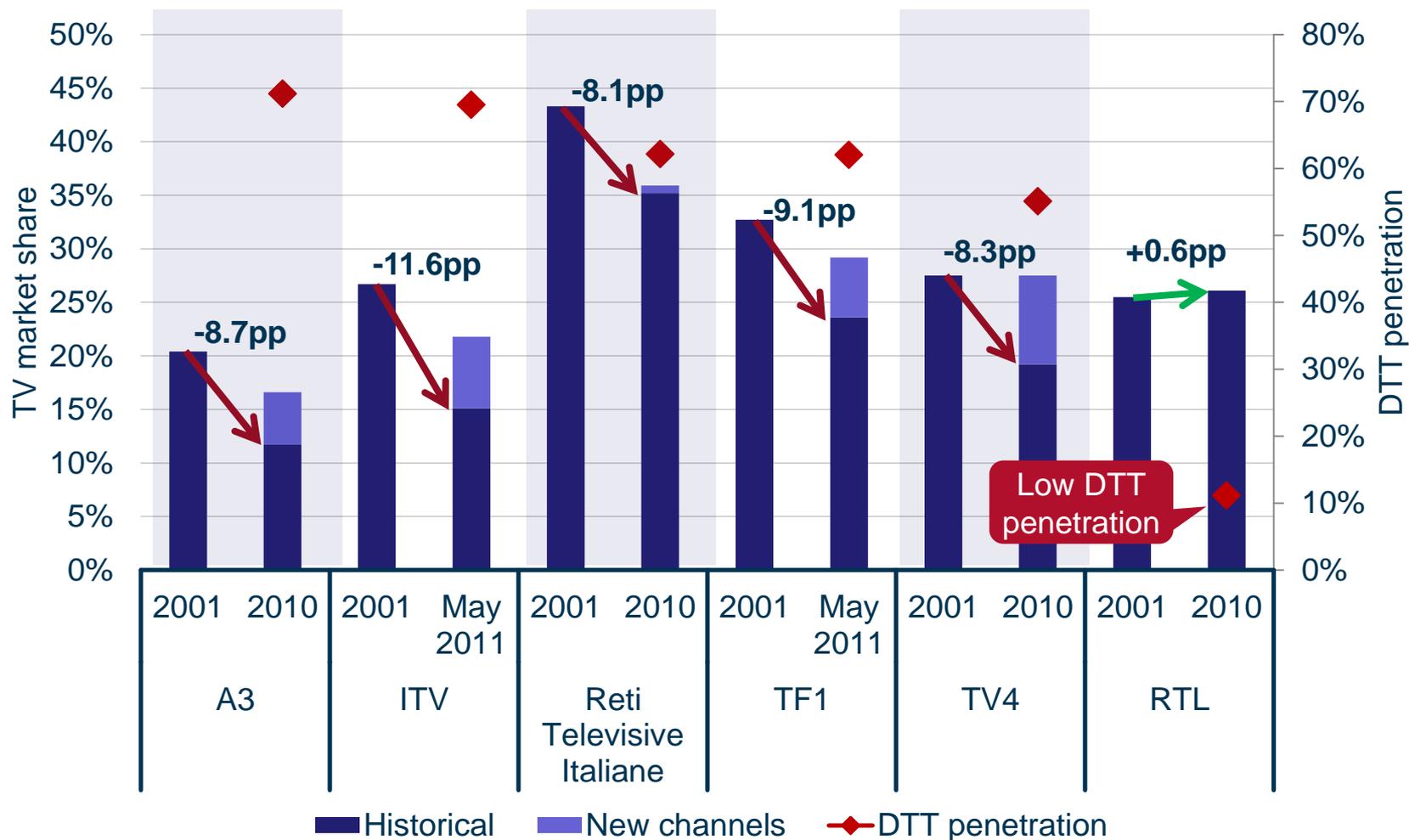


Source: EAO, Analysys Mason

In most cases DTT/DSO has cut the share of major PSB channels by 9–14 percentage points, this has only been partly compensated by new TV channels (family of channels)

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

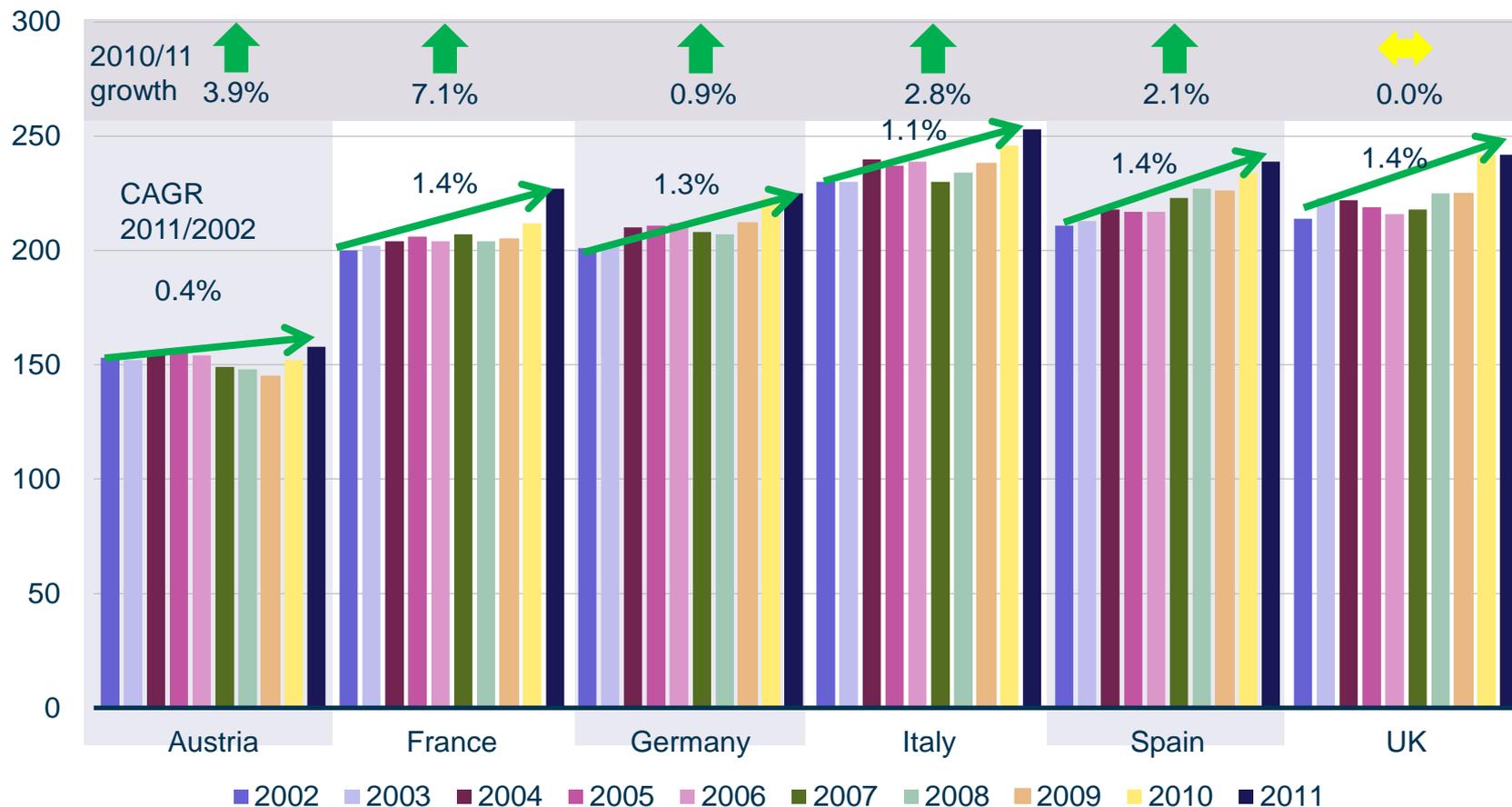
Change in TV viewing share of selected commercial channels between 2001 and 2010



Source: EAO

# Overall consumption of linear TV increased at a CAGR of 0.4%–1.4% over the last decade and remains strong

Average minutes of TV viewing per day in larger EU countries, 2002–11



Consumption of linear TV is strong in countries with the strongest growth in non-linear TV

Source: EAO, Analysis Mason

# Total TV revenues increased at a CAGR of 1.6%–3.7% over the last few years despite recent declines during the crisis

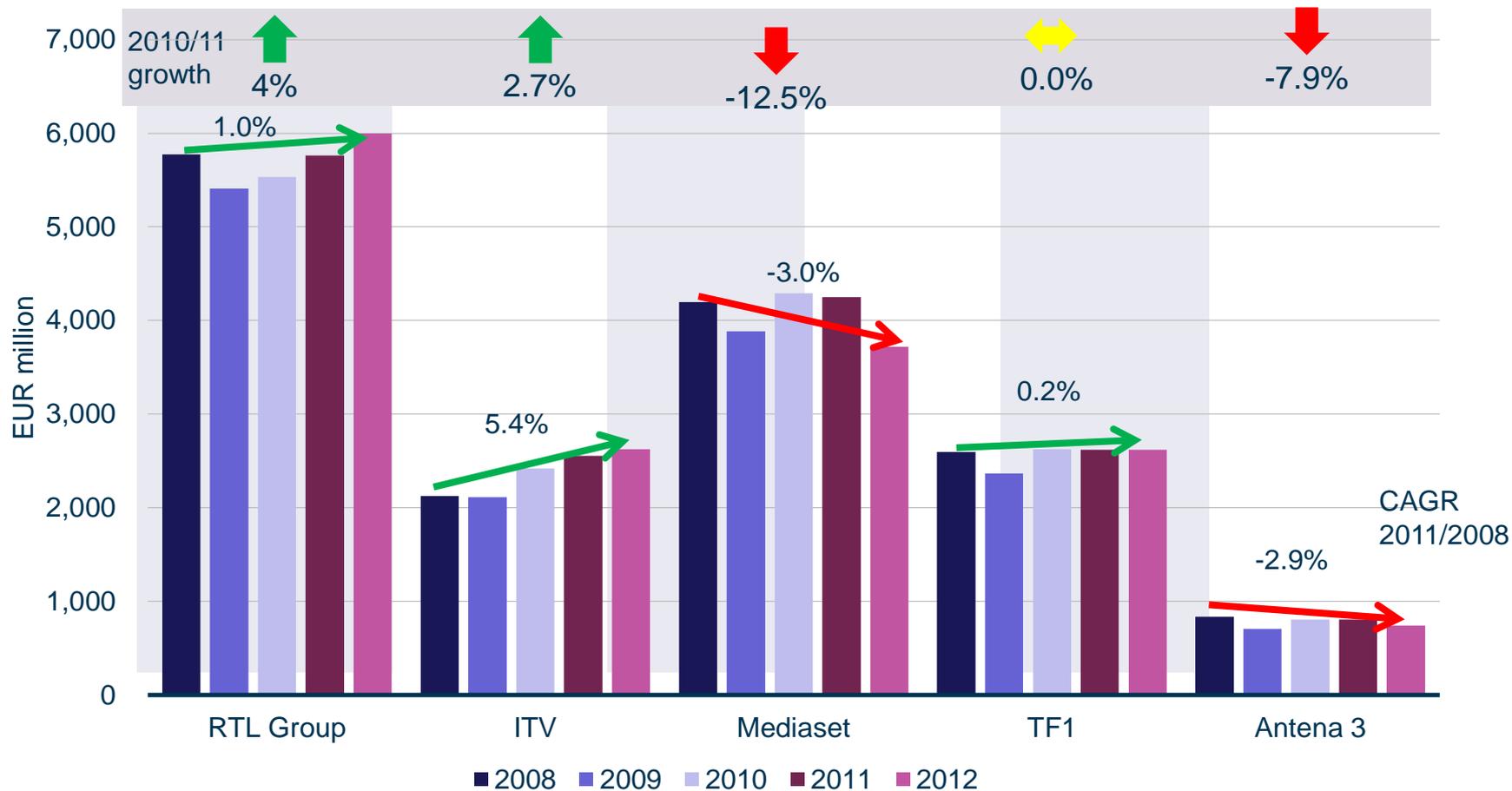
Total TV revenues in larger EU countries, 2004–11 (EUR million)



