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January/February 2018

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Introduction

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Behind the screen



Digital TV Europe's third annual survey reveals what top industry executives think about the most pressing issues facing the digital video distribution business. This year, the central focus is on the impact of cloud technology and the challenges facing pay TV operators in the face of ongoing fragmentation of the business and the emergence of major internet players.

Over 500 industry executives from 56 countries responded to our call to share their views on a range of seven topic areas this year. In addition to summarising and analysing views on the overall digital TV landscape, including prospects for pay TV and the forces driving change, we drilled down into six other areas: cloud technology and the economics of video; OTT TV distribution; the live-streaming revolution; the cloud, data and security; the multiscreen video experience; and multiscreen distribution and service provider WiFi.

The overarching theme is the growing importance of cloud technology, not only in shaping the services that are delivered to end consumers but in determining the choices pay TV operators and others make in building and maintaining their networks.

First, service providers are increasingly using cloud-based infrastructure to deliver their offerings to consumers. Second, the application of cloud technology is spurring the launch of more OTT TV services, still primarily for on-demand content but increasingly also for live and linear services.

The growth of live-streaming is a specific topic in this year's survey. We examine the use of OTT to provide coverage of live events, driven by the ongoing explosion in mobile video consumption.

The expansion in the use of cloud technology is also related to a growing need on the part of video service providers for data. In this year's survey we look closely at the importance of data analytics and the security of personal data.

We examine the opportunities and challenges faced by service providers as they address the growing need to deliver video to multiple screens. Related to this, we also look at the challenges faced by service providers to cater to the use of multiple devices to consume video in the home.

The survey results, presented in full, offer a wealth of data about how industry leaders view the challenges and opportunities across a range of key topics.

Stuart Thomson, editor

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The digital TV landscape

Introduction

The big story in digital video distribution over the last year has been the relentless advance of the cloud. The perception that the cloud is the most efficient way to deliver video services has gained fresh adherents and reinforced the convictions of those that had already moved to adopt cloud-based technology.

In *Digital TV Europe's* third annual survey, we asked our readers to give their views on different applications of cloud technology that are impacting both the kinds of functionality being enjoyed by consumers and the underlying platforms that determine the speed with which new services can be launched and their economic viability.

Aspects considered are the evolving economics of video distribution, trends in OTT TV distribution, live-streaming, data and security, multiscreen delivery and the new requirements for in-home distribution of video.

To kick off, however, we asked our survey respondents to assess the prospects for the future of pay TV and some of the forces driving change.

The results confirm there is a growing perception that the pace of change is accelerating, and that established media players must act quickly if they are going to continue to meet the evolving needs of consumers.



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The digital TV landscape

Prospects for pay TV

The last year appears to have seen an increase in pessimism about the future of pay TV. While many respondents still believe that pay TV is set for growth, the proportion that believes pay TV is set for modest or zero growth globally over the next couple of years, and the number that believes pay TV will enter a decline, have increased.

Only one in 10 respondents now believe that pay TV will see rapid growth over the next few years, despite the room for expansion of the TV subscriber base that exists in emerging markets and the more aggressive marketing of multi-play offers in mature markets.

A more substantial group – representing close to two in five of respondents – believe that pay TV will see modest growth, boosted by emerging markets and multi-play bundling, but with some negative impact from OTT TV competition and erosion of the prices operators can charge for services.

The proportion of survey respondents that believe pay TV faces bleak prospects has risen, however. Some 36% of respondents to this year's survey believe pay TV will see very modest or zero growth globally, with a strong competitive impact from OTT TV as well as the price erosion that can come from competition generally.

Some 14.4% now believe that pay TV will see negative growth globally, with OTT TV competition and price erosion taking a more impactful toll. (Fig.1).

