
Catching up with the Digital Impact

The Economics of Media and Content Industry

Augusto Preta, ITMedia Consulting

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- Internet is the dynamic accelerator of the integration process between networks and content, known as *convergence*.
- Internet (web 2.0, social media) 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 (cinema, homevideo, TV)?
- Lesson we can learn from the recent past, risks and opportunities for the future.
- Conclusions.

Agcom White Paper on Content

- 🌀 White Paper on Content sees the light in a period of great changes in the world of communications
- 🌀 The spread of broadband networks (and ultra-broadband in the future) represents the critical factor for the distribution of content over IP.
- 🌀 This process will result in great benefits to the economic growth of firms and markets and, above all, to the creation of an environment that is socially advanced, more competitive, reducing the social gap. But also requires huge investments against uncertain economic returns.
- 🌀 All this raises important questions that need to be addressed.

1. The relationship between content circulation and copyright

- 🌀 Two often conflicting interests: the need to protect and preserve the creator and the rights holder on the one hand, and on the other the right to competition and the wide circulation of content as a means of spreading knowledge and awareness.
- 🌀 As a consequence, it is difficult to define the boundary that can make practices commonly held as a monopoly acceptable, through legal means such as intellectual property rights.

2. More competition or more concentration?

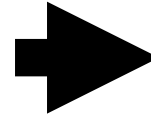
- 🌀 If the presence of network effects, economies of scale, sunk costs (programming, rights) increases barriers to entry against "native" internet operators, this seems no longer sufficient to ensure competitive advantages to analogue incumbents, and therefore there is a potential to achieve a greater level of competition.
- 🌀 But do these dynamics generate the maximum efficiency of the market (consumer welfare) or transfer income and market power of old incumbents to other parties, even fewer in number and operating on a global scale, the so-called **aggregators** (Apple, Google, etc.)?

3. The future of networks

- 🌀 Does the spread of increasingly pervasive IP-based networks with the greater availability and supply of video content, lead to the transfer of entertainment to the Internet, or will traditional digitalized networks continue to have a weight in the primary transmission of content?
- 🌀 In other words, are they alternative or complementary?

- 🌀 The spread of digital technology and the socio-economic impact on the communications system.
- 🌀 The new relationship between media and content: i.e. dematerialization and disintermediation
- 🌀 Impact on traditional media

Digital



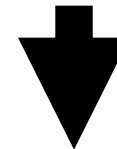
Focus on content

An innovation-driven disruptive process

Forget about:

- 🌀 **Coincidence between medium and content**
- 🌀 A distinction based on **autonomous sectors**, organized as **separate markets, independently ruled**

- 🌀 Content is detached from physical support
- 🌀 Becomes autonomous, central and drives the change
- 🌀 Available in never before seen formats and size, and over multiple devices and platforms



This is
convergence

Dematerialization and Disintermediation

- Internet and broadband as the drivers of change and content centrality .
- Dematerialization:** separation of content from the physical support, detached from analogical physical limits: time, quality and dimension of copies, no longer differences between the original and the copy.
- Disintermediation:** using content without any “institutional” intermediation (the publisher); creation and delivery of one’s own content. If content is independent from the transmission medium, players that used to manage content delivery can be bypassed and new players enter the value chain of digital content.
- As a result, there are new production, distribution and consumption models for digital content. This is “*anywhere, anytime, on any device*”.
- The true hurdle is content availability: producers and rights owners are now central, but there is now a new player, the **content aggregator**.

The volume of content and information we can access today is much greater than the one available 10 years ago, but the value produced by the delivery content industry (media) is by far lower than it was in 2000.

The publishing market at cover prices Euro

	2006	2007	2008	2009	Δ%
Bookshops	1.043.300.000	1.048.000.000	1.042.000.000	1.068.000.000	+2,5
Gdo ²	246.100.000	258.400.000	251.000.000	261.000.000	+3,9
Newsstands	16.500.000	18.500.000	19.000.000	19.500.000	+2,6
Other retail	19.350.000	19.756.000	20.800.000	21.900.000	+5,2
On line bookshops and Internet sales	52.062.000	71.300.000	90.400.000	101.200.000	+13,9
e-book (estimates)				1.068.000	
A Total	1.377.312.000	1.415.956.000	1.423.202.008	1.472.668.000	+3,5
B Textbooks	705.510.000	716.280.000	676.820.000	667.000.000	-1,4
C Sales in museum and exhibition bookshop	25.360.000	28.438.000	26.200.000	23.580.000	-10,0
D Total (A+B+C)	2.108.182.000	2.165.601.000	2.147.288.000	2.163.248.000	+1,6%
Instalment sales	308.385.000	311.777.000	268.128.000	213.400.000	-20,4
Mail sales	140.650.000	143.182.000	128.863.000	120.000.000	-10,0
Book club	82.478.000	83.303.000	78.885.000	75.000.000	-5,3
Direct sales to libraries (b2b)	54.300.000	50.230.000	48.000.000	45.000.000	-4,4
Export - Italian books abroad	39.925.000	40.730.000	41.100.000	42.000.000	+2,2
E Total	625.738.000	629.222.000	564.976.000	495.400.000	-12,3
Collectable: instalments in newsstands	307.043.000	293.226.000	235.168.000	161.100.000	-31,1
Electronic publishing - (CD-rom, Dvd rom)		330.458.000	348.000.000	264.480.000	-24,0
Electronic publishing: data banks and internet services	60.537.000	69.618.000	75.239.000	97.810.000	+29,9
Used books at half price	78.150.000	79.790.000	84.577.000	95.000.000	+12,3
Non book (afferrente alla libreria)	35.376.000	38.206.000	40.700.000	50.500.000	+24,1
Revenues and sales from special initiatives (b2b)	118.000.000	101.000.000	85.800.000	80.000.000	-6,8
F Total	936.054.000	912.298.000	869.484.000	748.890.000	-13,8
Total (D+E+F)	3.669.974.000	3.707.121.000	3.596.680.000	3.407.538.000	-4,3%
	<i>0,6%</i>				
Collateralis: books enclosed in newspapers	489.000.000	453.300.000	362.400.000	250.607.000	
	<i>-9,0%</i>	<i>-7,3%</i>	<i>-18,0%</i>	<i>-30,8%</i>	

