

How Do More Video Screens Translate to More Revenue Streams?

A DTC White Paper



Digital Tech Consulting, Inc.

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The Changing Face of Pay TV

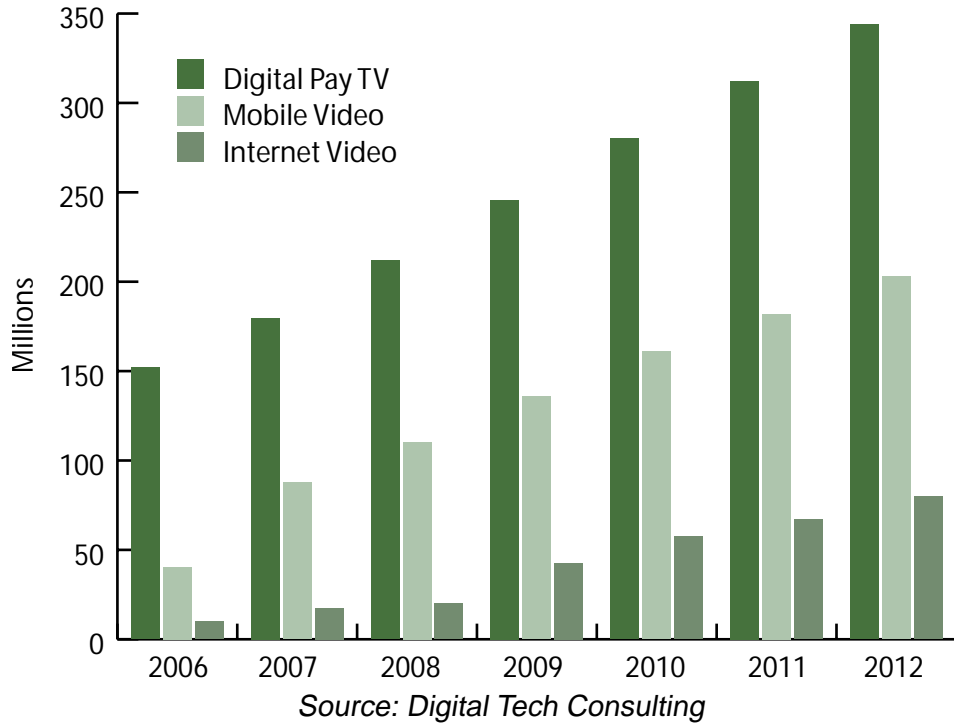
The delivery of video has expanded far beyond the first digital cable or satellite networks of the 1990s. Unshackling video content from the TV and delivering it to the desktop, back seat, and handset portends an explosion of digital-video distribution the industry hasn't witnessed for more than 10 years.

In the last several years, technological advances have dovetailed to give rise to new forms of digital video content networks—such as broadband Internet, mobile and Internet TV (IPTV)—as well as new levels of interoperability and economy between emerging and established networks.

Growth across digital networks and the pay TV services they deliver is expected to be exponential over the coming years. Research from Digital Tech Consulting (DTC) suggests that digital TV subscriptions alone will grow from 179 million in 2007 to more than 340 million in 2012. New forms of “over the top” content -- broadcast-quality video over Internet pipelines that is not delivered by traditional pay cable or telco service providers – will also expand, further expanding the scope of digital pay TV.

Equally as important is the emerging market for premium mobile video services, with the number of mobile subscribers taking video packages expected to sky rocket from 87 million in 2007 to more than 202 million in 2012. Meanwhile, broadband Internet delivery to PCs and other devices is expected to reach some 80 million premium consumers in 2012 compared to just 18 million today. For purposes of this white paper, DTC defines Internet premium consumer as those who pay for video content delivered via streaming or downloads. The chart below shows consumers who pay for premium content via each pipeline. For pay TV these are primarily subscribers; for mobile, service subscribers who pay for additional content beyond basic talk service; for Internet, consumers who buy a video download or service on a per use/download or stream basis. This chart focuses on the consuming universe of people—not the content pieces or subscriptions.

Digital Pay Video: Three Screens



This changing landscape demands both content providers and network operators alike consider the totality of pay TV's emerging picture, rather than any single segment, in evaluating both opportunities and challenges of the moment.

