



Delivering TV:

Expanding choices in a digital era



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Delivering TV: Expanding choices in a digital era

The United Kingdom has the highest digital television penetration of any country in the world, with more than 85% of households watching television via digital satellite, terrestrial or cable networks. And while the number of people with digital television rises steadily as part of the digital switchover, many are also choosing to access content via broadband, either through a video-on-demand (VoD) service on their personal video recorder (PVR) or by downloading it directly onto their PC via the Internet.

Broadcasters clearly have more choice than ever before in how to engage with their audiences, making the evaluation of platforms – in terms of audience share, revenue opportunities, and brand-building – more complex. Interrelated issues, such as capacity and choice, interactive services, regulation and the cost of delivery, all impact a platform's appeal.

To find out how channels plan to navigate through these choices and reach their target audiences in the future, and how the television distribution landscape might therefore change by 2020, Deloitte carried out a series of face-to-face interviews with senior executives from the UK's broadcast industry. This report summarises the main views expressed by participants in the research.

Ed Shedd, Head of UK Media Practice

Executive summary

While some industry commentators are predicting the end of the traditional broadcast television channel, UK broadcasters suggest this outcome is a little exaggerated. “The broadcaster model will be the bigger model for some time to come.” And in the words of another broadcaster, “We always over-estimate the rate and impact of change in the short term and under-estimate in the long term”.

Broadcasters are agreed on the significance of increasing digital television distribution choice, but are split in their response – with some seeking universal coverage across terrestrial, satellite, cable and IPTV (Internet Protocol Television) but others being more selective about which platforms they work with.

The further evolution of Freeview is seen as a major factor shaping the competitive broadcast environment, in particular the prospects for additional channel capacity, pay and HD (High Definition) services.

Broadcasters acknowledge the importance of expanding beyond broadcast platforms into online and interactive platforms. While aware of the threats of increased competition in these environments, they are generally confident that their brands have potential value in helping audiences find what they want to watch, and still see these new environments primarily as complementary rather than as complete substitutes.

Non-linear and time-shifted viewing are regarded by many interviewees as providing a largely complementary means of extending broadcasters’ engagement with audiences, although there are acknowledged risks of disintermediation and price confusion.

Broadcasters expect to respond to changes in platform capability and audience behaviour by focusing on programme quality rather than quantity, giving consumers greater control over their viewing, and developing an integrated approach to cross-platform services.

The commercial prospects of broadcasters are expected to be a function of their size, the quality of their programming, and whether they rely on pay or ad-funding. The changing fortunes for pay and ad-funded channels over coming years will cause broadcasters to examine carefully which revenue models they pursue and how they use their positioning across multiple platforms to mitigate the risks that lie ahead in the evolving UK television industry.



Increasing platform choice

Broadcasters are agreed on the significance of increasing digital television distribution choices, but are split in their response – with some seeking universal coverage across terrestrial, satellite, cable and IPTV, but others being more selective about which platforms they work with.

UK consumers watch about 3.5 hours of television every day. More than half of UK homes watch television on digital satellite or cable and another third watch digital terrestrial. By 2012, remaining analogue viewers will have moved to digital, some homes will rely on IPTV, and importantly, many homes are expected to watch television on more than one platform.

With audiences spread across multiple television platforms, broadcasters have to determine how best to reach their chosen audiences. In the words of one public service broadcaster (PSB), **“we must ensure we are there, wherever there is, depending on where the viewers are”**. Broadcasters have a commonly held view that the best version of their offerings should be available on any platform and a multi-channel broadcaster added: **“We should be wherever consumers want us to be. We want to be everywhere.”** This expectation was shared by a pay television broadcaster who suggested, **“It’s not a case of either/or – it’s as well as.”**

Nevertheless, with additional costs of one sort or another associated with carriage on most new platforms, some broadcasters pointed to the need to make trade-off decisions. In the words of one broadcaster, **“We tend to prioritise working with major digital television platforms in developing services further, based on the size and penetration of these platforms”**.

This view was shared by a multi-channel broadcaster who commented: **“We have always been platform agnostic, although we are increasingly looking at yield per platform – not just in terms of share of subscriptions, but also from other services, for example, quad-play”**.

