The market for on-demand audiovisual services in the EU

Overview & Trends

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OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSSTELLE

COUNCIL OF EUROPE CONSEIL DE L'EUROPE

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

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How did the media ecosystem change on the Supply and Demand side?

I. Digitalisation and «over-the-top» distribution of content

« OTT » = Open Internet

New services

CANAL PLAY
Videoload
arte vod
maxdome
orange 24/24 Vidéo
MYTF1 VOD
voo
ipla
snap by sky
HBO NORDIC

New entrants

kinoplex
Flimmit
NETFLIX
Xbox Video
wuaki.tv a Rakuten company
YouTube
Google play
amazon instant video
viewster

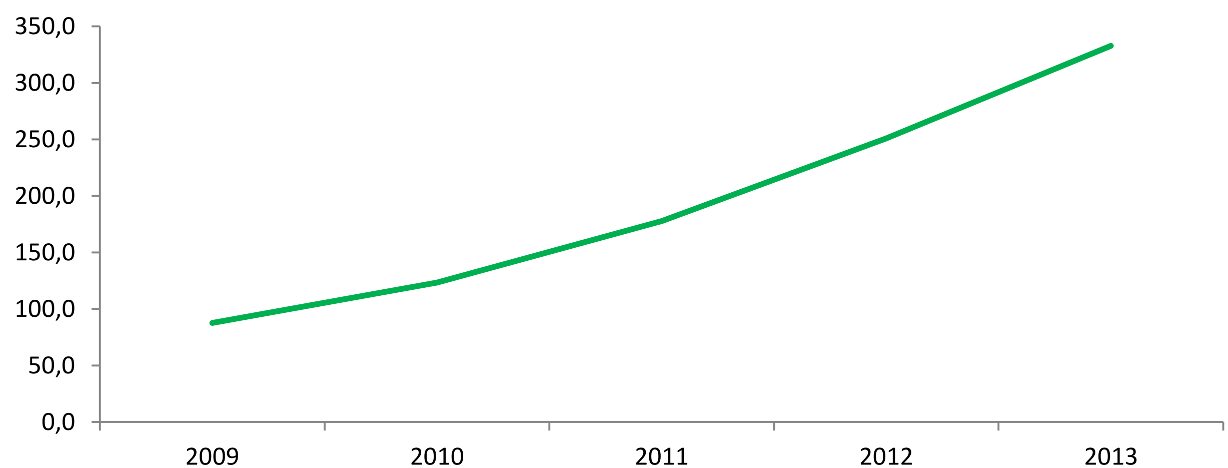
Intensification of competition
Advertising & Paid content

I. Increased fight for consumer attention …

I. Changing audiences & Mult-screen viewing

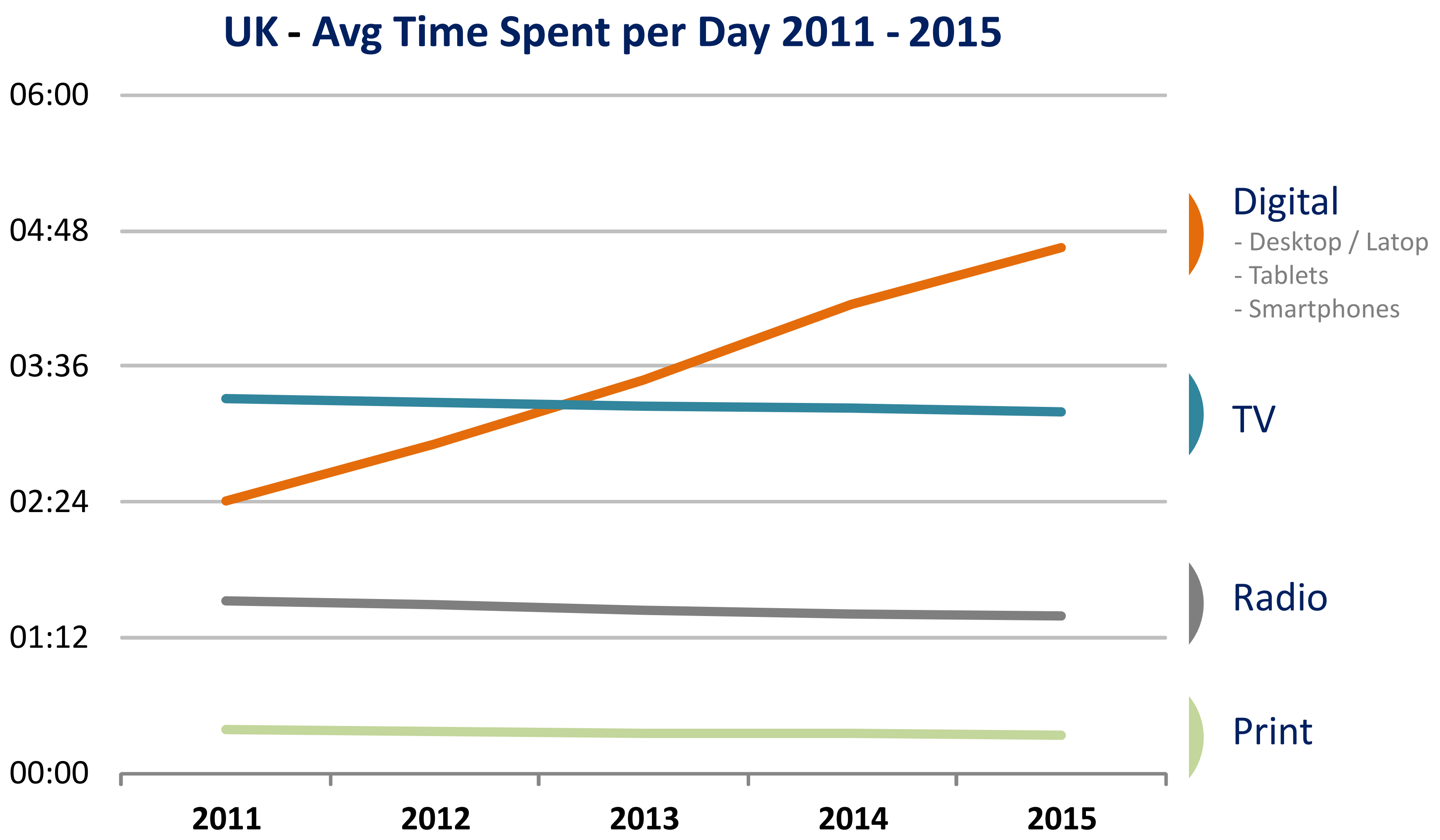
EU 14 – Smartphones and Tablets installed base

in millions

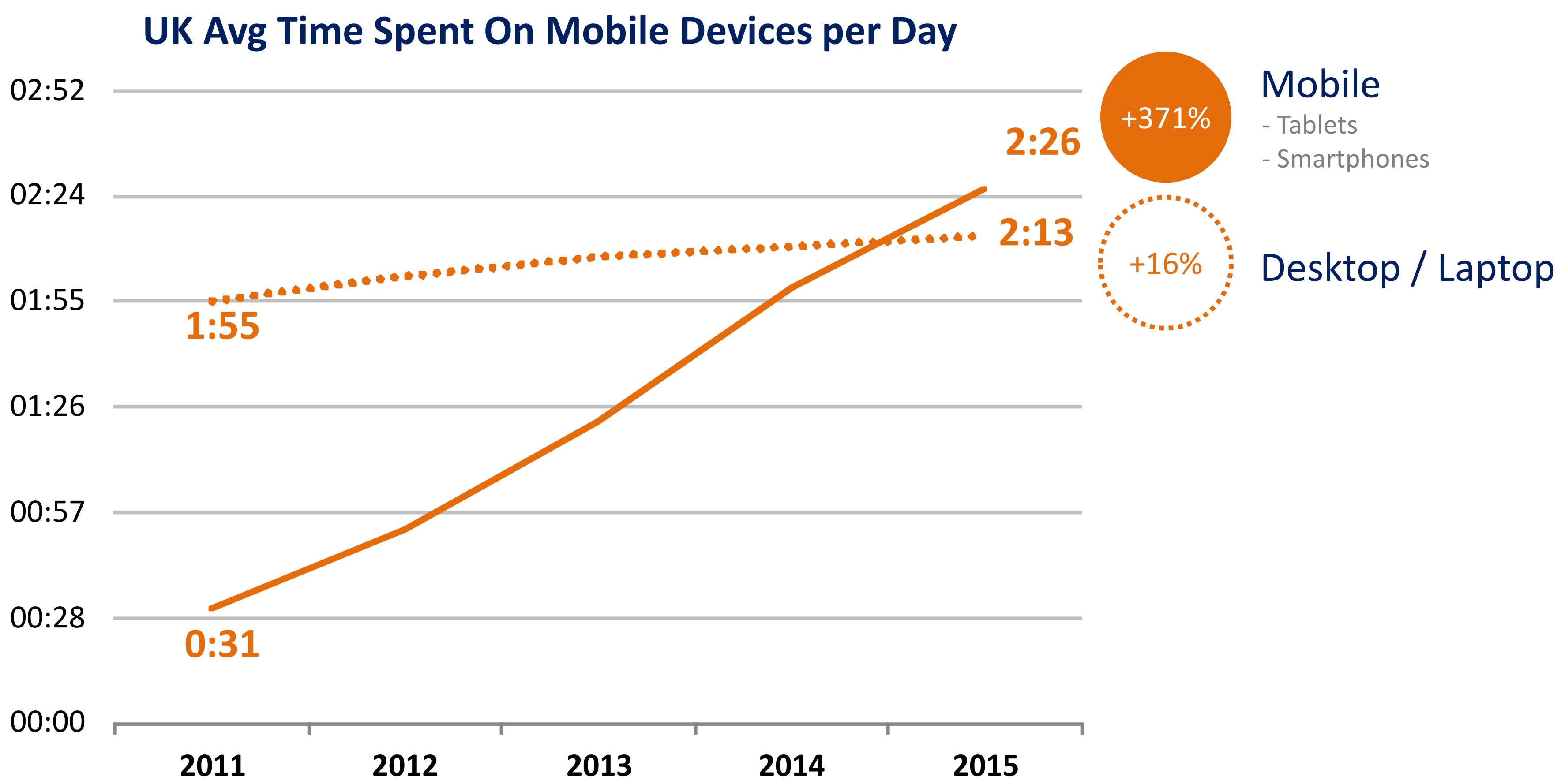


I. Audience fragmentation by media …

Source: eMarketer



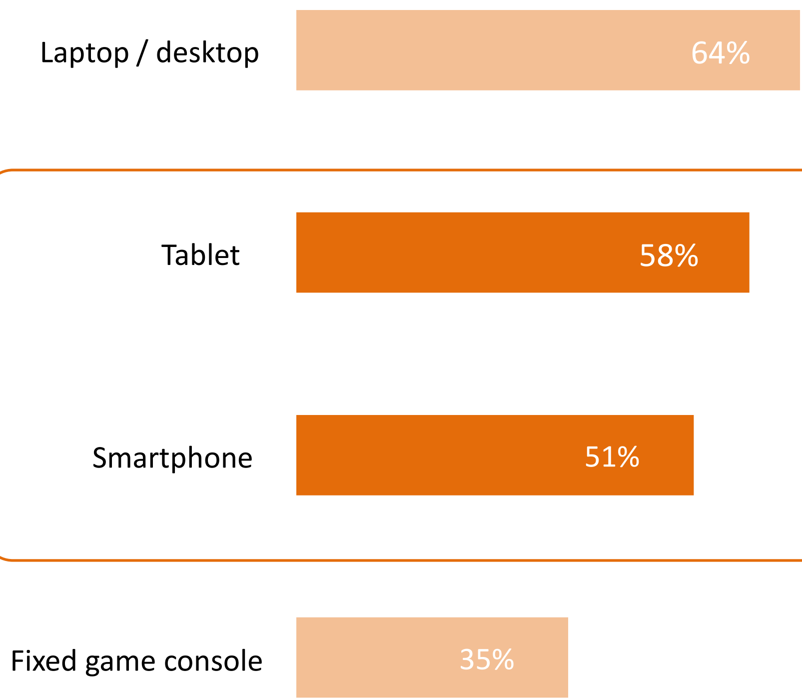
I. Increased importance of mobile devices…



