

VoD in Europe – Telcos Enter the Frame

Europe has the most diverse pay-TV market dynamics in the world. It is not surprising that the European video-on-demand (VoD) market is becoming increasingly crowded, with examples of every possible type of on-demand delivery, from standard cable VoD services, through satellite personal video recorders (PVRs), to complete IP-enabled DSL TV platforms.

This article untangles the complex web of European VoD players, and highlights the relationship between actual consumer demand for VoD services and the expanding deployments across major European markets.

many major content providers are slowly recognising the need to swallow some of the commercial risk by making a direct investment in their own VoD services

and future world broadband content revenue structure.

A total of 934 million subscribers across 12 European countries are now able to access VoD services from approximately 50 VoD services active in Europe. France and Belgium are the leaders in this space, followed by Italy, Spain, the Netherlands, the UK and Germany.

Although the business case is very uncertain in the short term, we are witnessing an influx of new players. In sync with this VoD hype, many major content providers are slowly recognising the need to swallow some of the commercial risk by making a direct investment in their own VoD services.

Types of supplier

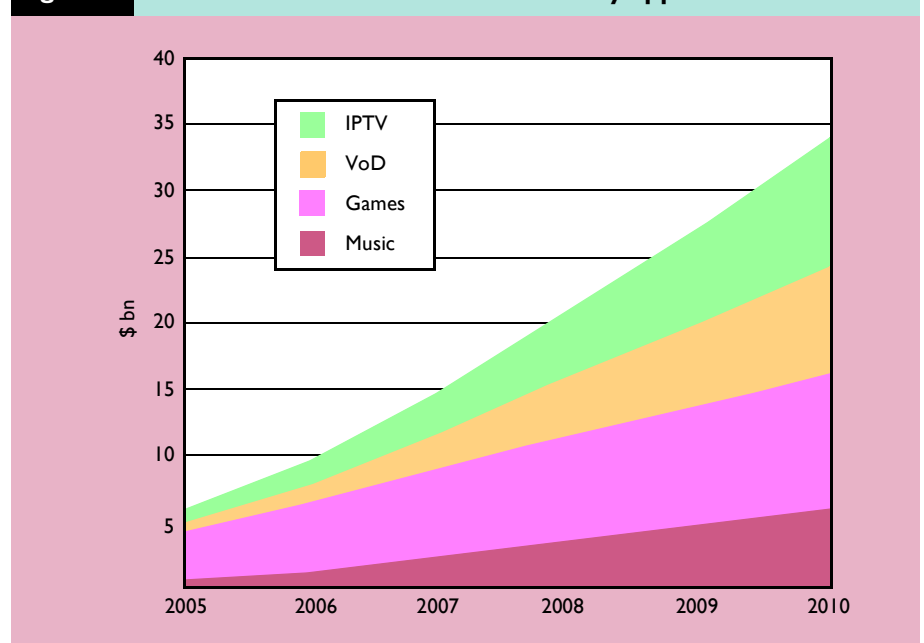
Suppliers of European VoD services can be divided into the following core categories:

- telecoms operators such as France Telecom, Belgacom, Telecom Italia, Telefonica, KPN, BT and Deutsche Telecom;
- ISPs such as FastWeb, Arcor, Absolut Medicean and Tiscali;
- cable operators such as Telenet, NTL/Telewest and Ono;

Market Overview

In 2006, we have seen aggressive content acquisition activities in the European broadband space. Video-on-demand (VoD) has consequently gathered momentum across key European markets. VoD launches by telecoms players accounted for nine of around 14 launches over the past year. Figure 1 shows how VoD fits into the current

Figure 1 World broadband content revenues by application



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- broadcasters such as Canal + , TPS, TF1, RAI and RTL Netherlands;
- emerging specialists originally involved in on-line rental such as Glowria and LoveFilm;
- global portals/aggregators such as Google, AOL and Yahoo!;
- global consumer electronics brands such as Apple and Sony;
- global digital retailers such as Amazon (to date VoD is only operating in the US market);
- traditional retailers such as Tesco and Fnac.

