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X sessió de les Jornades Tecnològiques, Consell de l’Audiovisual de Catalunya

L’impacte de la televisió per Internet en el panorama audiovisual

9 February 2018 • Lluís Borrell

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IBC presentation on the impact of IP on broadcasting

What this means for the industry

Is IP really having an impact on broadcasting?

Key questions

1. What do we mean by broadcasting?
2. What is IP changing?
3. What will the impact be?

Complex framework and dynamics

Policy and regulation

Supply factors

Is IP really having an impact on broadcasting?

Demand factors

Investors

Key: **Focus of this presentation**

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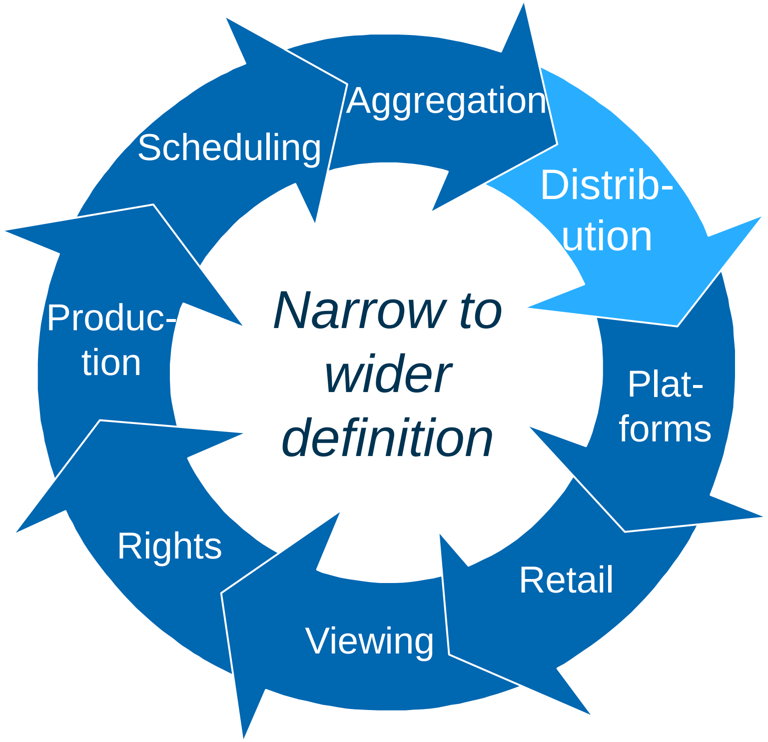
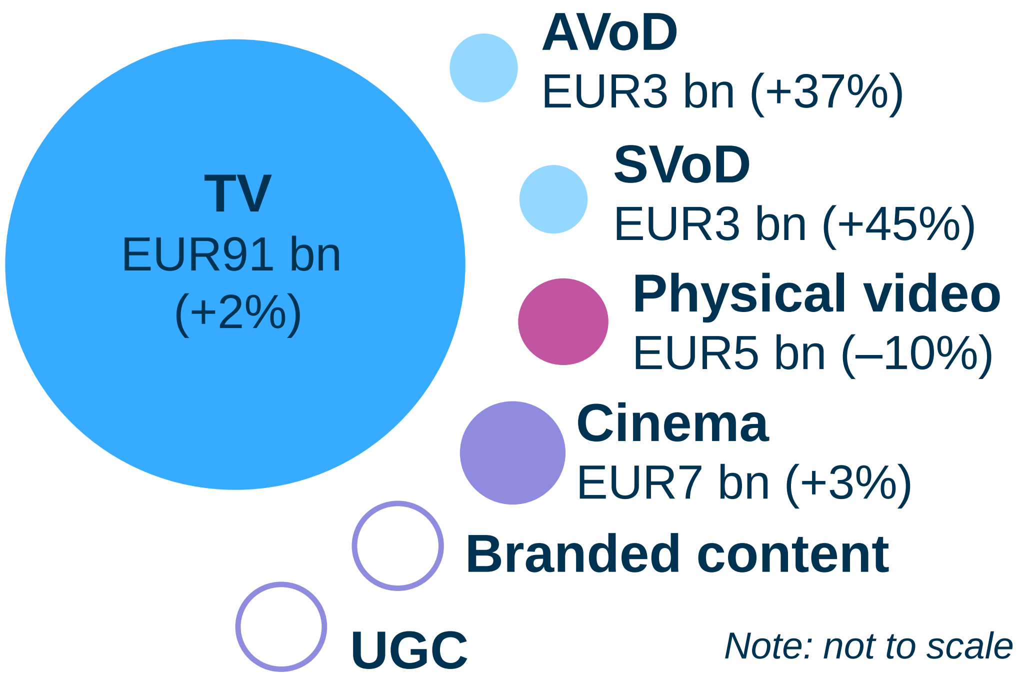
EU's "broadcasting" as TV, VoD or both revenue streams?