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)



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

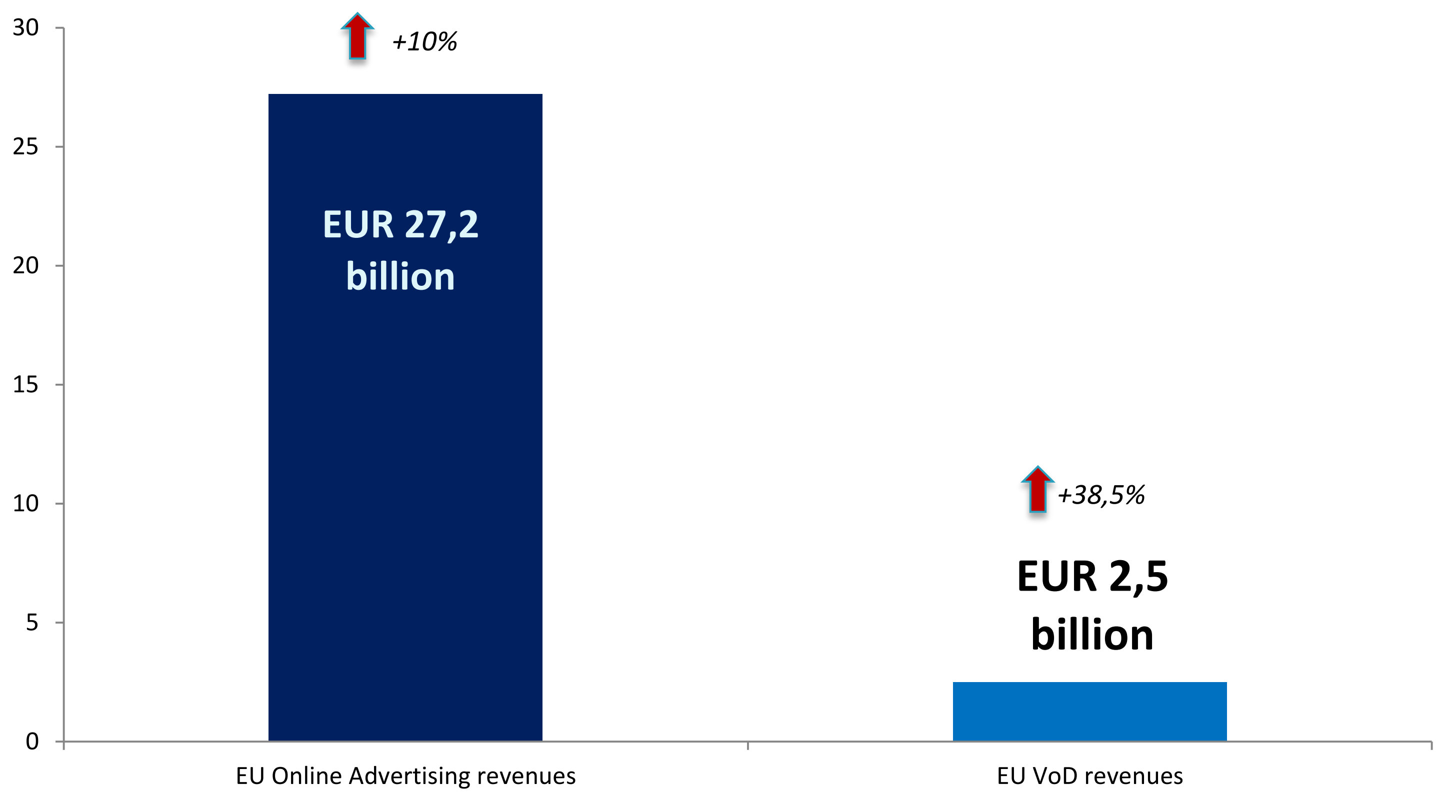
Impact on Advertising & Paid Entertainement markets in the EU

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)



Section II Part 1

Online Advertising in the EU

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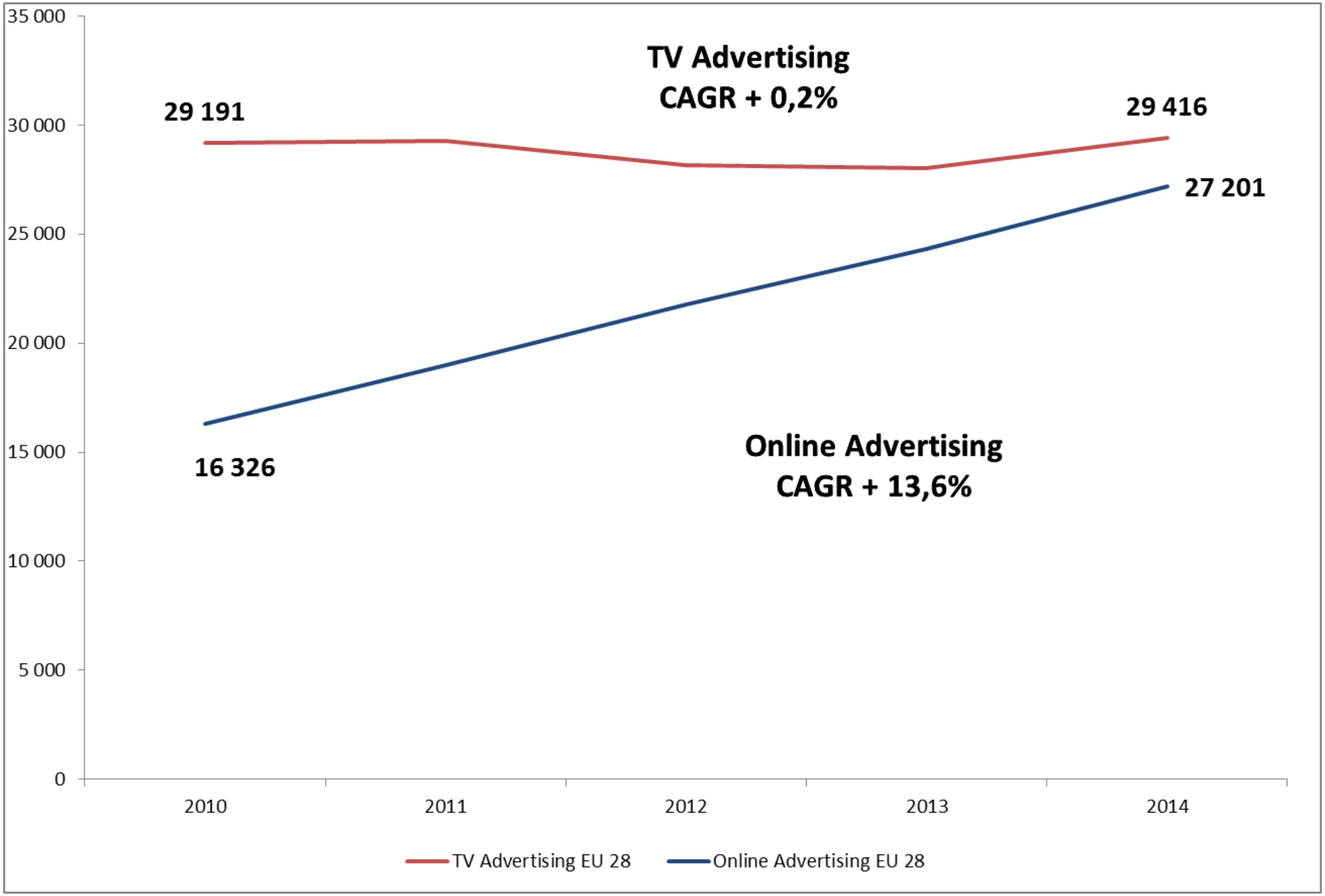
Main figures and Trends

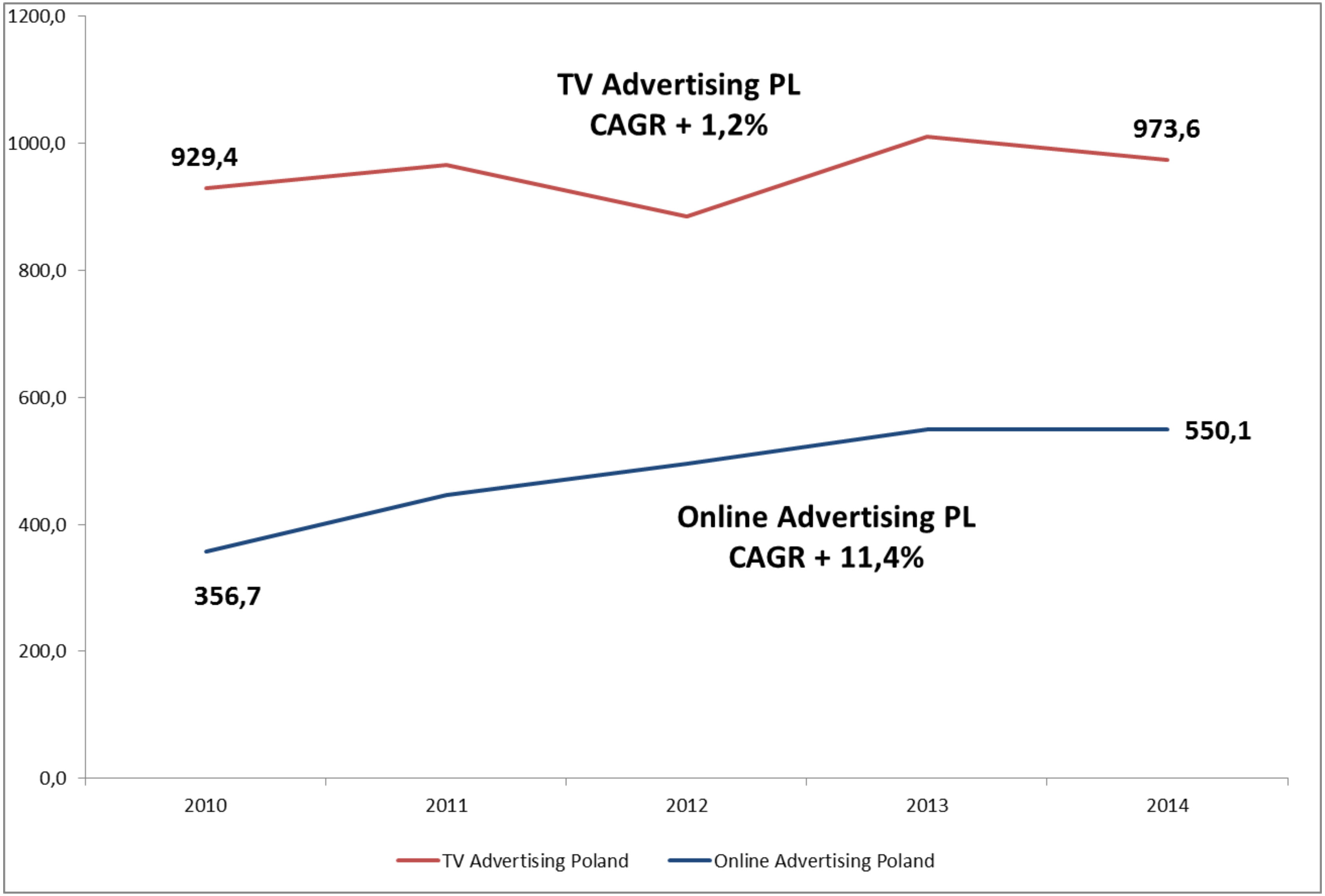
Where is the market going?