Drivers

Players' motivations for entering the VoD business vary:

- cable operators, ISPs and telcos want to further boost their new content services and overall revenues via new value-added propositions – Telcos and cable operators may not have any choice as VoD is their most important differentiator compared with satellite providers;
- some players (such as Amazon) are adding VoD content to capitalise on their brandname, to differentiate their value-added services, and to expand their content offerings;
- players such as Apple and Sony aim to boost the sale of their technologies;
- film distribution specialists (such as LoveFilm and Glowria) want to expand their existing distribution business models to include downloads – some of these do not have strong consumer brand power, and are adopting the wholesale business model, 'white labelling' their offer to third-party service providers, Glowria being one example;
- others (such as the traditional retailers) may introduce VoD to supplement potentially declining DVD retail revenues.

Who will be the VoD market leader in Europe?

The VoD market leader in Europe will be determined not by the size of the VoD catalogue but by the national pay-TV market topology and consumer demand. Wherever there is a large cable pay-TV infrastructure, VoD will most likely follow. However, there are many countries with analogue cable infrastructure, and this will certainly slow overall growth over the next five years, as operators need time and cash to upgrade their networks, which is essential for effective VoD delivery. Different geographies will therefore have different competitive

dynamics. Table 1 provides a brief overview of the existing telco VoD offers in Europe.

Cable VoD launches

In the UK, the NTL-Telewest FilmFlex service performance is slightly lower, based on subscriber numbers, than the company originally predicted. In mid-2005, NTL-Telewest's VoD offering was available to just 250 000 subscribers but now reaches about 2.2 million. While the merger between NTL and Telewest has slowed the VoD roll-out access across the UK network, NTL-Telewest's objective is to extend its reach to all of its 3.3 million cable customers by December 2006.

Belgacom faces rival cable operator Telenet, which recently claimed to have delivered 1 million VoD pieces of content – (one-third of which were paid for). Telenet offers a mix of three kinds of VoD content: free newscasts, a paid-for catch-up TV service with content from VRT's three channels, and pay-per-view access to the VRT library (Vlaamse Radio-en Televisieomroep – the public broadcaster for the Flemish community in Belgium).

In Spain, cable operator Ono launched its Ojo VoD service in November 2005 and plans to extend it to all major areas of the former Auna cable company that it acquired. More than 85% of VoD-enabled customers have accessed the service, with about 25% using it at least weekly. Ono's move brought competition to Telefonica Imagenio's VoD service. Since then rival DSL operators have launched their own IPTV services: TV by Orange includes VoD, while Jazztel plans to add on-demand programmes soon.

Other European VoD providers

Other European VoD providers can be divided into the following four groups.

players that specialise in the retail and rental of video content over the Internet are also making moves into the movie download space

- **Broadcasters**
Many European broadcasters already use the public Internet to offer VoD services, and some spend significant amounts of cash financing user-generated 'experiments' to identify the path towards the best new business model – advertising.
However, large interactive Web sites are expensive to develop and to keep up-to-date. If broadcasters' VoD becomes very successful, they will have to pay for more hardware (i.e. servers) and for higher bandwidth connections. In other words, they may become a victim of their own VoD success – unless they can harvest some early fruits of the new media advertising model.
- **Portals**
Existing portal and content service providers have started to take an interest in offering video services. For Google, it marks a first foray into content provision; the service has been launched as a premium add-on to its video search and user-provided content service.
AOL is also offering a download-to-own service, although it does so in partnership with LoveFilm, and in fact leads users through to a 'skinned' version of the LoveFilm Web site.
- **Digital film distribution specialists**
Players that specialise in the retail and rental of video content over the Internet

Table 1 Telco VoD services in Europe

Country	Service	Launch date	TV subscribers to date	VoD catalogue
France	France Telecom Ma Ligne	November 2004	306 600	Up to 1000 titles
Belgium	Belgacom TV	June 2005	73 000	550 titles
Spain	Telefonica Imagenio	2004	300 000	More than 400 titles
Netherlands	KPN Mine	May 2006	Target 70 000 by Q4 2006	500 titles
UK	BT Vision	September 2006	N/A	TBD
Germany	Deutsche Telekom	October 2006	N/A	TBD

[Source: Ovum: Operators 2006]

are also making moves into the movie download space. For example, LoveFilm in the UK and Glowria in France have long-term plans to introduce film download services. These players are joining up with the content owners (in exclusive deals, so far) to offer full-length films as downloads to own. They can leverage their expertise in the Internet retail space, and their substantial existing customer bases. For example, LoveFilm has over 1 million members and nearly 0.5 million active subscribers. However, it is vital that they pick the right content partner(s) in terms of content diversity and formats, and can offer as broad a range of content as possible. Ultimately, content is still the key driver of consumer take-up and the offering must be appealing.