One leading broadcaster confessed it simply didn’t know what the digital television platform landscape will look like in 2012, and that flexibility was therefore critical.

Broadcast developments

The further evolution of Freeview is seen as a major factor shaping the broadcast environment, in particular the prospects for additional channel capacity, pay and HD services.

Digital Terrestrial

Given its rapid and continuing penetration in the UK market, Digital Terrestrial television is regarded by all broadcasters as a significant factor affecting the overall UK television environment, and Digital Terrestrial is expected to strengthen its position further in the run up to digital switchover. Broadcasters expect the outcome of the Digital Dividend Review to have considerable impact on competition across the industry, and suggest several possible outcomes to what is expected to be a fierce auction for the released spectrum – “the last bit of the wild west”, as one terrestrial broadcaster put it. Most broadcasters expect the auction will result in two new multiplexes and an additional 24 to 32 new channels for the platform, though views are mixed on whether these would be used for free-to-air or pay services.

The question of whether or not BSkyB will be allowed to operate pay television services on Digital Terrestrial consumes broadcasters. Some pay television channels pointed to the success of Sky’s existing pay television platform – and a strong, open service proposition that made some channels feel they were being well supported through marketing and other services. Some said they would welcome a similar subscription-based opportunity on terrestrial – as without this, the high entry costs would prohibit entry on an advertising-funded only basis. Those broadcasters also believe Freeview has suffered until now because of the absence of a suitable pay capability, which needs not just a good customer database, but also clear membership rules. However, some broadcasters expressed a view that a mainstream pay proposition on Digital Terrestrial could reduce competition on the platform, and cited the risk of establishing a gatekeeper in terrestrial broadcasting.

Broadcasters have a good understanding of the costs involved post digital switchover, although the additional cost of accommodating any new multiplexes or HD are not yet fully understood. Pricing of Digital Terrestrial multiplex capacity is expected to fall back to a more sustainable level as new spectrum and new modulation and compression technologies expand supply. In the words of one broadcaster, “Pricing is expected to shift, as Moore’s Law should result in

increased supply, although competition has seen recent Freeview channel slot prices rise instead.” In the medium term, the impact of Ofcom introducing Administrative Incentive Pricing (AIP) charges on renewed licences for Digital Terrestrial spectrum creates additional cost uncertainty for broadcasters, who expect to see this reflected in higher multiplex channel renewal costs.

Cable

Some broadcasters regard cable as a good technology over which to develop and test new interactive services, because of its established interactive capability. Nevertheless some broadcasters felt that cable’s involvement in telecom services might serve as a distraction from developing leading broadcasting services.

High Definition television (HD)

While the PSBs had been supporters of HD on Digital Terrestrial through gifted spectrum, other parts of the industry believe it should be left to the market to decide. There is now broader support to establish HD capability within existing Digital Terrestrial capacity, and compression and other technology developments could enable available capacity to grow over time.

Some broadcasters believe HD will gradually become the accepted format for transmission. In the words of one broadcaster, “The premium value of HD will eventually wear through and it will become the standard.” Others forecast only partial adoption of HD. One broadcaster commented, “HD is only relevant for certain content – sport, movies, documentaries. It’s not really going to enhance your enjoyment of the news”.

Some broadcasters believe that multi-channel HD will remain largely a pay television proposition, although many broadcasters also acknowledged potential for HD on Freesat – viewed by some as a defensive, hedge option, allowing broadcasters to wait and see whether HD materialises on Digital Terrestrial. Whether Freesat has much potential beyond this is not clear. One PSB suggested, “The economics of Freesat could be quite challenging. I’m not sure we would want to have created it, but once it’s there, you’d want to be on it.”

Beyond broadcasting

Broadcasters acknowledge the importance of expanding beyond broadcast platforms into online and interactive platforms. While aware of the threats of increased competition in these environments, they are generally confident that their brands have potential value in keeping audiences find what they want to watch, and still see these new environments primarily as complementary rather than as complete substitutes.

While the prospects and commercial economics of broadcast platforms seem well defined and understood, broadcasters are keen to explore additional platforms that enhance interaction with viewers. All the broadcasters we spoke to see these new capabilities as complementary to their core linear broadcast model, rather than as substitutes.