EU28: Online challenging TV advertising *– in EUR million*



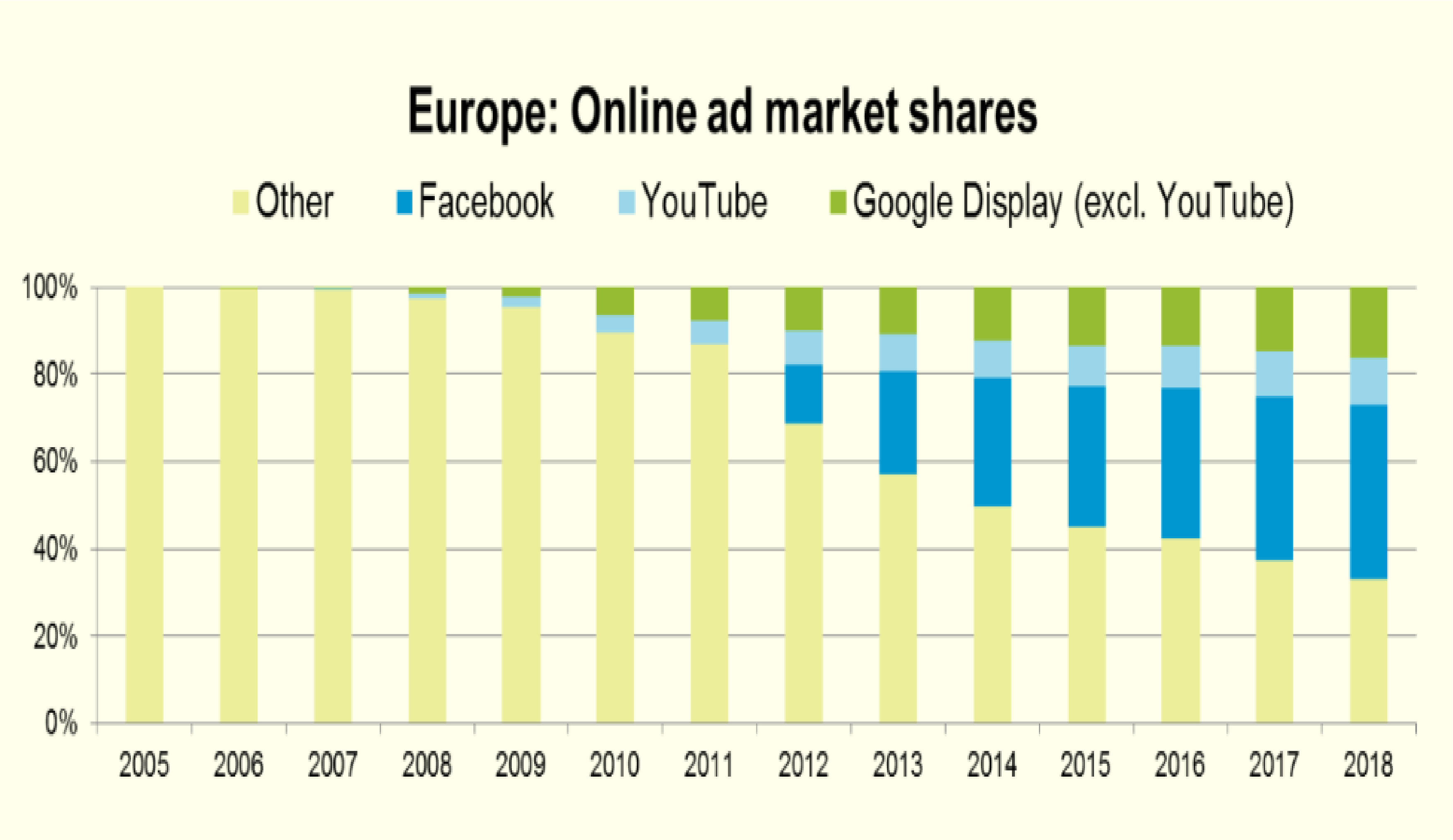
Source: Warc

Poland - TV advertising still dominant in 2014



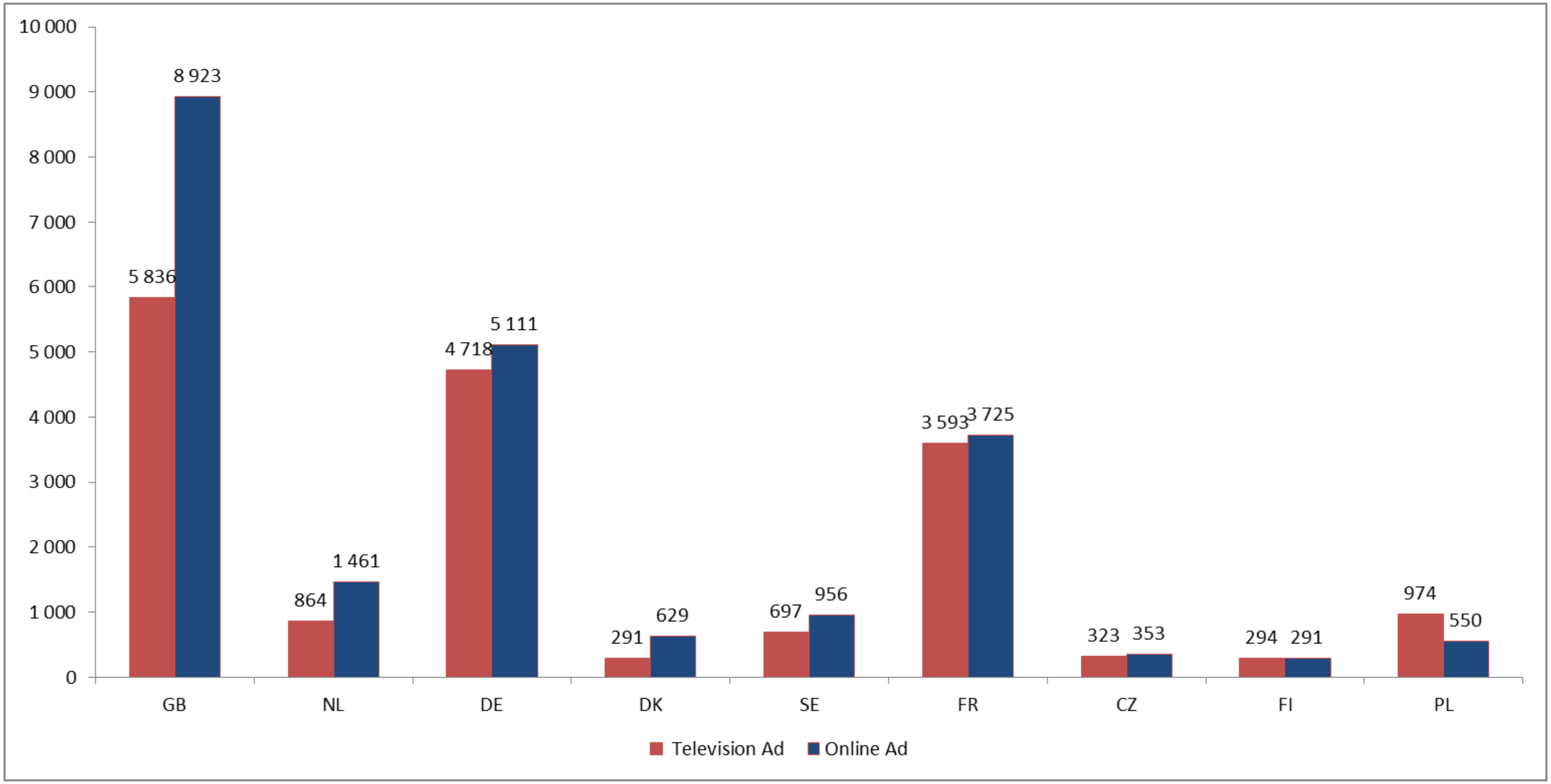
Source: Warc

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



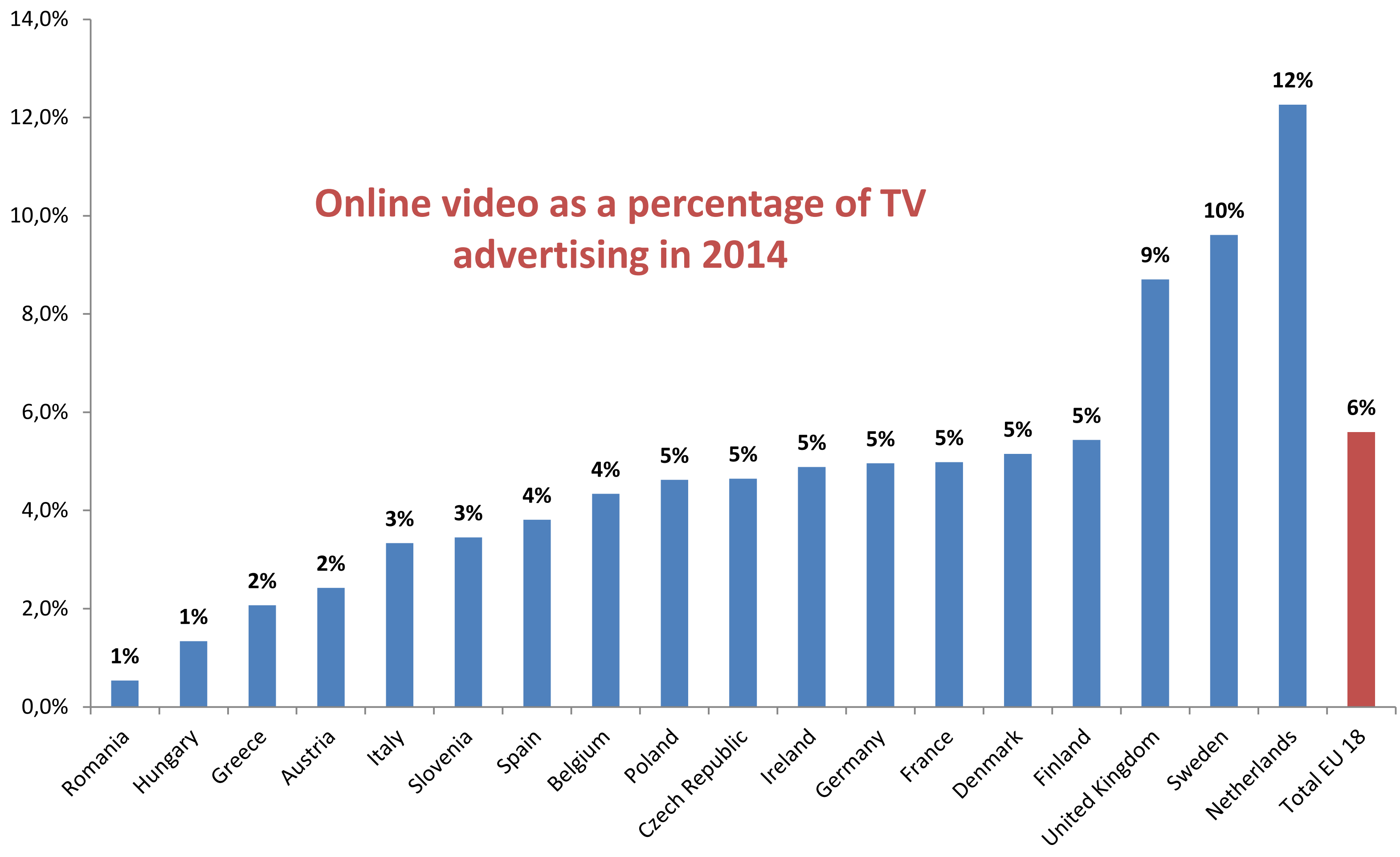
Source: IHS

Online advertising surpassed TV ad spend in 7 EU countries 2014



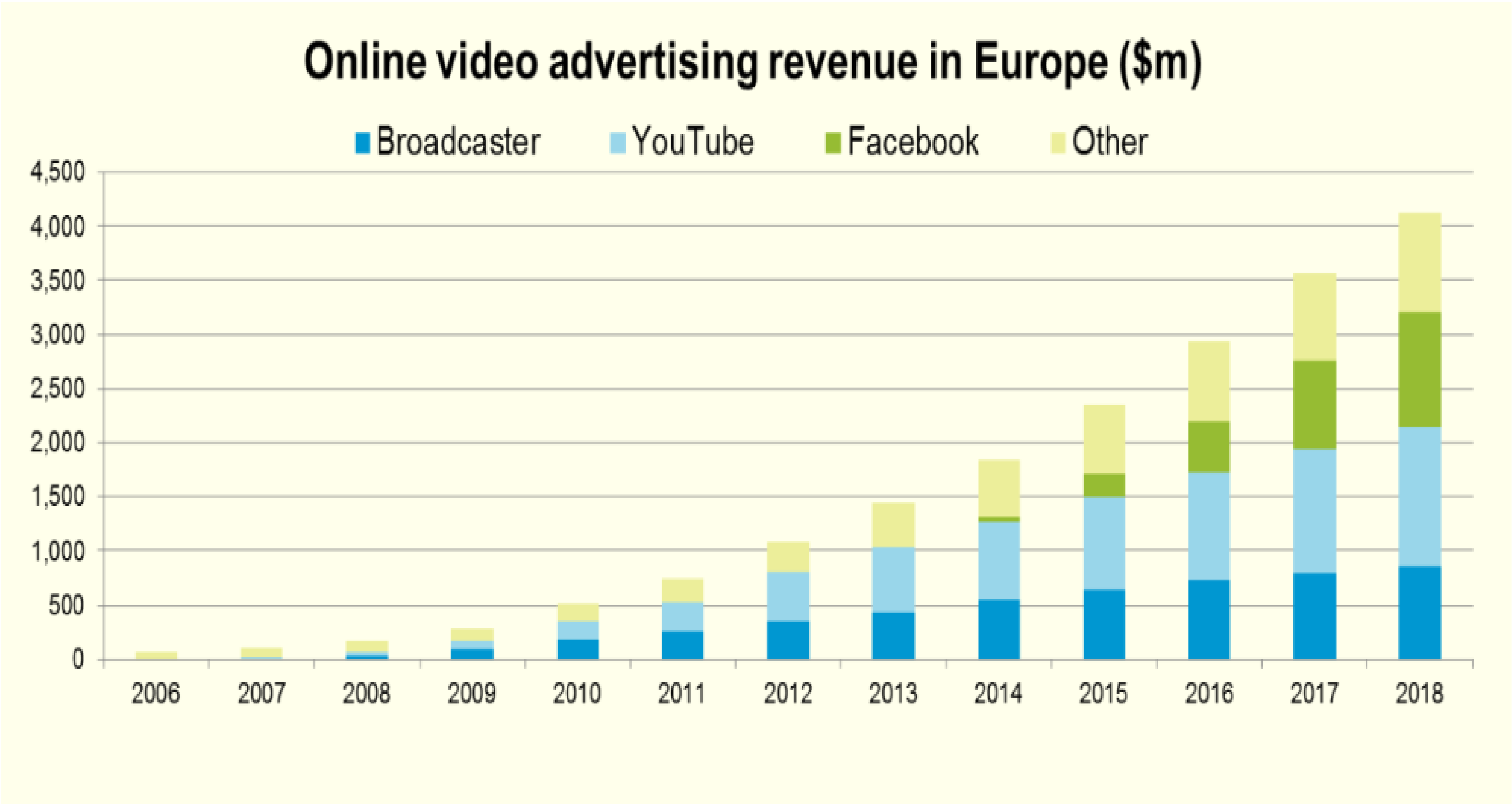
In EUR million
