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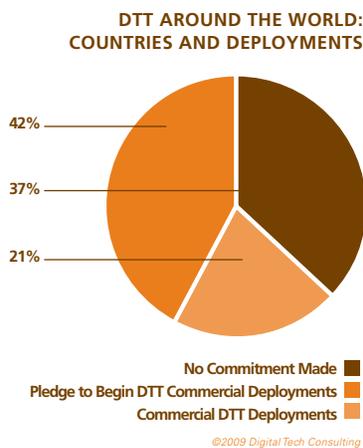
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Worldwide Analog TV Shut Off: A Long Way to Go

With the largest analog terrestrial TV shut off in the world occurring this month, it might be reasonable to conclude that the worldwide proliferation of digital terrestrial TV (DTT) has reached the stage of maturity.

In the U.S. more than 1,000 terrestrial broadcasters are transmitting digital signals. And other parts of the world – mainly Western Europe and Japan – have been blanketed with DTT signals for as long as a decade or more. Today there are more than 260 million TV households that can receive DTT signals if equipped with the proper receivers. But despite that considerable penetration, DTT has really only made it to adolescence. Only 21% of all countries have commercial DTT transmissions (see chart).



Well developed nations that can raise millions, and sometimes billions, of dollars when auctioning spectrum available when an analog shut off occurs, have had the resources and political ability to be among the first to mandate digital TV transitions. Now a second and third wave of countries are either just beginning, or planning for, DTT transmissions and they face a very different set of criteria and technical landscape.

Many of these countries are relatively small and have different requirements when selecting standards, specifications, and transmission schemes. In countries where large segments of the population are dependent on over-the-air broadcasts, making the “right” decisions is in some ways more critical than it is for more developed countries where other media options are fairly easy for most households to acquire.

Most broadcast and telecommunications regulators now planning digital transitions will be smart to not rely too heavily on recent DTT transition blue prints. Through DTC’s work with national regulators and its research on DTT and digital-to-analog converter box sales, specifications, and costs, we have developed a check list of fundamental questions that must be answered early in the planning process.

These considerations are only a prelude to DTT system planning, but they get at the heart of some of the most critical issues:

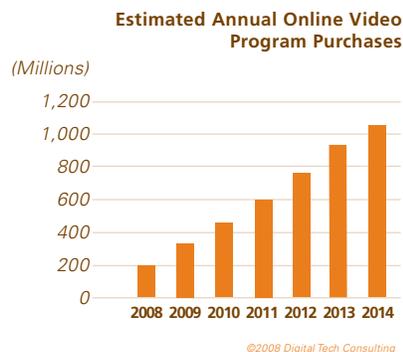
- Will the benefit of having additional spectrum available either for auction or for public use outweigh the negative impacts of the cost and disruptions that a DTT transition will deliver?
- How tightly will a DTT system need to be integrated with other digital platforms, such as digital radio broadcasts, or mobile TV and/or video reception? How will this impact the selection of transmission standards? How will it impact the selection of specifications for equipment?
- How does the transmission standard of neighboring countries affect the decision of which standard to adopt?
- How will adopting new and more advanced technology impact the availability of an adequate selection of broadcast and consumer equipment at reasonable prices in the near term? Will access and price improve in the long term?

Internet Video Usage on the Rise but Still in Search of a Business Model

Antonette Goroch

DTC's most recent research on the online video market pegs viewers at nearly 400 million worldwide, streaming or downloading some 23 billion videos monthly.

This impressive traffic would normally signal a robust business that generates healthy profits, but the infant and complex nature of distributing online video programming makes for uncertain business cases. Consumer viewership is solid. More elusive are the workable business models that can transform this consumption into profitable enterprises.



To date, the vast majority of Internet video content is free to the end user. Google, through its ad-supported YouTube, makes up about 70% to 90% of video traffic in all world regions, dwarfing the nearest competitors. But ad spending, particularly in a worldwide recession, hasn't resulted in profits, leaving Google with continuing losses in this division.

Premium video, while a tiny fraction of the market (we estimate just 1% of total online video), has produced more favorable metrics. Apple dominates premium video with its iTunes store accounting for more than three quarters of the market. Apple's more obvious focus with the iTunes store is driving sales of its hardware, but many believe that the online store itself is profitable. Apple doesn't break out its iTunes store results in its financials but our analysis suggests it may be garnering as much as 10% of its revenue from the iTunes store.

Many content providers are currently experimenting with how to combine elements of both free and pay content into a workable business model. Martha Stewart Live Omnimedia, for instance, is offering current broadcasts as free streams, while keeping HD quality archives of past shows (Classic Martha) behind a pay wall. Apple, meanwhile, is exploring ways to combine more free content into slightly higher prices—a new single that might include a music video, interview and ringtone for \$1.29 rather than just a song for \$.69, for instance.

It is efforts like these that seem to have the greatest hope of bearing fruit. It's unlikely that advertising dollars can support 70% to 90% of the traffic as it does today. A successful online video market will have to be supported by many types of revenue streams, and the ones that capitalize on the on-demand, user-defined nature of the Internet will likely be the ones supplementing the so-far inadequate ad-supported model.