Stronger crisis

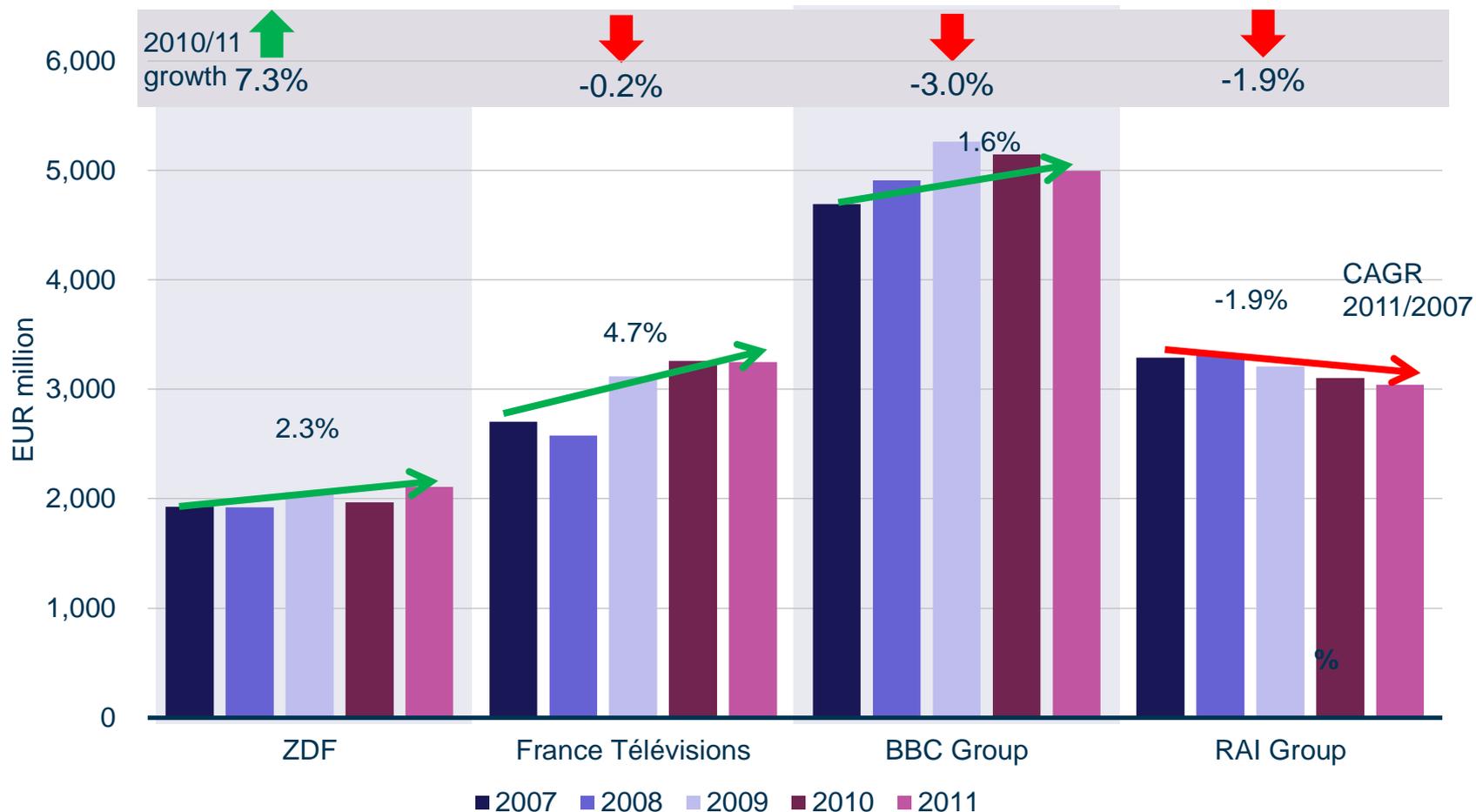
# Commercial broadcasters seem to have suffered the most from the economic crisis ...

Revenues of selected major advertising-based TV groups, 2008–12 (EUR million)



# ... though PSBs have also suffered, unless protected by licence fee and subsidies

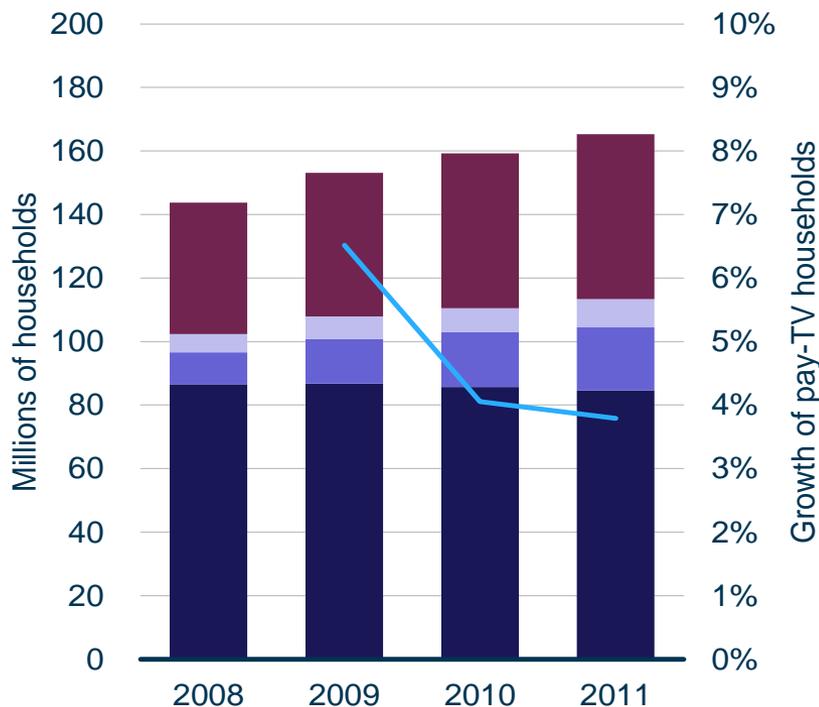
Revenues of selected PSB groups, 2007–11 (EUR million)



Source: EAO, Analysys Mason

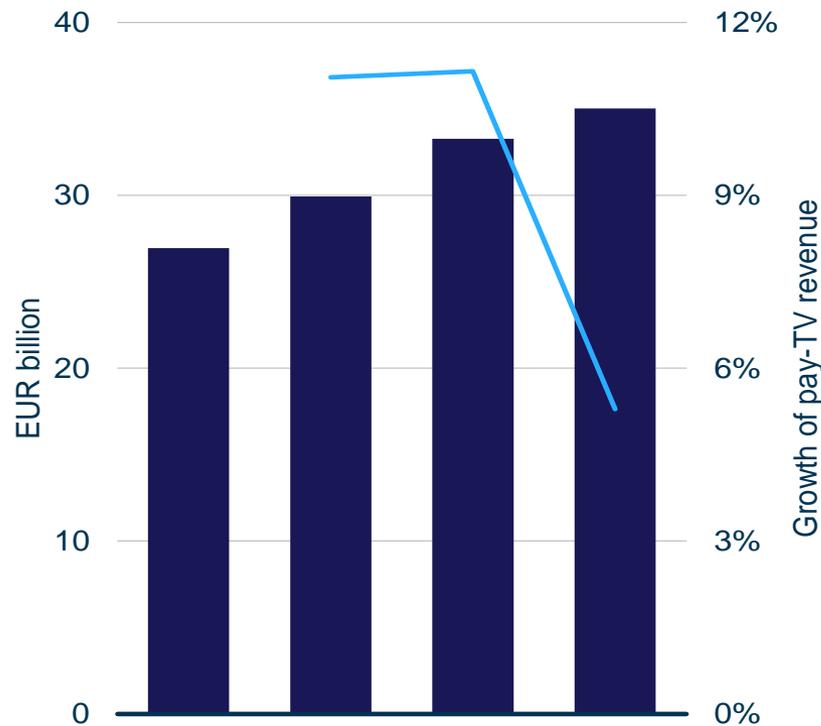
# In contrast, pay-TV players have enjoyed continued (though slower) subscriber and revenue growth ...

Pay-TV subscribers, 2008–11 (million)



■ Cable ■ IPTV ■ DTT ■ Satellite — Pay TV Growth

Pay-TV revenues, 2008–11 (EUR billion)