Source: Warc

But online video advertising is still a small fraction of TV advertising in 2014…



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 »)

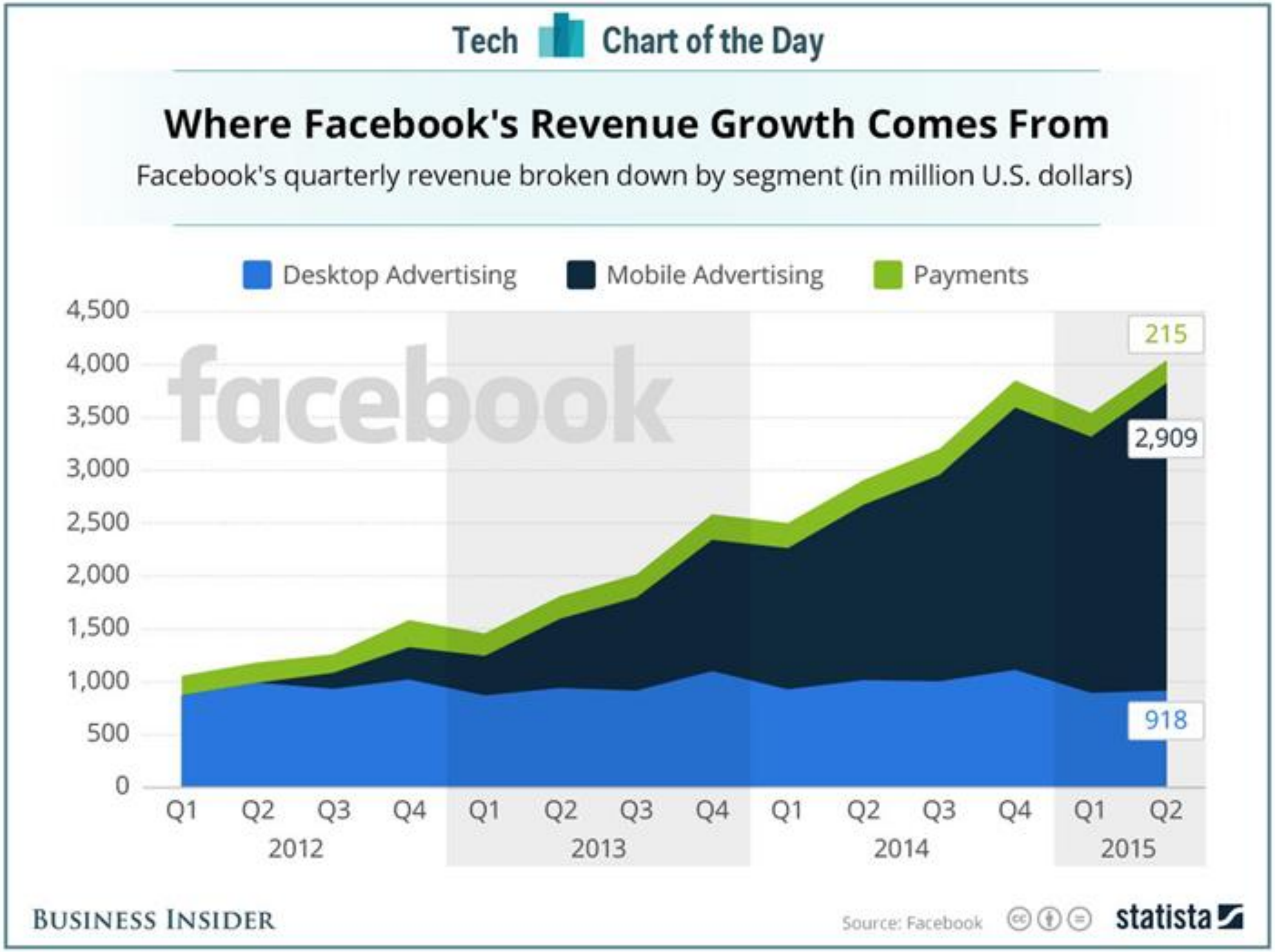
Online Display advertising – Drivers of growth

- 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

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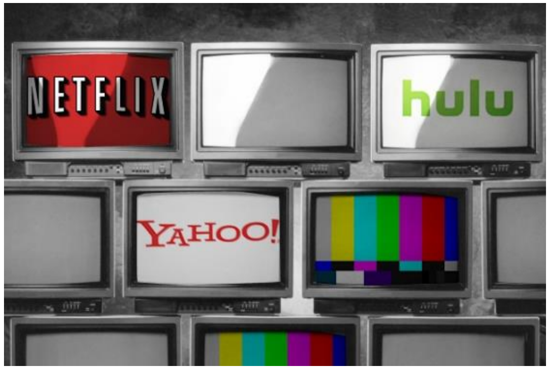
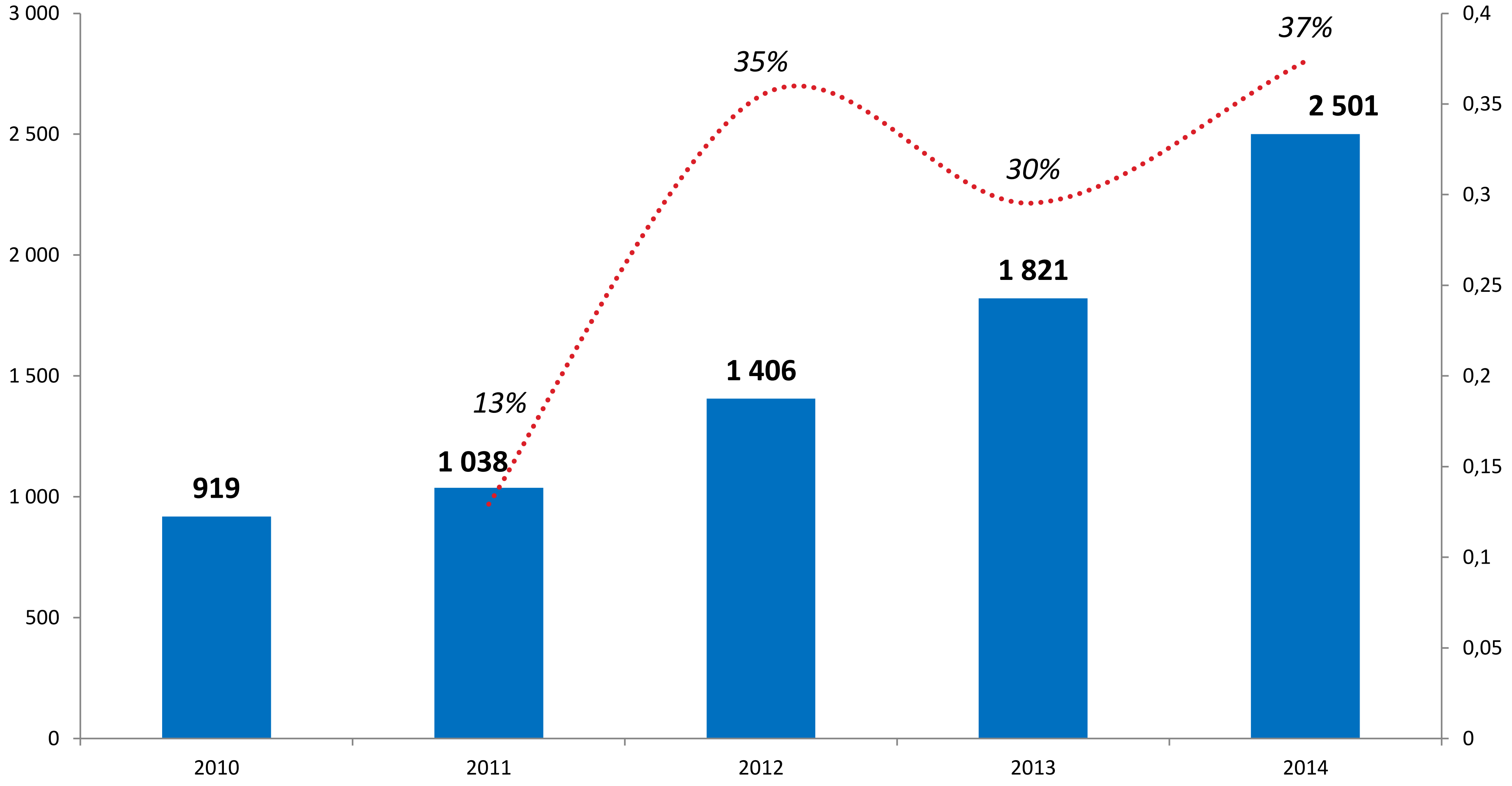
Main figures and Trends