Internet

Broadcasters recognise that online presence is critical, and understand the need to manage the transition from PC-based viewing in the short term to television-based viewing in the future, as PC and television equipment and infrastructure become more inter-connected. In addition to launching their own branded websites, many broadcasters have decided they must also embrace third-party web services – they must partner as well as build – in order to maintain their brand and maximise their reach with online audiences. Changes in gatekeeper positions are inevitable, although one terrestrial player saw value here, and welcomed the opportunity to work with specialist online providers, as long as values were aligned.

Broadcasters are not yet clear on what revenue models will work. But, in the meantime, they are putting their content onto the web, and experimenting with a variety of forms to work out which commercial models to adopt. While embracing the benefits of going online, broadcasters believe that the infinite choice of content offered on the Internet risks confusing consumers. As one respondent said: “I can’t find anything I want to watch”. A two-tier video world may emerge on the Internet – one for big television brands that replicate some of their scheduled television, plus a second tier for unstructured video content.

Some broadcasters commented that resolving the net neutrality debate – achieving a fair deal for IP distribution between media companies and broadband companies – would be necessary before Internet television would become mass market. Broadcasters also felt that while broadband networks have the potential to handle ever-higher quality video content and become the transmission network for content producers, issues of broadband speed and reliability must be resolved.

IPTV

Broadcasters’ views on IPTV are mixed. Some believe its limited penetration means it is not a direct substitute for broadcast television and that, as its true delivery cost becomes apparent, it is increasingly regarded as an expensive way of delivering linear television. In the words of one broadcaster, **“The majority of long form viewing will still be broadcast. IPTV is more about bringing broadband to the television, not the other way round”**.

Others believe there will be a tipping point where IP distribution becomes more economical than broadcast television. As one terrestrial broadcaster suggested: **“By 2020, bandwidth issues will have been sorted out and all platforms will be linked to IP”**. By this time, broadcasters also expect PC and television worlds to be connected and for Internet and IPTV services to converge. The fact that the largest pay-television platform operators already own or have recently acquired the largest ISPs is evidence of the importance of IP-linked platforms, in the opinion of many broadcasters.

One broadcaster confirmed that the Internet is having some impact on broadcast television, but cautioned on timing, **“The Internet is the next big disruption, but has to beat current carriage/advertising arrangements to succeed, and I believe it is still 5 to 10 years before that will happen.”**

“By 2020, bandwidth issues will have been sorted out and all platforms will be linked to IP.”

Mobile television

Along with the Internet, mobile television is regarded by both terrestrial and multi-channel broadcasters as an additional means to reach audiences and build deeper brand loyalty.

One particular broadcaster believed that mobile television had good prospects and would result in new usage occasions, referring to research that identified a mid-afternoon peak viewing phenomenon – the result of children watching television via mobile phones on the car journey home from school. The lesson here is that it’s not always possible to predict market trends.

According to one executive, broadcasters are currently **“hedging their bets with different mobile television technologies and platforms, to test different markets”** and do not see the technologies as mutually exclusive. One broadcaster even suggested that mobile television could be the first technology to lead the way into a native IPTV world.

“... [broadcasters are currently] hedging their bets with different mobile television technologies and platforms, to test different markets.”

Changing viewing behaviour

“We’ll do what we’re good at – content – and give consumers the tools to navigate and access it. Control will pass to the consumer as to how, when, and if they choose to watch it and will result in the atomisation of content.”

“Platform winners will be those that put the consumer in control.”

“It’s hard to imagine purely scheduled services – a hybrid box is the expectation.”

“Digitalisation / non-linearisation of television inevitably causes a drop in the number of viable broadcast channels, but most customers still want to switch on and see something they like.”

Non-linear and time-shifted viewing are regarded as providing a largely complementary means of extending broadcasters’ engagement with audiences, although there are acknowledged risks of disintermediation and price confusion.

Building cross-platform services

More platforms and greater interactivity also implies that broadcasters will need to get better at repurposing and repackaging content for different devices, to attract different demographic groups and to engage viewers more.

One multi-channel broadcaster, whose company is placing multiple bets for the future, argued that adaptability to more demanding customers and using the available multi-media links with them is crucial. However, as the number of routes of access to audiences grows through new technologies, mobile and Internet viewing will fulfil different needs, developing different relationships, and broadcasters’ ability to build their brands will be enhanced.