Broadcasting



CAGR of the EU professional TV and VoD market, 2011 to 2015



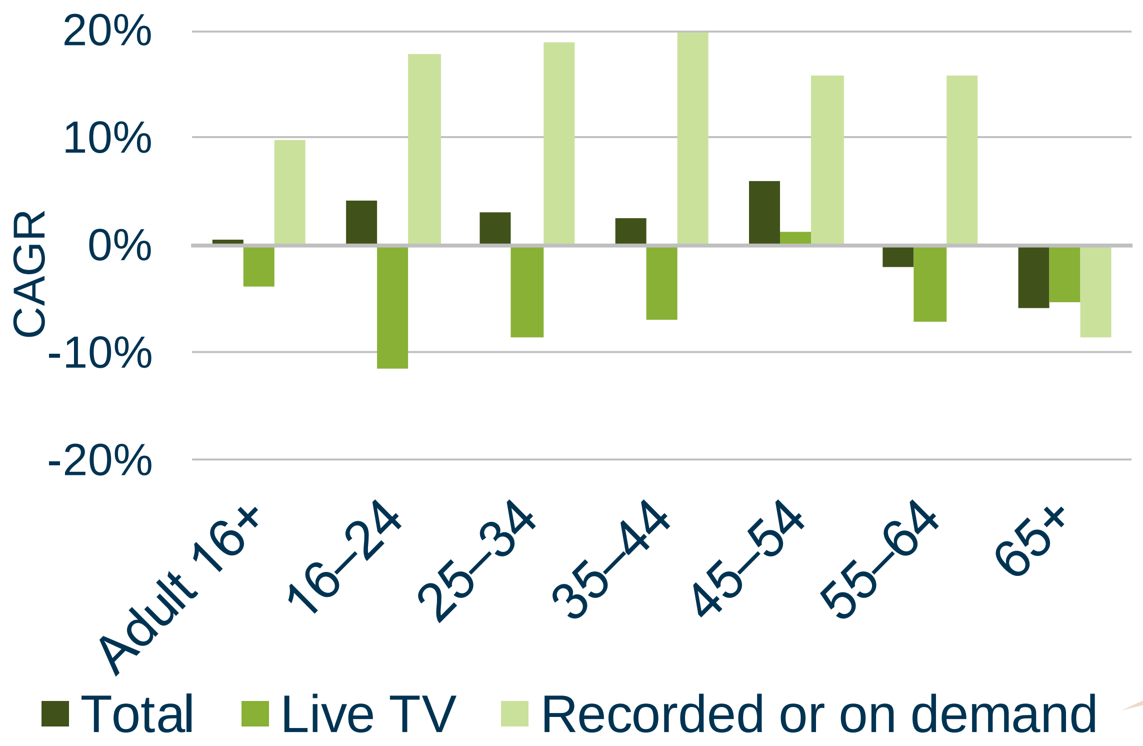
Broadcasting in the form of technical distribution (narrow scope) is only a small proportion of total revenue (wider scope)

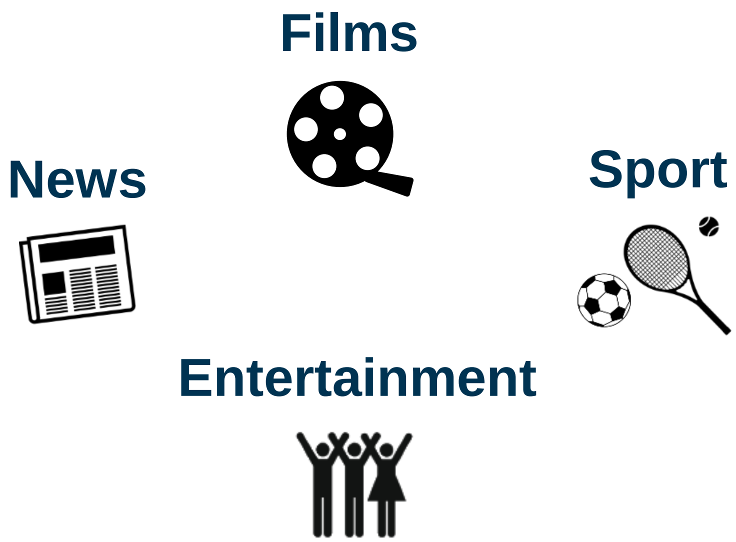
Source: EAO Yearbook 2015 (2014 data)

IP supports consumers' consumption of total TV and VoD minutes, but it changes the mix

In the UK, TV/VoD consumption is rising (except for those aged 55+)