Source: AIE, 2010

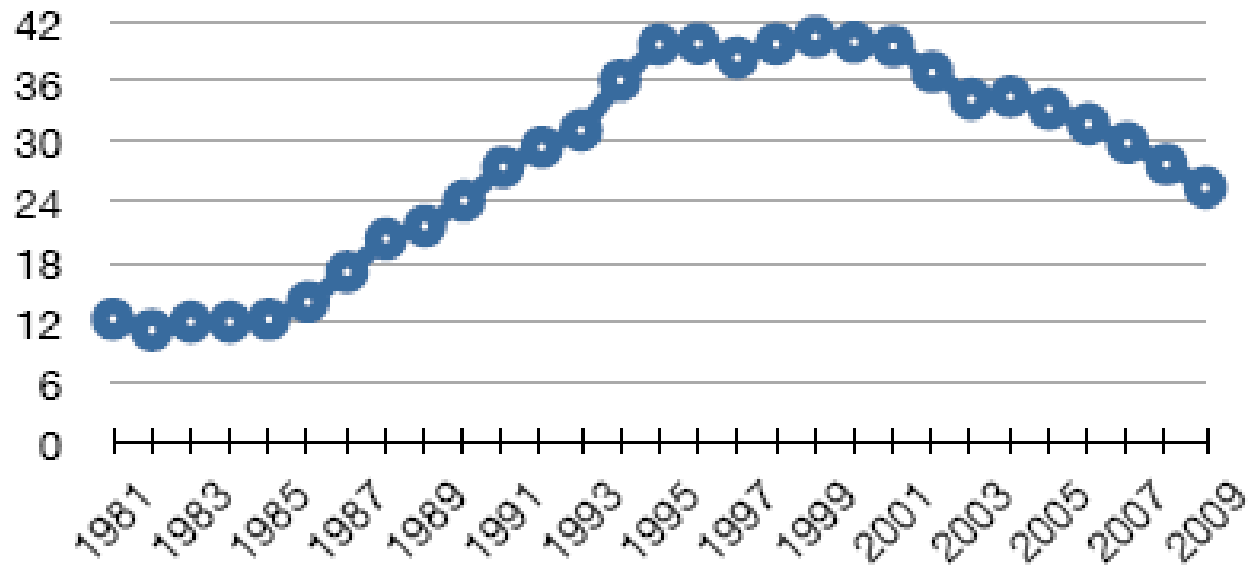
Revenues of the main publishing companies (mln €)

	2008	2009	% '09	Var. % 09/'08
Daily publishing	2.449	2.135	45,6	-12,8
Periodical publishing	2.020	1.577	33,7	-21,9
- weekly periodical publishing	1.236	996	21,3	-19,4
- monthly periodical publishing	784	581	12,4	-25,9
Electronic publishing	204	197	4,2	-3,3
Other revenues	765	774	16,5	1,2
Totale	5.437	4.684	100,0	-13,9

Source: Agcom, Annual Report 2010

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

Recorded Music world turnover (retail market, \$ bln)



Source: IFPI, Recording Industry in Numbers

Recorded Music - Revenue breakdown

Physical-Digital-Rights breakdown in the biggest world main markets

		2008			2009		
		Physical	Digital	Rights	Physical	Digital	Rights
1.	USA	63%	36%	1%	55%	43%	2%
2.	Japan	78%	20%	2%	74%	24%	2%
3.	UK	79%	14%	7%	73%	19%	8%
4.	Germany	87%	8%	5%	85%	10%	5%
5.	France	77%	15%	8%	77%	14%	9%
6.	Australia	84%	13%	3%	78%	18%	4%
7.	Canada	79%	17%	4%	75%	20%	5%
8.	Netherlands	76%	6%	18%	76%	6%	18%
9.	Italy	82%	9%	9%	76%	13%	11%
10.	Spain	78%	10%	12%	72%	13%	15%
TOTAL (world)		75%	21%	4%	70%	25%	5%

Source: IFPI, Recording Industry in Numbers

Case study: music

Before internet
Sales in bundling (LP, CD audio)
Large mark ups for producers and distributors (high price per unit)
Unique distribution channel
Scarce importance of ancillary revenues (concerts, merchandising, etc)
Promotion and marketing across mass media (ex. TV)

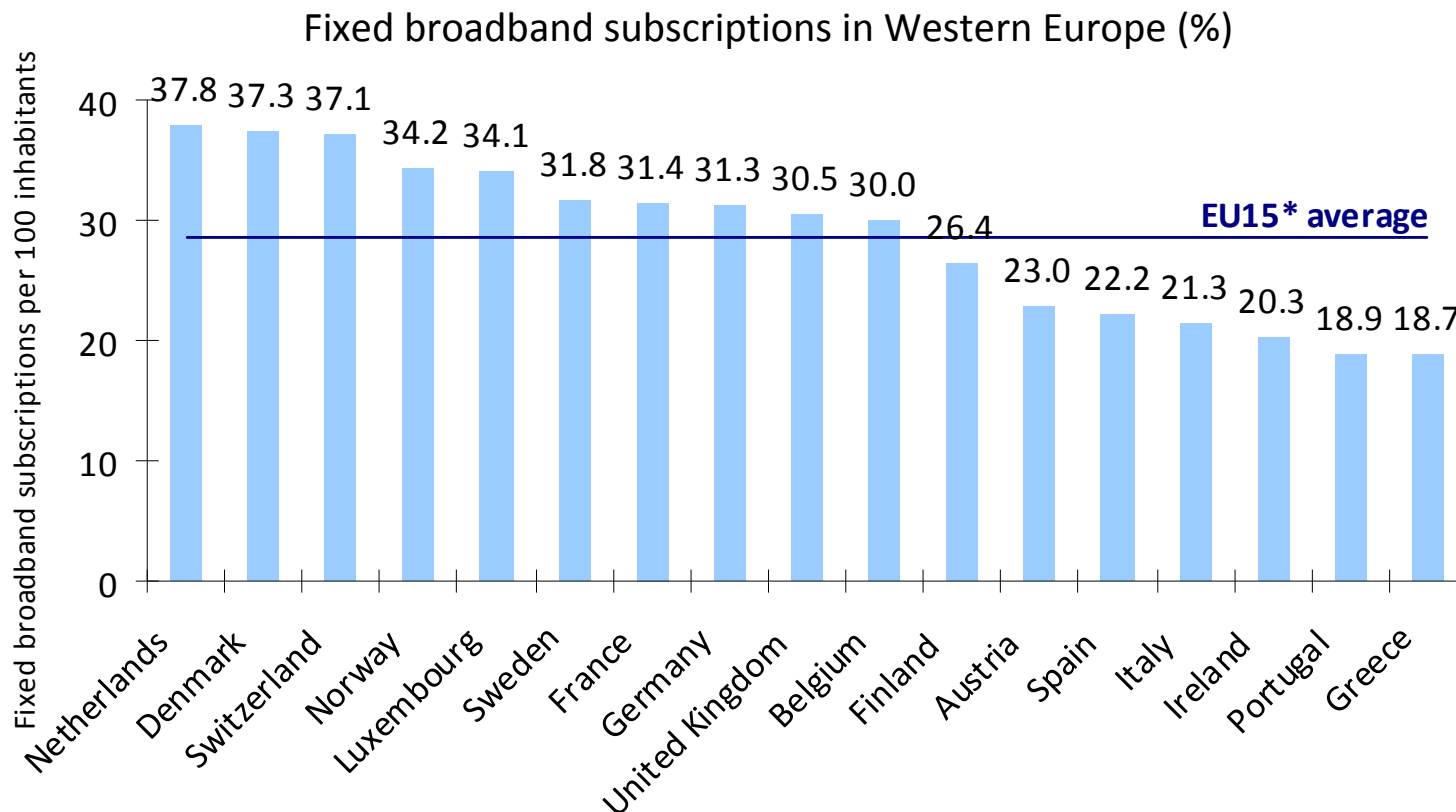
After internet (P2P)
Sale of single tracks
Reduction mark up over products (reduced price per unit)
Differentiation of revenues and distribution channels (i-Tunes, concerts)
Re-focus onto new sources of revenues
Moving from mass media to social networks and disintermediation

