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Netflix Probably Won't Kill Cable, But Others Might

As far as threats to cable TV go, we can probably scratch Netflix off the list. According to the quarterly shareholder note it recently published, Netflix acknowledges that it is actively courting cable operators to put the streaming service on cable set-top boxes (STBs) (initially those made by TiVo). And indeed, shortly after Netflix's quarterly note appeared, the first such deal, with RCN Cable, was announced. SuddenLink Communications, America's seventh largest MSO, has also agreed to provide its customers access to Netflix on its STBs.

Netflix has made no secret of its desire to expand beyond game consoles and streaming boxes and into cable – it was preparing to introduce its service on Time Warner Cable boxes until the latter's proposed merger with Comcast threw sand in the gears.

Overseas, Netflix is already on the STBs of some major cable companies, including Virgin in the UK. So it's obvious that Netflix doesn't really want to destroy cable TV, it wants to leverage its massive customer base to generate more subscribers. In the final sentence of its recent shareholder letter, Netflix writes: "We are approaching 50 million global members, but that is far short of HBO's 130 million. We are eager to close the gap."

To do that, Netflix is more likely to work with the same cable companies that helped propel HBO to its current commanding heights than to destroy them and build something new in its place. But does that mean that cable companies should breathe easy? Not necessarily. In fact, satellite operator Dish may have a cable killer on its hands.

According to a report in Bloomberg, the company is readying a web TV service that will do what Netflix, Hulu and Amazon do not – offer live, local programming in addition to 10 of the "highest rated cable networks" over the Internet. Dish is said to be looking to charge between \$20-\$30 a month for the service and target a younger, 18-to-34 year-old demographic that mostly watches TV on their smartphones and tablets. But mobile access shouldn't scare cable companies – they've been fitfully implementing their own "TV Everywhere" solutions over the past three years.

The price, on the other hand, should.

According to the latest figures from the Federal Communications Commission (FCC), cable companies charge an average of \$20 for a basic package that is essentially the same lineup of local and public broadcasts offered free-to-air. Throw in equipment rental fees (\$6.28 on average), taxes and other nebulous fees and you're looking at a bill that's close to \$30 with none of the cable networks that Dish is supposedly lining up for its service. *Continued on next page*

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PUBLISHER

Myra Moore | President
Digital Tech Consulting
214.915.0930
Fax 214.915.0931
dcreports.com

CONTRIBUTING ANALYSTS

Maya Jasmin
Greg Scoblete
Stewart Wolpin

To get to that next programming tier, where you'll find CNN, ESPN, etc. (what the FCC dubs "expanded basic") you'll pay an average of \$61.63 before equipment rentals, taxes and fees. That's a huge gap and one that Dish is looking to exploit to its advantage. It will have other advantages too.

Since Dish's service is likely to be simply an app that can be accessed on retail devices like the Roku or Xbox One, there will be no equipment rental fees or other charges to run up the bill. While the Dish programming lineup is unlikely to be as generous as cable's \$60 expanded basic package, it will have far more valuable content than the basic package cable companies charge \$30 for – including ESPN and the Disney Channel. Throw in \$8 a month for Netflix and you're looking at a very compelling value for consumers who may have been reluctant to cut the cord and lose access to sports and live programming.

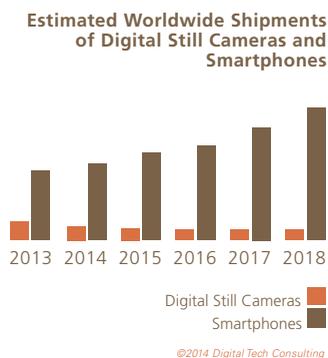
That last piece is critical, because despite the influx of streaming video-on-demand services, live broadcast TV remains absolutely essential for most American TV viewers.

Dish's proposed service would be something of a novelty in the U.S. Aereo, which is also streaming live TV online but acquired by a series of micro-antennas and not licenses from broadcasters, has ended up in court for its efforts and few competing options are likely to launch until either Dish proves the concept can work or Aereo wins its case (or both). But overseas, the market for over-the-top video that can compete successfully with traditional pay TV is more advanced. In Britain, satellite operator Sky is steadily making more of its content available to non-TV subscribers via the internet, starting first with pay-per-day access to live sports and late last year, online movie rentals through its Sky Store.

Scandinavian firm Magine has been more aggressive still, offering a set of live TV channels over the top to subscribers first in Sweden (where it has 500,000 subscribers) and now in Germany. The service, sometimes called "the Spotify of TV" is also being tested in Spain and has lined up several smart TV makers to incorporate its app in sets sold in Europe.

Steve Jobs once said that if companies didn't cannibalize themselves, someone else will. Dish, itself an incumbent provider, seems poised to heed this wisdom. Will others follow?

Can Action Cams Keep Camcorder Market Active?



It isn't news that the smartphone has bloodied the market for standalone imaging devices. Digital cameras, GPS receivers and camcorders are three of the latest injured product categories of the smartphone's Swiss Army Knife versatility. But one gadget sub-category continues to defy the smartphone hegemony over all things digital – wearable, or action camcorders.

The growth chart of wearable/action camera sales resembles a rocket's launch trajectory – nearly straight up, shooting from a mere 200,000 units shipped worldwide in 2010 to a projected 5.5 million this year, according to GfK. This is estimated to account for more than a third of all camcorder sales. But just how sustainably vertical is the action cam growth line?

