The Dynamics of Media and Content Industry

Summing up the main trends in Europe. An overview

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Summary

- Internet is the dynamic accelerator of the integration process between networks and content, known as *convergence*.

- Internet is also a disruptive element of media and content economics.

- Internet’s *disruptive* feature has been evident for some time in media industries, affecting dramatically the traditional business models: music, publishing, press.

- Will the development of broadband and ultra broadband (LTE, NGN) also affect the media industries linked to video (film and TV industry)?

- Lessons we can learn from the recent past, risks and opportunities for the future.

- Conclusions.
A changing paradigm

Digital

An innovation-driven disruptive process

No more:

- Coincidence of medium and content

Distinction based on separate markets, mainly vertically integrated, independently regulated

Focus on content

- **Dematerialization**: Content is detached from physical support

- **Disintermediation**: Content becomes autonomous, central and drives the change

- **Horizontal markets**: Content available any time, any place, on any device and platform

CONVERGENCE
US print media: ad revenue is back to the 50’s

Source: Google. Data processed from Newspaper Association of America
Daily and periodical publishing

Daily and periodical publishing, Western Europe turnover companies (mln €)

Source: PWC data processed by ITMedia Consulting

All major publishers and daily newspapers report significant drops in sales and revenues
The digital revolution

Proportion of industries' global revenues coming from digital sales, 2011

Source: PWC, IFPI
# Lessons to learn: emerging business models

## Case study: music

<table>
<thead>
<tr>
<th>Before digitization</th>
<th>Digital model</th>
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<td>Sales in bundling (LP, CD audio)</td>
<td>Sale of single tracks</td>
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<td>Large mark ups for producers and distributors (high price per unit)</td>
<td>Reduction mark up over products (reduced price per unit)</td>
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<tr>
<td>Unique distribution channel</td>
<td>Differentiation of revenues and distribution channels (iTunes, concerts)</td>
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<tr>
<td>Scarce impact of ancillary revenues (concerts, merchandising, etc)</td>
<td>Re-focus to new sources of revenue</td>
</tr>
<tr>
<td>Promotion and marketing across mass media (ex. TV)</td>
<td>Moving from mass media to social networks and disintermediation</td>
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Television and the internet

Complementary or competing?

Will the deployment of increasingly pervasive IP networks, capable of supporting the bandwidth for video content, allow the entertainment domain to move onto the Internet, as has already happened to music and as is occurring, to a lesser extent, in publishing?

Or will traditional networks, digitally upgraded, continue to play a primary role in content delivery?

That is, will IP networks and traditional networks be alternative or complementary?

And if it is so, will they have the same dramatic consequences on video entertainment experienced by other media industries?
TV viewing time is growing...

TV viewing minutes data in the Big 5, 2009-2011

Source: elaborazioni ITMedia Consulting
... and so is Internet consumption

Source: European Commission data processed by ITMedia Consulting

If people are spending more time on the internet, it is also true that more people are watching video on the Internet, as well.
The increase in Internet traffic will be driven by Internet video toward TV (7% of the global Internet traffic in Western Europe by 2016. Source: Cisco).

Source: Cisco data processed by ITMedia Consulting, 2012
(*It includes video content delivered via Internet to TV, by way of Internet-enabled set-top box or equivalent device)
Video content: the market is changing rapidly

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<th>Digital evolution</th>
<th>Analogue age</th>
<th>Digital age</th>
<th>On-demand age</th>
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<tr>
<td>Source: Ofcom</td>
<td>Analogage age</td>
<td>Digital age</td>
<td>On-demand age</td>
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<td>Broadcast</td>
<td>AM/FM radio UHF Television</td>
<td>DAB digital radio DTV</td>
<td>PVRs On-demand services</td>
<td>OTT streamed services</td>
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<td>Internet</td>
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<td>Mobile</td>
<td>Analogue mobile</td>
<td>2G mobile 2.5G mobile</td>
<td>3G</td>
<td>4G LTE</td>
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<tr>
<td>Storage</td>
<td>Vinyl Magnetic tape</td>
<td>CD DVD</td>
<td>Home servers</td>
<td>Cloud services</td>
</tr>
</tbody>
</table>

Analogue age
- AM/FM radio
- UHF Television

Digital age
- DAB digital radio
- DTV

On-demand age
- PVRs
- On-demand services

Interconnected age
- OTT streamed services

Analogue age
- Analogue mobile
- Analogue mobile

Digital age
- Narrowband internet
- ADSL
- Cable

On-demand age
- 2G mobile
- 2.5G mobile

Interconnected age
- FTTC
- FTTH
- Cloud services

Source: Ofcom

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Brussels, 26 October 2012
Ad online revenue: still undersized

Time Spent vs Ad Spend on different media, US 2011

- Broadcasting TV is still in a strong position to compete with the internet
- Linear TV can still convert almost all time spent on it in Ad spend
- TV Online revenue: potential for growth, but still low

Source: Google on Nielsen, Glam Media, JP Morgan
New business models (non linear services)

- **B2C**
  - Advertising
    - Pre-roll/post-roll ads
    - Overlay ads
  - Pay-per-use
    - Pay-per-stream
    - Pay-per-download
  - Subscription
    - Monthly unlimited access
Video online revenue: the changing business model

2011 marked a sea change in the online movies business that saw the balance of consumer spending shift from a DVD-like transactional model to more TV-like subscription approach.

All the significant growth in revenue in the U.S. online movie business in 2011 was generated by rental business models.

Subscription revenue exceeded by far the transactional VOD earnings.

![Distribution model (Mln $) in US](chart)

Source: IHS Screen Digest
A conservative approach by broadcasters
A disruptive strategy by aggregators for broadcasters’ business models

FROM UNCONNECTED TO CONNECTED WORLD: BROADCASTERS

CONNECTED WORLD: NEW PLAYERS

Retention strategy
Need to enter with lower price offers
Secure premium content

ACCESS TO PREMIUM CONTENT BECOMES THE KILLER APP
OTT multiscreen strategies

Web native players adopt more aggressive multiscreen strategies, leveraging the critical mass achieved in their original activity and therefore taking advantage of the network externalities to expand in the connected multiscreen world.
Conclusions

In spite of many obstacles and resistance from content owner and broadcasters in the past, a substantial part of the video offering has moved to the Internet.

This passage, driven initially by piracy, is no longer reversible, though compensation for such content is still an open issue.

When the market was affected, the windows model went through a crisis, and no business models that have been developed so far allow traditional players to make up for the drop in revenues on traditional broadcast networks.

The development of broadband and ultra broadband networks (NGN and LTE) using frequencies from the digital dividend for mobile) favour further acceleration of this process.

The “Internet model” is moving from a marginal role to a complementary one.

Will this process lead to internet substituting the broadcast networks? We do not know yet. Regulation will have a strong role in this process.
Thanks for your attention!

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