The market for on-demand audiovisual services in the EU

Overview & Trends

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New ways of distribution – Creative Europe Desk Polska/KIPA
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Overview

I. Digital transformation of the media sector

II. Digital media landscape in the EU
   Main figures & Trends

III. Challenges in the digital audiovisual ecosystem
Section I
Impact of digitalisation and distribution of audiovisual content over the Internet

How did the media ecosystem change on the Supply and Demand side?
I. Digitalisation and «over-the-top» distribution of content

Intensification of competition
Advertising & Paid content

New services

« OTT » = Open Internet

New entrants
I. Increased fight for consumer attention ...

Abundance of audiovisual media content

- Theatrical films
- TV films
- Video films
- Pay TV content
- Live broadcasts

Types of content:
- TV shows
- TV series
- Thematic channels
- Documentaries
- Computer Games
- Online Games
- Video Games
- Music
- Animations
- Mobile Games
- Computer Games
- VLOGs
- Tweets
- Short formats
- Audio-TV
- News
- Video-sharing
- Social Media
- Podcasts
- User Generate Content
- Catch-up TV
- Audio-Video

Examples of audiovisual media content:
I. Changing audiences & Mult-screen viewing

EU 14 – Smartphones and Tablets installed base

in millions
I. Audience fragmentation by media ...

Source: eMarketer

UK - Avg Time Spent per Day 2011 - 2015

- Digital
  - Desktop / Latop
  - Tablets
  - Smartphones

- TV

- Radio

- Print
I. Increased importance of mobile devices...
And a trend towards mobile video consumption ...

Digital video viewers by device in EU Big 5 Oct 2014
In % of respondents (18+ who own all devices)

- Laptop / desktop: 64%
- Tablet: 58%
- Smartphone: 51%
- Fixed game console: 35%

Between 50% and 60% of Europeans already use mobile devices to watch videos

Source: Ofcom, eMarketer
Consequences of changes on Demand and Supply side

« ATAWAD » content consumption

Abundance of content & New entrants/services

Audience fragmentation

Scarce resource = Attention of audiences

➔ Shift in paradigm

Impact on Advertising & Paid Entertainment markets in the EU
II. EU digital media landscape in 2014 – Main figures and trends
II. EU digital media landscape – Main figures 2014

- Over **2 900** on-demand audiovisual services available in EU 28 (MAVISE 2014)
  - Increased competition on [online advertising market](#) and [VoD market](#)
    - Many services and players but only a few dominate ➔ [Online Oligopolies](#)
    - Rapid growth but **EU markets are heterogenous** when it comes to digital services
      *(UK, Germany and France 66,7% of online advertising revenues / EU-5 70% of VoD revenues in 2014)*

![Diagram showing EU Online Advertising and VoD revenues](image-url)

- **EUR 27,2 billion**
- **EUR 2,5 billion**
Section II Part 1

Online Advertising in the EU

Main figures and Trends

Where is the market going?
EU28: Online challenging TV advertising – in EUR million

TV Advertising
CAGR + 0.2%

Online Advertising
CAGR + 13.6%

Source: Warc
Poland - TV advertising still dominant in 2014

TV Advertising PL
CAGR + 1.2%

Online Advertising PL
CAGR + 11.4%

Source: Warc
Concentration: Scale & Reach is important – Advantage to global players on the online ad market

Source: IHS
Online advertising surpassed TV ad spend in 7 EU countries 2014

In EUR million
Source: Warc
But online video advertising is still a small fraction of TV advertising in 2014...

Online video as a percentage of TV advertising in 2014

Source: OBS on Warc, IAB and IHS data
Google and Facebook dominant players for online video advertising in EU, broadcasters take a smaller share

Source: IHS
Display advertising – Objectives

- **Right message (ad) at the Right Time in front of the Right Person**

  - **Right message (ad)**
    - 「Big Data」 (Targeting/Behavioural)
    - Online Video ads
  
  - **Right Time**
    - Real-Time Bidding
    - Real-Time Marketing
  
  - **Right Person**
    - 「Big data」
    - Tracking (Cookies / Advertising ID)
    - Social Networks
    - Retargeting

  • Increase in **connected mobile devices** = localisation, geo-fencing/mkt

  • Increase in **screens & devices** = Increase in addressable market (「Eyeballs」)

  • Increase in **online video consumption & broadband coverage** = Audience’s shift in consumption habits, Digital natives (「Follow the money」)
Online Display advertising – Drivers of growth

- Online advertising-financed video websites and Social Networks
  - Acquisitions of YouTube MCNs by major traditional media companies
  - Investments in premium & original content
  - Social networks on video offensive (monetize audiences)

• Capture new audiences & ad budgets, valorise existing & new content

• Data driven advertising = targeting and personalisation of ads

• Programmatic advertising and real-time bidding

• Social & Mobile advertising is further changing the rules of the game

➔ Shift of mass advertising to individualized, personalized advertising
Social & Mobile advertising – For winners, huge growth drivers
Section II Part 2
On-demand and Paid Entertainment revenues in the EU