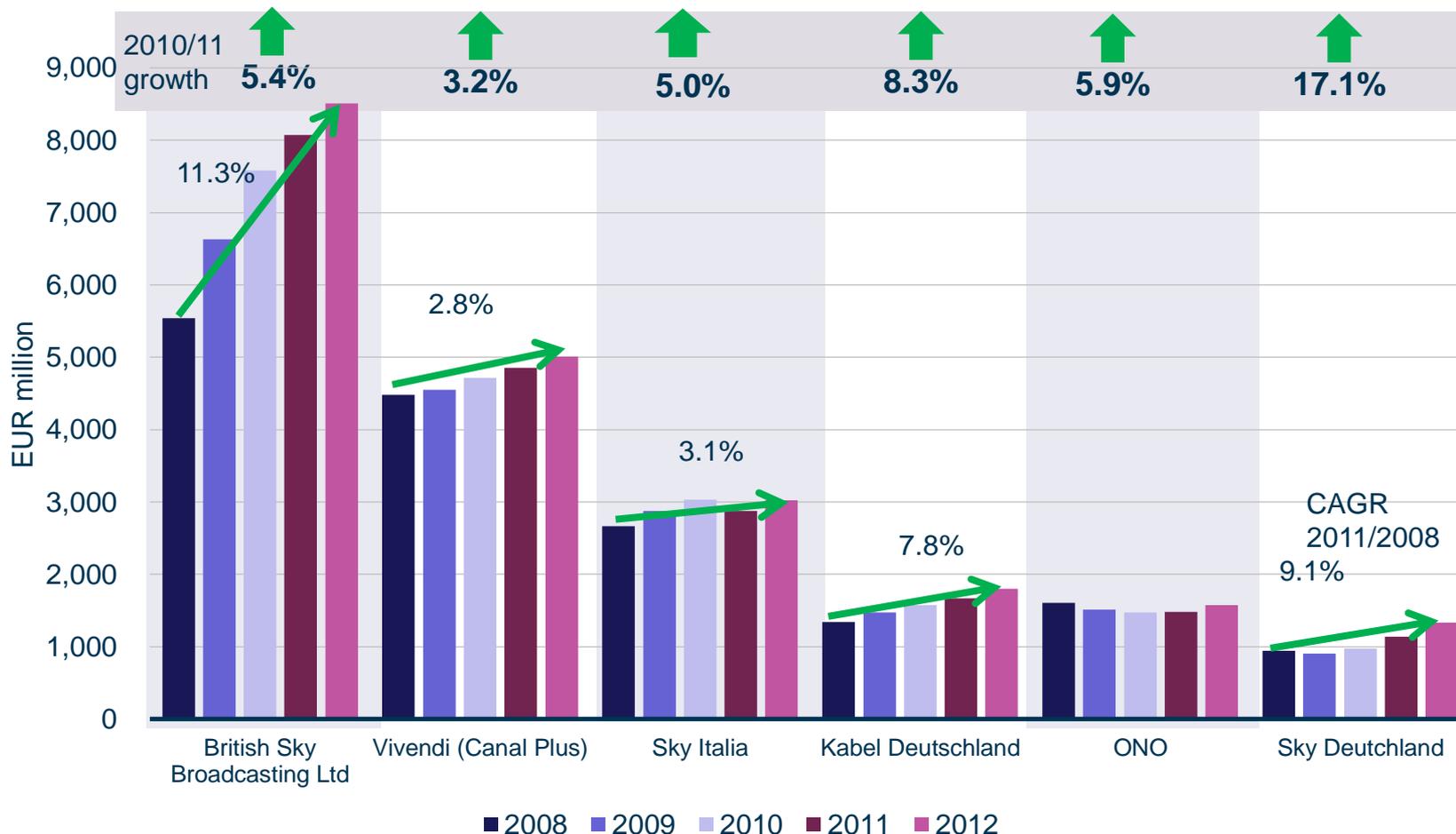


■ Revenues in EUR — Growth

Pay-TV channels and operators seem to be in a better financial position than the PSBs

# ... making them the most resilient to the crisis

Revenues of selected private pay-TV groups, 2008–12 (EUR million)



Source: EAO, Analysys Mason

Setting the scene

**The evolution so far**

Linear TV

**Non-linear TV**

Putting things into perspective

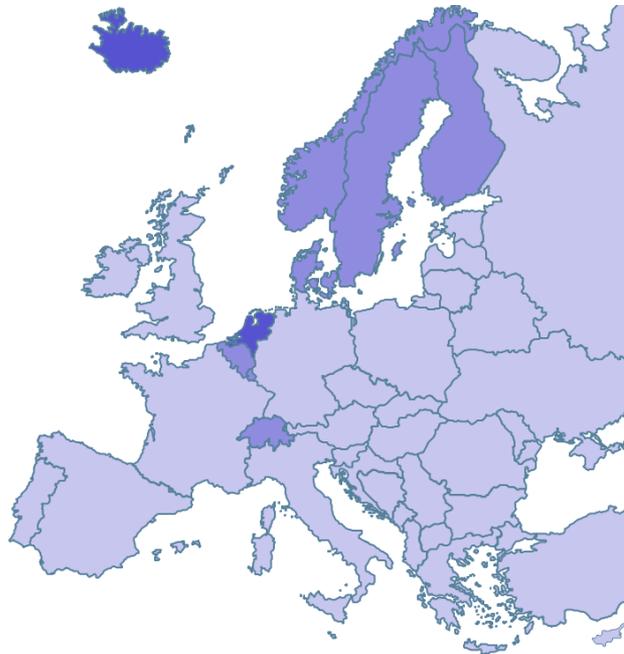
The policy and regulatory debate moving forward

## Key trends in non-linear TV over the last 10 years

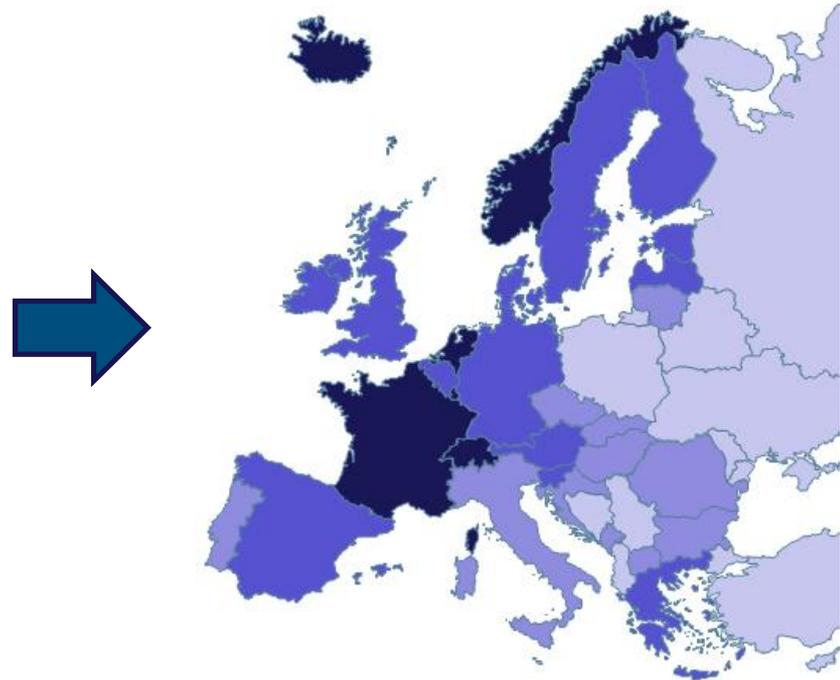
Element	Key trends over last 10 years
<b>Scheduling</b>	<ul style="list-style-type: none"> <li>▪ Catch-up services (7 days), pre- and post-live broadcasting streaming of key shows, archives</li> </ul>
<b>Device</b>	<ul style="list-style-type: none"> <li>▪ Proliferation and take-up of new devices – DVR, connected TV, smart TV, Internet over TV</li> </ul>
<b>Transmission</b>	<ul style="list-style-type: none"> <li>▪ Broadband is developing rapidly, enabling the mass-market launch of non-linear TV services               <ul style="list-style-type: none"> <li>– increasing household penetration</li> <li>– improving bandwidth (speed)</li> </ul> </li> </ul>
<b>Consumption</b>	<ul style="list-style-type: none"> <li>▪ Consumption of non-linear TV is growing exponentially               <ul style="list-style-type: none"> <li>– number of users and viewing per user are increasing</li> <li>– as a result, total non-linear TV viewership is rising</li> </ul> </li> </ul>
<b>Type of service / content</b>	<ul style="list-style-type: none"> <li>▪ Multiple standards</li> <li>▪ Multi-screen services</li> <li>▪ Wi-Fi to support smartphones/tablets in portable/nomadic usage</li> </ul>
<b>Business model</b>	<ul style="list-style-type: none"> <li>▪ Revenues from professional pay-TV and free online TV services are growing exponentially, but monetisation is still lagging behind               <ul style="list-style-type: none"> <li>– issues with standards for measuring usage and “ advertising currency”</li> </ul> </li> </ul>

# Broadband penetration rose rapidly in Europe between 2005 and 2012 ...

Broadband penetration, December 2005



Broadband penetration, December 2012



Light purple: HH broadband penetration below 40%

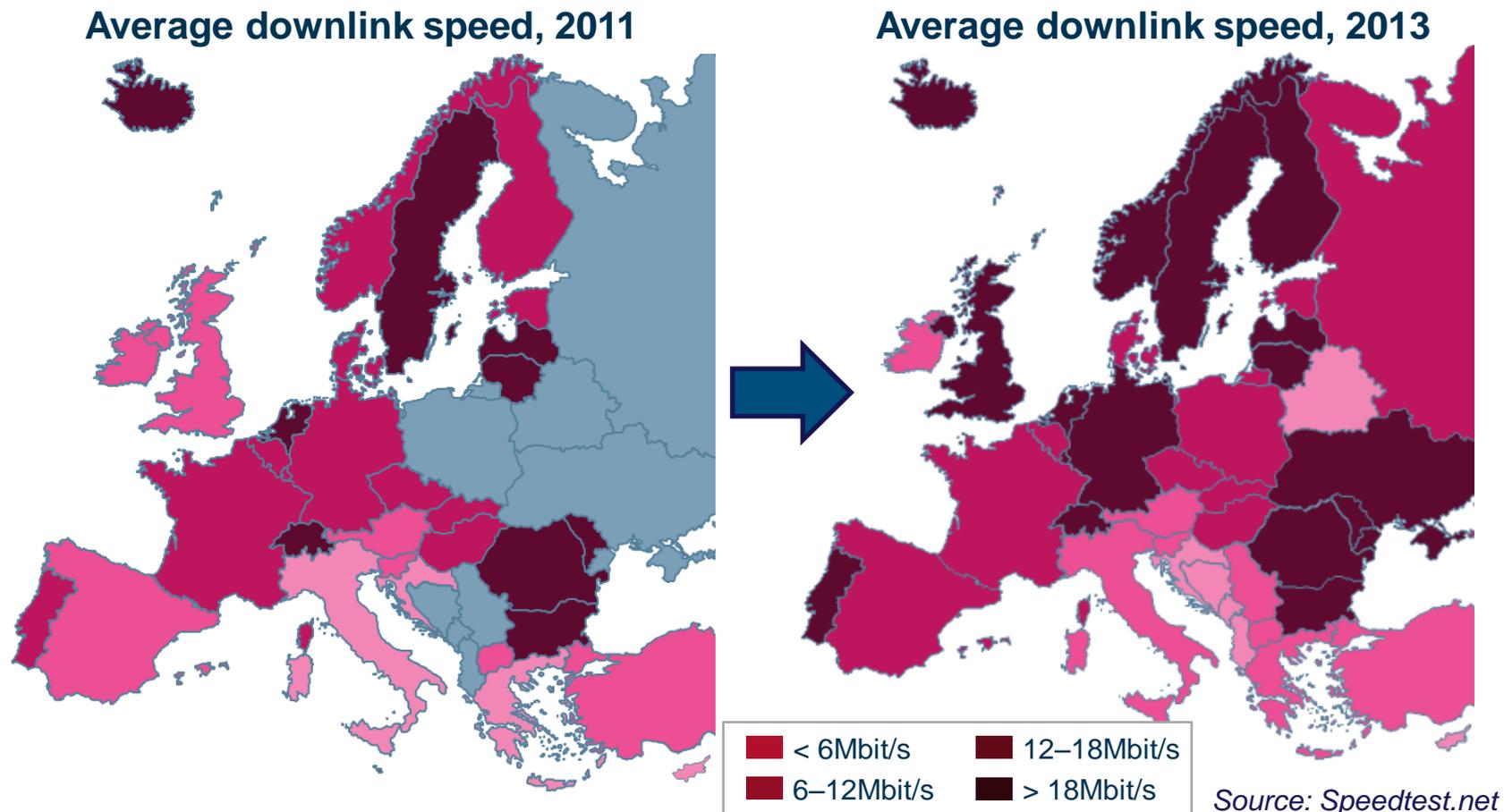
Medium purple: HH broadband penetration between 40% and 60%

