Deadline Media TV

Connected Television in the UK and Ireland

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Deadline Media TV has just published its latest report, covering connected television in the UK and Ireland.

The 250 page report provides comprehensive research, forecasts and strategy on one most challenging developments ever faced by television broadcasting.

Television is the last of the great communications and media platforms to embrace internet. The exercise will take some two decades to complete. In the meanwhile we conclude that for the next half decade connected television is primarily a complimentary, incremental, platform for existing broadcasting and content owners.

We believe that within the UK and Ireland television-like OTT TV will generate revenues of some £532 million in 2013, representing about4% of all television broadcasting revenues. This will rise to some £1.6 million in 2017 – some 15% of total broadcasting revenues. We also expect that at end of the next two decade most television content will be delivered to the consumer over Internet through a combination of live streaming media and VoD.

More immediately, connected television remains a nascent business still, in such areas as social TV and targeted advertising at the experimentation and testing stage.

Connected television is about three main issues:

Accessibility of content
Consumer electronics devices
Distribution platforms

Connected Television in the UK and Ireland comes to robust conclusions on many of the current developments, observing that the broadcasting sector in the UK and Ireland is fundamentally different from that in the USA. It details how the three main issues interrelate to each other.

We believe that pure play OTT TV is unlikely to result in significant cord cutting from mainstream pay-TV platforms. Nor does it offer a low pay-TV option targeted at the 46% of households who do not subscribe to pay-TV. In essence it is a form of take it or leave it top up TV. We suspect that its primary market is as an alternative to physical disc rental or purchase, a market currently worth a healthy £1.5 billion a year.

The evidence points strongly to connected television emerging primarily as a television anytime platform rather that a television anywhere service. The structure of the television anytime sector is complex and changing and can be summarised as follows:

Catchup TV: driven by the BBC this has primarily been a powerful Freeview competitive response of the FTA sector to BSkyB's premium pay-TV operation. Whilst this is not a monetisation exercise for the BBC, it provides a platform for PPV content.

For other FTA players catchup TV is primarily a method of defending or increasing advertising revenues.

However, the extension of catchup TV, in the form of YouView, has, in our estimation, been a colossal failure. YouView has simply not emerged as "Freeview 2". It is non-standard, grossly overpriced, too late and the consumer does not want it.

Pure Play OTT TV falls into two categories, subscription VoD and PPV (transactional) VoD. Whilst PPV serves a clear market gap, sVoD is hampered by lack of access to content and may not be sustainable in the long term. The incumbent FTA and pay broadcasters are developing their own alternatives. Content remains king and incumbents are integrating PPV and sVoD with their main linear scheduled offerings.

In practice VoD and PPV OTT looks to offer occasional use television. The pure play providers are unable to provide original television programming content in any significant volume.

Live streaming of TV channels also opens up the television everywhere platform but also offers opportunities for specialised or niche channels. However, for the time being it is not an economic alternative for big hitting channels. Content distribution networks are just too expensive.

That may change in a few years time if major content providers, such as Hollywood studios, decide they want a direct relationship with the viewer.

Gaining big economies of scale for apps is a necessary but not sufficient condition for success in the connected television environment. This issue goes to the very heart of what US technology companies such as Google, Apple and Microsoft are trying to do with connected television and what European broadcasters are trying to do to stop them. The apps issue is closely related to attractive user interfaces including inter-operability and commonality between consumer electronics devices.

The UK and Ireland's apps sector is a mess. YouView simply lacks economies of scale. MHEG-IC has, deliberately, not been promoted as the UK's hybrid-broadcast-broadband platform despite the apparent success of MHP in Italy and HbbTV elsewhere in Europe. Ireland has opted for HbbTV. BSkyB retains its own OpenTV platform and the two cable operations (UK and Ireland) have no common technology platforms. The consumer remains confused as to the difference between a smart TV and a connected television.

It is time for the UK to get its act together and opt for and promote MHEG-IC. We have concluded that MHEG-IC needs to be accepted by broadcasters as "Freeview 2". Throwing more money at the unloved YouView is too late.

Samsung appears to have won the apps battle amongst proprietary smart TV manufacturers selling into the UK. It has the most and the best and appears to now have a market share of smart TV sales in excess of 51%. Nevertheless all Freeview HD monikered televisions manufactured since April 2011 are MHEG-IC enabled.

Broadband households already own a plethora of devices to connect their televisions to Internet. We calculated that the average UK household has 3.3 different methods of connecting and considerably more devices to do so. Most of these devices have not been acquired specifically because of their broadband connectivity. They are multipurpose devices for which connecting the television is secondary.

The cost to the broadband household of connecting a television is irrelevant. The marginal cost of incorporating connectivity within a television is about $35 ex-factory. Moore's law will continue to operate for a few years at least and consumer electronics costs continue to plummet (or drastically improve in performance as processing power costs drop).

It looks likely that the prime device for connected television will be built into nearly all future televisions. In the meanwhile there are a plethora of devices capable of connecting the television. The STB will remain a major device for doing so for the foreseeable future, despite the conventional STB looking increasingly obsolescent. Some 7.5 million households in the UK and Ireland have connectable STBs and they allow the pay-TV operators to continue as gate keepers.