CAGR of average minutes/day by viewing type, UK, 2014–16



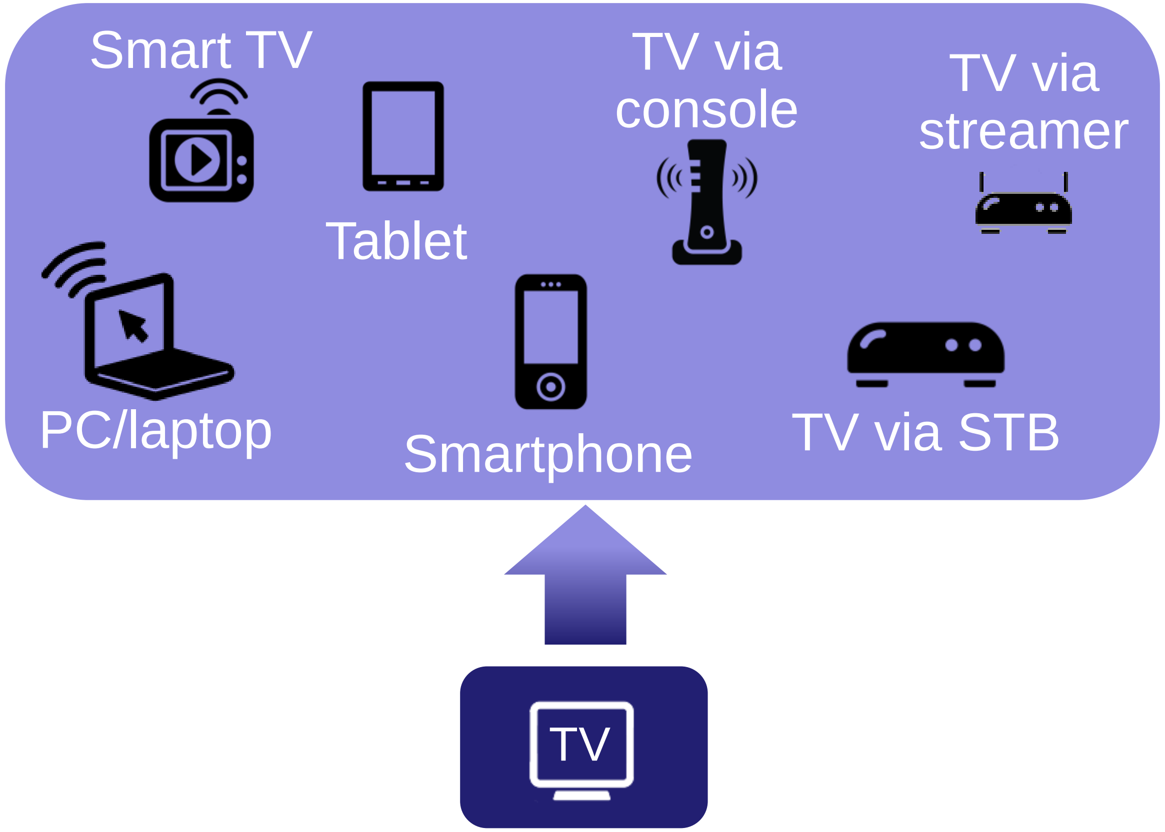


Recorded and on-demand drive consumption growth in all segments

Source: Ofcom CMR 2014, 2015 and 2016

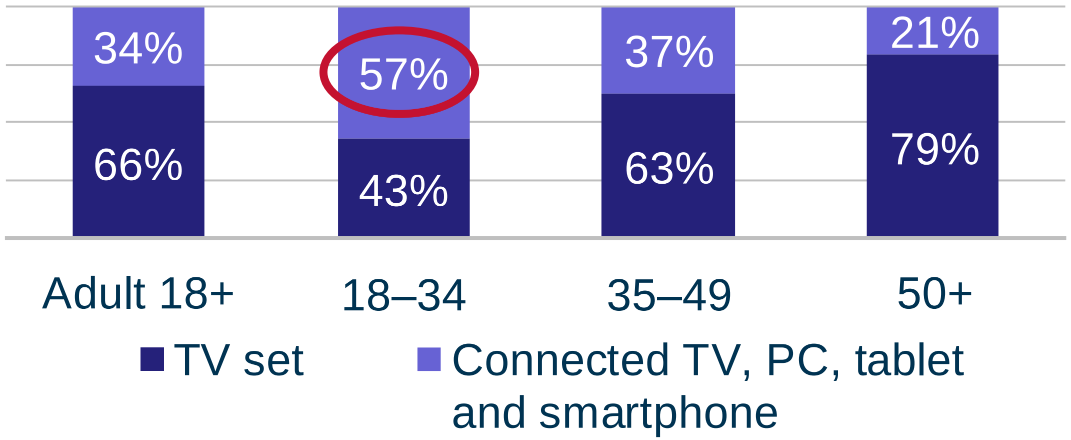
IP reduces the role of TV sets for accessing TV/VOD, especially for those aged 10–34

Proliferation of devices for TV and VoD consumption

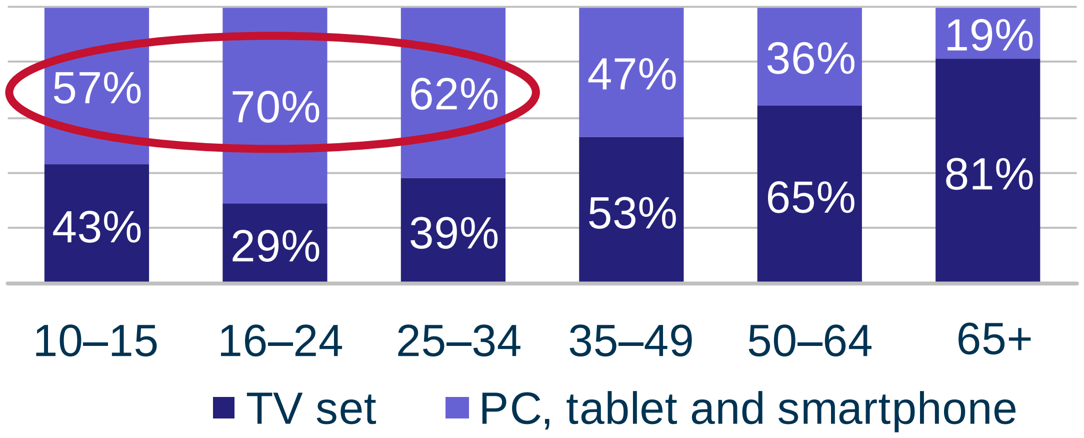


Viewing time by device & age group:

USA (12/2016)