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

Black: HH broadband penetration above 80%

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

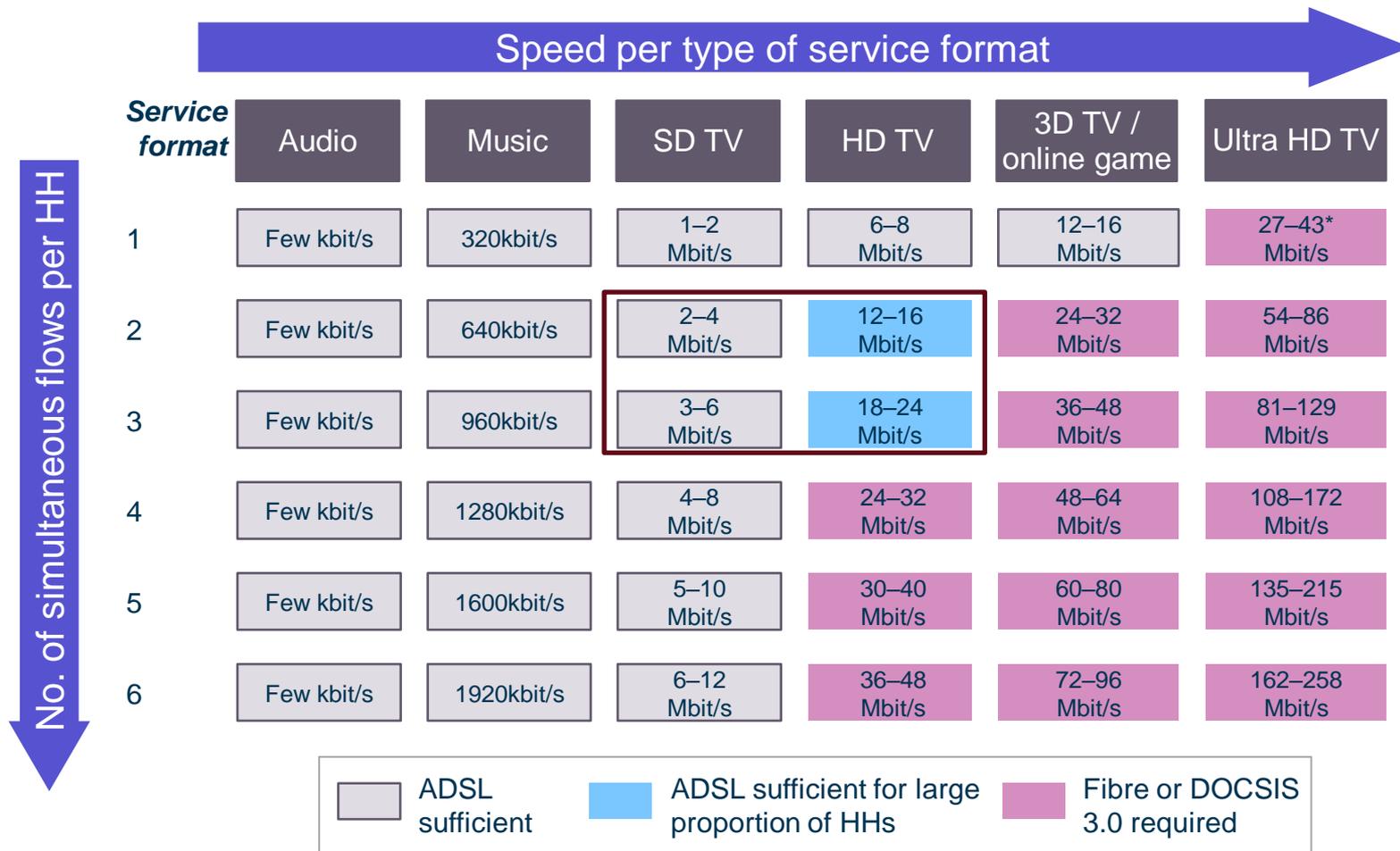
... but mass-market connected TV will require further improvement in the average speeds achieved



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

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

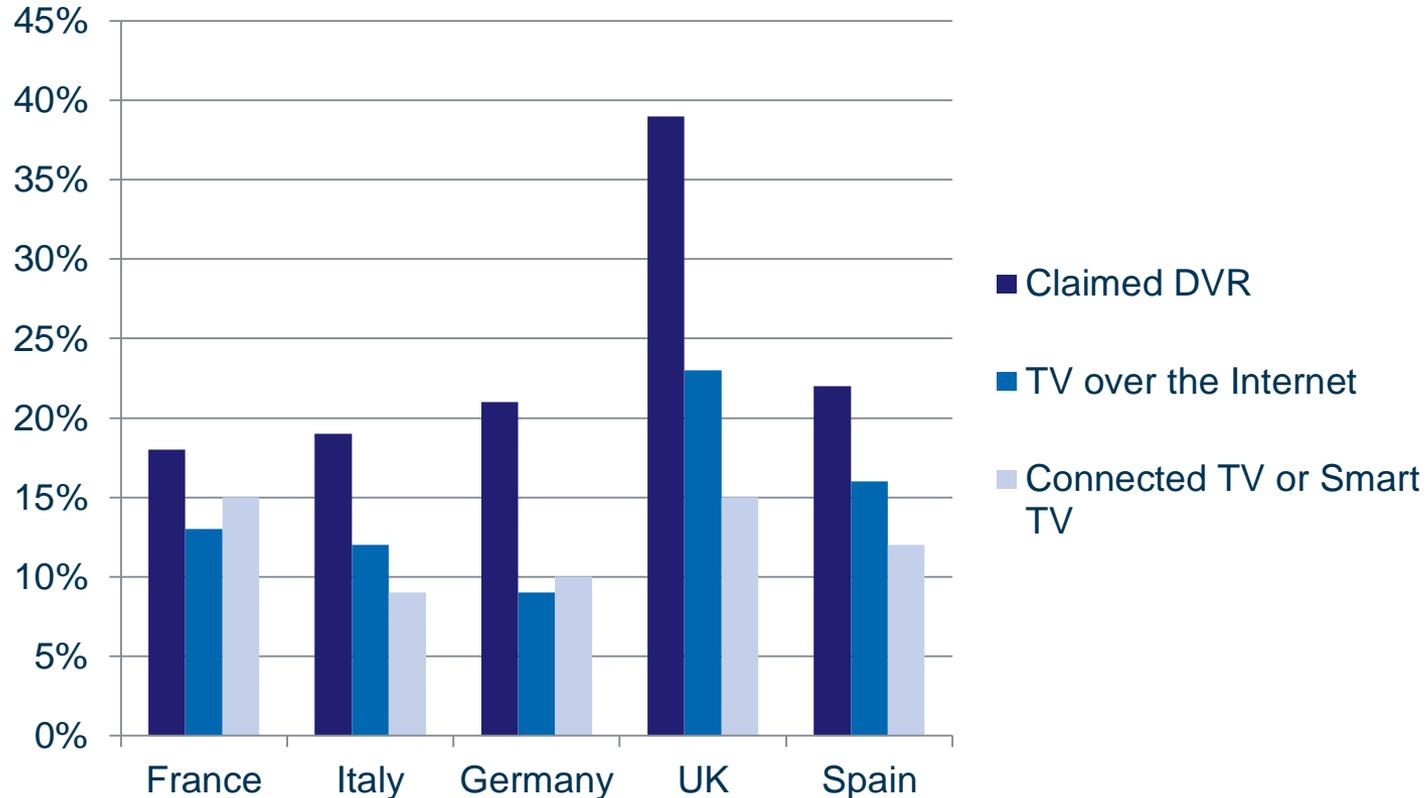
Required connection speeds, based on multi-usage and quality of service (figures are illustrative)



\* Speed required for 4K (UHDTV1) at 60 fps. For 30 fps, 14–22 Mbit/s is sufficient

## New devices have proliferated and are being taken up – e.g. DVRs, connected TVs, smart TVs, Internet over TV

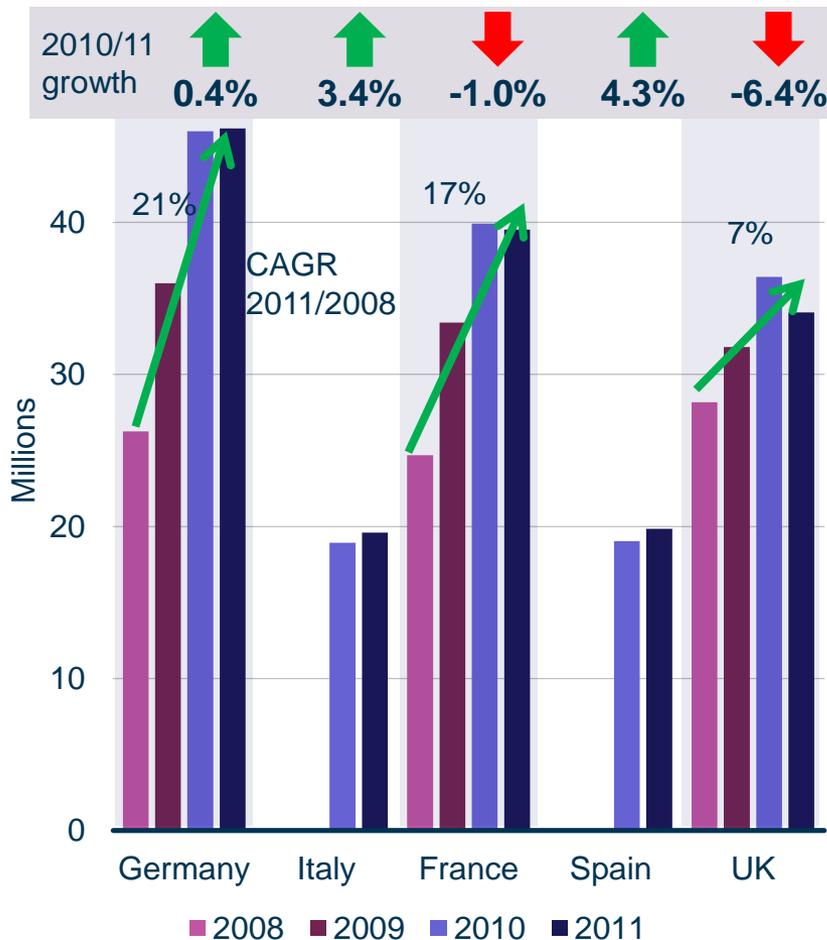
Take-up of new connected devices in larger EU countries, 2012 (% of households)