After all, nearly 1 billion smartphones-cum-camcorders and an estimated 75 million digital cameras that also shoot video sold last year. These comparative voluminous unit sales numbers relegate the dedicated camcorder to a specialty niche market, which makes the action cam a niche market of a niche market.

Another vulnerability of the currently rosy action cam market is its dominance by one company – GoPro. In 2013, the company is estimated to have sold 3.4 million units, good for an estimated 87 percent of the action cam market share. And the company, already worth \$2.25 billion, will be better able to afford an expansion of its market preeminence when it goes public "in the near future," according to Forbes.

GoPro's action cam market dominance drove its closest competitor, Contour, out of the business last August (although Contour, under its original founder, says it will make an "aggressive" comeback after its purchase by Clarke Capital last October).

Niche action cam makers such as ION and UK-based Veho, as well as bandwagon-jumping action cams from mainstream camcorder companies such as JVC, Sony, Polaroid and Vivitar, have barely dinged GoPro's category dominion.

Perhaps the action cam category's small and insular demographic makeup will insulate it from outside market forces. However, one-company categories rarely survive over the long term; competition is necessary to maintain market and product vitality. Plus, the indestructibility of the products, a key action cam selling point, makes them less likely to be replaced on a regular basis. A limited demographic with a low replacement rate does not bode well for sustainable sales.

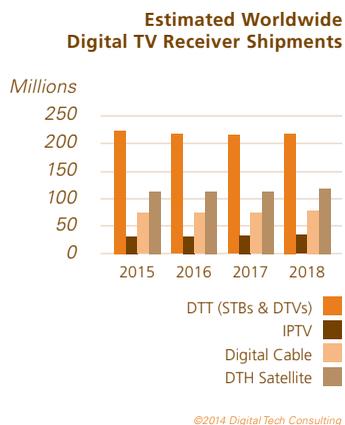
Further threatening action cam's long-term category viability are two new "action" product categories: so-called "button" or "lapel" cams, thumb-sized cameras far smaller than all current action cams that clip (rather than mount) to clothing; and pending 360 panorama cameras such as the Geonaute, Giroptic and Bublcam gadgets due to go on sale this summer or soon thereafter.

Finally, the smartphone itself could prove to be an action cam-killer in the same way it has crippled other standalone products. An increasing number of smartphones are now water- and shock-resistant or proof, which allow them to double as action cams.

More threatening to action cams are a growing number of companies such as Optrix, Hitcase, G-Form and even Mophie creating shock- and water-proof mountable action cam cases from companies that turn a smartphone into an action cam at a third of the cost of a dedicated device.

Right now and for at least the next 18-24 months, action cams seem to be the savior of the diminishing camcorder category.

Traditional Television: Still Hanging in There



There are plenty of declarations about shrinking slices of the pie for traditional TV, but overall the TV pie appears to be actually growing. Consumers may no longer be confined to a sofa or a predetermined schedule to watch TV, but there's no decrease in how much they are watching on the living room TV. The "TV anywhere" and "second screen" phenomena appear to be occurring in addition to the traditional "couch potato" TV viewing.

On-demand, downloading, streaming and storing video is making content viewing more flexible than ever. But what does this really mean for traditional TV viewing? According to DTC's digital TV receiver estimates, perhaps less than you would expect. Overall Digital TV receiver shipments, which include digital TVs as well as digital cable, IPTV, DTH satellite, and DTT STBs, are healthy and expected to log modest growth over the next few years. DTC estimates that 385 million combined units shipped worldwide in 2013, growing to over 415 million in 2014, with unit shipments expected to reach over 470 million in 2018. Continuous growth is expected throughout the forecast period yielding a CAGR of 4% between 2013 and 2018.

As countries continue to transition from analog to digital terrestrial television, STBs and DTVs that receive digital terrestrial signals are in high demand in certain regions such as Latin America, Eastern Europe and Africa. Because of varied digital transition schedules, these categories will experience steady compounded growth over the next few years and are expected to yield the second largest area of growth within DTV receiver market within that same time frame.

IPTV STB shipments are expected to experience the highest growth over the next five years. IPTV pay TV services are growing and are expected to continue the gradual chipping away at the more established digital cable and DTH satellite business. Even though the digital cable and DTH satellite platforms could be considered the senior citizens of the pay TV market, they are both expected to produce significant STB shipments for years to come. The Indian

market in particular has been a catalyst for DTH satellite STB shipments as DTH satellite is the main way that Indian consumers receive digital TV signals.

So while the options for watching content are steadily growing, it seems that they have not caused consumers to abandon the traditional digital TV viewing experience. If anything, these additional content streams have enhanced the way that television is consumed. And traditional pay TV operators are developing new services and receivers that incorporate these more flexible features. In whatever way this content anywhere, anytime revolution has lent to the consumer's viewing experience, it seems to support the cliché that the more things change, the more they stay the same.

The 8th edition of DTC's Worldwide Digital TV Receivers Forecast is now available. For more information, please visit dtcreports.com.

THE VIDEO OPTICAL DISC DEVICES AND MEDIA: WORLDWIDE SHIPMENTS FORECASTS

8th Edition

Both the high-definition (Blu-ray) and standard-definition formats for product categories, including PCs and peripherals, DVD/BD devices, pre-recorded media and video gaming systems are forecasted in this report that provides a thorough and concise snapshot of the future of video optical disc devices.

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For more information about DTC's technology IP services and client case studies, please visit dtcreports.com or contact Myra Moore at 214.915.0930, or myra@dtcreports.com.