• Content owners

Many big-name content owners are now starting to develop digital download services. For example, Warner launched its In2Movies offering in Germany, Austria and Switzerland, while Universal launched a download offering with LoveFilm in the UK. TV studios are also providing content for download through iTunes and Google Video, although at present it is only US players that are doing so. There is also a great opportunity here for independent, niche content providers to distribute their product relatively cheaply.

It is vital that content owners select the right partners for digital distribution, as this is far outside their core competency, and they need to focus on what they know – the content. While many of these players have access to strong catalogues, this is limited to that which they own; by definition, their VoD offerings are also limited. However, they can also sell through other distribution outlets, including independent portals, to increase their revenue stream.

VoD Business Models

In early days, the core VoD market comprised two types of services – short clips and episodes of TV programmes (up to roughly 45 minutes in length) for a relatively low price. More recently feature films have been available for digital distribution, initially as download-to-rent, and now as download-to-own.

Digital film distribution, whether it be download-to-rent or download-to-own, may be a real opportunity for future video

download business models, especially for Hollywood studio content owners. Content will have a longer shelf life – viewers will be able to watch films released last week or decades ago. Hence, new material will be competing for an audience against back catalogues of content, not just new blockbusters.

This may be a ‘new’ source of revenue from old digitised content. If so, the video download-to-own model may be supported and embraced by production companies, broadcasters and other content owners, as well as new service providers.

Figure 2 shows the potential world growth in VoD revenue, while Figure 3 indicates how this is split across the various regions.

Download-to-rent model

Until 2006, only the download-to-rent model was present, whereby users are able to rent movies in the pay-per-view window or 45 days after home release. On-line movie-

renters can usually watch movies for 24 hours until the files ‘self-destruct’.

Download-to-own model

The download-to-own business model allows content providers to charge a higher price (and hence get a better profit margin) than other forms of VoD. Movies are available for download on the same day as the DVD release. In the long run, the download-to-own video model will compete with DVDs and possibly make them obsolete. The increasing availability of connected-home services and devices will enable consumers to network their homes so that video content downloaded over the Web can be viewed easily on a TV, with no need for ownership of the physical format.

‘All you can eat’ model

The third and much debated model is ‘all-you-can-eat’ subscriptions, whereby you pay a monthly fee for either an unlimited or set number (not quite ‘all you can eat’) of