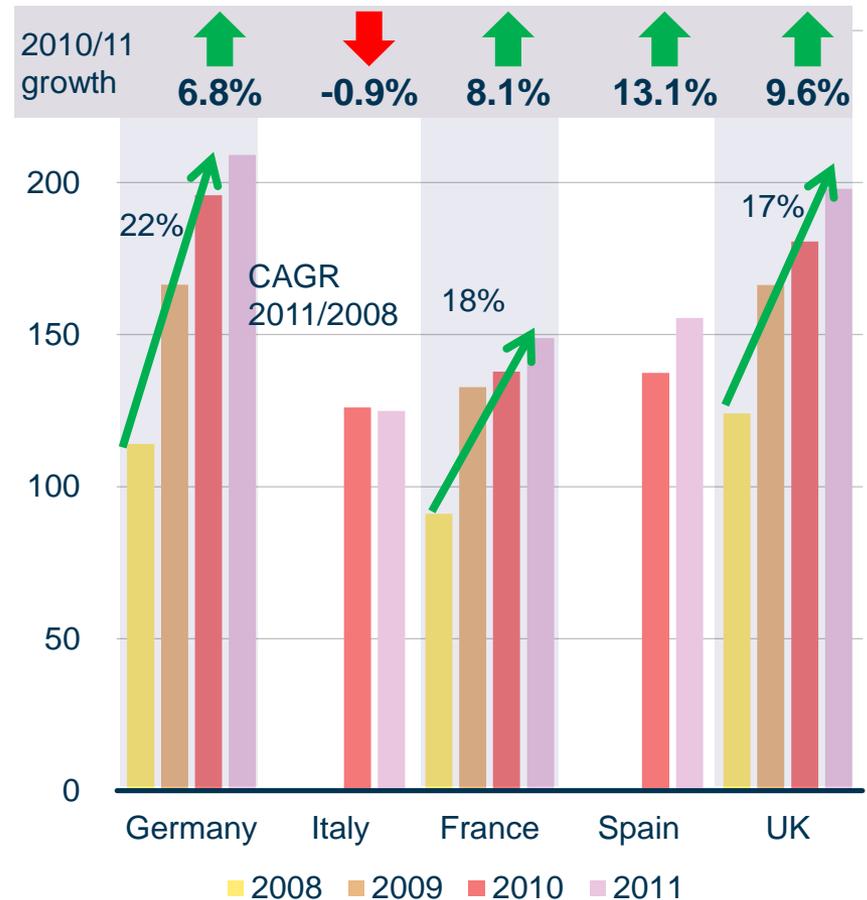
These devices enable both “timeshifting” of traditional TV broadcasts (DVRs) and new models with delivery over the Internet

# The number of online viewers, and the amount of videos they watch, have increased over the years ...

Number of unique online TV viewers, 2008–11 (million)



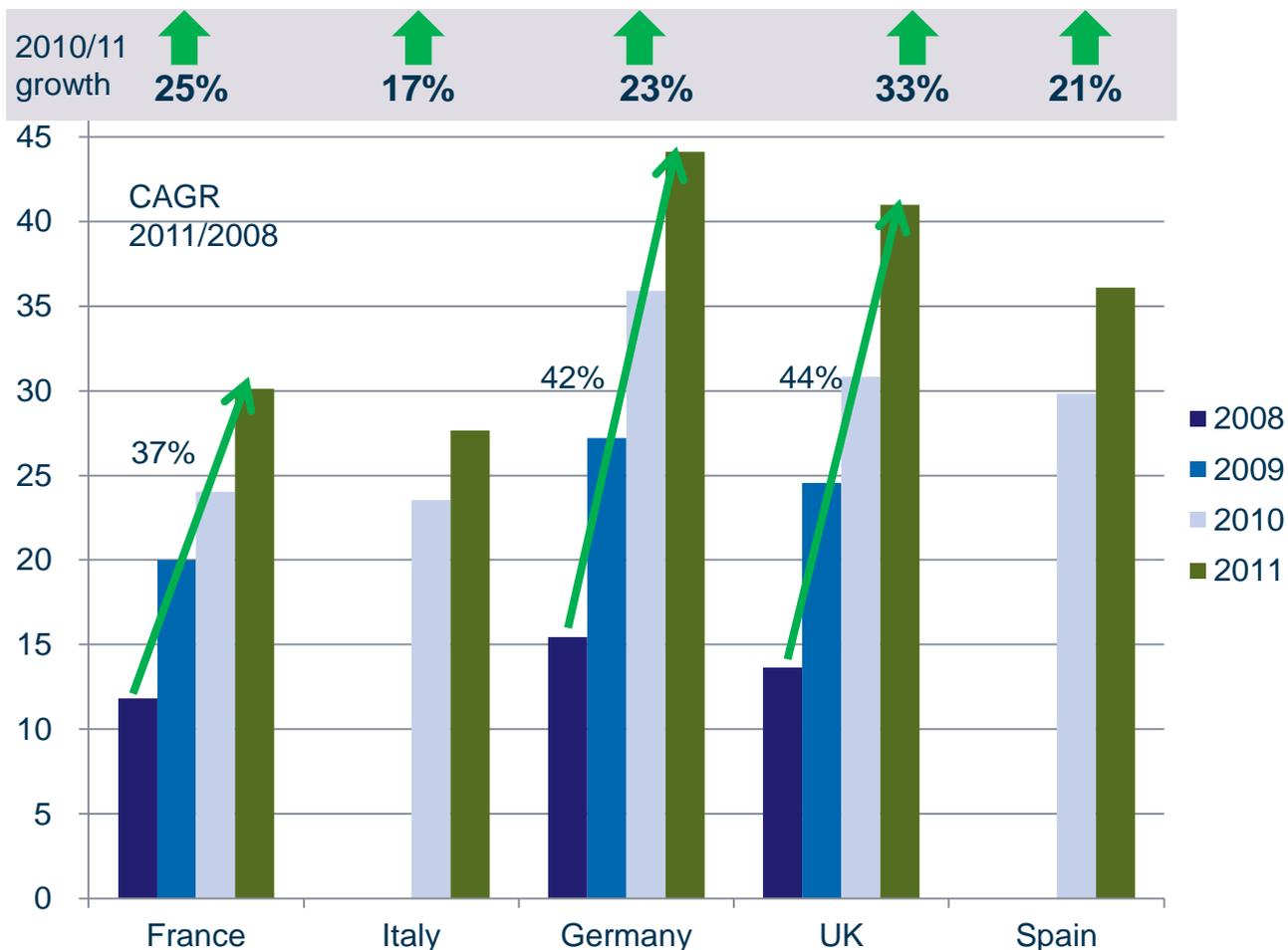
Average number of online videos watched per viewer per month, 2008–11



Source: EAO, Analysys Mason

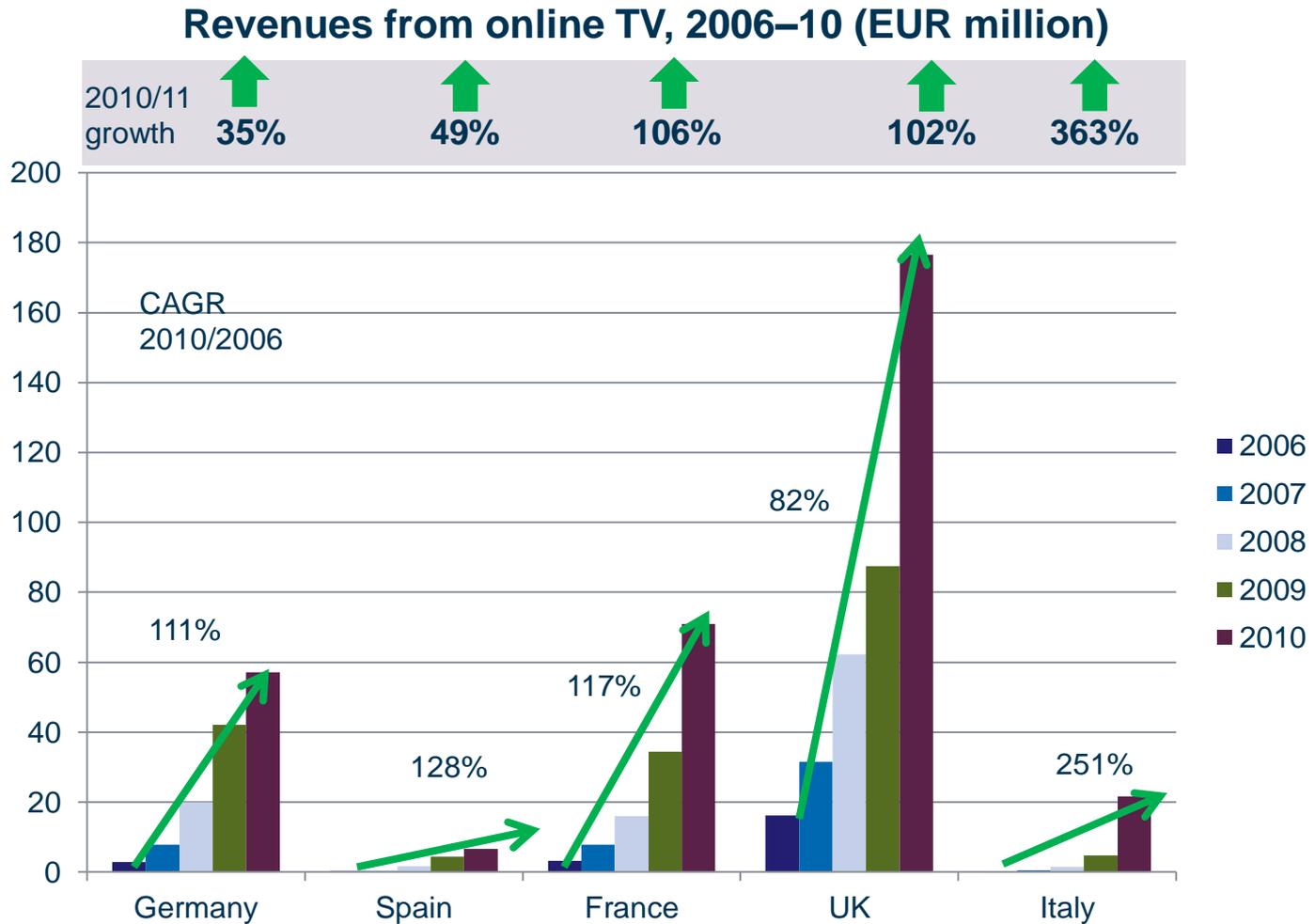
... resulting in substantial increases in minutes of consumption per day ...