One important benefit of this is likely to be better audience data for advertisers. One broadcaster commented that it is now getting much better data on audience viewing by platform, which will help it make more informed decisions about platform strategies in the future. This was confirmed by another interviewee, who suggested that the rate at which broadcasters embrace new platforms and formats depends on how their relationship with advertisers develops, and pointed to the importance of aggregating audiences for advertisers across platforms.

Giving customers greater control

Overall, broadcasters generally believe advances in technology and functionality will result in substantial control passing to the customer. One leading PSB embraced this, saying, “We’ll do what we’re good at – content – and give consumers the tools to navigate and access it. Control will pass to the consumer as to how, when, and if they choose to watch it and will result in the atomisation of content.” A multi-channel broadcaster agreed, “platform winners will be those that put the consumer in control”.

In this environment, the importance of the programme schedule will need to be superseded by the channel brand. “The brand is of over-riding importance. Broadcasters must make sure content isn’t spread too thinly across their channels”.

On-demand services

Broadcasters expect the trend to combine broadcast and broadband capability in set-top boxes to continue. This gives the benefit of cost-effective delivery of scheduled channels, plus the flexibility of personalised on-demand and interactive services. In the words of one broadcaster, “It’s hard to imagine purely scheduled services – a hybrid box is the expectation.” Hybrid boxes allow broadcasters to introduce new interactive and on-demand services by building on the success of mass-market broadcasting, and one broadcaster expected more hybrid services come to market.

However, broadcasters tended to warn against writing off linear television, “There are implications that passive platforms need to catch up to an extent, although be cautious about predicting the demise of linear television. It will be more about gradual movement than apocalyptic changes”. One reason is that audiences enjoy being offered a schedule to watch. As one broadcaster said, “I don’t always like to cook for myself. Sometimes I like to go to a restaurant.”

Another commented “Digitalisation / non-linearisation of television inevitably causes a drop in the number of viable broadcast channels, but most customers still want to switch on and see something they like”.

A further broadcaster suggested that on-demand would not impact viewing substantially over the next 5–10 years, with no more than a quarter of viewing coming from a long tail by then.

Interviewees welcomed the apparent success of advertising-based on-demand services – such as abc.com in the US – in meeting customers’ needs for “catch-up” television, while improving audience retention rates on the regular linear broadcast. Broadcasters generally expect the value of these services to increase as they become available on more platforms, including mobile phones.

In contrast, broadcasters expect transactional on-demand services to be restricted to niche and premium content, such as sport and films, although there is likely to be more competition in this market, here with producers also offering their content directly to consumers. Transactional on-demand may also emerge as an alternative way for consumers to enjoy a television series, buying digital downloads in the same way as they already buy music, rather than purchase DVD box sets.

Clips and mobisodes are also expected to form a large part of the marketing mix. In this environment, channels that own full content rights will be able to profit more from their content over the longer term, suggesting a positive future for niche producers too.

Many broadcasters are concerned that direct links between viewers and content providers via the web could cut their revenue, reinforcing the view that channels with their own content could have the advantage in the longer term.