Traditional versus Digital?



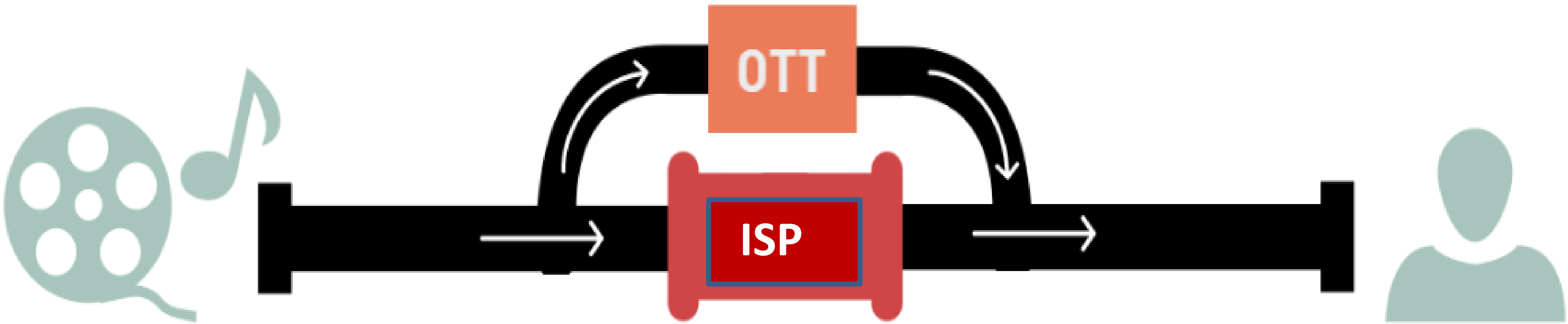
Consumer revenues for VoD services: fast growth but EU-5 & Nordics generated 82% of total revenues in 2014



Source: IHS

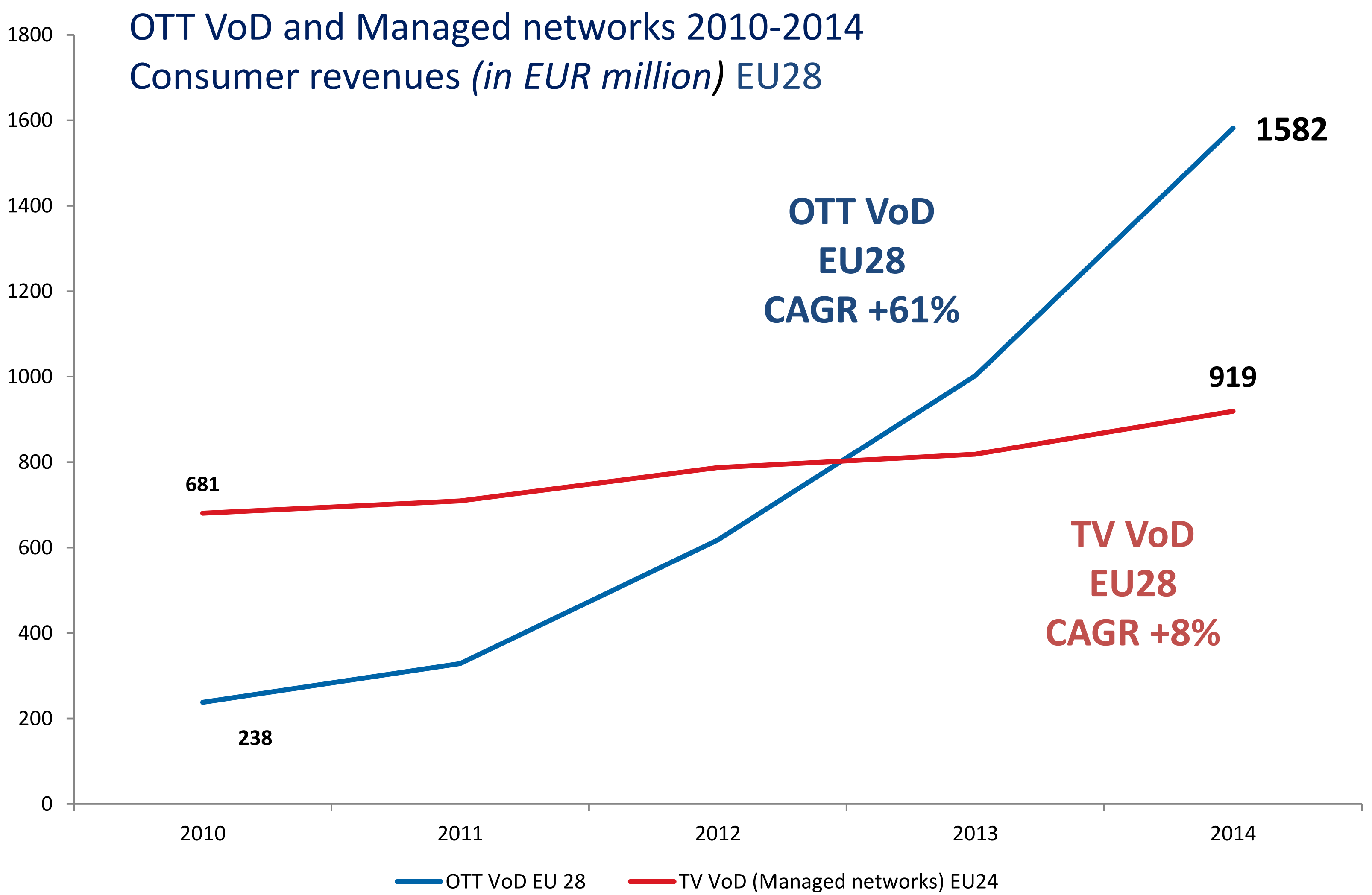
« OTT » players by-pass « managed networks » by Internet Service Providers (ISP)

« OTT » Open Internet



Managed networks

OTT is becoming dominant in the EU in absolute figures



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?

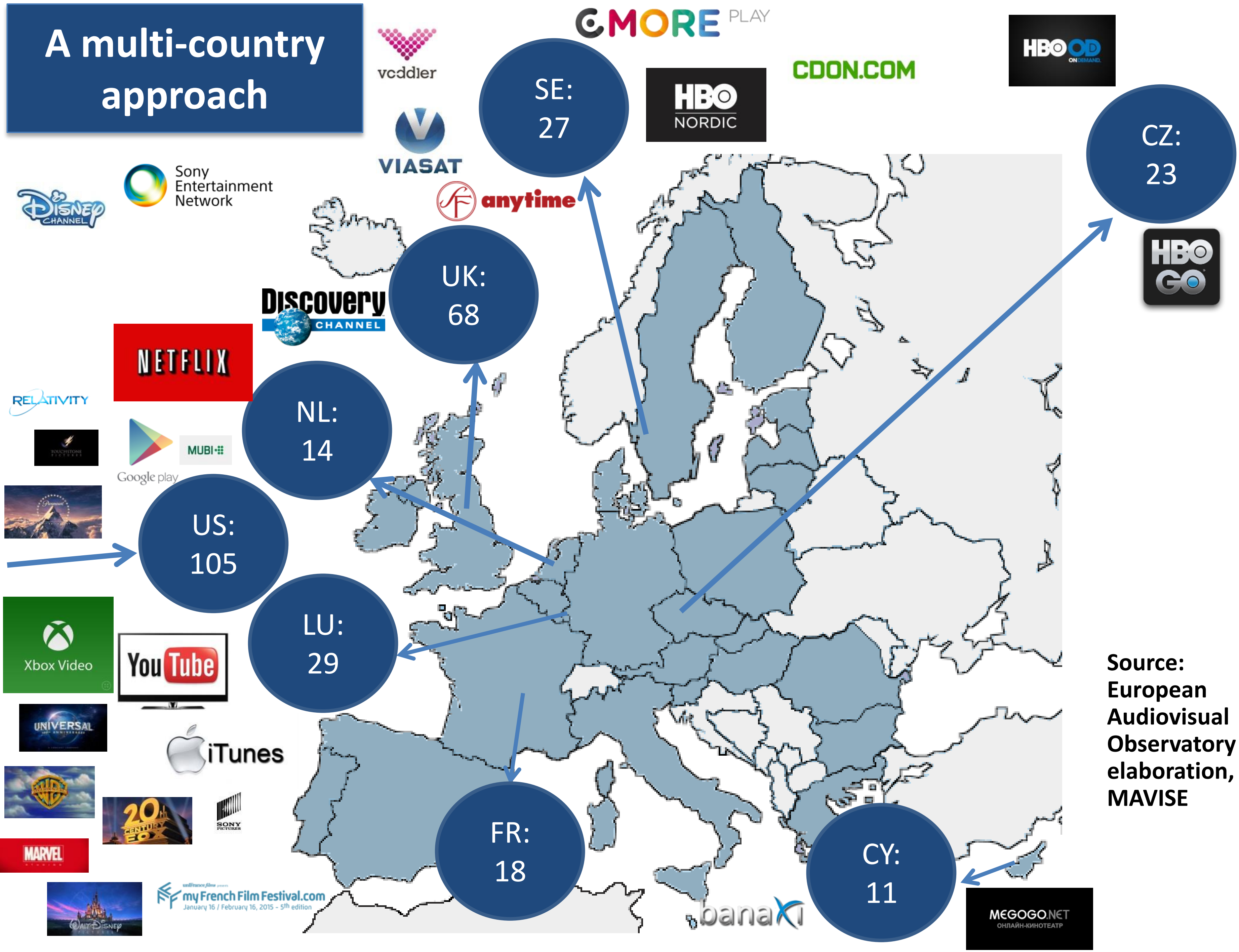
4. Cinema: Evolution of admissions in the EU