- Main figures and Trends

Traditional versus Digital?
Consumer revenues for VoD services: fast growth but EU-5 & Nordics generated 82% of total revenues in 2014

Source: IHS
« OTT » players by-pass « managed networks » by Internet Service Providers (ISP)

« OTT » Open Internet

Managed networks
OTT is becoming dominant in the EU in absolute figures

OTT VoD and Managed networks 2010-2014
Consumer revenues (in EUR million) EU28

Source: IHS
II. VoD services: Main trends

1. Over-the-top on-demand revenues are growth drivers, surpassing consumer spend on TV VoD (managed networks by national players)
   - Tendency towards **OTT audiovisual on-demand consumption**
   - Global players are dominating the OTT on-demand market in most EU countries

2. Explosive growth of subscription video-on-demand services (SVoD) since 2012
   - Competition or Complement to pay TV?

3. Physical media (DVD & Blu-Ray rental/retail) revenues versus on-demand revenues
   - **Overall physical media market is shrinking** - Does VoD compensate for loss?

4. Cinema: Evolution of admissions in the EU
OTT VoD « Over-the-Top » distribution versus VoD Distribution on managed networks

– OTT VoD distribution by-passes traditional players and, in some cases, national audiovisual regulation
  • Players established in specific countries or abroad to target EU countries

– In Poland, VoD on managed networks still dominant in 2014
A multi-country approach

Source: European Audiovisual Observatory elaboration, MAVISE
Growth rates: consumers are going «over-the-top» and towards subscription-based VoD services

Source: IHS
The picture in Poland: VoD Distribution on managed networks still dominant but growth lies in OTT

TV VoD CAGR +25%

OTT VoD CAGR +248%
Subscription Video-on-demand services in the EU

– SVoD fastest growing business model in the EU
– Netflix effect?
– Complement or Competitor to pay TV?
Impressive SVoD growth since 2012 in the EU: Netflix effect?

EU SVoD consumer revenues and yearly growth rate

*in EUR million and %*

Source: IHS
« Netflix effect »: Raising awareness among EU consumers for SVoD services and launch by national players of SVoD services

Source: OBS on IHS
And Netflix’ growth relies more and more on international markets as expansion continues.
But SVoD consumer revenues still a small fraction of pay TV spend...

- **SVoD services rather a complement to traditional pay TV than a competitor in the EU (in 2014) - « Cord-cutting » yet marginal in the EU**

- **SVoD consumer revenues in Poland** (EUR 2,9 million) **only 0,16%** of pay TV consumer spend (EUR 1 843 million)

*Source: IHS*
Physical video market and VoD
Paid content: Evolution physical media (DVD/Blu-ray) and on-demand revenues EU 18 in EUR million

VoD not compensating physical decline

<table>
<thead>
<tr>
<th>Year</th>
<th>EU 18 DVD&amp; Blu-ray turnover</th>
<th>EU 18 On-demand revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>8,032</td>
<td>915</td>
</tr>
<tr>
<td>2011</td>
<td>7,422</td>
<td>1,032</td>
</tr>
<tr>
<td>2012</td>
<td>6,810</td>
<td>1,391</td>
</tr>
<tr>
<td>2013</td>
<td>6,054</td>
<td>1,798</td>
</tr>
<tr>
<td>2014</td>
<td>5,343</td>
<td>2,453</td>
</tr>
</tbody>
</table>

Source: IHS
Paid content: Evolution physical media and on-demand revenues

Poland – VoD is compensating

Source: IHS
Cinema admissions
Admissions stabilize - slightly below pre-3D levels ...

Source: European Audiovisual Observatory

Cinema attendance in the EU 2005 - 2014

in mio.

PROVISIONAL & ESTIMATED
... thanks to strong performances in France, Spain & Poland

Change in admissions 2014 vs 2013 (in mio)

Decline

-8.0 -6.5 -1.1 -0.7 -0.5 -0.5

Growth

11 27 15.2 10.5 4.1 0.9 0.7 0.5

Source: European Audiovisual Observatory
But Cinema audiences are getting older

Source: CNC

Audiences getting older
Summary – Impact on traditional markets

Online in strong competition with TV for advertising budgets

Consumers are going OTT and SVoD

Admissions stabilize - slightly below pre-3D levels ...

Declining overall Entertainment market - VoD does not compensate
Section III

Challenges in the digital audiovisual ecosystem
Challenges for EU players and the audiovisual sector

• High number of VoD services **BUT Concentration** and **Market domination** by small number of players on VoD and digital markets
  — Future for smaller EU players?