To help facilitate this understanding, the following white paper discusses:

- The enabling factors driving growth in these emerging pipelines
- Descriptions of each platform, considering both current content types and dominant business models
- Regional differences in digital networks, comparing dominant infrastructures such as cable, DTH satellite or phone lines. (For more on the Pay TV STB market, see DTC's Set-top Box Forecasts for Emerging Markets)
- Digital pay TV, digital mobile video and broadband Internet pay video market forecasts

Enabling Factors

Several important enabling factors have set the stage for a vast expansion of network-delivered video content over the past decade.

Fundamentally, the growth of broadband Internet access has created a pervasive new mainstream pipeline for video delivery. Between 1997 and 2007, broadband Internet homes have grown from fewer than 5 million to more than 250 million worldwide. In many countries, including the United States, Japan, UK, South Korea and Canada, broadband penetration has reached more than 50%, while broadband access is available in virtually every country worldwide. With downstream speeds generally in excess of 1 Mbps, these subscribers are able to receive a variety of video content both streamed and downloaded which can be played and stored on a PC.

Meanwhile, broadband mobile networks, such as 3G and broadcast mobile TV networks have also emerged as a viable new mainstream pipeline for video delivery. Since the first 3G networks were launched in the late 90s, there are now more than 150 million 3G subscribers worldwide, with heavy concentrations in markets like Japan, Korea and Italy. Additionally, mobile TV networks, using standards such as DVB-H, DMB, and MediaFlo, have recently launched commercially, with total subscribers reaching into the millions. These advanced network subscribers are able to receive broadcasts of traditional TV channels, as well as on-demand clips and short-form programs, though most of these are currently delivered on a “free-to-air” basis.

Equally important, network optimized video-compression technologies, such as MPEG-4 Visual, VC-1, and AVC/H.264 have reduced the amount of bandwidth necessary to deliver high-quality video to end-user devices. Broadcast-quality video can be delivered via MPEG-2 and advanced compression technologies can deliver video of equal quality, using just half the bandwidth. This is enabling the delivery of video content not just over new networks, like the Internet and mobile, but also expanding content offerings to include high-definition video and large on-demand libraries in traditional pay TV networks.

Platform Descriptions

While there are wide-ranging possibilities for the convergence of Internet, mobile, and pay TV content, to date, the three main pipelines for networked video content remain largely distinct both in terms of the type of content consumed and the business models employed.

Pay TV

Digital pay TV packages are primarily offered as subscription-tier packages for channel groups and on-demand libraries, with additional a la carte content (movies, events, TV show episodes) available on either a pay-per-view or on-demand basis. Both operators and content providers typically receive an additional revenue stream from advertising sales. Consumer set-top boxes (STB) are typically either sold at retail or leased from the network operator. (For more on the worldwide market for all DTV receivers, please read about DTC's report Digital TV Receivers: Worldwide History and Forecasts)

New technologies have begun to expand the traditional pay TV business model, with larger libraries of on-demand programming and increasing access to "over the top" content.

Mobile TV

Most mobile video content is of the short-form variety, spanning news, sports and video clips, as well as user-generated video incorporated into the pay model. This is changing however, as mobile begins to encompass broadcast television and access to continuous streams of programming.

The predominant business model for mobile pay video is the subscription model, following the existing model for mobile telephone service. A growing array of on-demand content is available, particularly as mobile users are able to find their content in more places (not necessarily just from their network operator) and as operators seek to offer more ways to increase their overall ARPU.

Internet

Pay-video content is primarily TV episodes and movies, with the majority of premium content currently sold, or rented, through Apple's iTunes store as pay-per download.

There is still a large degree of experimentation with Internet business models for pay video. Apple has found the most success with its a la carte movie and TV content. Other subscription models may also find traction however, such as the new view-it-now feature incorporated in the Netflix subscription DVD service.

Regional Summary

The development of each digital platform varies greatly among regions, reflecting each specific area's existing infrastructure, existing pay-video markets, and regulatory environment. Mature markets for digital pay TV, such as North America, Western Europe, Japan and Korea, are expanding into advanced offerings like HD services, while many developing markets, such as those in China and India, are offering basic digital services with low subscription fees. (For more detail, please see DTC's Set-top Box Forecasts for Emerging Markets)

Mobile video is taking root in both advanced and developing regions, as its relatively low costs for end users and lack of wired infrastructure has made it easier to deploy in more places.

Internet premium video services meanwhile are confined in large part to North America, though this may soon change as Apple expands its presence to additional world regions.

