



BSAC Briefing Paper

TV Platform Video-on-Demand: Market Status Update

December 2009

Introduction

This paper is concerned with TV-based 'on demand' services delivered to a set-top box. Internet-delivered video-on-demand (VoD) services will be discussed more fully in a subsequent BSAC briefing paper, although, as will be apparent from the discussion below, the boundaries between TV-based services and so-called 'over-the-top' services delivered via the Internet is becoming increasingly blurred.

For a discussion of the fundamental business model concepts underlying the VoD business, along with explanation of the main terms and acronyms used, please refer to the previous BSAC briefing paper issued on this topic in February 2008.

Market status

By the end of this year, almost exactly 50 per cent of British TV households will be equipped to receive an on-demand video service of some kind via one of the TV platforms in this country. Just over 4m are able to access a true VoD service via cable (Virgin Media) or IPTV (primarily BT Vision), while 8.7m can receive a near-VoD offering – mostly via BSkyB's satellite platform.

In total revenue terms, Screen Digest estimates the UK TV platform on-demand market will be worth £274m this year. Of this total, about 70 per cent is derived from individual transactions (almost 50:50 NVoD:VoD), while the remainder comes from related subscription-type payments. NVoD revenues peaked in 2005 as true on-demand services began to take off.

In revenue terms, the UK is actually the second largest on-demand video market in the world after the US. However, to put this in context, the US market alone accounts for 61 per cent of the global on-demand video market, while the UK contributes just six per cent.

Today, the UK on-demand market as a whole is still dominated by BSkyB and Virgin Media. These two control just over 90 per cent of the nation's paid-for on demand

market, with BT's Vision IPTV service accounting for most of the rest – along with a modest contribution from Tiscali TV (now owned by The Carphone Warehouse).

However, it is worth noting that the vast majority of content consumed via true VoD services is not directly paid-for by consumers. Screen Digest estimates there will be close to 800m 'views' via cable and IPTV VoD services this year. Of this total, well under five per cent will have generated a direct consumer payment and close to 70 per cent will have been 'free' to view. To date, very little of this free-to-view VoD content includes any adverts, so advertising revenues from TV platform VoD are so far extremely small. This contrasts with Internet-delivered VoD services, many of which are designed to be solely advertising-supported.

While movies and other paid-for content typically make up about 10 per cent of any UK on-demand catalogue, their share of overall views is relatively low. Indeed, TV programming, particularly catch-up TV, is now the main driver of UK on-demand consumption. Both Virgin Media and BT Vision have catch-up TV content from the BBC, ITV and Channel 4. Catch-up libraries are included with Virgin's basic digital TV package and in the cheapest BT Vision SVoD (subscription VoD) package, so are available to a wide number of households. Older TV series are normally available in SVoD packages or bundled with higher tier linear subscriptions

Total movie transaction revenues (pay-per-view payments) from nVoD and VoD will be £113m in 2009. As a point of comparison, this is about 60 per cent of the total that we expect British consumers to spend on rental of DVD and Blu-ray Discs this year (approx. £192m). After movies, by far the next largest contributor of on-demand transactional revenues is 'adult' material, which Screen Digest estimates will generate around £54m this year. Another £25.5m will come from pay-per-view events/sports.

Virgin Media

Virgin Media was the first UK operator to launch VoD nationally, in 2005. All Virgin subscribers are able to access the VoD system. The company's on-demand service currently has roughly 8,000 titles at any given point, with music videos and TV series making up 90 per cent of the catalogue.

VoD content from the catch-up TV library is accessible to all subscribers on the most basic tier, however access to high-definition content, music video and the TV Choice archive costs extra. 'Free' access to all of these packages is however, included in the higher subscription tier.

Some of the Channel 4 content available on Virgin's VoD service contains advertising (inserted by Channel 4), but the vast majority of free VoD content delivered by Virgin has not included commercials and therefore not generated any advertising revenues. However, that is about to change. From late-November 2009, Virgin is rolling out a dynamic advert insertion system to 300,000 of the 3.7m homes within its VoD footprint. Contextually based 30-second pre-roll and post-roll commercials will be matched to the content of programme being viewed. Advertisements from brands including L'Oreal,

Sony Ericsson, Kellogg's and Microsoft will be dynamically inserted around on-demand programming sourced from Virgin's own Living, Virgin 1 and Bravo channels.

Transactional pricing is standardised by Virgin across films and other content, with new release movies costing £3.50 and library titles £2.50. Music videos are priced at £0.20 for lower tier customers. Adult videos are priced at £5.00.

Virgin Media outsources its movie VoD operations to FilmFlex, a joint venture between Sony Pictures Television and Walt Disney that was until late 2007 one third owned by SeaChange subsidiary OnDemand Group. Through FilmFlex, Virgin can offer new releases and library movie catalogues from all Hollywood Studios and a number of independent producers.

BSkyB

Having enjoyed dominance in the PPV/NVoD market for the best part of a decade, BSkyB is now being challenged in the on-demand space by operators using digital cable and IPTV to offer true VoD.

Lacking the ability to offer a true VoD experience via its core satellite platform, BSkyB launched a PVR-based so-called 'push-VoD' service in 2007 called 'Sky Anytime'. Access to this service comes free for subscribers with one of the more recent Sky+ boxes that have larger built-in hard drives, although content is limited by the packages the subscriber takes and the limited storage capacity of the set-top box. A relatively small selection of movies (and other selected TV programmes) are 'pushed' to the box after their first transmission on Sky channels, creating a limited 'catch-up' service. The capacity to watch the programmes and movies depends upon the subscriber's tier: for instance only Premium movie subscribers will be able to watch the films from Sky Movies pushed to their PVR box.