Figure 2 VoD world revenues 2006 – 2010

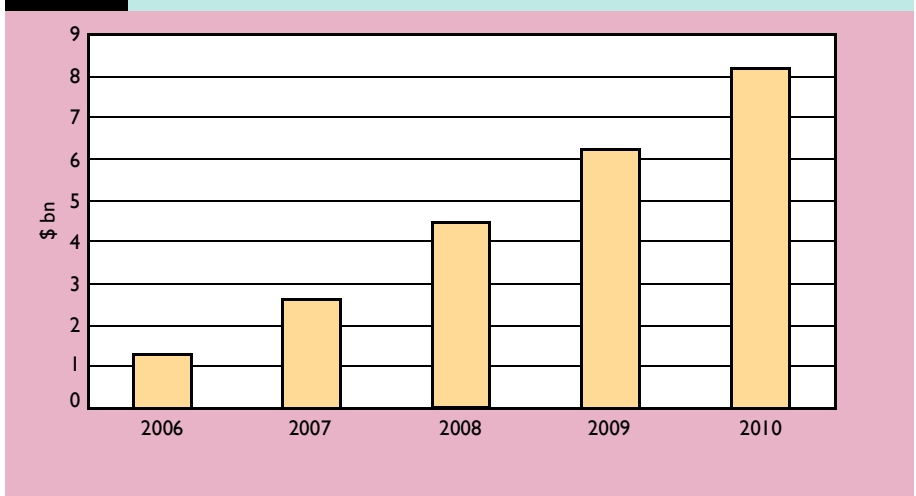
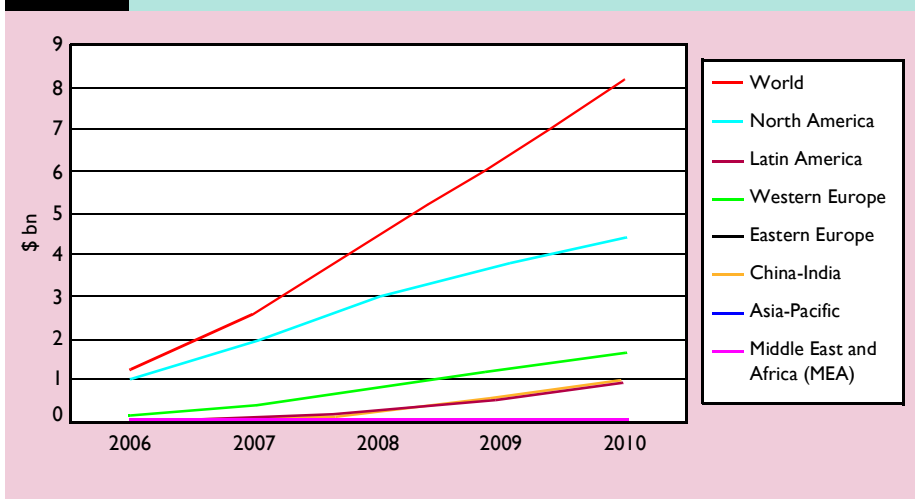


Figure 3 Growth in VoD revenues by region



digital rentals. It's being looked at by many video download service providers, major media players and content aggregators entering the market. An all-you-can-eat subscription model may work well within the wider context of video consumption patterns. Movies are consumed differently to other media – while we may play the same song 1000 times, how many of us are likely to watch the same movie even twice or build up huge digital film libraries? There will always be a few classics we would like to own but, in comparison to music, film is a one-off experience. If it is workable with all stakeholders in the value chain, both in terms of DRM and pricing, the subscription model could be an alternative long-term solution.

Revenue splits are key

The key question as to which business model will work best depends on the 'optimum' revenue split, as studios are always concerned with return on investment, and, for service providers, this is a completely new source of revenue. Compared to total movie distribution figures, this appears to be a very small niche market, at least in the short term. But small numbers also mean a big growth and 'value-added' opportunity, especially for independent content providers who may be able to access global audiences.

Regional Differences

Different strategies will be required for digital distribution in different territories, especially when we take into consideration regional consumption patterns and tastes, as well as the various legal and regulatory frameworks, which vary by country. Each European country will strike its own balance between copyright laws, licensing deals and consumer protection. Therefore, key European territories will have slightly different performance patterns, and also different preferences with regard to download-to-own versus download-to-rent versus subscription.

Independents expected in culturally protective markets

There are some indications that a few smaller, independent video download service providers will emerge. This is especially relevant to culturally protective markets such as France and to some extent Spain, where domestic content providers may want to explore digital distribution in order to boost their own 'exportability', or even compete domestically against blockbusters in the long run.

Key Success Factors

Technology – what can the user do with their downloads?

Flexibility in how consumers can use a downloaded video is an important factor for service provider success. Unlike the download-to-rent model, current download-to-own services allow users to play a movie file on up to three PCs, including a Windows XP Media Center Edition PC that streams content to an Xbox or other Media Center Extender. Users can also burn a back-up copy of the file to DVD or to another hard drive. In order to play that back-up copy or use the file on other PCs, a broadband connection is needed. This allows users to connect to the download service provider Web site by entering a password and PIN to authorise a device to play the file. However, there are some providers with more limited flexibility. For example, CinemaNow allows users to play films on only one PC.