North America has the largest Internet video and digital pay TV market. Pay mobile video has been slower to take hold, but is expected to see rapid growth over the next five years.

The largest number of networked video consumers (those purchasing video via a digital network—Internet, mobile or digital pay TV) in the North American market come from digital TV, making up more than 89% of the total. Digital TV packages are ubiquitous via both digital cable and DTH satellite in North America. IPTV services have been launched commercially by both tier-one telcos (Verizon, AT&T, Bell Canada) as well as more than 100 regional tier-two and -three telcos. Advanced digital services such as HD programming, DVR, and VOD are widely available.

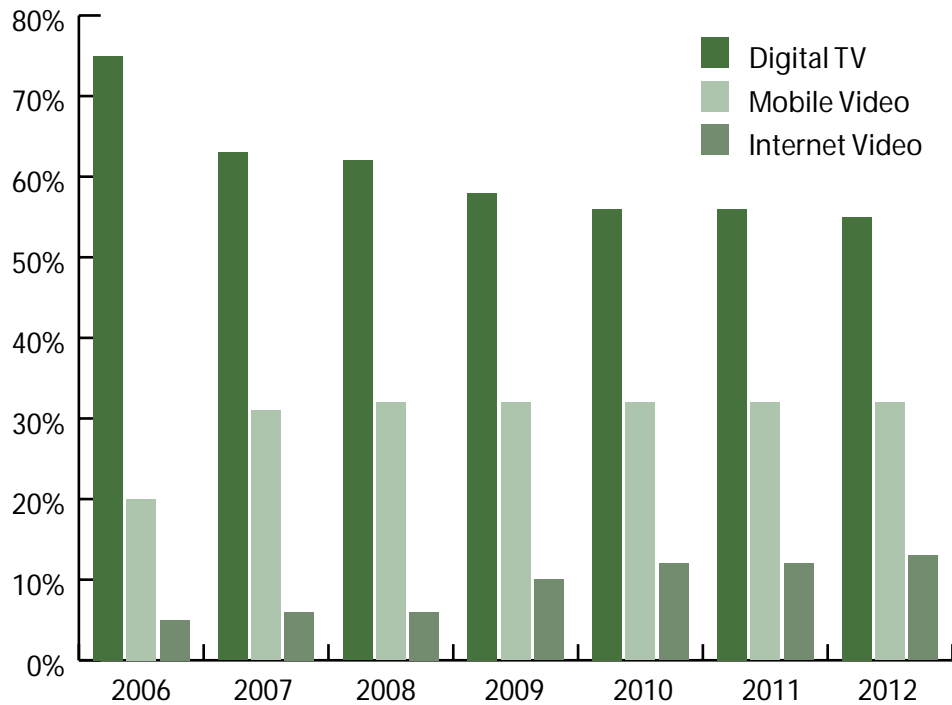
The Europe Middle East Africa (EMEA) region is also dominated by the digital TV segment, with well-developed digital pay markets throughout Western Europe, as well as new digital pay system launches throughout Eastern Europe. The mobile video market is also thriving, with both 3G mobile TV services and mobile broadcast available throughout the region. Italy, for example, has emerged as a strong and growing market for mobile TV via DVB-H. Three services, 3 Italy, TIM and Vodafone will account for more than 3 million subscribers in 2008.

While it also has a well-developed digital pay TV segment, Asia Pacific has the largest base of mobile video consumers, both premium pay and free to air, in the world. These are made up of 3G mobile video users

across the region, and mobile broadcast users in both Korea and Japan. Major deployments, which encompass both mobile broadcast and 3G include NTT DoCoMo (Japan), KDDI (Japan) and SK Telecom (Korea).

Latin America has had a fairly static digital pay market for years, but new IPTV services based on widespread broadband Internet availability are offering new possibilities for growth in this developing market. Brazil Telecom, for instance, has conducted trials for a hybrid IPTV/digital terrestrial service throughout 2007 and will launch commercially during 2008. Mobile video is also finding success in Latin America, with new 3G services recently launched in the markets of Mexico, Chile and Brazil by telecom operators including Telefonica and America Movil.