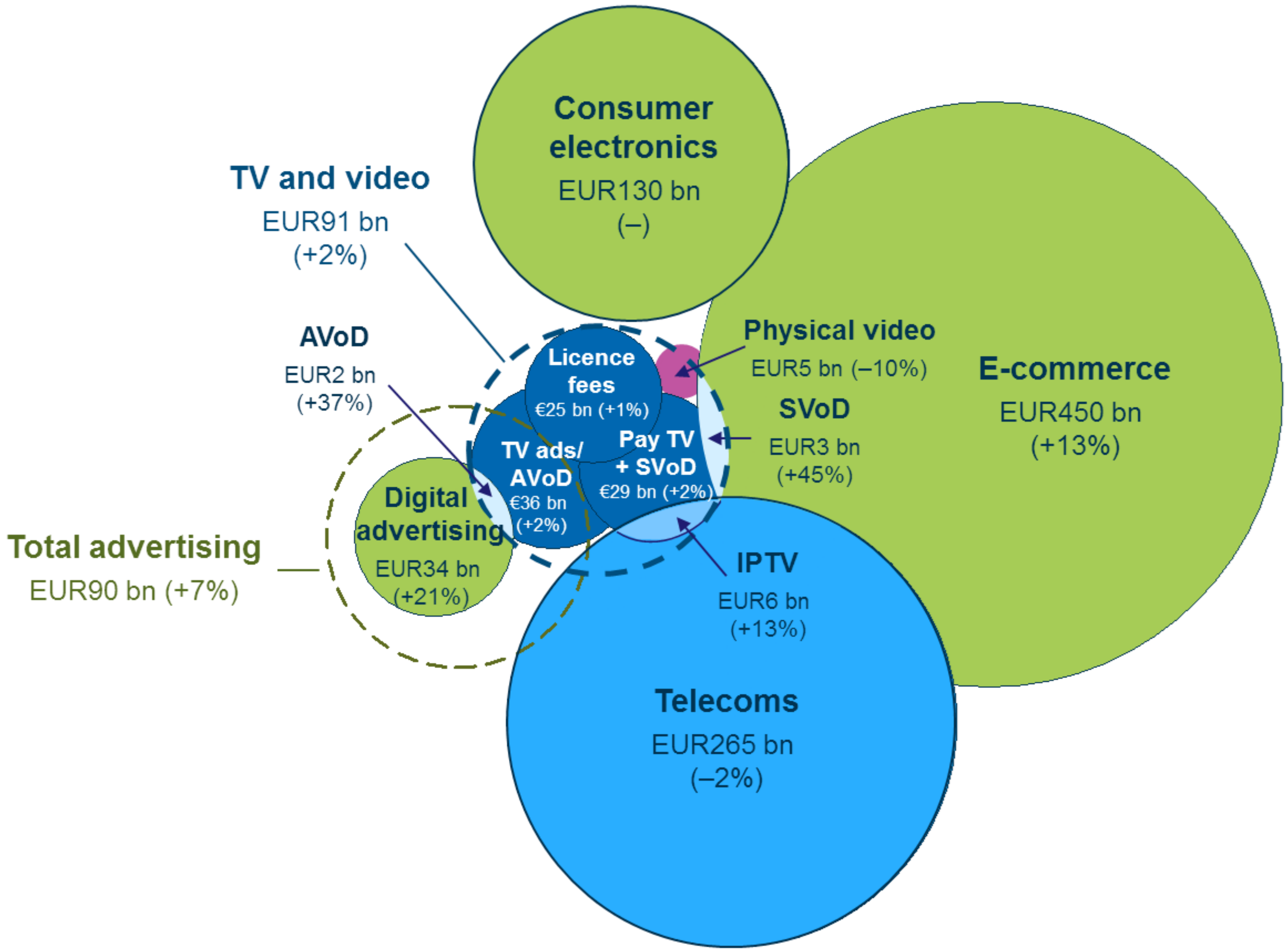


Spain (2016)



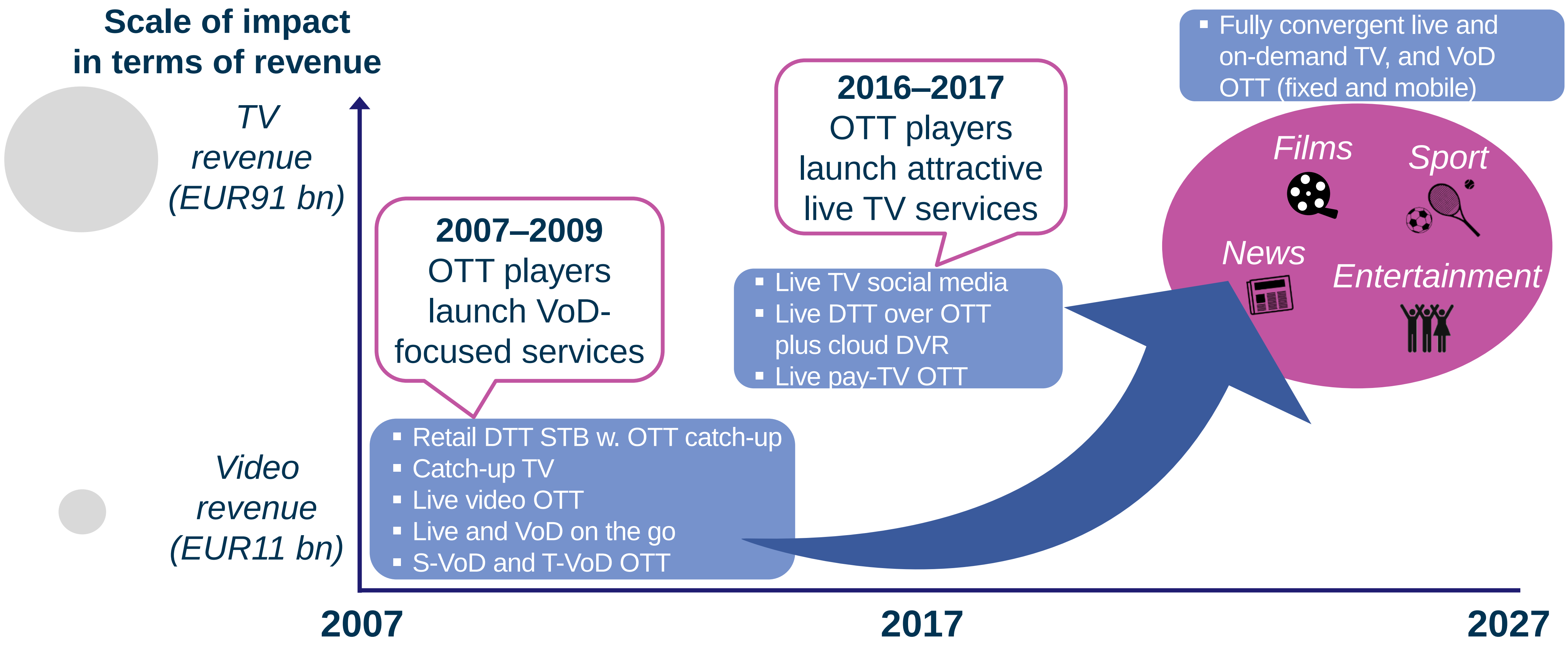
Sources: Nielsen (USA), CNMC (Spain)

IP allows new media players with larger reference markets to compete on VoD and increasingly TV (live streaming)



Sources: EAO Yearbook, EAO Advertising, E-commerce Europe, Statista, ETNO, Analysys Mason DataHub

Live TV over OTT will accelerate the impact as a proportion of total TV and VoD revenue



IP has already had a major impact on physical video –
VoD overtook its revenue in less than 10 years

IP brings complexity and opportunities for a segmented broadcasting market where different offers will co-exist

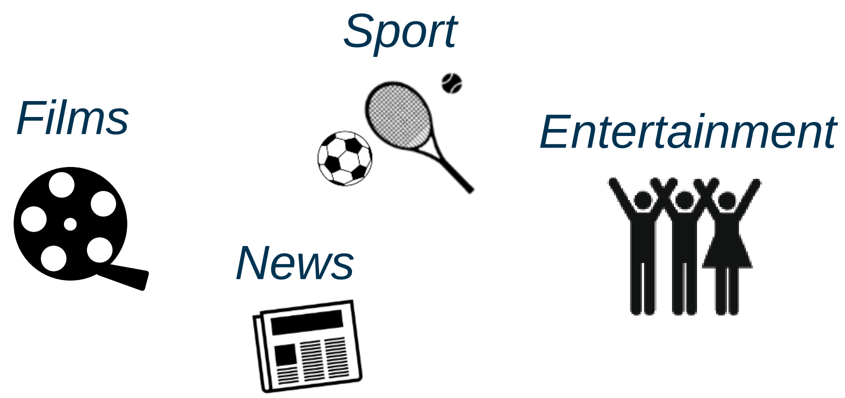
A fragmented approach to a fully converged TV and VOD offer