“After Napster, music is no longer the same”
(Social Network, 2010)

Complementary or competing?

- Will the deployment of more and more pervading IP networks, capable of supporting the bandwidth for video content, allow the entertainment domain to move onto the Internet, as it has already happened to music and as it is occurring, to a lesser extent, to 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 it have the same dramatic consequences on video entertainment experienced by other media industries?

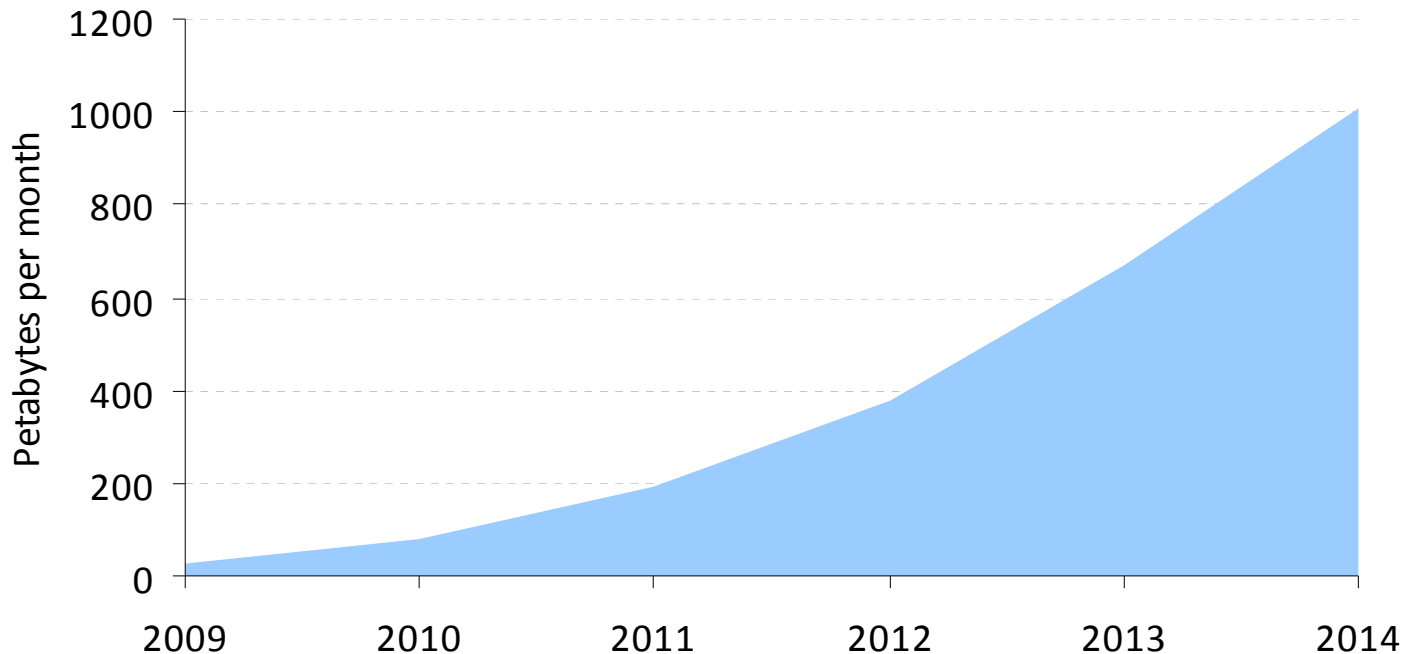
 Broadband TV uptake depends largely on increasing broadband penetration.



Source: OECD data processed by ITMedia Consulting, June (*EU15 + Norway and Switzerland)

 The increase in Internet traffic will be driven by Internet video to TV (9% of the global Internet traffic in Western Europe by 2014. Source: Cisco).