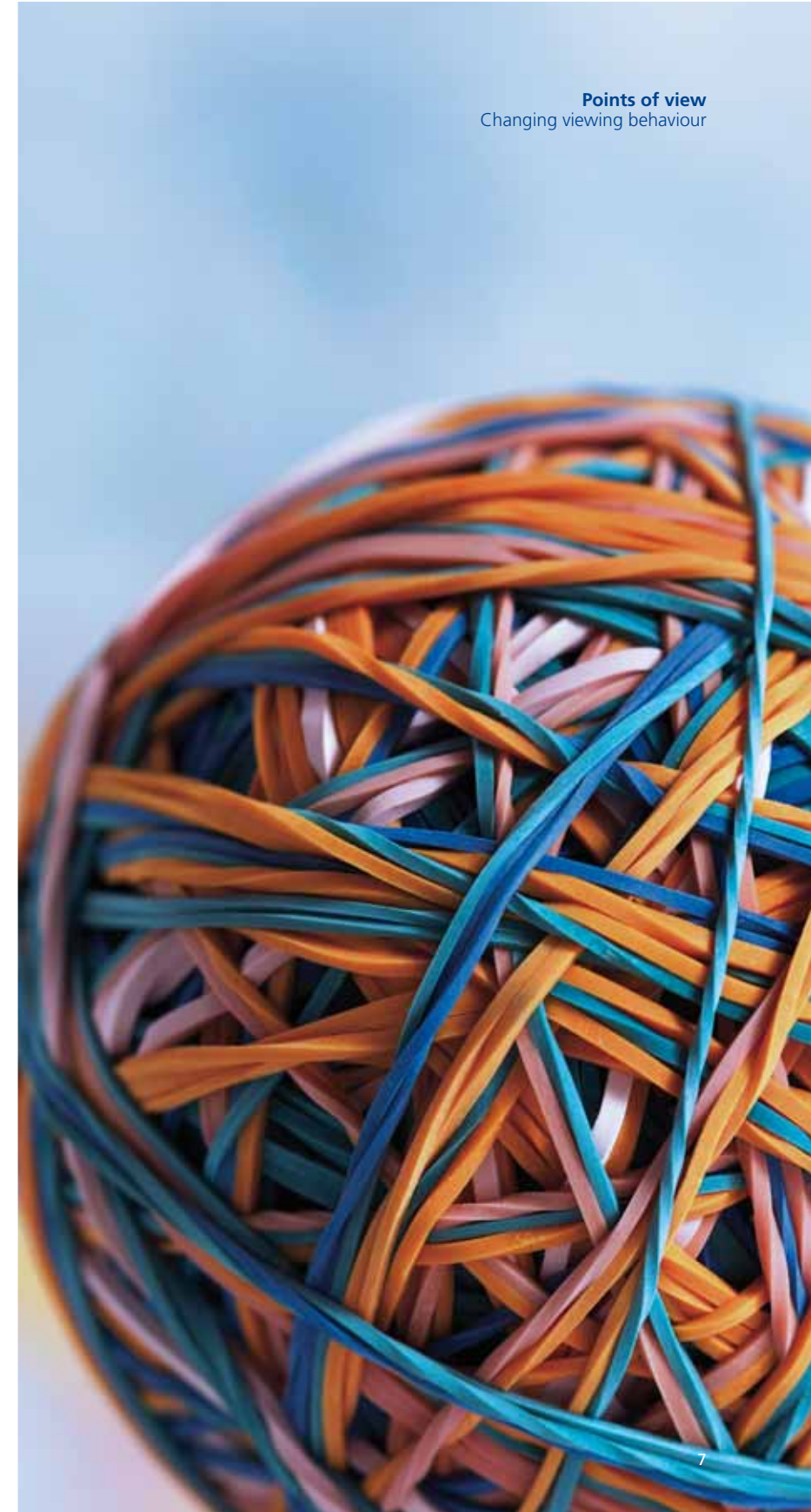
Subscription-based VoD services are seen as an important means of revenue diversification by many commercial broadcasters, although the BBC’s decision to set the trend with iPlayer for free catch-up services has made it difficult for others to charge for similar services. For on-demand services that are not free, there is a bewildering array of charges, as players with traditional broadcasting backgrounds compete with new online providers. This risks confusion among audiences, with little consistency in pricing of similar content.

Time-shifting

Broadcasters regard current time-shifting trends as overlapping to some extent with on-demand services. In the words of one broadcaster, “**On-demand television will incorporate content on PVRs as well as access to remote libraries – combining linear and broadband delivery platforms within the set-top box**”. Ultimately, viewers don’t need to know or care about the delivery method – their only objective is to watch what they want, where and when they want.

The use and capabilities of PVRs are expected to increase, a trend regarded positively by many broadcasters in our sample. The PVR can meet customers’ need for both time-shifting and some degree of on-demand viewing. It also ties customers back to programming within the broadcaster’s mainstream scheduled channels.

However, most of the broadcasters we spoke to believe that live viewing will still be the dominant way to view content for many years. One PSB suggested that only around 10% of viewing would be time-shifted in five years’ time, and 15% in the case of PVR owners. While some industry analysts believe live television viewing is in decline, some broadcasters regarded time-shifting as positive, where it is used to catch up with content that viewers were unable to watch live.