Operators seem to favour **all-in-one 4P and 5P bundles** (e.g. Movistar)

Broadcasters hope to maintain prominence in a fragmented world with a **horizontal proposition** and policy regulation (e.g. PSBs)

Operators offer **skinny packages** to protect their current position and gain new market (e.g. Now TV)

Some broadcasters take **OTT unbundling** unless they are paid for (e.g. Discovery Channel)



Content players favour OTT **standalone TV channels or** even **standalone TV programmes** if they are premium/attractive (e.g. Disney)

New players focus on a unified **user interface and experience** to create consumer value (e.g. Amazon, Molotov)

Winners/losers will be determined by consumer preferences and by the evolution of supply-side agreements, but one size does not fit all!

Innovation and partnerships will be key in offering attractive content, flexible pricing and an integrated experience

DEMAND

Strong but fragmented demand: Consumers eager for attractive new seamless TV and VoD offers

SUPPLY

Greater alternative commercial models: traditional, ‘direct to consumer’ or platform of platforms

DISTRIBUTION

IP-only and hybrid models are likely to prevail: live TV over OTT technology is available and scalable

Content, pricing, integrated experience more important than ever

Major developments announced in 2016 and 2017 include:

- Molotov TV
- YouTube TV
- Amazon Channels
- Disney direct-to-consumer service
- iFlix live TV

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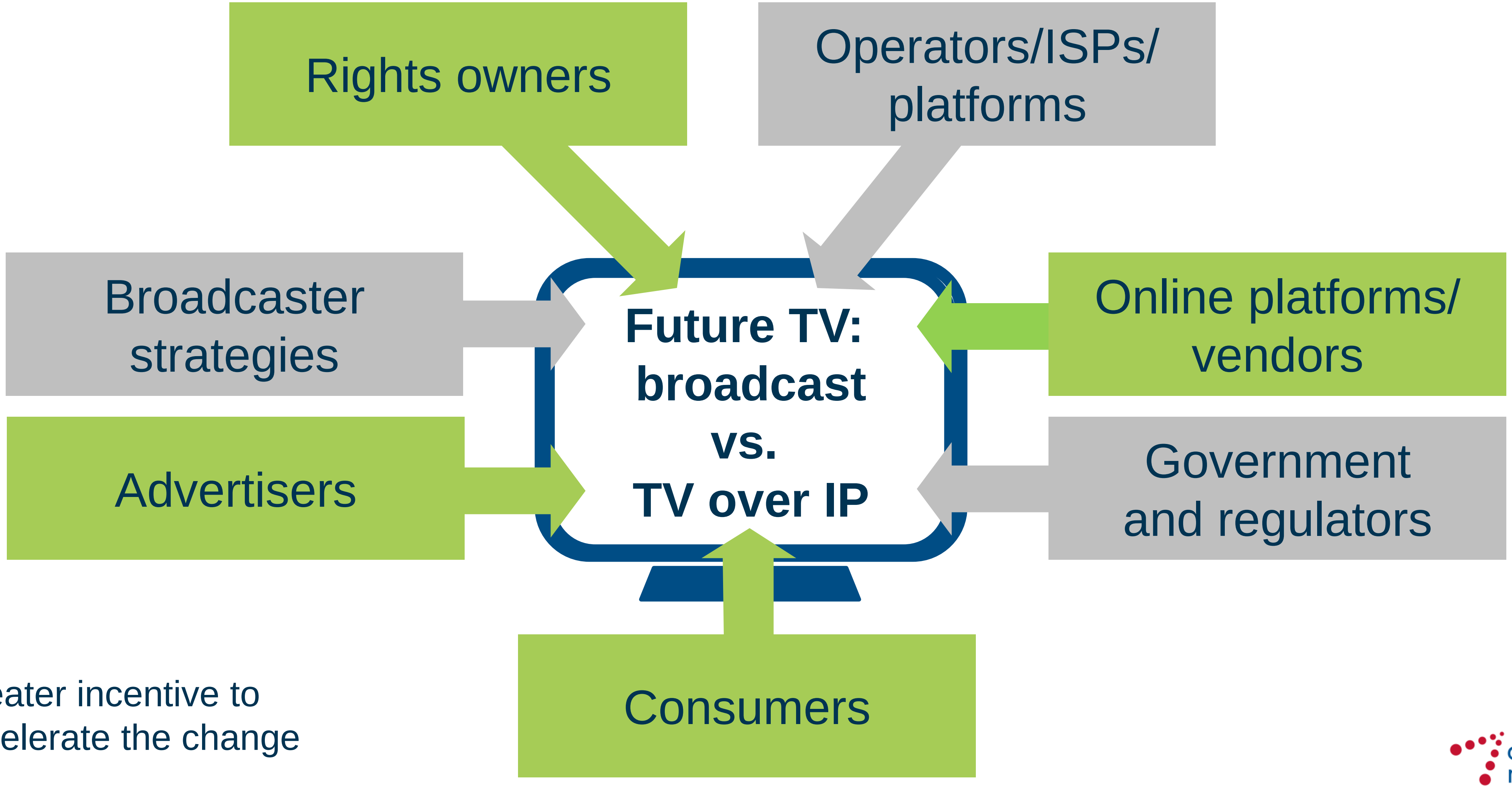
What this means for the industry

In practice, "future TV" will depend on stakeholders' incentives and policy decisions that will vary by country



Key:

= Greater incentive to accelerate the change

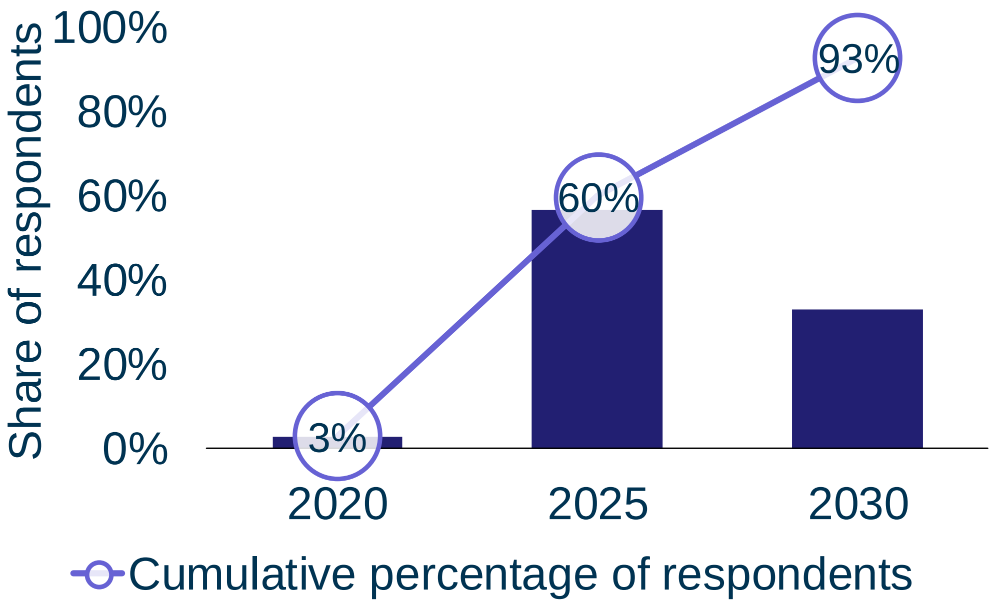
Significant growth in TV over IP will have an impact on all stakeholders – initial thoughts

Regulators/ policy makers	**Rapid transition of video/TV to the Internet must be supported by updated policy and regulation** ▪ ***EC*** – AVMS review, portability of TV ▪ ***BEREC*** – consultation on premium content and new gatekeepers
Players	**Broadcasters and operators must urgently revisit their strategies as cord cutting accelerates** ▪ ***Pay TV*** – greatest pressure from VoD players ▪ ***Advertising*** – live TV streaming to increase pressure plus a new opportunity to secure retransmission fees ▪ ***PSBs*** – better protected but also must revisit their strategies
Investors	**Investors are supporting new business models and global players, so traditional TV players must adapt to TV over IP or face an uncertain future** ▪ Likely to support global brands' deals with global distribution ▪ New business models will be well equipped to respond to TV over IP

The transition of video/TV to the Internet must be supported by updated policy/regulation, to avoid risk to investments

- **Other industries – transport disruption**
  - New York's yellow cabs
    - Regulated supply drove prices up (USD1m in 2014)
    - New disruption reduced prices (between USD150k and USD450k in 2017)
    - Are current rules appropriate/sustainable?
  - Uber in London
    - Transport for London (TfL) stripped Uber of its London operating licence
    - All companies need to "play by the rules"
- **What should broadcast** regulation look like? Are transitional arrangements needed to protect current players?

"When will IP revenue exceed broadcasting revenue in Europe?"*



- **Lessons** – act now to enable a smooth transition to a digitally dominated video and TV ecosystem in the not-too-distant future

** Percentage of responses to Analysys Mason's IBC survey question*

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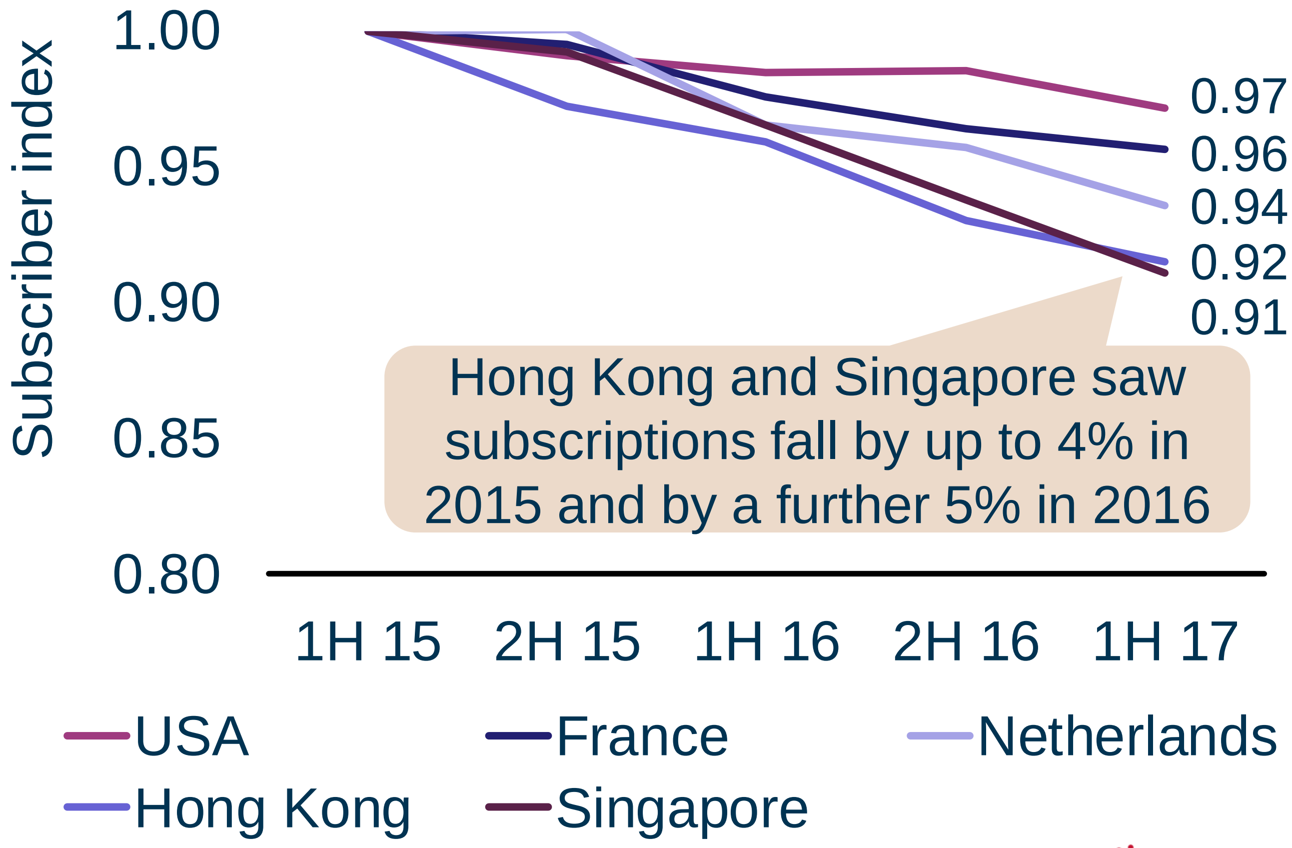
Operators must urgently revisit their pay-TV strategies as cord-cutting accelerates