Internet video to TV* traffic in Western Europe

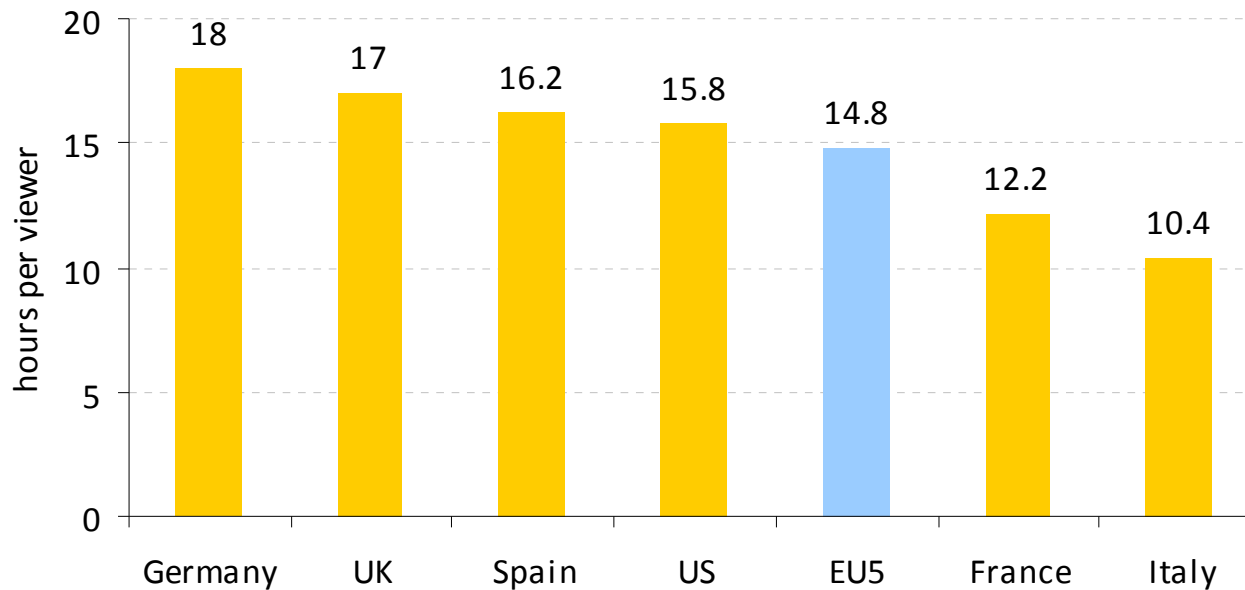


Source: Cisco data processed by ITMedia Consulting , 2010

(*It includes video content delivered via Internet to TV, by way of Internet-enabled set-top box or equivalent device)

- 👁️ Consumers are progressively accustomed to video consumption via the Internet , because of the great availability of video content on the net .
- 👁️ The natural evolution of online video is to move onto television sets

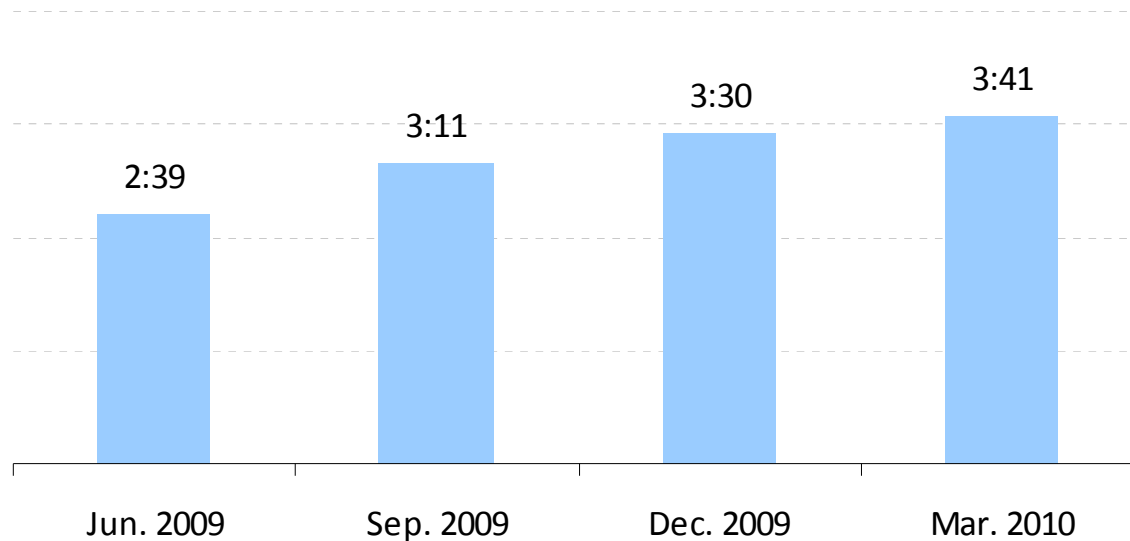
Monthly time spent watching online video in EU5 and US



Source: comScore Video Metrix, Dec-2010

- Younger people, especially, spend a great deal of time devouring media, using more than one screen simultaneously .
- the Internet can merge all of the user's screens into a single addressable market.


Time spent simultaneously using TV/Internet per person
(hours:minutes)





Source: Nielsen *Three Screen Report*

- 🌀 This disruptive process, driven by broadband development, challenges the traditional, **oligopolistic and vertically integrated market structure**, moving towards a value chain with many participants.
- 🌀 On the first stage of digitization, new entrants came from neighbouring industries, taking advantage of convergence, in connection with a close relation with the client.
- 🌀 It is the **Telcos** , which started offering data and video services (triple and quadruple play), in order to compensate the loss from traditional revenue sources (voice) , exploiting economies of scope. However, telcos met big difficulties (both cultural and practical ones), which led to a strategic re-positioning as mere connectivity providers for the delivery of multimedia content.

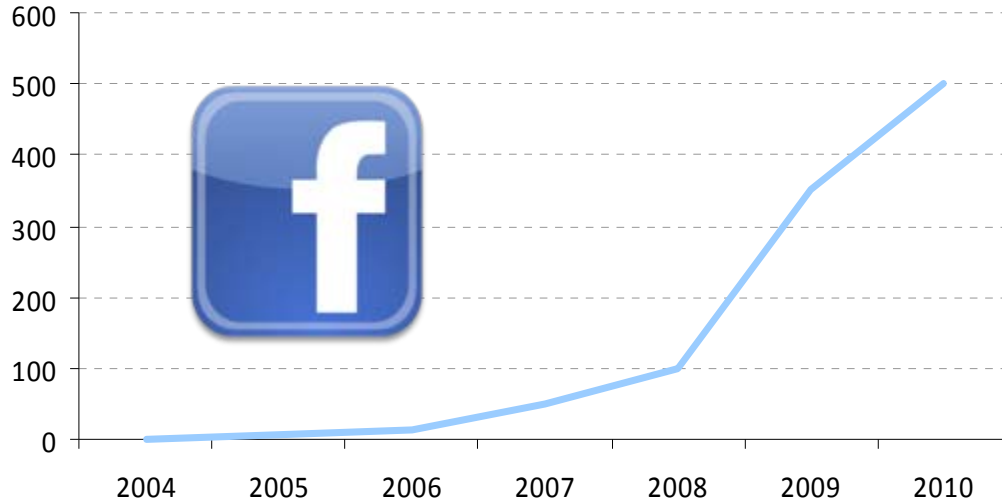
Aggregators and focus on consumers

- 
Aggregators are brand new players, exploiting their technological *know-how* to collect content on the web, to arrange it and deliver it to a broad internet public. These new actors have an in-depth knowledge of the key components of the sector, and the ability to keep low infrastructure and content investments, thanks to the potential of the net.