Minutes of online TV consumed per head per day, 2006–10



Source: Screen Digest, EAO, Analysys Mason

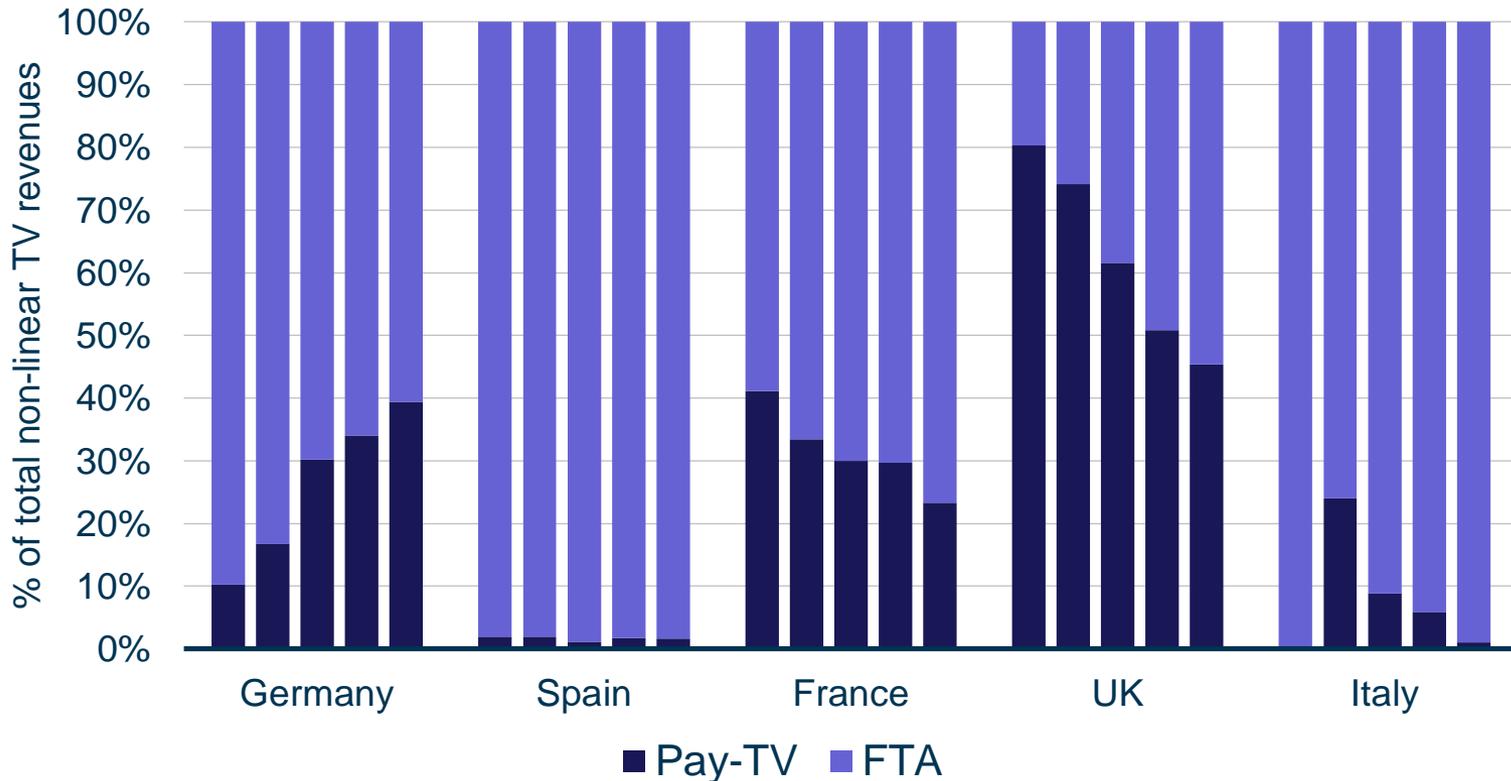
# ... and even greater increases in revenues from non-linear TV



Source: Screen Digest, EAO, Analysys Mason

# In response, business models have evolved – with variations between countries

Proportion of revenues from non-linear TV realised by pay-TV and FTA business models, 2006–10



Setting the scene

**The evolution so far**

Linear TV

Non-linear TV

**Putting things into perspective**

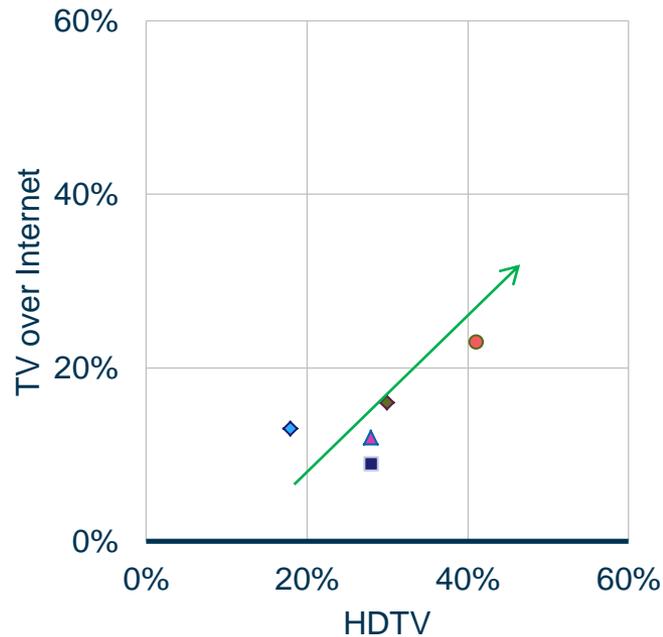
The policy and regulatory debate moving forward

## Summary of relative impact and degree of complementarity of linear and non-linear TV ... at least so far

Element	Key trends over last 10 years
<b>Scheduling / type of service</b>	<ul style="list-style-type: none"> <li>▪ Complementarity of non-linear and linear TV for popular TV series and programmes – potentially having a significant impact</li> <li>▪ Importance of new players offering Internet-based non-linear TV</li> </ul>
<b>Device / service</b>	<ul style="list-style-type: none"> <li>▪ Simultaneous growth of HDTV and non-linear TV</li> <li>▪ Simultaneous growth of traditional and non-traditional non-linear TV</li> </ul>
<b>Transmission</b>	<ul style="list-style-type: none"> <li>▪ Simultaneous growth of traditional transmission TV services (DTT, cable, satellite, IPTV) and broadband/Internet-based networks</li> </ul>
<b>Consumption</b>	<ul style="list-style-type: none"> <li>▪ High growth in non-linear TV viewership needs to be put in line with the current evolution of the overall TV market</li> </ul>
<b>Business model</b>	<ul style="list-style-type: none"> <li>▪ Although growing fast, non-linear TV revenues still make up a very small part of the whole TV market</li> <li>▪ We expect non-linear TV to continue to grow – but it could grow:               <ul style="list-style-type: none"> <li>– along with linear TV, i.e. as a complement</li> <li>– at the expense of linear TV, i.e. as a substitute</li> </ul> </li> </ul>

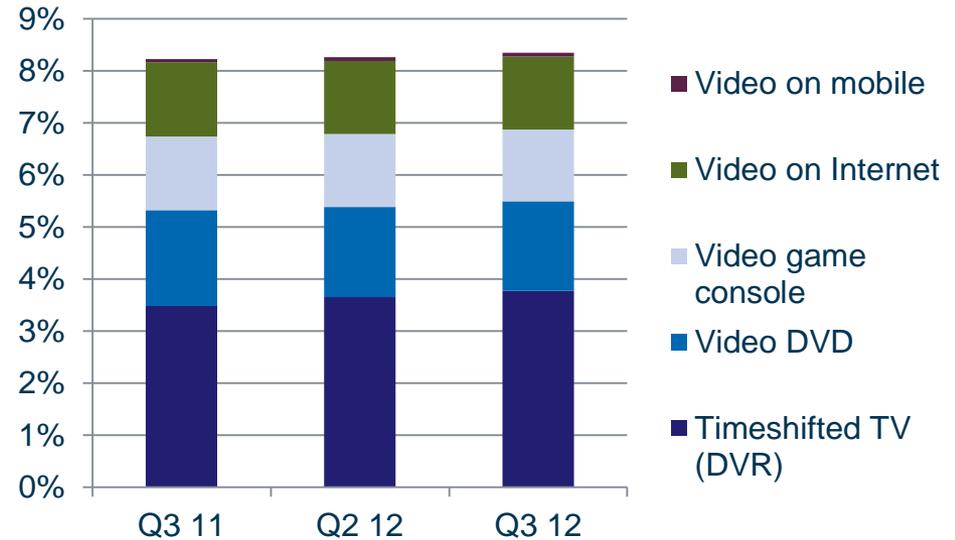
# HDTV and Internet TV are developing along similar paths, but as yet Internet TV is only a small proportion of non-linear TV