% Worldwide Pay Video Users by Pipeline



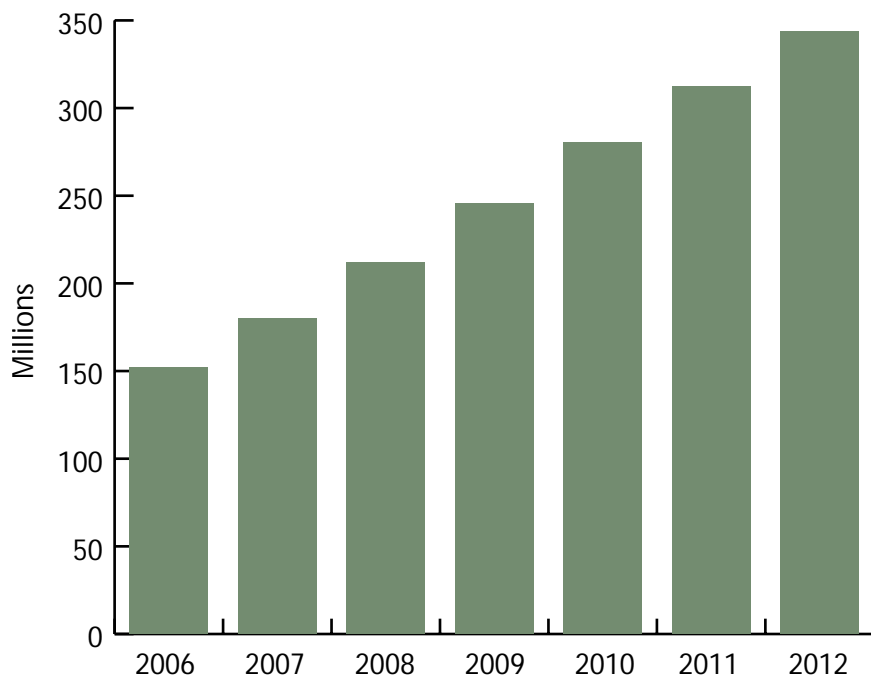
Source: Digital Tech Consulting

Market Forecasts & Summary

All three platforms are expected to see rapid growth over the next five years. Pay digital TV will make up the largest single platform, but mobile video will comprise a substantial portion of the growing whole. Premium video over the Internet will see a slower growth curve as most content will be ad supported.

Digital TV broadcasts delivered via cable, satellite, and IPTV remain, and will remain the largest type of pay digital content for the near future. Digital pay TV subscribers passed 179 million in 2007 and are expected to almost double by 2012, reaching more than 343 million.

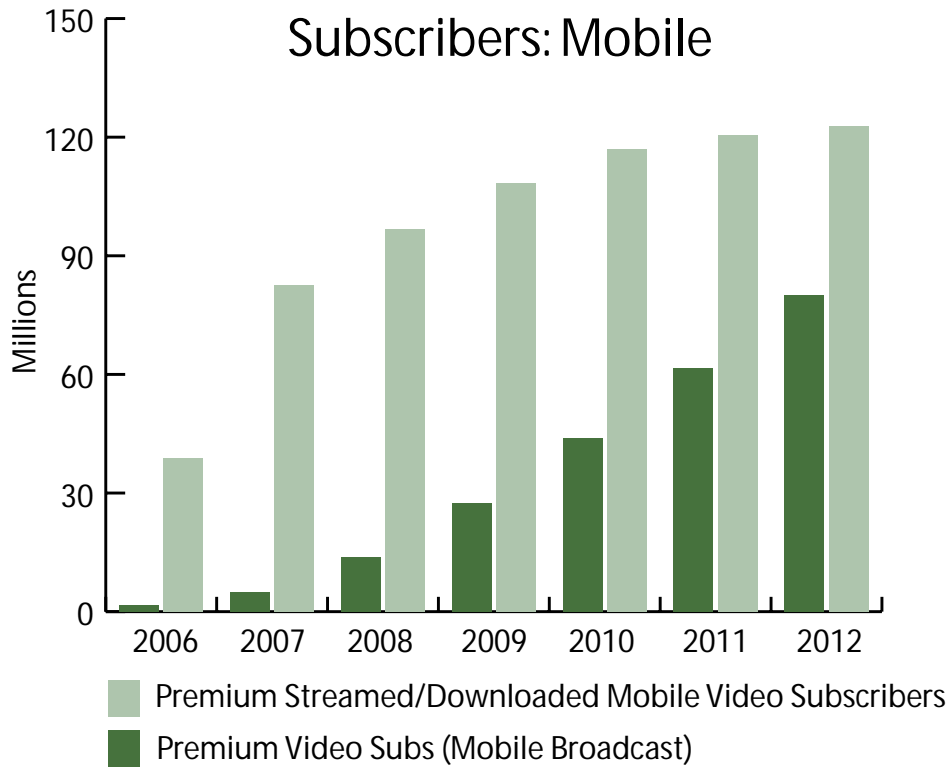
Worldwide Digital Pay TV Subscribers



Source: Digital Tech Consulting

Mobile TV, delivered as streams, downloads, and broadcasts, has emerged as a substantial and fast growing pay-content segment. Mobile users who paid for access to premium video content are estimated to have reached 87 million in 2007. This is expected to more than double by 2012, to more than 200 million worldwide.