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

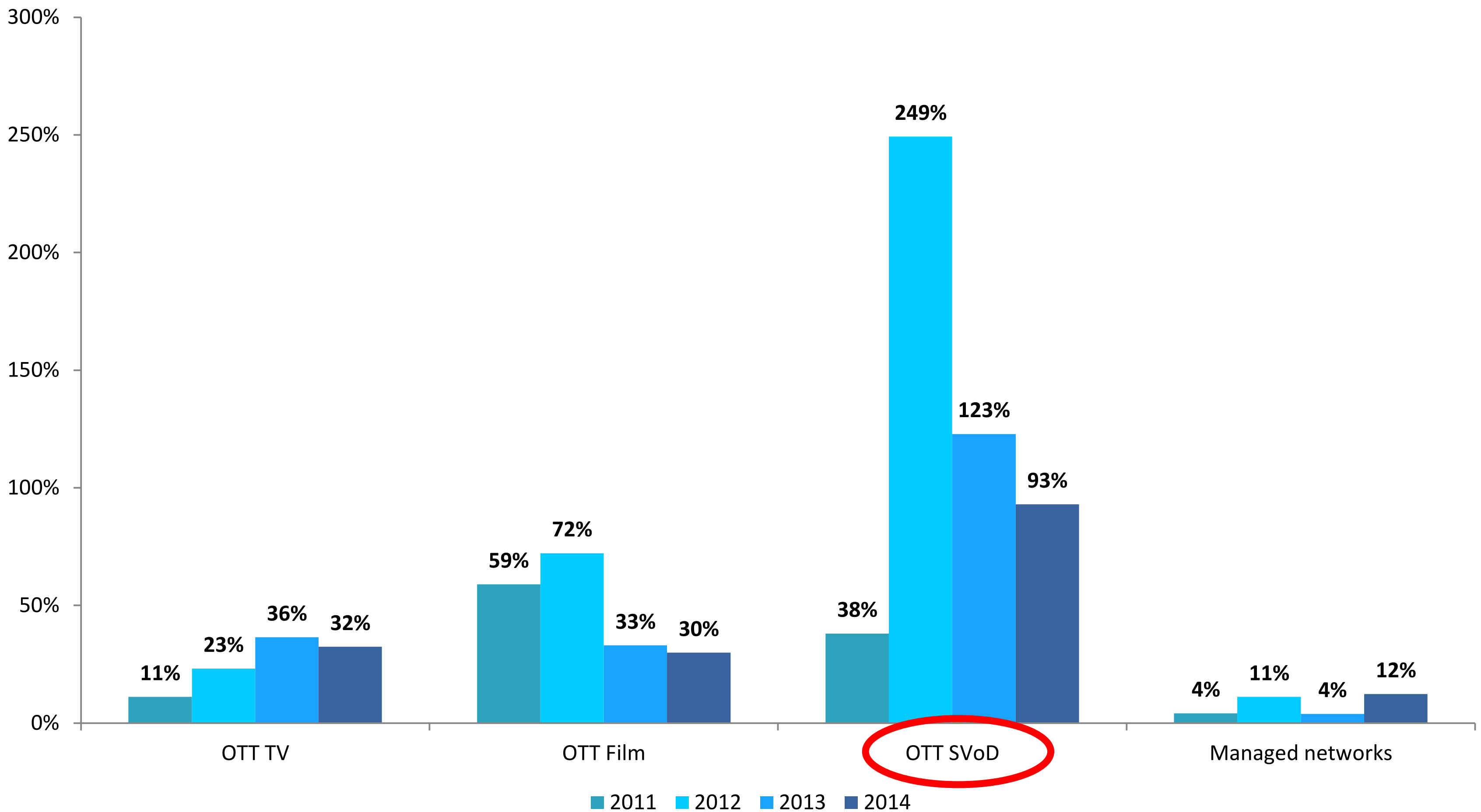
- **In Poland, VoD on managed networks still dominant in 2014**

A multi-country approach



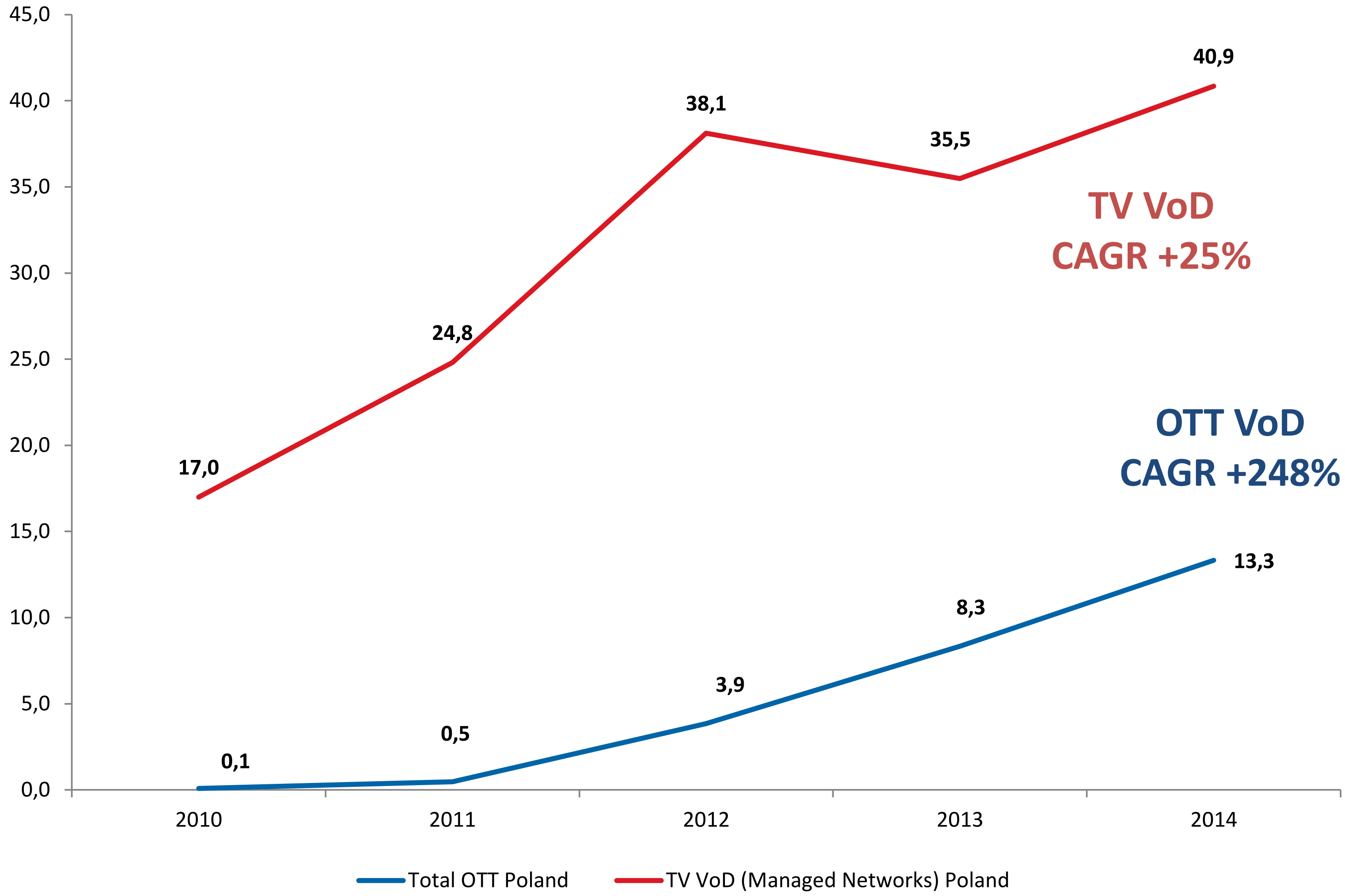
Source: European Audiovisual Observatory elaboration, MAVISE

Growth rates: consumers are going « over-the-top » and towards subscription-based VoD services



Source: IHS

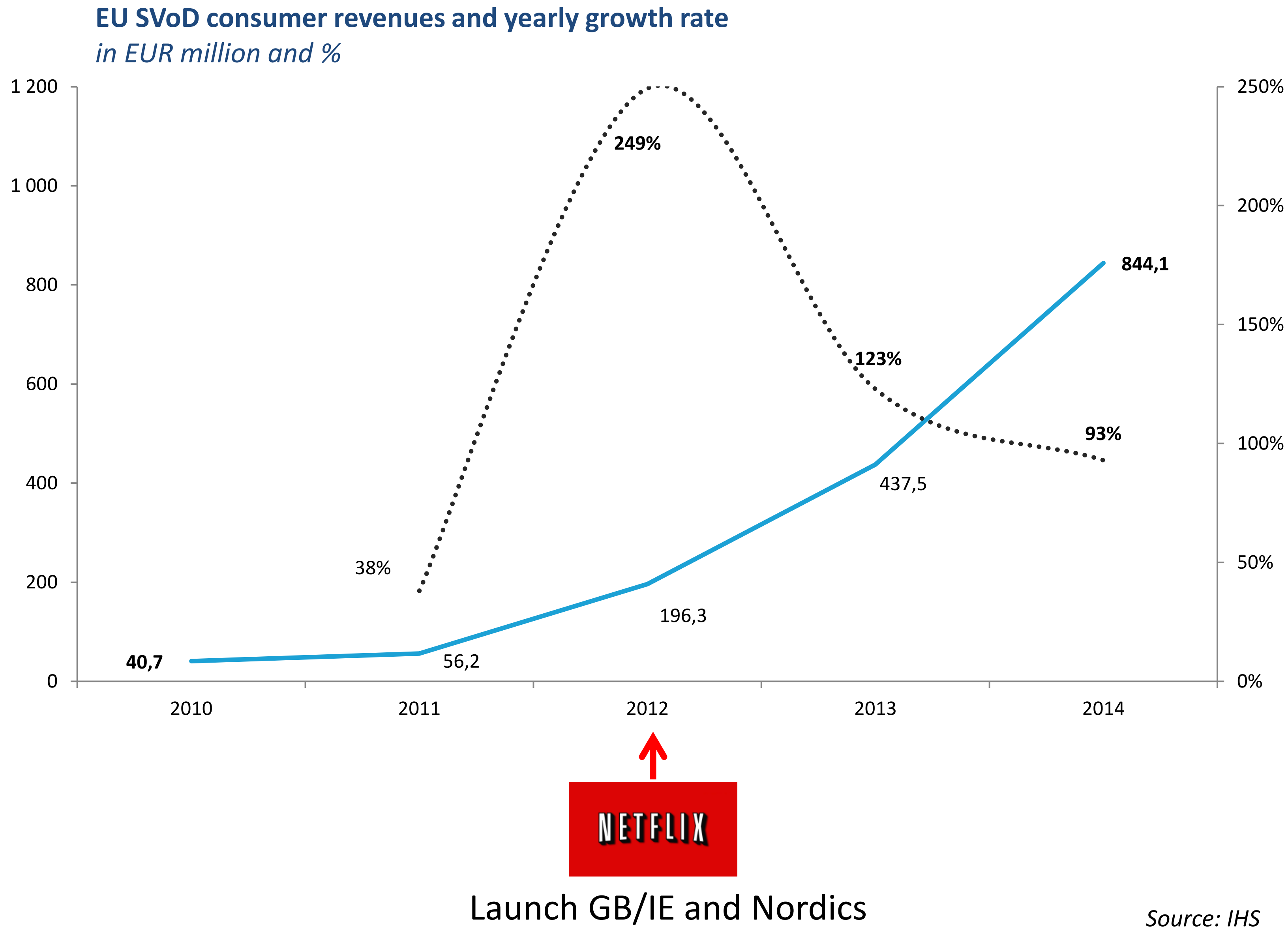
The picture in Poland: VoD Distribution on managed networks still dominant but growth lies in OTT