Take-up of HDTV vs. non-linear TV in larger EU countries



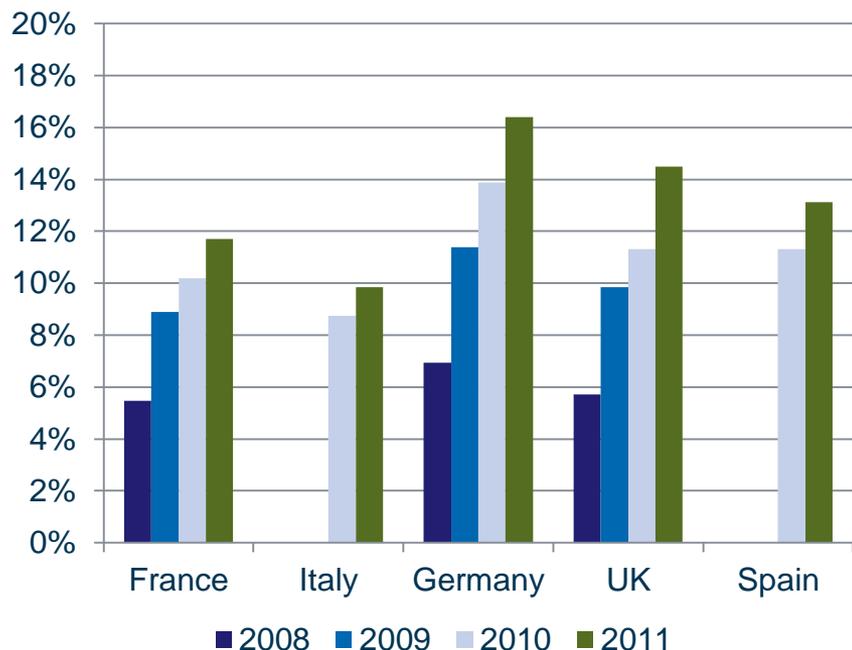
◆ France ▲ Italy ■ Germany ● UK ◆ Spain

Non-linear TV as % of total TV viewing by category in the USA, 2011–12

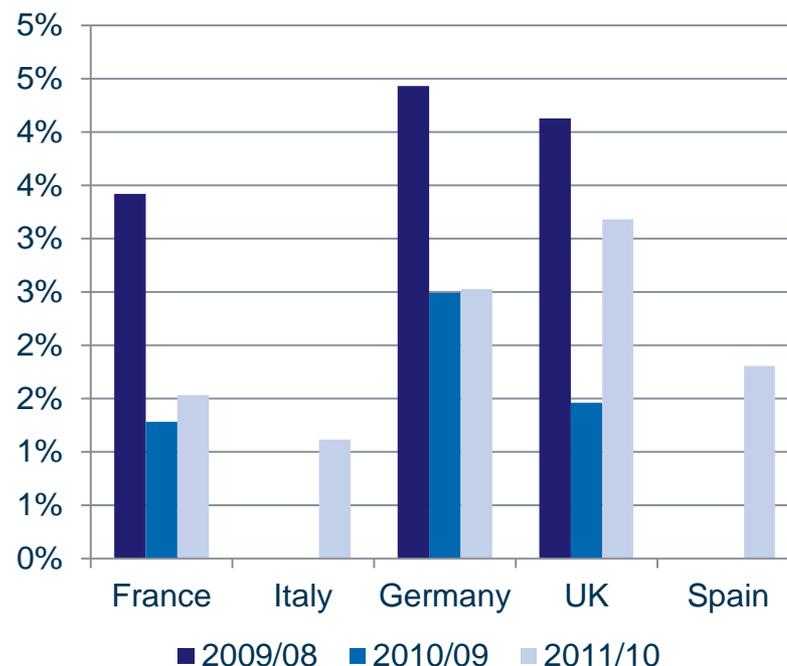


# Despite the rapid adoption of connected TV, this seems to have had only a limited impact on overall consumption

**Non-linear TV as % of daily TV consumption, 2008–11**



**Incremental YOY % of total consumption going to non-linear TV, 2008–11**



# For popular series and programmes, the complementarity of non-linear and linear TV can be significant

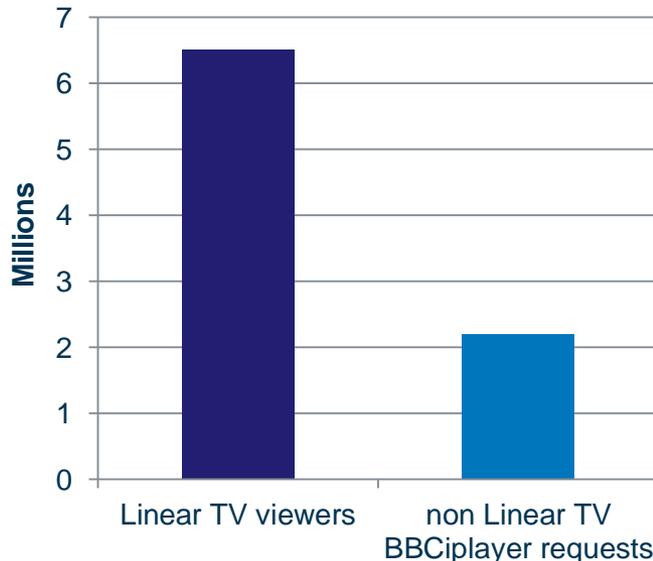
## Example 1: “Africa” in the UK

- Leading TV series from the BBC with average 20% share in the UK
- Non-linear viewing could represent 25% of total viewing

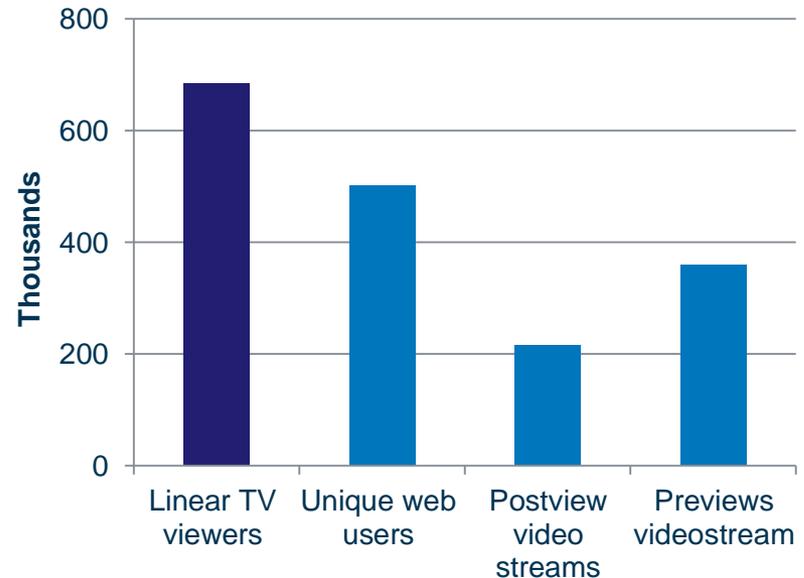
## Example 2: “Polseres Vermelles” in Catalonia

- Leading TV programme from TV3 with average 20% share in Catalonia
- Young target audience
- Format is being exported to other countries incl. USA
- Non-linear viewing could be 34% of total viewing

Metrics for linear vs non-linear viewing of “Africa”

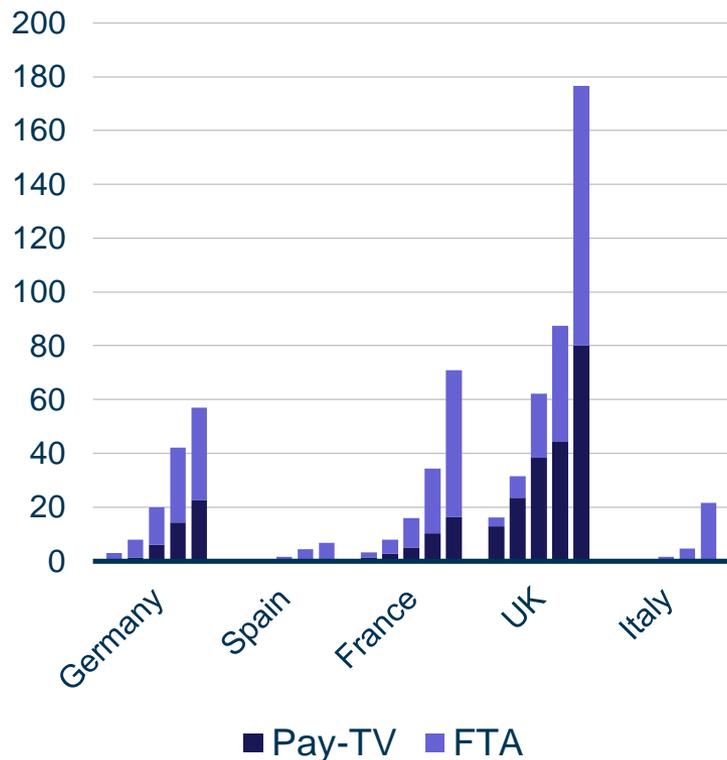


Metrics for linear vs non-linear viewing of “Polseres Vermelles”

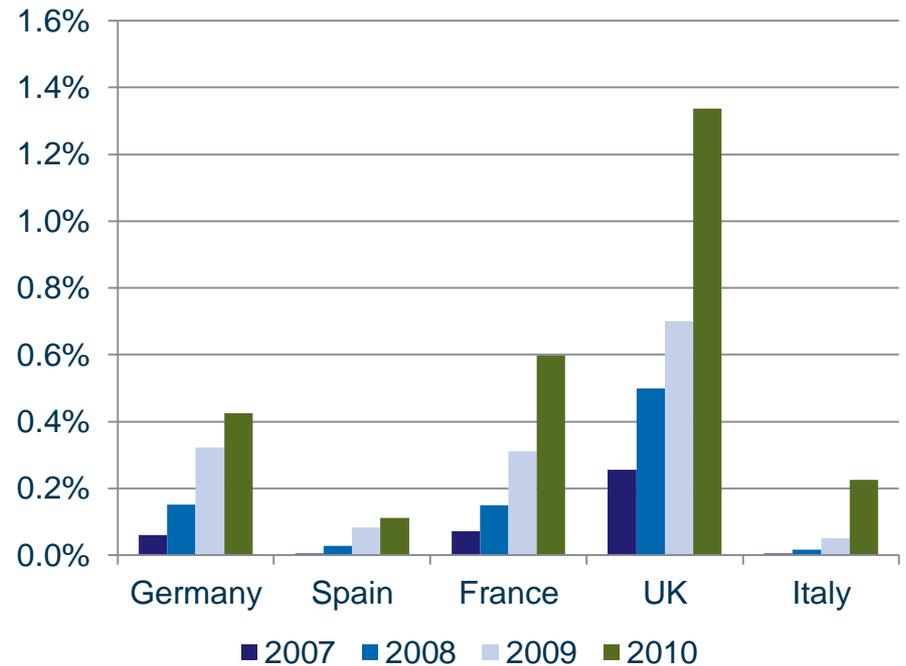


# Although revenue from online TV is increasing exponentially, it still represents less than 2% of total TV revenues

Total non-linear revenues by source in larger EU countries, 2008–11 (EUR million)



Non-linear revenues as % of total TV revenues in larger EU countries, 2008–11

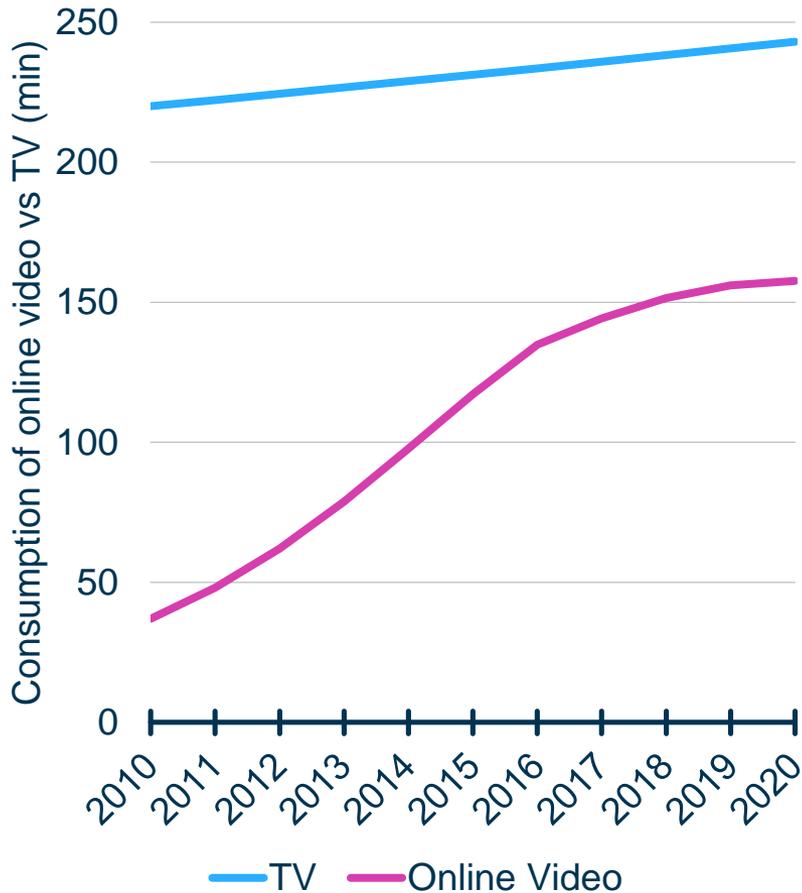


Free models seems to be gaining momentum in most countries, but pay-TV models are also growing in relative terms in Germany