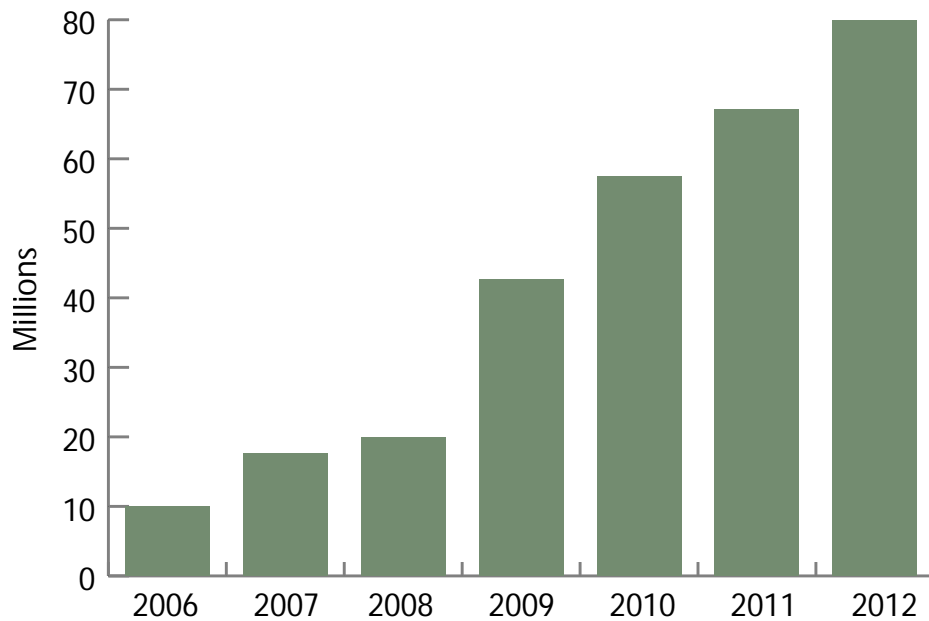
Worldwide Premium Video Subscribers: Mobile



Source: Digital Tech Consulting

While a large and exponentially growing amount of video is on the Internet, the majority of this is ad supported and to a large degree user generated. Still, the pay-video segment of the market is also growing, albeit with much smaller numbers. Premium video users, purchasing content over the Internet either as downloads or streams, numbered more than 17 million in 2007, and are expected to reach almost 80 million by 2012.

Worldwide Premium Video Subscribers: Internet



Source: Digital Tech Consulting

Strategic Conclusions

- Three distinct digital network pipelines are solidifying for the delivery of digital pay video content: Digital pay TV (cable/DTH satellite/IPTV); mobile networks; and, broadband Internet. Digital pay TV will remain the largest digital video pipeline, generating revenues from subscriptions, Video on Demand and advertising revenue, but all platforms will show substantial growth over the next five years.
- A maximum degree of standardization across networks and content will facilitate the leveraging of different pipelines to each other's benefit. This is an environment where content is going from everywhere to everywhere. Support for open standards where available is fundamental. Beyond this, support for multiple formats and standards can support interoperability. Solutions must be able to reach across traditional boundaries in a way that is seamless to the end user.

- Content protection, digital rights management, and tracking strategies must operate across all platforms, facilitating the mobility and portability of content assets. Solutions must encompass content protection which provides a balance between secure and flexible business models, supporting multiple types of digital rights models and the viral nature of content flow within the network. This can include encrypted, transactional digital rights solutions, watermarking and fingerprinting.
- Regional strategies must be distinct, to reflect each area's access to content, population characteristics, economic conditions with regard to traditional and emerging platforms.

The data, forecast and analysis in this White Paper is derived, in part, from existing DTC market research, reports and our database of market forecasts and analyses. To find out about more detailed research and analysis on the Three Network Screens, please contact:

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