- 
 These elements helped the surge of the *.coms* like *Google, Yahoo, Amazon, Facebook*. These were born in an internet environment, and mainly aggregate content, competing with traditional publishers, broadcasters and connectivity and access providers.

- 
 Another key element of the digital revolution is the chance that the **consumer** is **an active player** in the value chain, appropriating functions that used to be on the supply side, such as content aggregation. As a result, it is demand's needs that shape how content is used (UGC and social networks).

Facebook active users worldwide (million)



Source: Facebook data processed by ITMedia Consulting

Social networks are being used to promote content, communicate with viewers and create communities for users who share common interests.



 *Over-the-top* is a general term for the delivery of web-based video services that can be utilized via a broadband connection over the open Internet, on different devices

Delivery of Over-the-Top (OTT) video content



CONNECTED TV



HYBRID RECEIVERS

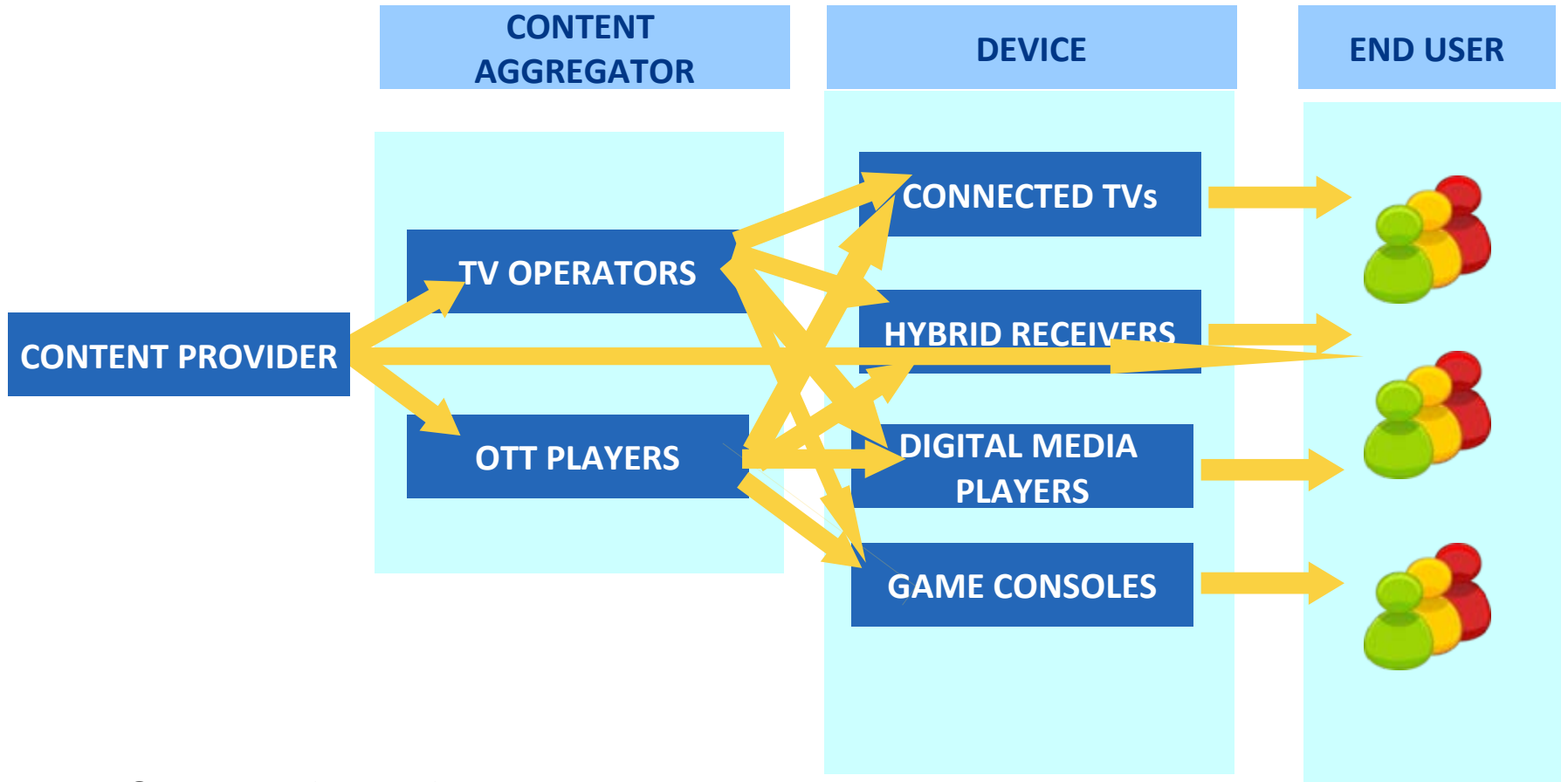


GAME CONSOLES

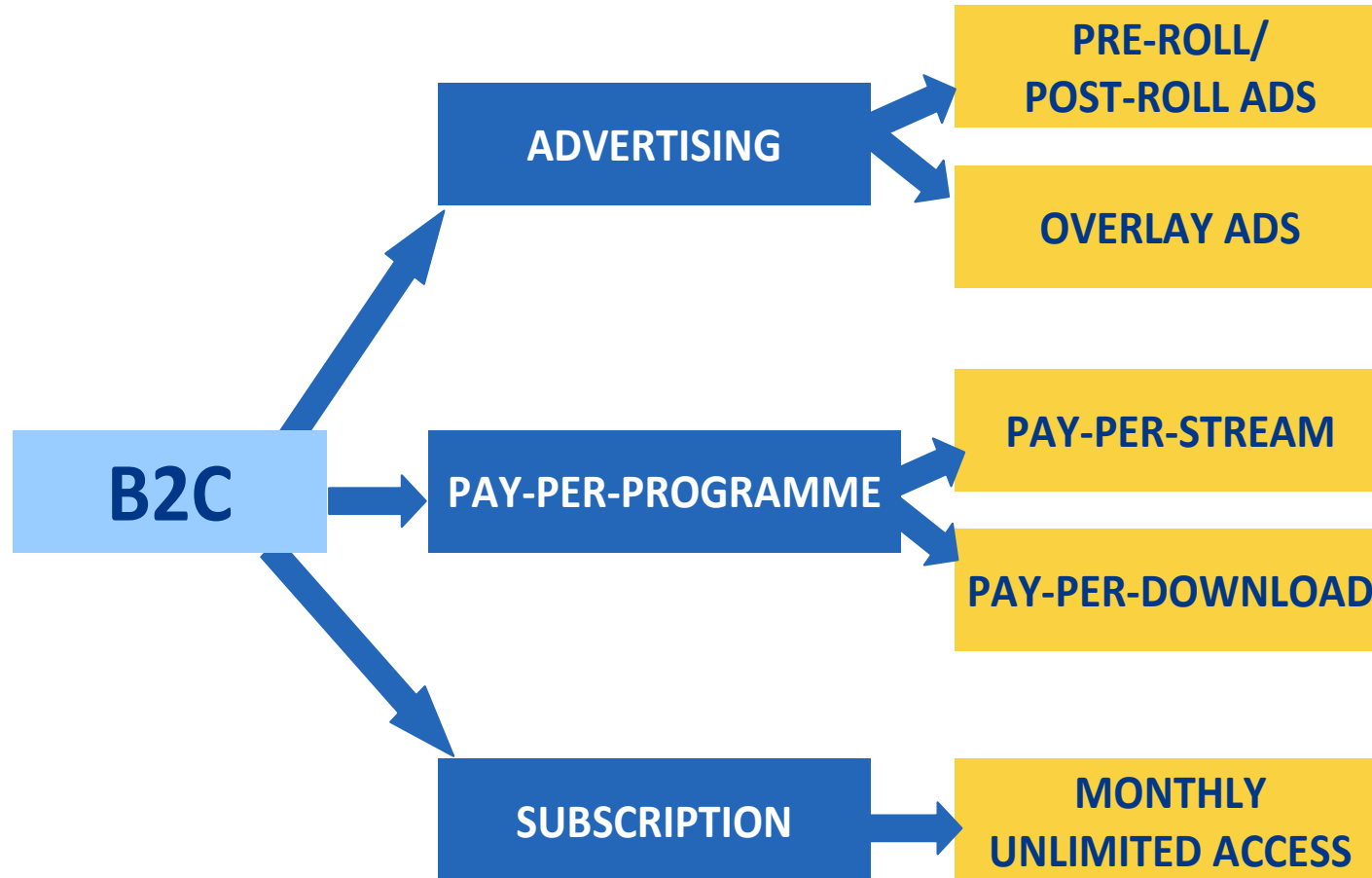







DIGITAL MEDIA PLAYERS



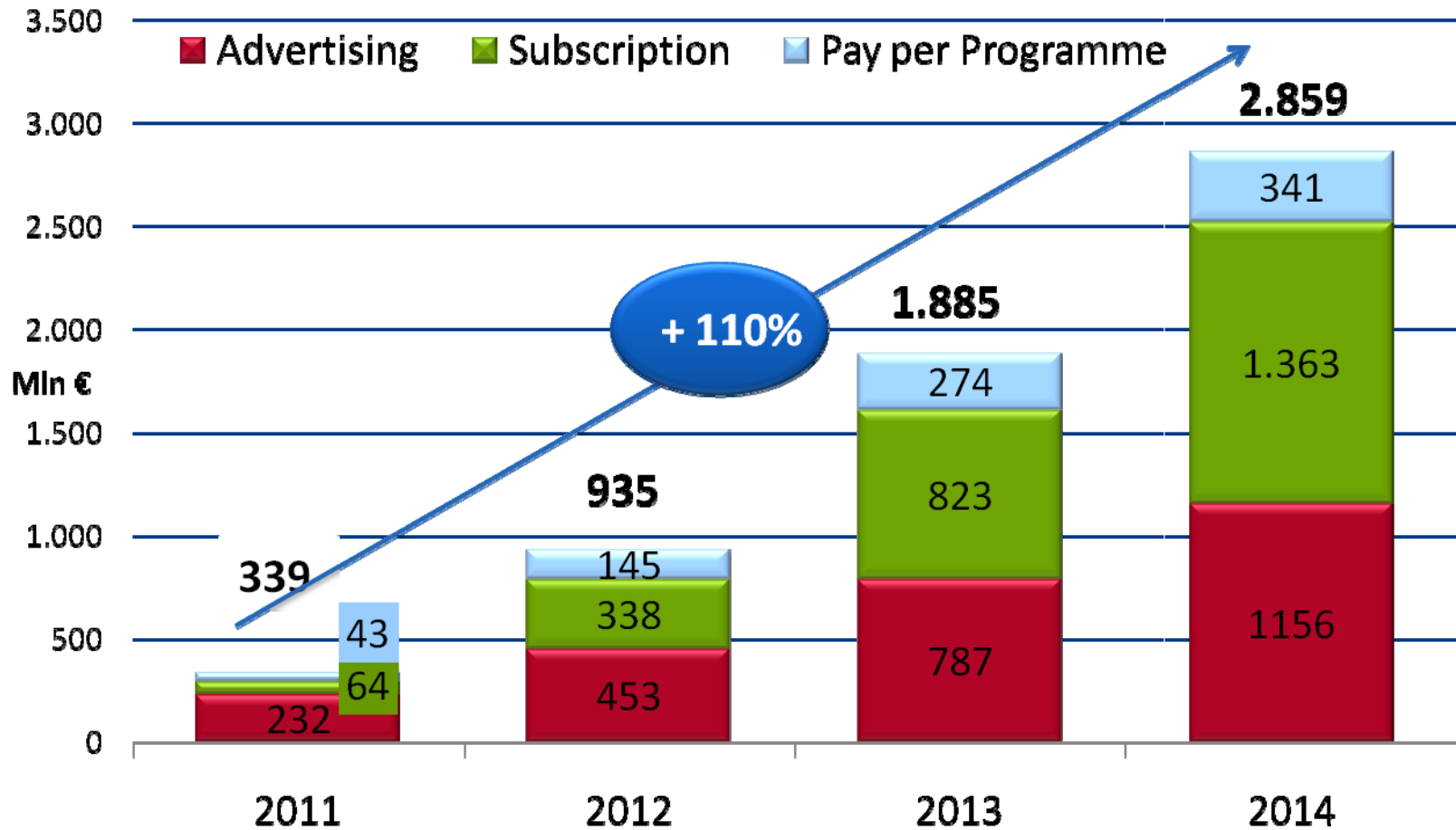


Source: © 2011 ITMedia Consulting



<p>1. CE manufacturers can differentiate their devices with a range of offers, gaining a bigger share of revenue through partnerships with content providers or aggregators.</p>		