Broadcasters' responses

Broadcasters expect to respond to changes in platform capability and audience behaviour by focusing on programme quality rather than quantity, giving consumers greater control over their viewing, and developing an integrated approach to cross-platform services.

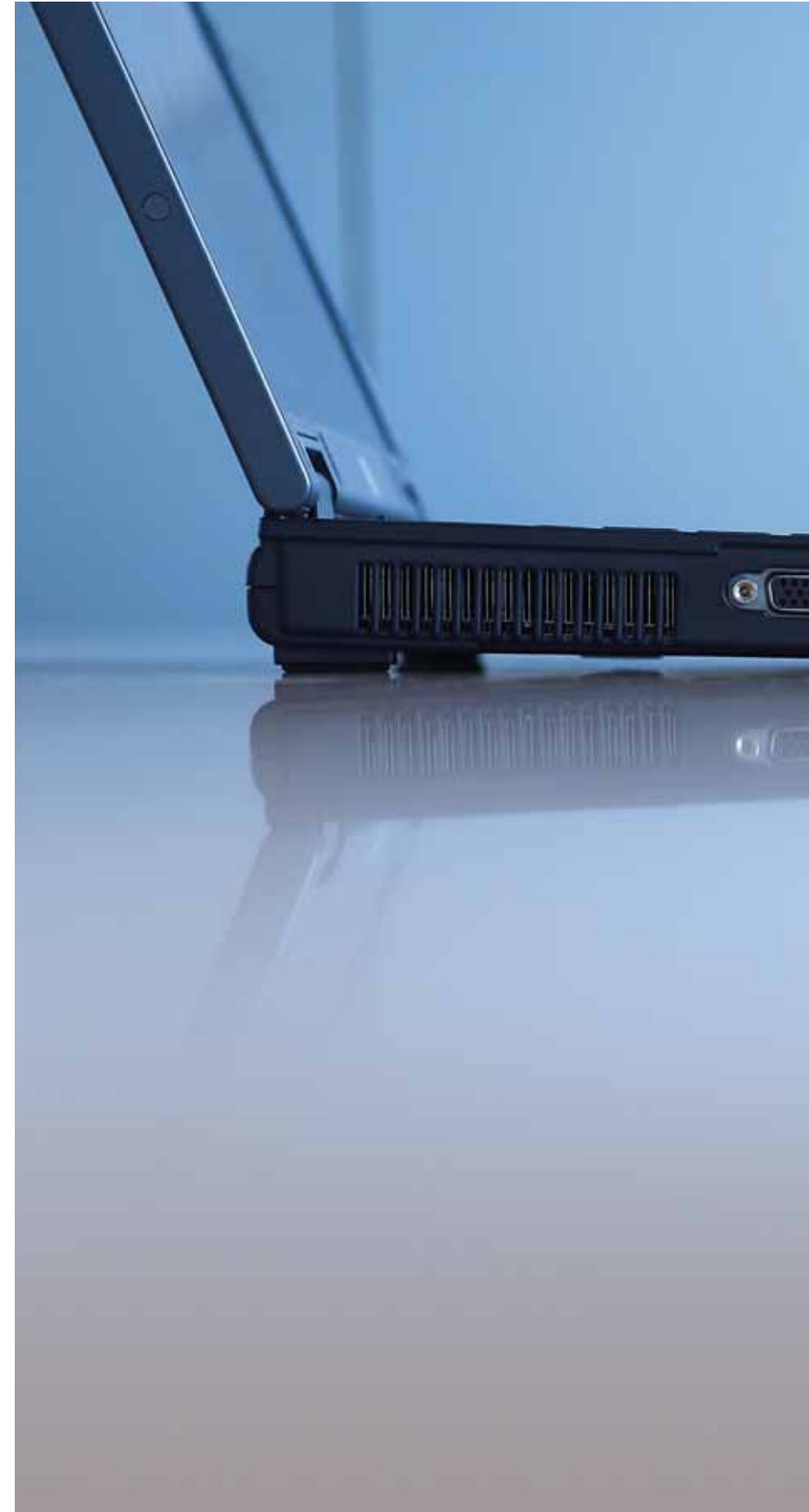
Focus on quality not quantity

According to one terrestrial broadcaster, the expansion of multi-channel broadcasting capacity in the 1990s led to an "arms race" amongst broadcasters trying to secure and maintain their share of channels. But with viewers now having more choice in how and when they watch and interact with television, and increasing competition for audience across new formats, broadcasters' traditional control over distribution may cease to be a competitive advantage. Attracting and retaining audiences in the future will depend on the quality of content, rather than on volume.