Subscription Video-on-demand services in the EU

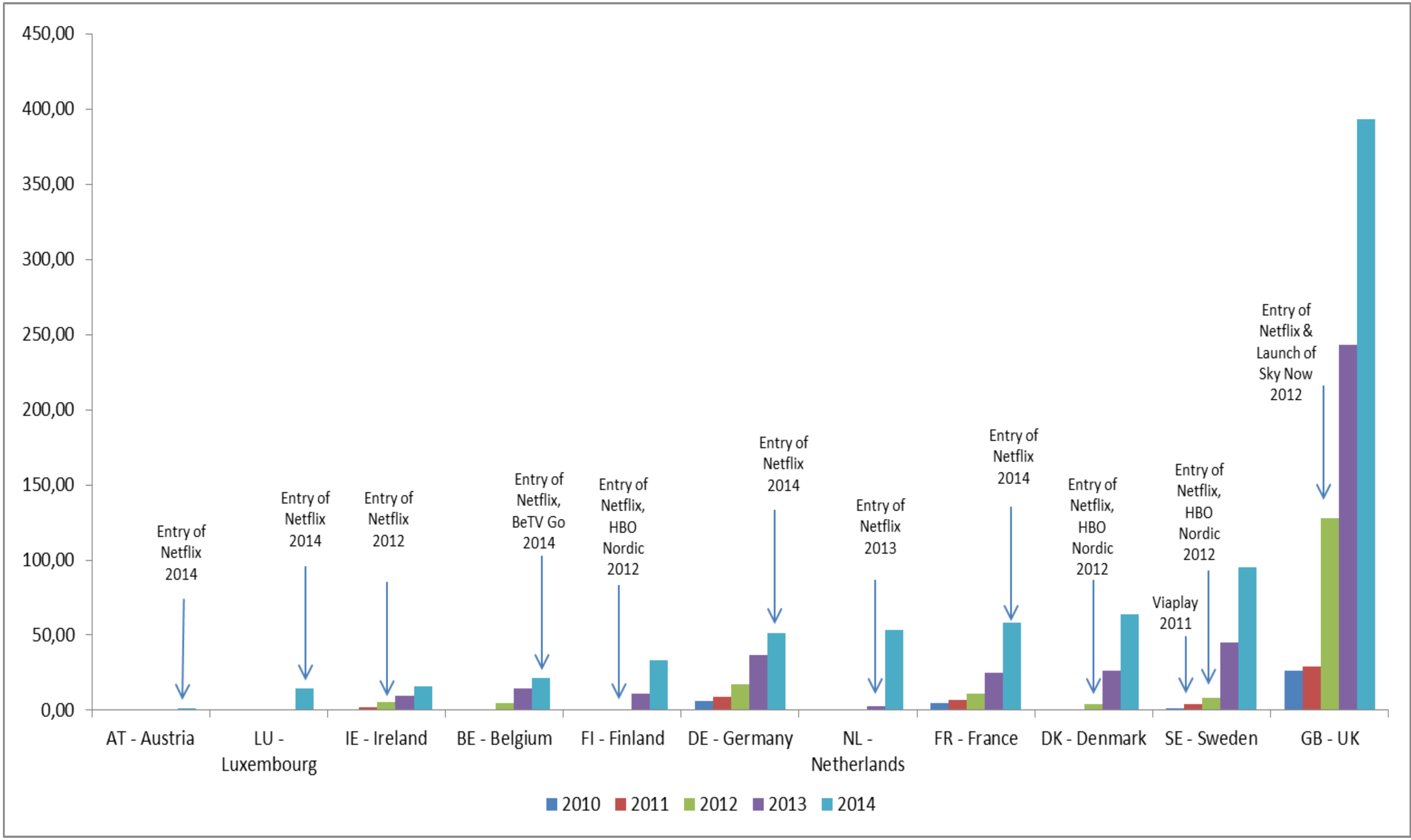
- SVoD fastest growing business model in the EU
- Netflix effect?
- Complement or Competitor to pay TV?

Impressive SVoD growth since 2012 in the EU: Netflix effect?



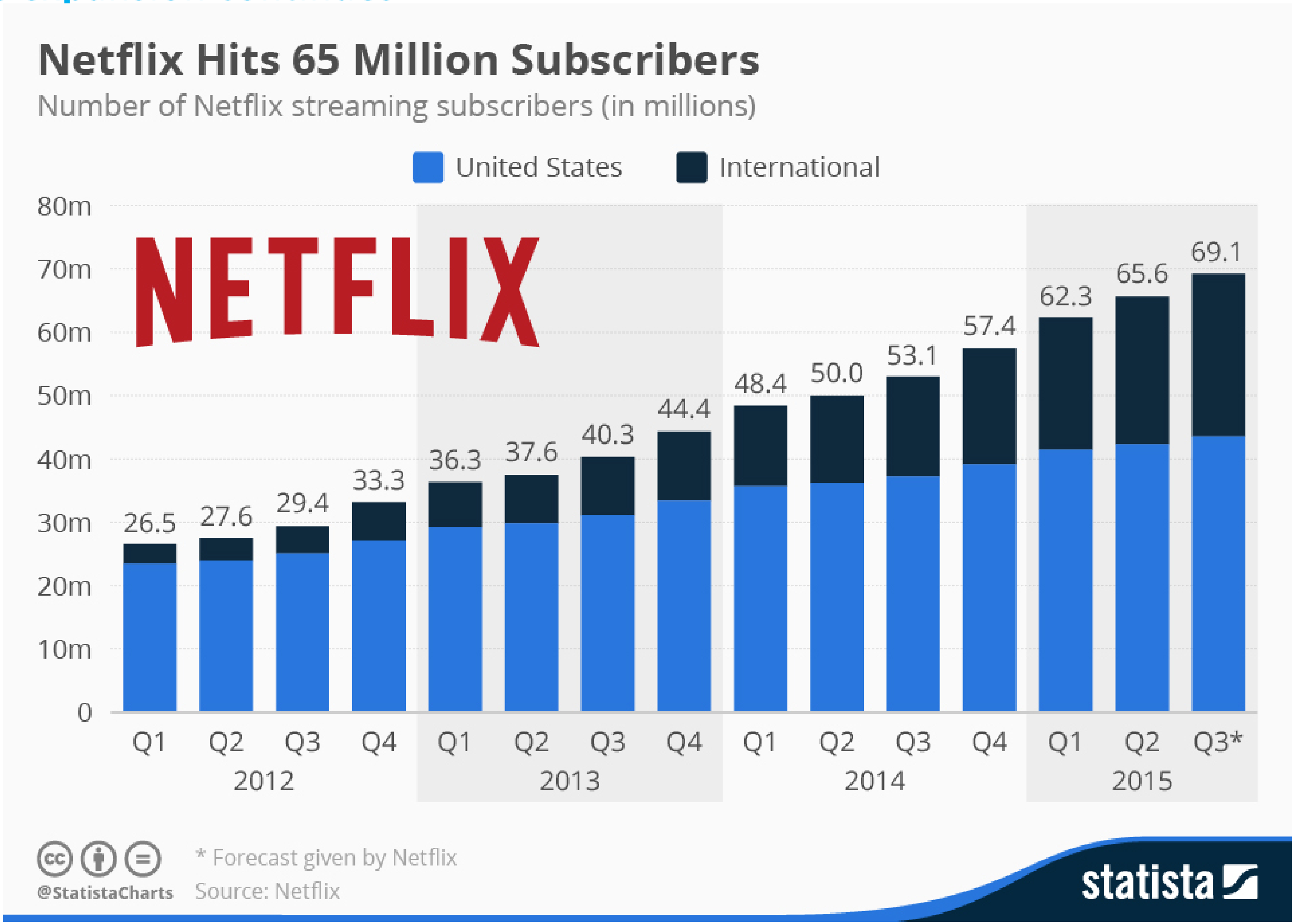
Source: IHS

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



Source: OBS on IHS

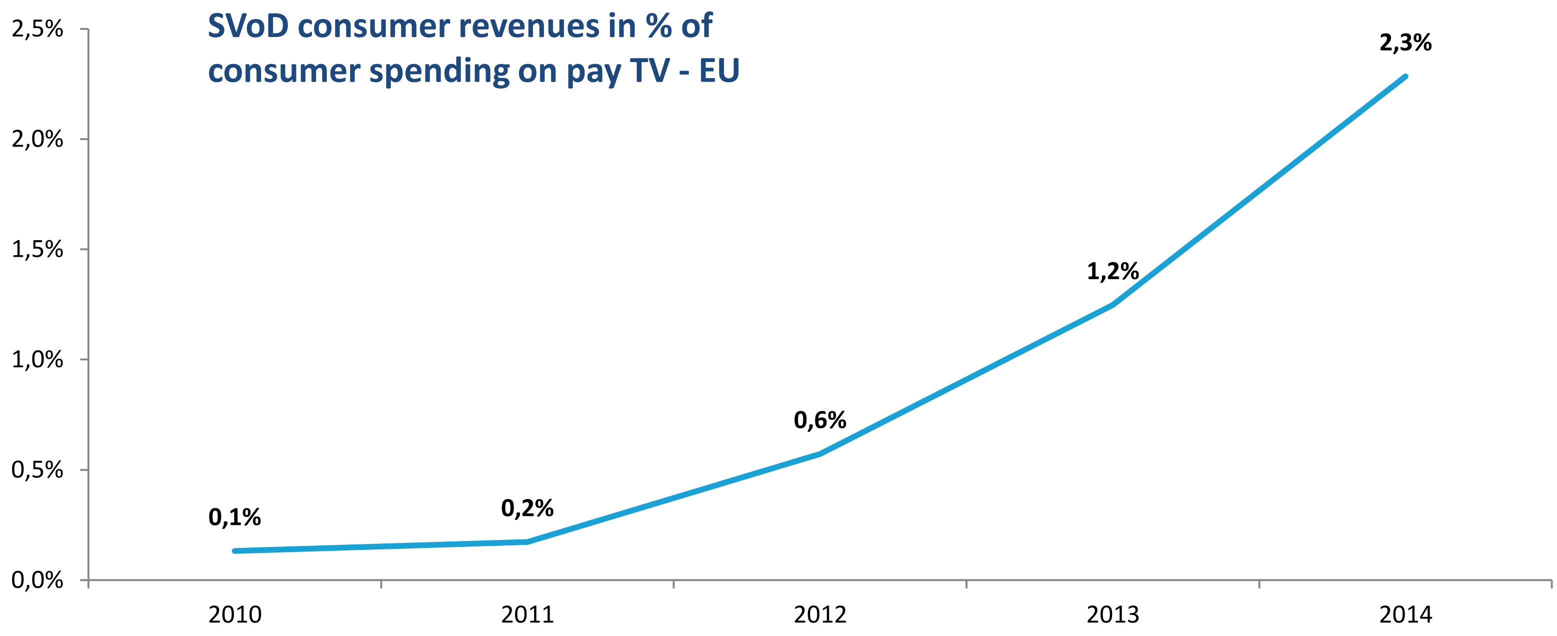
And Netflix' growth relies more and more on international markets as expansion continues