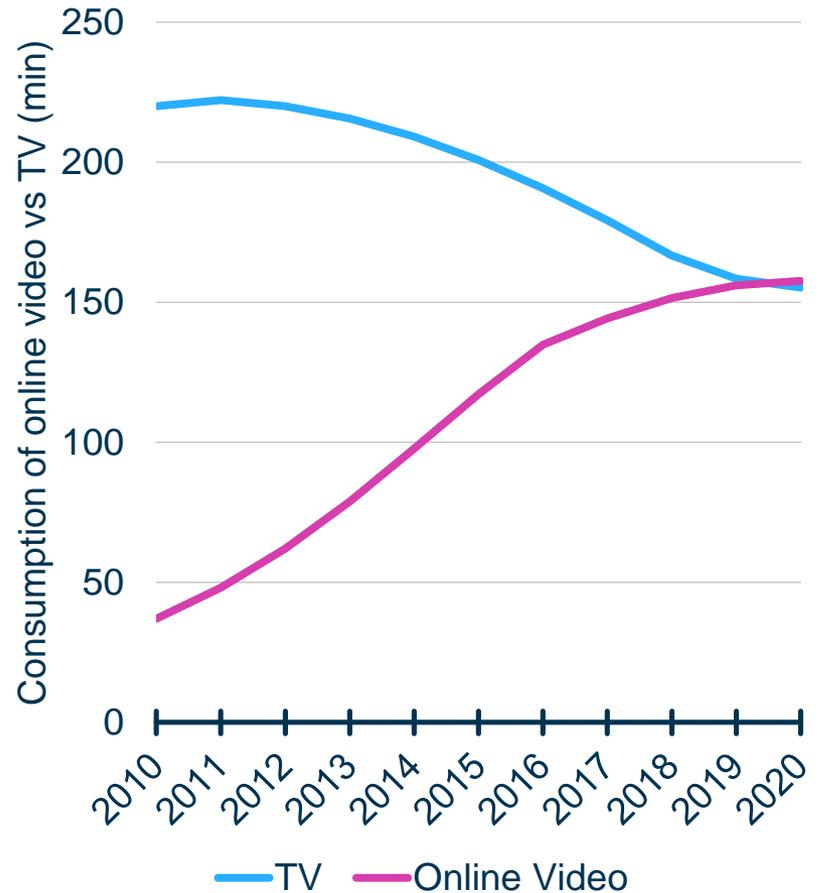
# Future TV consumption – will connected TV be a complement for linear TV, or a substitute?

Figures illustrative – for discussion only

**Connected TV as a complement – traditional TV follows historical trend**



**Connected TV as a substitute – erosion or decline in traditional TV**



## In terms of revenues, will non-linear TV develop into a mainstream TV model comparable to FTA or pay-TV?

Figures illustrative – for discussion only

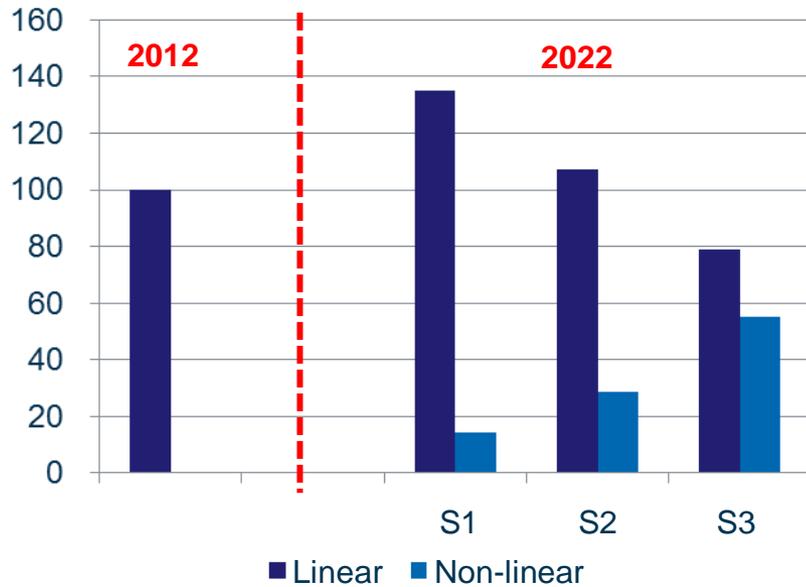
Scenarios for growth of TV revenues in Europe (period to 2020)

Scenario	Non-linear TV	Linear TV (FTA)	Linear TV (Pay TV)
Scenario 1 – Evolutionary	Lower growth (CAGR 40%)	Evolutionary trend (CAGR 2%)	Evolutionary trend (CAGR 5%)
Scenario 2 – At the expense of FTA	Medium growth (CAGR 50%)	No growth (CAGR 0%)	Slower growth (CAGR 2%)
Scenario 3 – At the expense of pay TV	Higher growth (CAGR 60%)	Long-term substitution and decline (CAGR -3%)	Long-term substitution and decline – “cord cutting” (CAGR -1%)

# We expect the revenues from online TV to grow at different rates – all at the expense of traditional TV

Figures illustrative – for discussion only

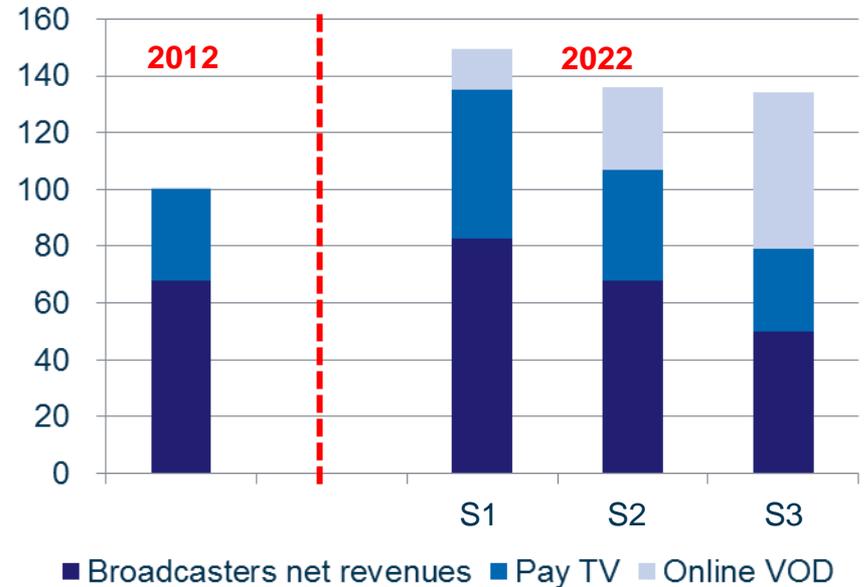
Scenarios for TV revenues, linear vs non-linear, 2012–22 (EUR billion)



Non-linear as % of total TV

Scenario	Non-linear as % of total TV
S1	10%
S2	21%
S3	41%

Scenarios for TV revenues by source, 2012–22 (EUR billion)



TV revenue growth (10 years)

Scenario	TV revenue growth (10 years)
S1	49%
S2	35%
S3	33%

Setting the scene

The evolution so far

**The policy and regulatory debate moving forward**

## Several countries have formally kicked off the debate around connected TV and future regulation of broadcast

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- The specificities of broadcast media will need to be reassessed to reflect the new environment and to safeguard growth, innovation and competition
- Consultations will be launched to properly assess the potential need to adapt and/or consolidate discrete policy and regulatory frameworks
  - **EC** is producing a **green paper** on connected TV this spring
  - **UK** will publish a **white paper**
  - **France** has set up a **commission** to study the connected TV market
  - **Germany's** regulatory bodies have published an **opinion paper** outlining their priorities in future regulation of connected TV
  - Other countries, such as the **Netherlands**, are also starting the debate

# Key elements and issues likely to be at the core of the debates

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TV advertising

Access and prominence

IP rights / Premium rights

Terrestrial spectrum

Reference markets

Net neutrality

European works

Protection of minors

Each leading country within the EU assigns a different level of importance to each of these issues and the potential need and timing for convergence.

# Key elements and issues likely to be at the core of the debates

Element	Key issue	Policy and regulatory reference
TV advertising	Asymmetries in TV advertising regulations	AVMS directives
Access and prominence	Must-carry, linear and non-linear TV services' access to platforms and due prominence in EPG, searches, apps, etc.	Universal access directive Access directive
IP rights / Premium rights	Evolution of retransmission rights, territoriality, broadcast and VOD windows, events of major importance and premium rights and distribution exclusivities	Cable and satellite directive AVMS directive Competition cases
Spectrum	Spectrum and, eventually, administrative incentive pricing (AIP)	Framework directive, national frequency plans and policies, EC spectrum inventory work and associated decisions
Reference markets	Changing definition of TV reference markets	Market reviews, ex-post regulation
Net neutrality	Non-discrimination regarding third-party content	Framework directive
EU works	Level of support for EU audiovisual production and model	AVMS directive
Protection of minors	Protection of minors	AVMS directive

# Access and prominence issues have already gained momentum in the UK

Significance in trad. pay-TV market	Significance in non-linear TV market	Commercial relevance	Possible regulatory tools
<b>Access and carriage</b>			
<ul style="list-style-type: none"> <li>TV channels are included in operators' EPGs</li> </ul>	<ul style="list-style-type: none"> <li>It might vary and evolve rapidly.</li> <li>Will content providers' apps be available in pay-TV platforms?</li> <li>Will content providers be included in search engine results?</li> </ul>	<ul style="list-style-type: none"> <li>Must-have content may determine a platform's viability</li> <li>Inclusion in key platforms may be crucial for ensuring high viewing figures.</li> </ul>	<ul style="list-style-type: none"> <li>Open access rules to all?</li> <li>Review and/or extension of 'must-carry' rules?</li> <li>Review and/or extension of 'must-offer' rules?</li> </ul>
<b>Prominence</b>			
<ul style="list-style-type: none"> <li>TV channels are given prominent numbering</li> </ul>	<ul style="list-style-type: none"> <li>It might vary and evolve rapidly</li> <li>Are apps being pre-installed or displayed on the 'start screen'?</li> <li>Order in results from search engines?</li> </ul>	<ul style="list-style-type: none"> <li>High prominence may be crucial for ensuring high viewing numbers – and revenue.</li> <li>This will have implications for investments in content production (e.g. European works)</li> </ul>	<ul style="list-style-type: none"> <li>Review and/or extension of 'appropriate prominence' rules?</li> </ul>

## Concluding remarks

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- Complexity and uncertainty in short, medium and long term
  - tactical approach for short term
  - strategic planning for medium to long term
- Established and new players have different perspectives
  - a land of opportunity for new players
  - limited ‘losses’ for established players, but a threat in medium and long term – prepare tactically!
- You are not observer but **KEY PLAYERS**
- Your actions can change current forecasts!

## Contact details

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