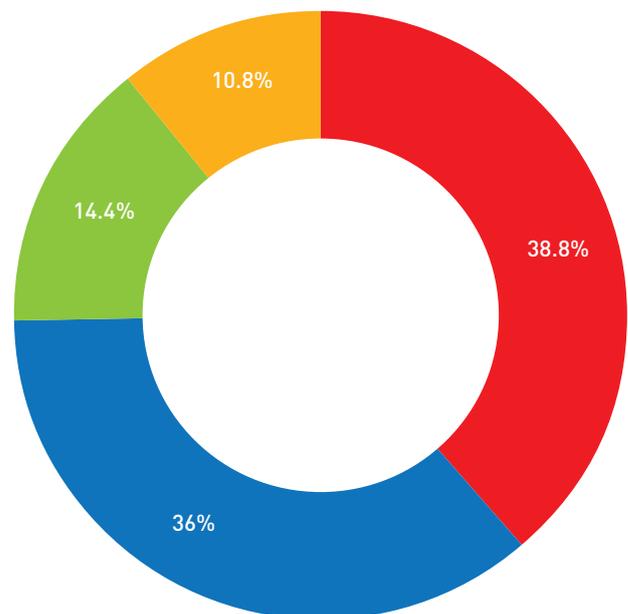
We asked survey respondents to compare the growth prospects for pay TV operators, free-to-air broadcasters, subscription video-on-demand service providers, other – transactional – VOD providers and multi-play service providers that bundle TV with fixed and mobile broadband and telephony.

SVOD is the clear winner in the minds of survey respondents. Almost half of all respondents said that SVOD players – such as Netflix and Amazon Prime Video – had very positive growth prospects, with a further 36.7% saying they had moderately positive prospects. By contrast, fewer than one in 10 respondents believe pay TV service providers have very positive prospects. Even though just under half of respondents believe pay TV has moderately positive prospects, over 41% believe pay TV operators have either moderately negative or very negative prospects. Fewer than 15% think the same for SVOD players.

In fact, in the comparison question, pay TV services are perceived to have the worst prospects of all types of service considered, behind not only SVOD but also transactional VOD providers and even old-fashioned advertising-supported free-to-air broadcasters.

There is however a silver lining to the cloud hanging over pay TV. Service providers are perceived to have much stronger prospects when they bundle TV offerings with fixed and mobile broadband and voice. Respondents believe that multi-play providers have strong growth prospects, with four in five respondents believing that multi-play providers have either very positive or moderately positive growth prospects, taking them to second place behind SVOD providers in the list. (Fig.2)

Fig. 1 Which of the following statements best expresses your opinion about the prospects for pay TV services globally over the next two years?



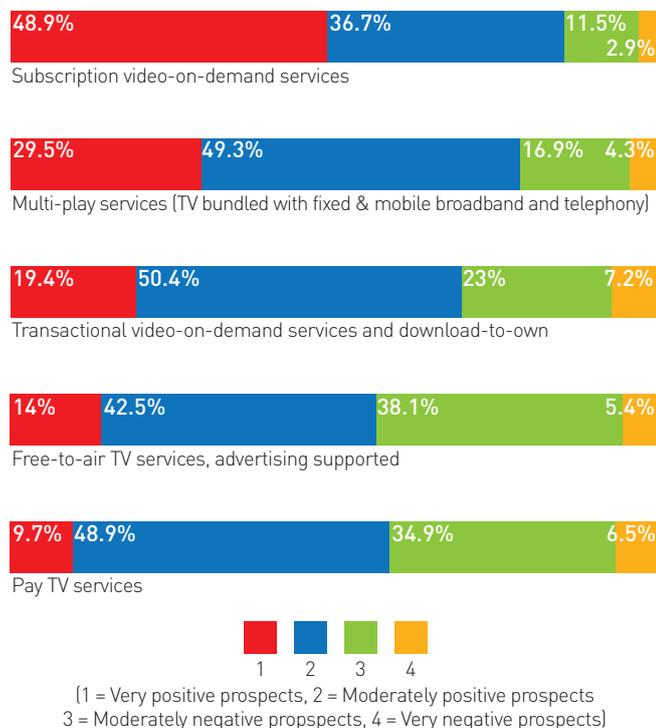
- Pay TV will see modest growth, boosted by emerging markets and multi-play bundling, with some negative impact from OTT TV
- Pay TV will see very modest or zero growth globally, with a strong competitive impact from OTT TV services and price erosion
- Pay TV will see negative growth globally, with a critical competitive impact from OTT TV services and price erosion
- Pay TV will see rapid growth driven by emerging markets growth and multi-play bundling, and will see little negative impact from OTT TV or price erosion

Forces driving change

For survey respondents, the technology factor driving change is first and foremost the use of cloud technology.