DRM – critical to the success of digital film distribution

The deployment of harmonised standards and secure digital rights management (DRM) systems will be critical to the success of video download services. Appropriate DRM technologies will enable the service to be delivered in the long term. From the content providers' perspective, three technologies and processes are of critical importance for successful service roll-out – strong copyright laws, minimum common DRM standards, and usability. A few technologies have been implemented by CinemaNow, Lovefilm, Kontiki, RipeTV and TiVo. They prove it's possible to get there. The launch of new download-to-own services is a good indicator that content providers are looking towards life beyond the DVD.

Pricing – are consumers ready to pay €20 for a film download?

The movie industry must decide how to monetise digital distribution models and fit film downloads into its existing pattern of distribution such as cinema release and DVD sales, without charging an excessive premium for the 'convenience' of a movie download service.

There aren't that many early adopters out there who will be ready to pay a premium price to build their digital film and/or TV content libraries. Price is a big challenge, and thus download-to-own may remain a niche market in the short term.

flexibility in how consumers can use a downloaded video is an important factor for service provider success

Although DVD sales growth has slowed, it's still the biggest single source of revenues for major studios, which typically get margins of \$10 or more for each DVD sold. No wonder content providers are slightly nervous about a new technology that could, in the worst-case scenario, cannibalise their business without generating overall growth for the industry.

Key Challenges

Levelling the competition

Territorial rights and passing film content globally via download is a big legal challenge and especially complex for inexperienced emerging European telcos. For core content providers such as the Hollywood studios, having a competitive European VoD market is desirable because it means more competition for their content, so it is in their interests to foster a crowded space.

This secures the studios' long-term negotiating power and gives them more control over what films get downloaded and when, where and how. Hence, a powerful Apple iTunes movies portal with an integrated solution and access to European markets would be too 'strong' as a global player if given access to all of the world's best content and territories.

Premium versus niche content distribution

On a micro content provider level, it is important to address the shift from premium content to niche, and from mass market to personalised and user-generated services (i.e. YouTube, MySpace). The potential value of the 'long tail' as a value-extractor rather than a driver has to be recognised within the content acquisition mix, especially as telcos and other players compete in an increasingly competitive and consolidating media environment. In addition, in some European markets, there is a chance for 'non-box-office' performers

and local digital film service providers to differentiate with lower profile movies.

Illegal file-sharing

Increasingly, peer-to-peer file-sharing networks are being used to share video content. As broadband penetration increases and network speeds rise, thus the sharing of larger files (up to 5 Gb for DVD-quality) becomes feasible. In addition, the BitTorrent file-sharing protocol has also enabled more sharing of high-quality video content, as it greatly increases the speed of P2P downloads. Indeed technology providers such as Arvato and Kontiki offer solutions that are based on a very similar principle. If video download service providers are to win users away from illegal filesharing then they will need to beat them on the following points.

- Reliability

Downloads from illegal P2P may be poor quality, or a different file altogether, and P2P networks are reportedly coming under increasing attack from those seeking to spread viruses and malware. Service providers can thus leverage the quality and veracity of their offerings to attract consumers. In addition, ISPs can leverage their position as trusted suppliers.

- Pricing

Research has proven time and time again that consumers are willing to pay a premium for what they perceive as better services, even though they can get the

same content for free on P2P services. Service providers need to ensure that they do not launch at too high a price point, and should consider initial promotions to tempt users away from free, illegal services.

- Quality of service

Video download service providers have the opportunity to offer a commercial product that smoothes some of the rough edges of many P2P applications. For example, while BitTorrent is capable of fast download speeds, it requires some degree of technical knowledge on the part of the user to achieve this. Video download service providers have the best of both worlds in that they can offer a powerful P2P back-end for rapid delivery times, while using a fairly simple, consumer-friendly front-end.

Expanding services versus consumer demand

For some operators, launching or further expanding VoD services may be some way off, as it requires additional investment in technology to deal with the expected rise in the number of streams delivered to consumers. Cable operators also have to make tough decisions with limited financial resources (see Figures 4 and 5 which show how the European VoD revenue share is expected to grow over the next four years).

Our study of the existing European VoD services and their performance to date indicates there is a short-term gap in supply

and demand, and many players will struggle to even break even in the long run. Service providers are essentially having to offer services in order to ‘create’ market demand. In addition, as VoD services become more successful, service providers will have to go back and upgrade their networks and make them available for higher demand.