The future of external streaming media boxes and dongles is more uncertain. YouView has failed to convince the public that a combined PVR/streaming media box is a worthwhile purchase. We estimate that there are about 900,000 external streaming media boxes (excluding YouView) in use in the UK and Ireland. The market is dominated by Apple TV and Roku but scores of different devices have been available. Prices of such devices are now falling rapidly and there is a case that they will become a major element in the connected television environment.

It also looks increasingly likely such devices will be tied to specific video service offerings rather than act as general devices. That allows the service provider to continue as a gatekeeper, especially if box sales are subsidised. The consumer may purchase several different brands over time, switching service as need be. The alternative view is that such devices represent industry failure to grasp the necessity of common standards.

Most Blu-ray players have a broadband connectivity capability but owners are making little use of them to get connected television. In contrast games consoles are some five times more likely to be used to connect. However, it looks as if the games console market has peaked and ownership of them is disproportionately in poorer households without fixed line broadband access. Gaming may increasingly switch to other devices including smartphones and tablets, today's new multipurpose devices.

Tablets present a big challenge to broadcasters; they are devices that cross the boundary between truly mobile technology and in-home use. They function both as second (companion) screens and secondary television viewing screens, thus trying to combine lean forward with lean back viewing. Unlike conventional remote controls, they are not rugged, are heavy on battery power and, still, relatively expensive to buy or repair or replace when broken.

There looks to be room for more innovation with companion screen devices.

Social TV is in the wild west country of connected television where key online players from outside the British Isles dominate social networking. Zeebox, in contrast, represents the broadcaster-centric end of social TV.

Social TV appears to be largely about live television and not about VoD content. It doesn't even necessarily involve OTT TV. Recent evidence from the USA also suggests that the correlation between online social activity surrounding a TV programme is not strongly correlated to actual audience viewing. However, converging the two advertising worlds of point-to-point and point-to-multipoint communications is top priority for advertising funded services such as ITV and RTE.

Apps and standards fragmentation are even more problematically for social TV as they are for connected television, not helped by key players coming from very different directions.

We see few prospects for linear scheduled television in the true mobile environment despite 4G e-MBMS, DVB-NGH and DVB-T2 Lite allowing for it. It has been tried and tested and the consumer does not want it. Television to the tablet is emerging as a WiFi tied platform in the home – portable television if you like.

Connected television is not cheap. Some 28% of households in the UK and 42% in Ireland still do not subscribe to fixed line broadband. Our forecasts suggest than even in 2017 only 65% of individuals will own a smartphone and 52% a tablet. A lot of consumers are unwilling or unable to pay for Internet connectivity.

Whilst the highly competitive nature of communications in the UK make it an ideal place for development of connected television services, the competitive landscape is changing. The opportunity for broadband competition arising from LLU is disappearing as BT roles out FTTC. Virtual LLU looks to be very difficult to differentiate from BT's own Infinity product. UPC looks highly unlikely to invest in significant new build for its cable operations.

UPC can incrementally upgrade its networks through such techniques as splitting nodes and fibre to the amplifier. It can thus readily match capex with demand. BT's network requires basically an all or nothing upgrade beyond FTTC. Unfortunately FTTH looks to be about 4-5 times more expensive than upgrading to FTTC.

As it stands public subsidies are needed to extend FTTC to about a third of UK premises. We do not believe that FTTH over BT's network will be a viable commercial mass-market proposition for years, if ever.

The regulatory environment is running behind technological change.

We have concluded that a duopoly could emerge with UPC being the dominant residential fixed line broadband provider in cities, larger towns and major suburban areas, serving half of all households in both the UK and Ireland. The facilities based model of competition would thus breakdown. That would leave BT and Eircom (directly or indirectly) serving, perhaps, 20% of households in smaller towns/suburban areas with a less than stellar FTTC offering. The rest of households may end up dependent on even lower performance publicly subsidised lines.

BT's competitive response is to offer IPTV and 4G mobile. This gives it economies of scope (its other service that does so is switched circuit telephony but that is dying). Eircom, likewise, is reported to be planning an IPTV service. BT TV is the only UK OTT TV provider currently investing significantly in original content for its service. All the rest overwhelmingly offer either "repeats" or re-transmissions.

Whilst BT is some 50% larger than the entire UK television sector, it is currently a shrinking business and is playing with very high stakes. It needs to. Eircom, after privatisation, failed to do so and went bust.

Both BSkyB broadband and TalkTalk may also end up being tightly squeezed by the changing environment. Providing broadband is not a particularly profitable business in the UK and Ireland.

We predict that video over Internet will result in some very interesting mergers and acquisitions in the British and Irish communications sectors during the next few years.

Connected Television in the UK and Ireland is available from Deadline Media TV and is available in PDF form. The comprehensive 250 page report includes 80 tables and 20 charts and international comparisons. Statistics are given on a pan-British Isles basis as well as broken down into UK and Irish statistics. The report takes a comprehensive look at all the key issues involved in connected television including content, technology and infrastructure.

The report is priced at £987 (or €1,160 or US$1,574). Site licences are available at £1,974 (€2,320 or US$3,185).

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