• **Access and Exposition of EU films** and **TV shows** on main VoD services
  — « Gatekeepers »

• **Lower monetization** of content than physical (DVD/Blu-ray)

• **Access to premium content** increasingly more expensive ➔ need of original and exclusive content in order to secure **competitive advantages** as digital players conquer the value chain
  — Netflix, Amazon, Vimeo, YouTube Red and others investing in original content
  — Competition to secure premium content increases licence prices for all players

• **Financing of EU works**: traditional broadcasters under increased pression from online players for advertising budgets, viewers and subscribers
  ➔ Future of financing?
Market concentration – United Kingdom 2014

UK Digital rental market shares in % of value

- Netflix: 71.1%
- Sky: 54.5%
- Amazon: 19%
- Google Play: 7%
- Blinkbox: 8%
- Other: 5%

Market value: £ 168 million

UK SVoD Volume market share in % of volume

- Netflix: 71.1%
- Sky Now TV: 12.8%
- Amazon Instant Prime Video: 16.1%
- Blinkbox: 8.6%
- Virgin Media: 7.0%
- BT: 6.5%
- Amazon: 5.3%
- Google: 2.6%

Market value: £ 381 million

UK Digital retail market shares in % of value

- Netflix: 71.1%
- Sky Now TV: 12.8%
- Amazon Instant Prime Video: 16.1%
- Amazon: 19%
- Blinkbox: 8%
- Other: 5%

Market value: £ 264 million

⇒ Oligopolies?
⇒ «Winner-takes-all » logic?
⇒ What place for national players in light of strong international competition?
⇒ Economies of scale essential

Source: British Video Federation Yearbook 2015
### Access and exposition of national and EU films on VoD services

#### Difficulties to access platforms: Poland: % of Polish films on selected VoD services

<table>
<thead>
<tr>
<th>Platform</th>
<th>Total</th>
<th>European</th>
<th>Non-European</th>
<th>European</th>
<th>Non-European</th>
<th>EU 28</th>
<th>National</th>
<th>US</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IPLA catalogue</strong></td>
<td>1065</td>
<td>518</td>
<td>547</td>
<td>49%</td>
<td>51%</td>
<td>62%</td>
<td>47%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Kinoplex catalogue</strong></td>
<td>1176</td>
<td>677</td>
<td>499</td>
<td>58%</td>
<td>42%</td>
<td>72%</td>
<td>54%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>iTunes Poland catalogue</strong></td>
<td>2320</td>
<td>315</td>
<td>2005</td>
<td>14%</td>
<td>86%</td>
<td>70%</td>
<td>67%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Chili.tv Poland catalogue</strong></td>
<td>950</td>
<td>139</td>
<td>811</td>
<td>15%</td>
<td>85%</td>
<td>91%</td>
<td>83%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: OBS Study on VoD catalogues 2015 (forthcoming)
**Monetization: VOD is harder to monetize than DVD/Blu-ray…**

<table>
<thead>
<tr>
<th>TVOD/EST</th>
<th>SVOD</th>
<th>AVOD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business model:</strong></td>
<td><strong>SVOD</strong></td>
<td><strong>AVOD</strong></td>
</tr>
<tr>
<td>Transactional VOD</td>
<td>Subscription VOD</td>
<td>Ad supported VOD</td>
</tr>
<tr>
<td>Consumer pays a fee to buy or rent a film</td>
<td>“All you can watch” for monthly subscription fee</td>
<td>Free for consumer, advertising income</td>
</tr>
</tbody>
</table>

**Key players**

- **TVOD/EST:**
  - iTunes

- **SVOD:**
  - Netflix
  - Amazon Prime Instant Video

- **AVOD:**
  - YouTube

**US consumer expenses:**

- **Rental:** USD 4
- **Purchase:** USD 3-8
- **Monthly fee:** USD 3-10
- **Free**

**Revenue split:**

- **VOD provider:** 30%
- **Distributor:** 30%
- **Sales Agency:** 20%
- **Producer:** 20%

**Monetisation potential:**

- **Highest potential**
- **Depends on title**
- **Low / Need of scale**

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*Source: DocumentaryTelevision.com (27 April 2015)*
...and Digital players conquer the value chain

Source: TNO White Paper “Regulation in the converged media-Internet-Telecom value web”
With deep pockets, acquiring and investing in (original) content

Excluding spend on sports, in 2013 and 2014, Netflix outspent almost everyone on original and acquired content.

In 2014, Netflix spend was about double that of ITV and Amazon.

Source: IHS

**Shopping Spree**
Content acquisition spending

- Netflix: $3.3B
- Hulu: $1.5B
- Amazon: $1.7B

Note: 2014-15 are estimates
Source: RBC Capital Markets

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Conclusions

- **Shift in paradigm** for the audiovisual sector
  - **Attention** is the **scarce** resource, **content** is **abundant**

- **Competition becomes international** with OTT distribution
  - National players compete with international players profiting from economies of scale (investment in technology, content, exclusive licences) and larger reach

- Digital markets: Tendency towards **Oligopolies & « Winner-takes-all » logic**
  - Online advertising, SVoD and Transactional VoD all dominated by 1 or 2 players

- **Traditional financing** sources for EU productions **under increased pressure**
  - Commercial TV competes with online players for advertising budgets

- **Monetization** of Film and TV shows **lower** than in traditional ecosystem

- Question of **Access** to and **Exposition** on main **VoD plateforms for EU works**

- **Transparency** of figures (revenues, subscribers, growth, viewing) necessary in order to evaluate trends and market directions
Dziękuję
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Thank you

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