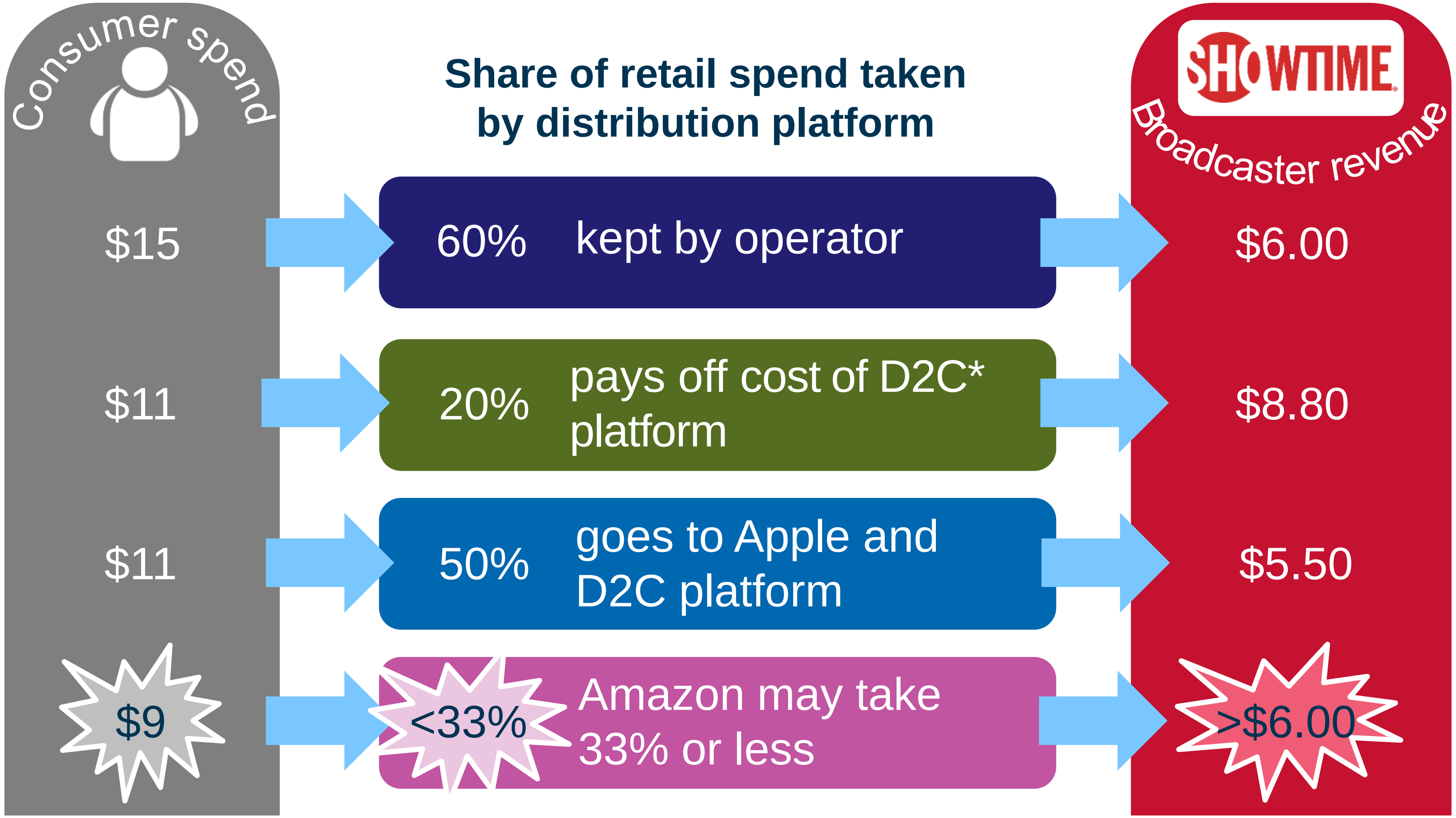
- Some markets have had cord cutting in the last two years
- TV/video OTT cord cutting will increasingly erode traditional pay-TV revenue
- Traditional broadcasting cost structures give pay-TV operators little flexibility to maintain profitability amid a decline in revenue
- Operators must revisit their pay-TV strategy and business models from both a revenue and cost perspective, focusing on OTT

Pay-TV subscriber index (1.00 = subscribers as of 1H 2015)



Source: Operator financial reports, 2017

New TV-over-IP disruptors offer lower prices to consumers and similar or better revenue to broadcasters