Newer Sky set-top boxes have the capability for broadband connectivity and it is not unreasonable to expect that in future this will be utilised to deliver on-demand content – both pushed and 'pulled' (i.e. downloaded) by the subscriber to the Sky+ hard disk. It is also likely that Sky Player functionality will also be featured in these boxes (see below).

BSkyB has employed the open Internet to deliver VoD services for some time, first introducing a PC-based VoD service as early as January 2006. Initially offering VoD downloads only, it was later expanded (and re-branded as Sky Player) to include simulcast streaming of live Sky channels. All the features of Sky Player – including the simulcast streaming of channels – is available free for Sky customers as a value-add to their existing package, but only to those taking the Multiroom TV package (normally £9.75 per month) or the top-tier broadband access subscription. Subscribers on lower-tier packages have on-demand access to programming consistent with eligible channel bouquets.

Sky Player is also available as a standalone subscription for customers opting not to have a dish/set-top box. The subscription for this starts at £15 per month and BSkyB hopes to

generate a meaningful incremental revenue stream from these ‘non-dish’ subscribers as well as driving other subscribers towards Multiroom and higher value broadband packages.

There are around 800 movies on a VoD basis via Sky Player, most of which are available for no additional charge to Sky Player-eligible subscribers and are in the pay TV window. About 270 of the 800 are offered on a PPV rental basis. The charge is £3.43 for unlimited viewing within a 48-hour window. This compares with the £3.91 rental charge via the normal Sky Box Office NVoD service.

Sky also makes over 2,500 entertainment, documentary and lifestyle TV shows available via Sky Player. Roughly half of these are free to view for customers with the appropriate subscription package, with the remainder priced at £0.98 for PPV rental.

The most significant recent development is that Sky Player is now available via the Xbox 360 games console. This means that the once-PC-only service is now easily viewable on a TV set. To access the service, Xbox 360 owners must connect their consoles to broadband and subscribe to the Gold tier of Microsoft’s Xbox Live online service (£40 per year) – as well as meet the normal Sky eligibility rules.

Another deal to allow Sky Player to be used via the Fetch TV broadband-connected Freeview box has been announced and we expect a similar agreement for access via Sony’s PlayStation 3 games console to follow.

BT Vision

The BT Vision platform was launched in November 2006 to subscribers of the BT Total Broadband service. It utilises a ‘hybrid’ Freeview/IPTV set-top box that couples the standard Freeview digital terrestrial linear TV proposition with on-demand content delivered over BT’s ADSL lines. The box also includes an 80Gb hard disk for PVR functionality and uses Microsoft’s Mediaroom IPTV technology.

Initially the service was offered to BT broadband customers free for a £30 connection fee and no annual fee. However, BT now charges a £90 set-up charge for customers not subscribing to any SVoD packages and has attempted to get tougher by levying a £190 charge on new customers that churn during the contract period.

As of end-September 2009, BT Vision had 436,000 subscribers and has conceded that the previously set 2m-3m subscriber target for end-2010 is now unrealistic. Just 18,000 new subscribers were added in Q3 2009, but after a further ‘cleanse’ of non-payers from its subscriber database, the net increase was only 3,000 more than at end-June. Having originally positioned the consumer proposition as a VoD-only service that did away with being tied to subscriptions, BT now reports that 90 per cent of new customers signing up in the last quarter took out a subscription package.

BT currently boasts the largest TV on-demand catalogue of any of the pay-TV operators in the UK. It has approaching 10,000 titles on the service (representing nearly 7,000

hours of content), of which roughly half are current or library TV series. Content is largely available through a series of SVoD packages, organised according to content type (Kids, TV, Music, etc).

SVoD movies can be accessed through Universal's Picturebox service, but the majority of movies are available on a PPV basis. Picturebox provides roughly 30 titles per month. High definition (HD) films are available, but due to network bandwidth constraints, can only be watched after being downloaded to the hard disk in the set-top box. Consequently, usage of HD on-demand videos remains low. HD new movies are available at £4.84, with library titles at £2.88. New standard definition films come in at £3.37, with library titles typically £1.94.

BT Vision services generated 34m on-demand views over the three months to end-September 2009. This compares to a run rate of 66m on-demand views *per month* generated by Virgin Media. However, this BT Vision consumption represents an average of 35 views per customer per month, which compares to around 18-19 views per month for Virgin customers.

Tiscali TV (Carphone Warehouse)

Video Networks, UK pioneer of commercial VoD with the Homechoice service, was acquired by Internet Service Provider Tiscali in 2006. The UK operation of Tiscali was then itself acquired by The Carphone Warehouse (TCW) earlier this year. Whilst retaining its own brand, Tiscali is now part of TCW's TalkTalk fixed communications division.

While Tiscali TV has increased its availability beyond Homechoice's original London limits, availability is still restricted, with only households in the UK's largest cities able to access services.

In recent times, Tiscali TV has never been marketed heavily, and its user base has stayed below 0.1m. Nonetheless, the company boasts a significant video-on-demand library, with 'free' catch-up TV from the BBC, Channel 4 and others, as well as transactional films. Kid's content and music videos are bundled into separate subscriptions with a range of corresponding thematic channels.

Tiscali's on-demand catalogue is almost as large as that of BT Vision's in terms of sheer title numbers, but this is boosted by a significant number of music videos (over 7,000). The platform has roughly 2,500 long form titles in any month, including approaching 1,500 movies.

Transactional pricing is £3.42 for a new movie, £1.94 for a library title and £0.97 for a TV episode. There are few TV shows offered on a paid-for basis and most are free.

Ben Keen
Screen Digest