The Video Optical Disc Drive Video Game System: Will It Survive?

Shelby Cunningham

Video game system (VGS) providers hope to get one step closer to controlling the home entertainment hub as they ready their next-generation devices. Online stores that enable downloading and streaming of games and other entertainment programming are now requirements for success, but will these services make the video optical disc drive unnecessary in game systems?

The current generation of VGSs is able to jump into the living room with DVD and Blu-ray Disc players and the ability to bring in programming from the Internet. The success of the current-generation devices validates, in part, Sony's and Microsoft's strategy to expand the consoles' function to much more than just a gaming device. The big console makers have been able to adapt to changing consumer behavior and include internet functionality so gamers can download movies, TV shows and games straight onto the console.

There were more than 340 million worldwide broadband households in 2008, and about 56 million VGS consoles shipped with internet access, but only a fraction of consumers are downloading and streaming movies from game consoles, resulting in a huge opportunity for growth in the internet-connected console market. The next generation Sony PlayStation Portable (PSP), the PSP go, is sans disc drive, leaving it to rely solely on downloads. Sony decided the time was not right to completely remove disc drives from handhelds, so they will sell the PSP 3000 alongside the PSP go, thus not alienating those who are not early adoptors.

DTC agrees, however, that a handheld gaming device is a good place to test a gaming system that doesn't support physical media. Doing away with carrying around discs and cartridges seems like a natural transition for portable devices that are popular, in large part, because of their convenience.

There are other benefits for VGS and game suppliers besides eliminating the costs of manufacture, packaging, and delivery of physical media. Customers ordering games and other programming via the Internet will provide industry players with valuable and large amounts of information on their buying and viewing habits – data that would be difficult and impractical to acquire from physical media purchases.

The first VGS maker to offer a device that doesn't allow backward compatibility for existing games will have to do a hard sell on the benefits of online delivery. Portable game shoppers could put a big check in the "No" column if they have to buy their old games in the electronically delivered format. While downloading content is a favorable trend and presents worlds of opportunity, packaged media will probably continue to be used in game systems – especially in living room consoles that double as DVD and Blu-ray Disc (BD) players.

	Xbox						
	Wii	360	PS3	PS2	PSP	DS	DSi
Internet Connection	X	X	X	X	X	X	X
Video Downloads		X	X		X		
Game Downloads	X	X	X		X		X
Built in Camera							X
Skype					X		
Video Optical Disc Drive	X	X	X	X	X		
Connect with Other Users	X	X	X	X	X	X	X

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MPEG-4 AVC Sitting Pretty

How quickly is the video market adopting MPEG-4 AVC? How soon, if ever, will MPEG-4 AVC supplant its MPEG-2 predecessor? How has its greater efficiency helped to soften the recessionary blow for some industries?

MPEG-4 AVC is helping to create a bigger standards-based digital video market than existed even a year ago. Digital video is growing beyond those previously identified "traditional" categories, and AVC's evolutionary compression-efficiency improvements are taking the MPEG standard into industries where it has previously had no, or limited, presence. Still it will be some years before advanced digital

video codecs impose notable erosion to the now ubiquitous MPEG-2 codec.

In our latest report, Digital Tech Consulting (DTC) forecasts shipments for MPEG-4 AVC set-top boxes (STB), PC, PC peripherals and application software downloads, mobile/portable devices and consumer electronics. This data intensive report includes top-line forecasts as well as data by region and top suppliers for 2009. The reports can be purchased separately or in a complete package at a discounted rate. For more information please visit dtcreports.com/report_avc.aspx

REPORT

Digital TV Receivers: Worldwide History and Forecasts (2007-2013) 3rd Edition

February 2009 US \$1,750*

This data-intensive report delivered in a spreadsheet format provides worldwide historical data and forecasts of digital TV receivers. DTH satellite, digital cable, IPTV, and terrestrial platforms are all forecasted in this report that provides a thorough and concise snapshot of the future of digital TV devices.

The report includes:

- Shipment data for STBs and IDTVs for 2007-2013
- Geographical and top vendor market shares for 2009
- A section of charts and graphs for ease of interpretation and presentation
- An executive summary that gives an overview of this rapidly changing market.

**Includes one hour of analyst time*

For more information, please visit dtcreports.com/report_stb.aspx

Digital Tech Consulting is a market research firm providing strategic information and analysis to help companies succeed in the consumer digital marketplace. To learn more about DTC and how our analysts might help your company, please contact us at the information below.

PUBLISHER

Myra Moore,
President
Digital Tech Consulting

214.915.0930
214.915.0931 fax
dtcreports.com

CONTRIBUTING ANALYSTS

Antonette Goroach
Shelby Cunningham
Myra Moore

digital digest

a market research quarterly
 Digital Tech Consulting

918 DRAGON STREET DALLAS, TEXAS 75207