<p>2. Broadcasters and platform operators (terrestrial, satellite, cable and IPTV) can monetize their own customer base through their broadband services.</p>	<p>Content owners can create</p>	
<p>3. Main players can provide broadband internet access to a wide public through new-generation game consoles, which have the highest penetration in TV households.</p>	<p>partnerships with any other players and increase their</p>	
<p>4. The growing interest in online video is also pushing a variety of third-party service providers to try to enter the TV market, moving most of their revenues from physical home video to online.</p>	<p>revenues, especially on non-linear offers.</p>	

Over-the-top TV revenue in Western Europe



- 🌀 In spite of many obstacles and doubts of TV producers and broadcasters, a substantial part of the video offering is moving to the Internet
- 🌀 So far, the main components have been the archive and repeated-utility content (movies, TV drama series)
- 🌀 This passage, driven initially by piracy, is no longer reversible, even though compensation for such content is still an open issue.
- 🌀 The impact of instant-utility content seems to be less relevant: that is, events like football matches, or live information. In these cases content owners and broadcasters still hold control over distribution channels and revenue streams
- 🌀 When the market was affected, then the utilization model went through a crisis (ex. distribution windows), and business models that have been developed so far do not yet allow traditional players to make up for the drop in revenues on traditional broadcast networks
- 🌀 Will the development of broadband and ultra broadband networks (NGN and LTE by using frequencies from the digital dividend for mobile) favour further acceleration of this process? Will the “Internet model” move from a marginal role to a complementary one? Will this process lay the basis of substitutability between the Internet and the current broadcast networks?
- 🌀 What will the role of regulation be in this process?

Thanks for your attention!






The Agcom White Paper content can be downloaded at the following address:

http://www.agcom.it/default.aspx?DocID=5558&Search=libro_bianco_sui_contenuti

Appendix: OTT case studies



- 🌀 Connected TV has been a key concept of almost all the strategies of major media players in 2010 and it will certainly have a huge impact on user behavior in the future.
- 🌀 Thanks to an impressive industry push, Internet connections are converting into a standard feature of many ordinary technological gadgets
- 🌀 All major CE manufacturers have launched internet-enabled TVs on the market

TV set maker	Web-enabled service	Available products
	Smart TV	28 TVs 8 Blu-ray and DVD players 6 Home Theater Systems
	Bravia Internet TV	22 TVs 3 Blu-ray and DVD players 1 Home Theater System
	Viera Cast	23 TVs 9 Blu-ray and DVD players 7 Home Theater Systems
	NetCast	29 TVs 3 Blu-ray and DVD players 7 Home Theater Systems
	Net TV	14 TVs 4 Blu-ray and DVD players 4 Home Theater Systems