Asked to rate a series of developments likely to have an impact on the value of the global digital TV business over the next two years, respondents placed the growing use of cloud infrastructure to replace legacy broadcast technology at the top of the list. Some two in five respondents said the cloud would have a strong positive impact on the value of the business, with a further 42.8% saying it would have a moderate positive impact.

Fig. 2 How would you rate the future growth prospects of the following types of service?



Other factors considered likely to have a positive impact – all of which achieved broadly similar scores – include the growing use of mobile screens to view content in place of the TV screen, the growing use of data analytics and the challenge of protecting personal data, growing demand for multi-play bundles – the saving grace for infrastructure-based pay TV operators – and growing demand for flexibility in the way TV services are packaged and a move away from long-term contracts – a countervailing trend that reflects the weakening grip of pay TV providers on their base.

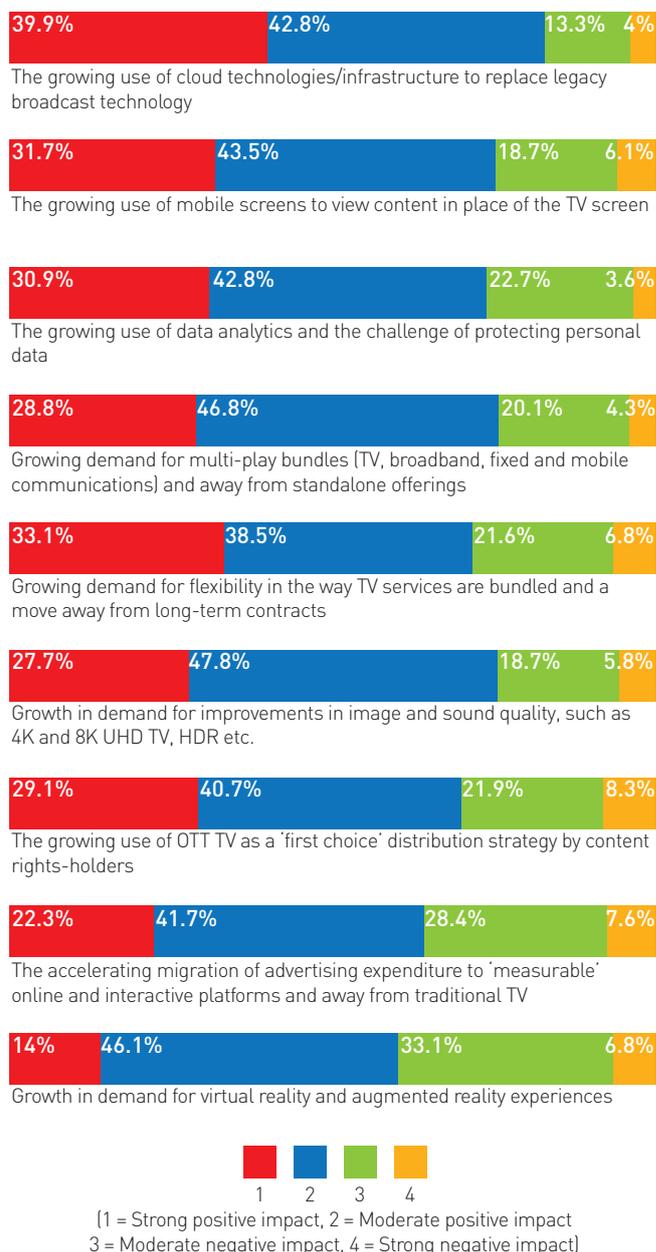
Respondents are slightly more cautious about hailing the growing use of OTT TV as a ‘first choice’ distribution strategy for rights-holders, although over 30% believe this will have a strong positive impact on the business. They are more cautious still about welcoming the accelerating migration of advertising expenditure to measurable online and interactive platforms and away from traditional TV. The number of respondents that see this as having a negative impact is greater than those who see it as having a strong positive impact. (Fig. 3)

There has been much debate around the entry of internet giants into the video space and their potential to seriously disrupt the digital video distribution business.