*Direct to customer

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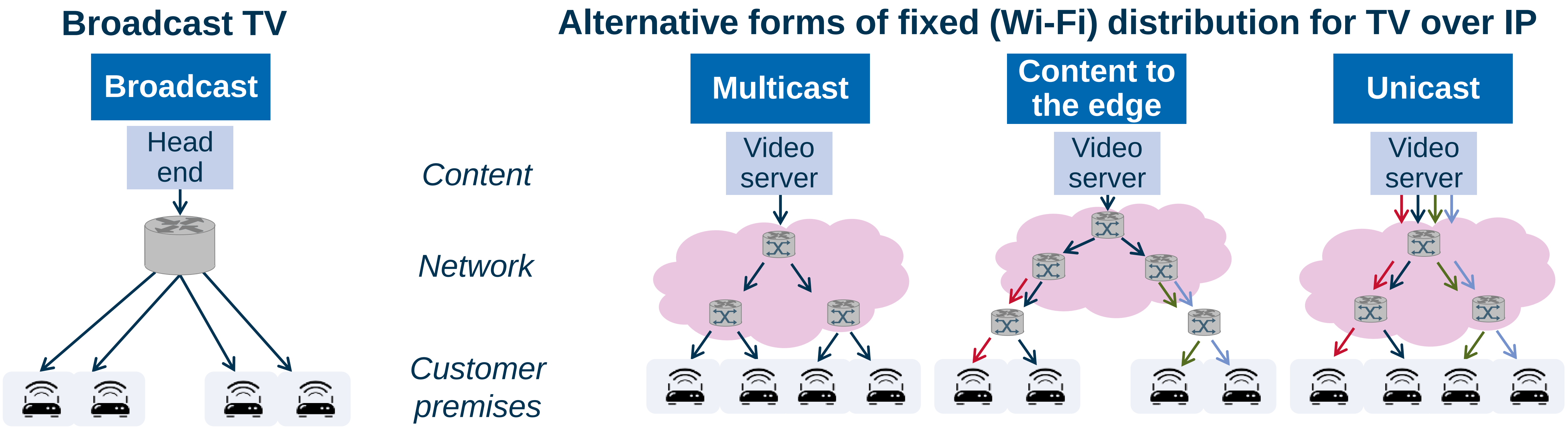
IP distribution is no longer a barrier to offering video and live TV to the mass market, with a focus on the commercial target

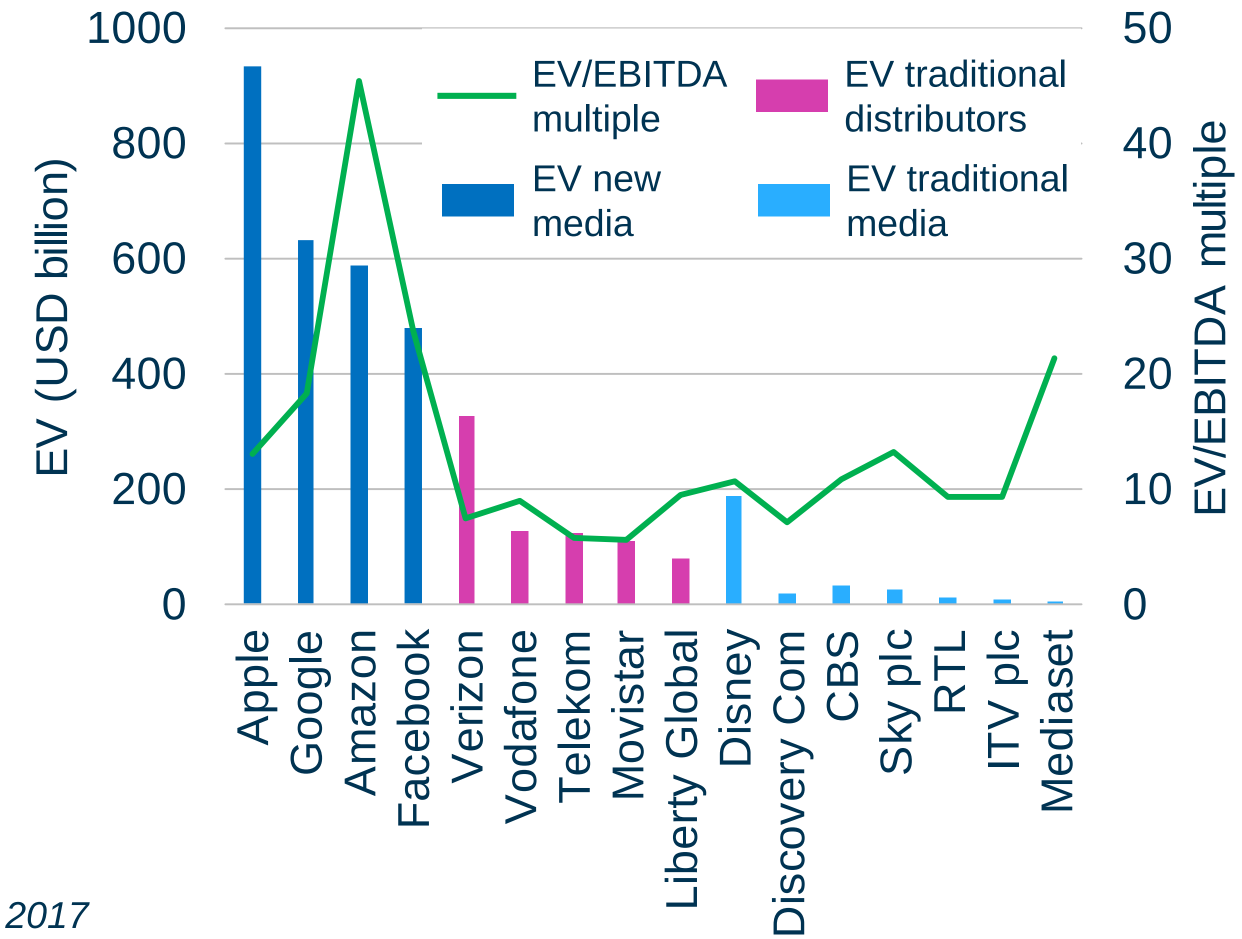


- **Mobile** subscription video on demand (SVOD) can also be attractive in emerging markets, particularly where TV and fixed broadband penetration is limited (e.g. Iflix in Indonesia)
  - smartphone display replacing more-expensive TVs
  - mobile OTT distribution could offer wider and cheaper reception
  - zero rating of TV/video traffic manages costs and improves affordability

Investors are forcing traditional TV players to adapt to TV over IP or face an uncertain future

- The valuation multiple for new media players is between 2 and 7 times greater
  - new models and global scale
- Key value drivers include:
  - integrated user experience
  - attractive prices
  - attractive mix of local and global content
  - trusted brands
  - OTT distribution
  - data and algorithms

EV/EBITDA multiple and EV of selected new and traditional media companies



Source: https://finance.yahoo.com, December 2017

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