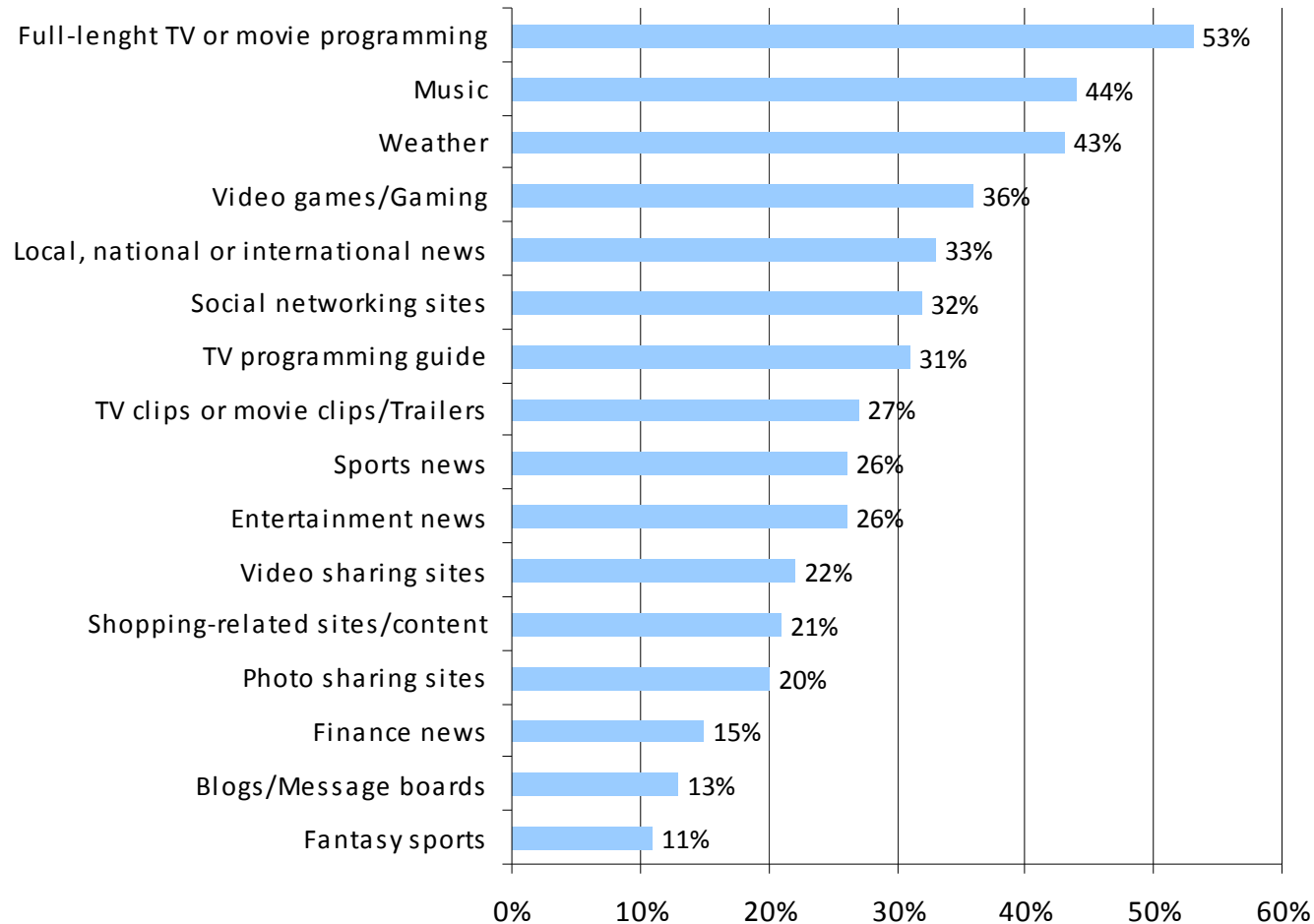
Source: © 2011 ITMedia Consulting

- Internet and mobile applications have accustomed people to a wide range of interactive practices which are progressively migrating to the TV.







- WIDGET TV:** a simple and user-friendly application which allows viewers to enjoy Internet content and services on the TV screen while watching their favourite programmes simultaneously.

Most frequent content accessed via Internet-connected TV*






Source: Yahoo - Ipsos OTX MediaCT (*Among interested in accessing Internet through devices)

hulu™

- 
 Hulu represents one of the most popular video service available over the Internet in recent years. It was started by a joint venture of NBC Universal, News Corp., Walt Disney Co. and Providence Equity Partners, offering commercial- subsidized streaming video of TV shows and movies.
- 
 To reduce its dependence on advertising, in June 2010 Hulu launched its ad-supported subscription service Hulu Plus, offering for \$9.99 (now \$7.99, i.e. €5.63) a month current and past seasons of a range of shows from Hulu parent companies, ABC, NBC and Fox, including *Grey's Anatomy*, *The Office* and *The X-Files*. Paying subscribers are offered additional content, as well as the ability to watch Hulu on devices other than their computers.
- 
 Considering the streaming video website, it has registered a fall in users (-40% on yearly basis). Despite this, Viewers of Hulu were exposed to more video ads than on any other major video property
- 
 Following growing competition from Netflix and internal problems, the company management is even considering recasting Hulu as a “virtual cable operator” that would use the web to distribute live TV channels and video-on-demand content to subscribers



-  US group Netflix was founded as a subscription service integrating DVD rental via the US mail, but in 2008 it for \$7.99/month. launched *Watch Instantly*, a service which allows subscribers to stream unlimited movies to their PC. In 2010, streamed videos overtook DVD rentals for the first time
-  More than 100 devices which provide *Watch Instantly* Internet streaming service are available in the US. Among the expanding base of devices: Xbox 360, la Nintendo Wii, la PS3 della Sony, lettori Blu-ray e televisori della Sony, LG, Panasonic, Insignia, Philips, Pioneer, Samsung, Toshiba, Yamaha, Vizio, l'iPhone, l'iPad, etc...
-  At the end of 2010, Netflix passed the milestone of 20 million subscribers. 66% of its subscribers were using *Watch Instantly*.



- 🌀 YouView, formerly known as Project Canvas, is the UK joint venture whose partners are the BBC, ITV, BT, Channel 4, Five, Talk Talk and Arqiva .
- 🌀 It aims to combine Internet-delivered on-demand content and catch-up TV with free-to-air broadcasts from Freeview (digital-terrestrial television) and Freesat (satellite) and a digital-video recorder (DVR).
- 🌀 Their partnership goal is to create an open, Internet-connected television platform built on common standards.
- 🌀 The BBC Trust, Ofcom and the Office of Fair Trading (OFT) gave the green light to Project Canvas.
- 🌀 The service should have seen the light in early 2011. However, its launch has been delayed due to technical problems and apparent disagreement among the partners.
- 🌀 Failing to launch sooner, YouView might lose the competitive advantage over to rival services



- 🌀 HbbTV is a pan-European initiative aimed at harmonising broadcast and broadband delivery of entertainment to the end consumer through connected TVs and set-top boxes.
- 🌀 It has already signed up around 60 supporters. The consortium of companies includes broadcasters Canal+, France Televisions and TF1; Germany's Institut für Rundfunktechnik; satellite operator SES Astra; software providers such as OpenTV and ANT, IDTV manufacturers such as Philips, LG, Sony and Samsung, set-top box manufacturers such as Humax etc...
- 🌀 In July 2010, the European telecommunications standards body ETSI gave approval to the HbbTV specification. This approval coincided with the formal establishment of the HbbTV consortium.
- 🌀 German broadcasters are developing services: Bayerische Rundfunk (BR), ZDF, ARD, arte, RTL Group, ProSiebenSat.1.
- 🌀 The French TV regulator, the CSA, also expressed support for HbbTV. The introduction of interactive TV services is expected to take place in France in 2011. France Televisions already declared the launch for 2011 of connected TV services using the HbbTV standard through a initial partnership with LG.



- 🌀 In May 2010, the company, in conjunction with partners including Sony, Intel, DISH Network, Best Buy, Adobe and Logitech, announced the launch of Google TV, which enables users to search the web while watching programmes and consuming web content through a new generation of televisions and set-top boxes.
- 🌀 Pre-installed apps include an HDTV-optimized version of YouTube called Leanback, Netflix, Pandora, Napster, Amazon video-on-demand, Twitter, the New York Times, VEVO's music video service, CNBC, and NBA as well as, for Sony's devices, the Qriocity video-on-demand service, and of course, Google's Chrome web browser
- 🌀 Sony already delivers a line of connected TVs and Blu-ray players integrating Google TV on the US market from autumn 2010. Logitech too launched its Revue set-top box , delivering Google TV
- 🌀 Google TV should have been shown off at the Consumer Electronics Show in Las Vegas in January this year. However, due to technical problems, Google asked TV manufacturers such as Sharp, LG Electronics, Vizio and Toshiba to delay their introductions.