Recently, social media companies including Facebook and Snapchat have focused on video to fuel the next phase of their development.

In the view of survey respondents, however, Netflix remains the company that has most influenced the shape of the industry. Asked

Fig. 3 Which of the following developments will have a big impact on the value of the global digital TV business over the next two years

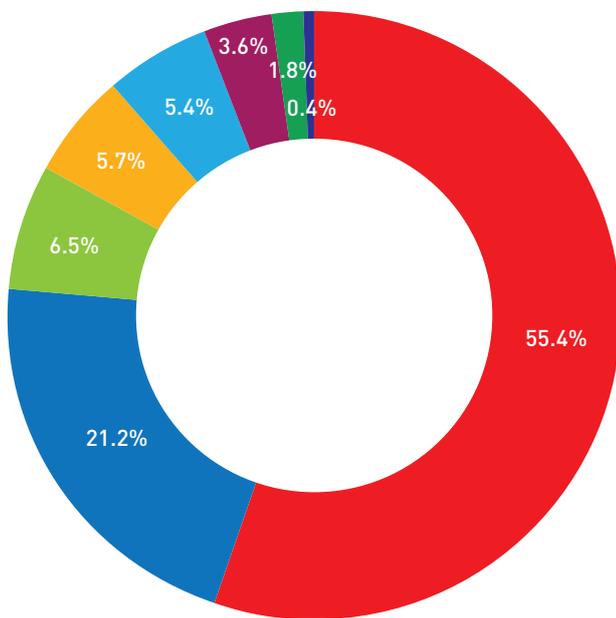


to identify the company or group of companies that had the biggest impact on digital video distribution over the last year, 55.4% of respondents chose Netflix. Amazon, Netflix’s closest direct competitor, came a distant second, identified as having the biggest impact by 21.2%. Of the other players, pay TV operators considered collectively came third, chosen as having the biggest impact by 6.5%. Of the other

digital players, Google was the most significant, attracting 5.7% of votes, followed by Facebook with 5.4%.

Traditional big media groups and studios such as Disney and Discovery collectively attracted only 3.6% of votes. Apple secured only 1.8% of votes, while Twitter and Snapchat barely registered. (Fig. 4)

Fig. 4 Which of the following companies do you think has had the biggest impact on the business of digital video distribution over the past year?



- Netflix
- Amazon
- Pay TV operators collectively (Sky, Comcast, Liberty Global, Canal+, Deutsche Telekom, Telefónica etc.)
- Google
- Facebook
- Big media companies/studios collectively (Disney, Discovery etc.)
- Apple
- Twitter

Conclusion

Survey respondents are now deeply pessimistic about the future growth prospects of traditional pay TV businesses.

A substantial number of respondents now believe that pay TV will see modest or zero growth over the next few years. The number of people that believe pay TV players is negative growth is now greater than the number that believe pay TV will see rapid growth.

However, while the prospects for pure-play pay TV are not good, according to our survey sample, things improve if operators can bundle pay TV with other services such as broadband. Multi-play providers continue to have strong growth prospects, according to respondents.

The big winners from the changes taking place in video consumption habits are, however, subscription video demand players. Survey respondents believe that SVOD players have the strongest growth prospects among all types of media company.

The company driving this perception is Netflix. Survey respondents believe Netflix had the biggest impact on the digital video distribution business last year, well ahead of its closest competitor, Amazon.

Changes in consumption habits and the technology that facilitates service delivery are continuing to change the nature of the media game. Cloud-delivered disruptors such as SVOD players are seen as having much stronger prospects for growth than established media companies with well-proven business models.

The cloud is a key enabler of this change. Respondents to our survey rate the growing use of cloud technology as the most important development that will have a strong positive impact on the global digital TV business in the near future. ●