Ovum’s view is that European VoD is still a tiny market segment driven by two types of consumer demand – film-lovers building their own digital film libraries, and techies. Both categories have extremely high expectations both in terms of what they can do with their purchased films, how soon they can move them to other home audio-visual devices, and how much they pay for them.

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Figure 4 VoD revenue share by region 2006

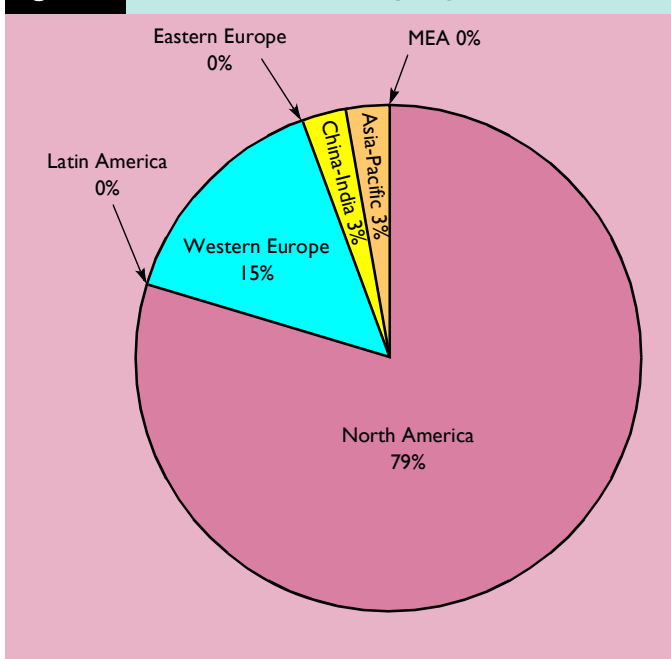
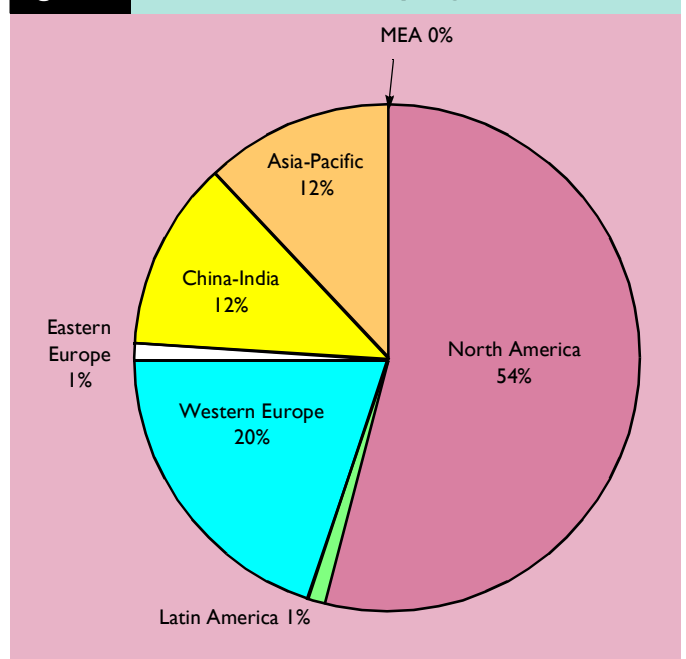


Figure 5 VoD revenue share by region 2010



Biography

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Aleksandra Bosnjak is a content and media analyst for Ovum's broadband content and mobile advisory services. She is currently working on a number of broadband content topics, including video on demand business models, IPTV and VoD regulatory issues, IPTV marketing strategies and premium content forecasting.

Before joining Ovum, Aleksandra spent two years working for Nordicity Group, a Canadian entertainment/media and telecoms strategy consulting firm. There she worked on a wide variety of performance evaluation and business strategy projects across the film and TV production, music and new media sectors. Prior to her role at Nordicity, Aleksandra was a Project Manager at EMS Technologies SATCOM, a global provider of advanced broadband and satellite solutions. Aleksandra founded Funky Finance Productions Ltd, a film production company dedicated to the production and promotion of independent cinema.

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