In the view of one multi-channel company, **"We have moved from a position where having an abundance of channels was perceived positively, to now being regarded as diluting the proposition."** Another broadcaster put it in these terms, **"It's all down to good content. If you make good content, you're laughing. So the focus is definitely on quality and not quantity."**

Some broadcasters commented that the trend to time-shift viewing reinforces the fact that consumers prefer less content, but of a higher quality. Broadcasters are therefore becoming less concerned about maintaining a share of output, preferring to direct their resources on improving content quality, and this is likely to mean a reduction in the number of channels being broadcast.

Round-the-clock scheduling is now being questioned by some broadcasters, who regard it as wasteful. They plan to create their own top-up services using PVR technology, with the result that channels will be deconstructed into their programme components. However, fewer broadcasting channels are likely to be offset by additional new media channels. One broadcaster confirmed plans to launch channels, but not on all broadcast platforms, and some purely online.



Commercial prospects

The commercial prospects of broadcasters are expected to be a function of their size, the quality of their programming, and whether they rely on pay or ad-funding.

There is also a consensus that broadcasters must be more knowledgeable about their customers in future, a view endorsed by a multi-channel broadcaster, who said, **“Forward thinking broadcasters must make content available in ways that suit their customers – although no-one’s quite sure how the economic models will work just yet”**.

Several executives spoke of the increasing importance of market segmentation, and how it is becoming more difficult to generalise about consumption, especially among the younger generation. ‘Social recommendation’ – rather than viewing guides – would become more relevant. Broadcasters there would be winners and losers as a result of the changing digital also believe television environment.

The commercial terrestrials shared the view that, as audiences continue to fragment, it will become increasingly important to be the big channel with the big audiences. One interviewee gave the example of US television networks that had reversed declining audiences by building big brands with programmes that appealed to mass audiences. There is also evidence that the biggest US broadcasters have seen their share of impacts go down, yet their share of value go up.

The larger broadcasters believe their big audiences and use of marketing to schedule new programmes and television series can drive up viewing figures and value. Post 2012, the largest broadcasters are expected to have a clear advantage in this respect.

Some of the stronger retailed pay-television channels see their future firmly on satellite and cable, which in their view, can deliver good reach at moderate cost and, if brands are strong enough, can reach target audiences effectively despite the abundant choice.

Several executives believed that distinctive specialist content providers – whether premium or niche – would have an assured future within digital television. But the future did not look so good for middle-of-the-road players lacking distinctive or high quality channels or programming, particularly those that are purely ad-funded.

Platform costs will also become more important for smaller channels – in contrast to the major players who are required to be on the mass-market platforms and who have larger audiences across which to spread their costs. Pay channels mentioned increasingly challenging carriage arrangements on satellite, as the industry adapts to the increasing strength of Digital Terrestrial. This reinforced the focus on quality rather than quantity, making traditional, basic package revenue-sharing models unworkable post 2012.

One broadcaster proposed an 80/20 rule – that in the future, 80% of channels will have to be ad-funded, because only 20% will benefit from a pay television subscription revenue share. This was supported by another pay-television channel executive, who agreed that pay satellite and cable would need to limit retail arrangements to premium channels and discontinue revenue-share contracts with mid-tier channels. Several broadcasters predicted consolidation in the number of channels as a result.

Advertising-funded broadcasters generally had a positive outlook. One major ad-funded channel observed that there had been more impacts on commercial television in the current year than in the previous, and that video advertising on the Internet was still very small by comparison. Another commented that what constitutes a “large” television audience may reduce over time, but that advertisers will still seek “large” audiences. Another terrestrial broadcaster suggested that there are **“billions of more ways”** to meet the needs of advertisers in the digital television landscape. As one broadcaster said: **“Advertisers like new formats and channels that give them access to smaller, more identifiable groups”**. A number of broadcasters agreed that advertisers will be keen to use distinctive new formats and channels that can offer deeper knowledge of their audience base, and therefore make targeted marketing much more effective.

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