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

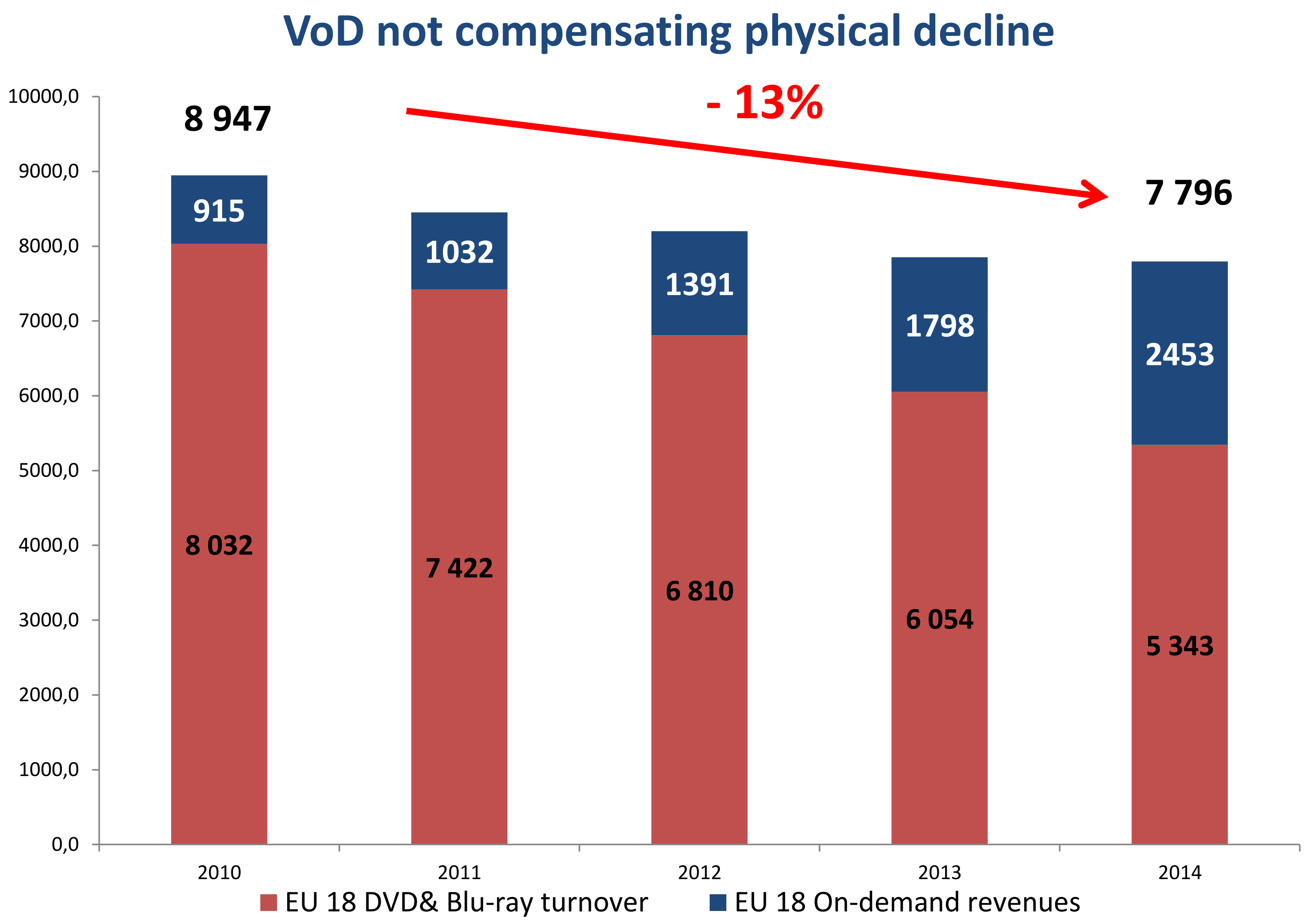
- **SVoD consumer revenues in Poland** (EUR 2,9 million) **only 0,16%** of pay TV consumer spend (EUR 1 843 million)



Source: IHS

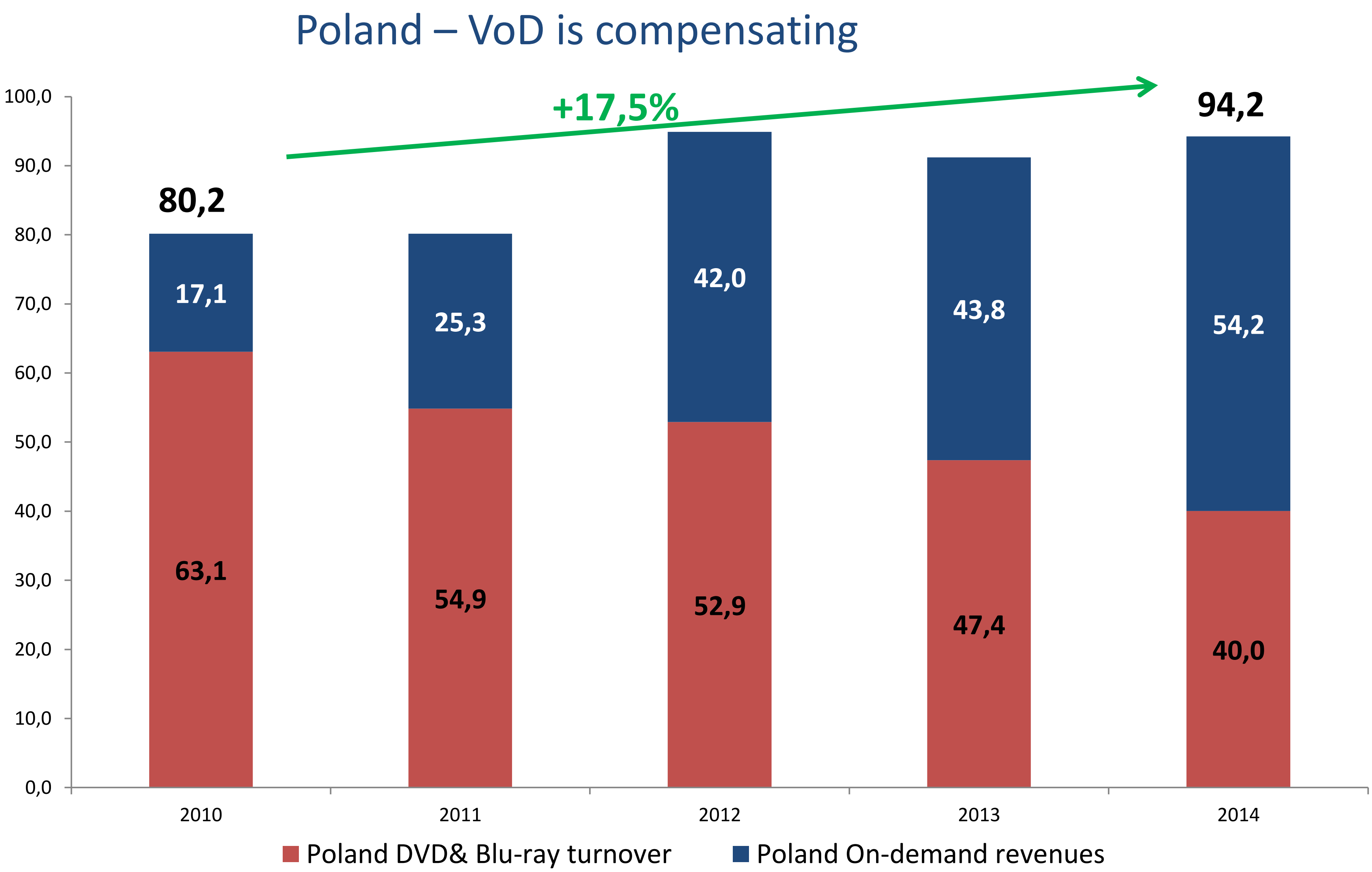
Physical video market and VoD

Paid content: Evolution physical media (DVD/Blu-ray) and on-demand revenues EU 18 in EUR million



Source: IHS

Paid content: Evolution physical media and on-demand revenues

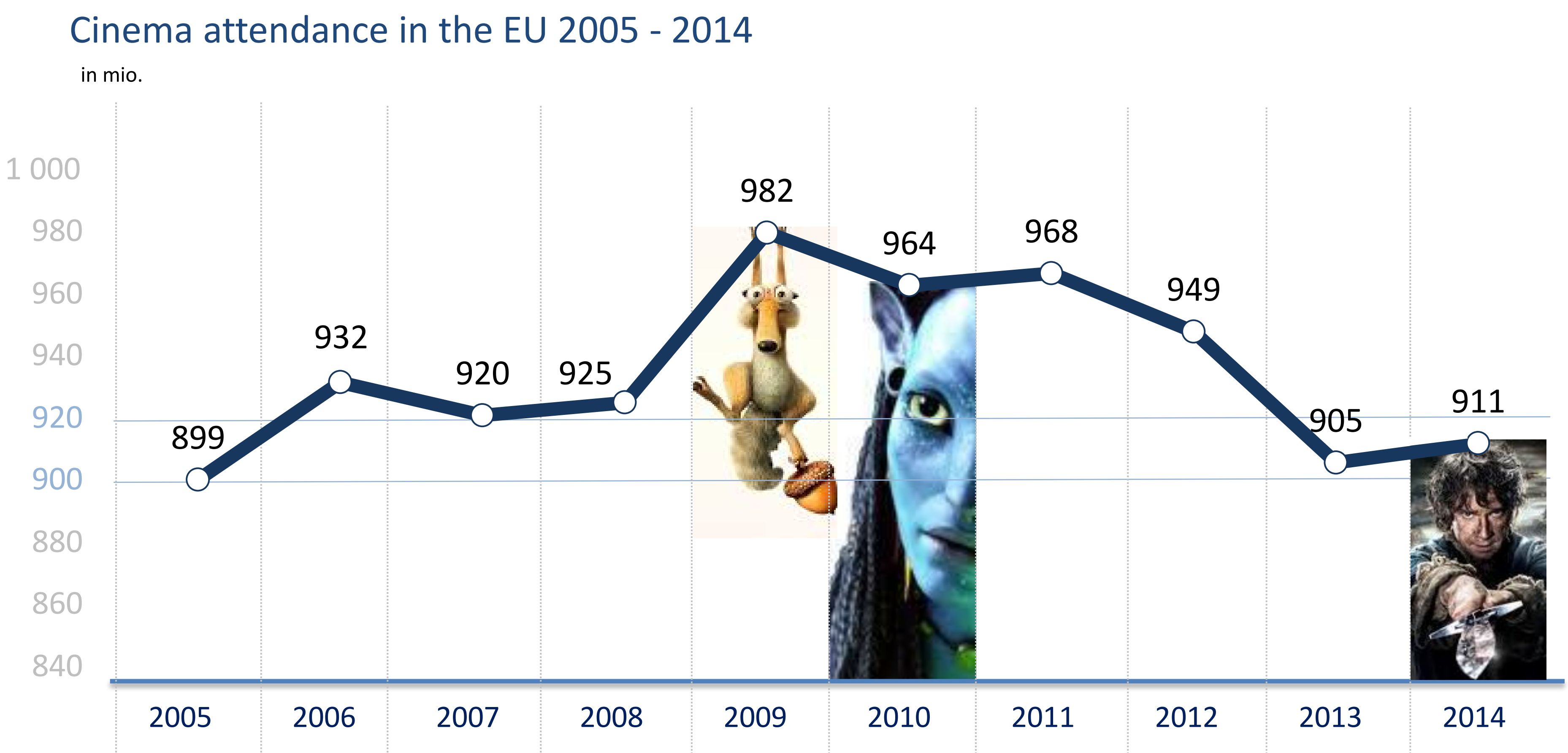


Source: IHS

Cinema admissions

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

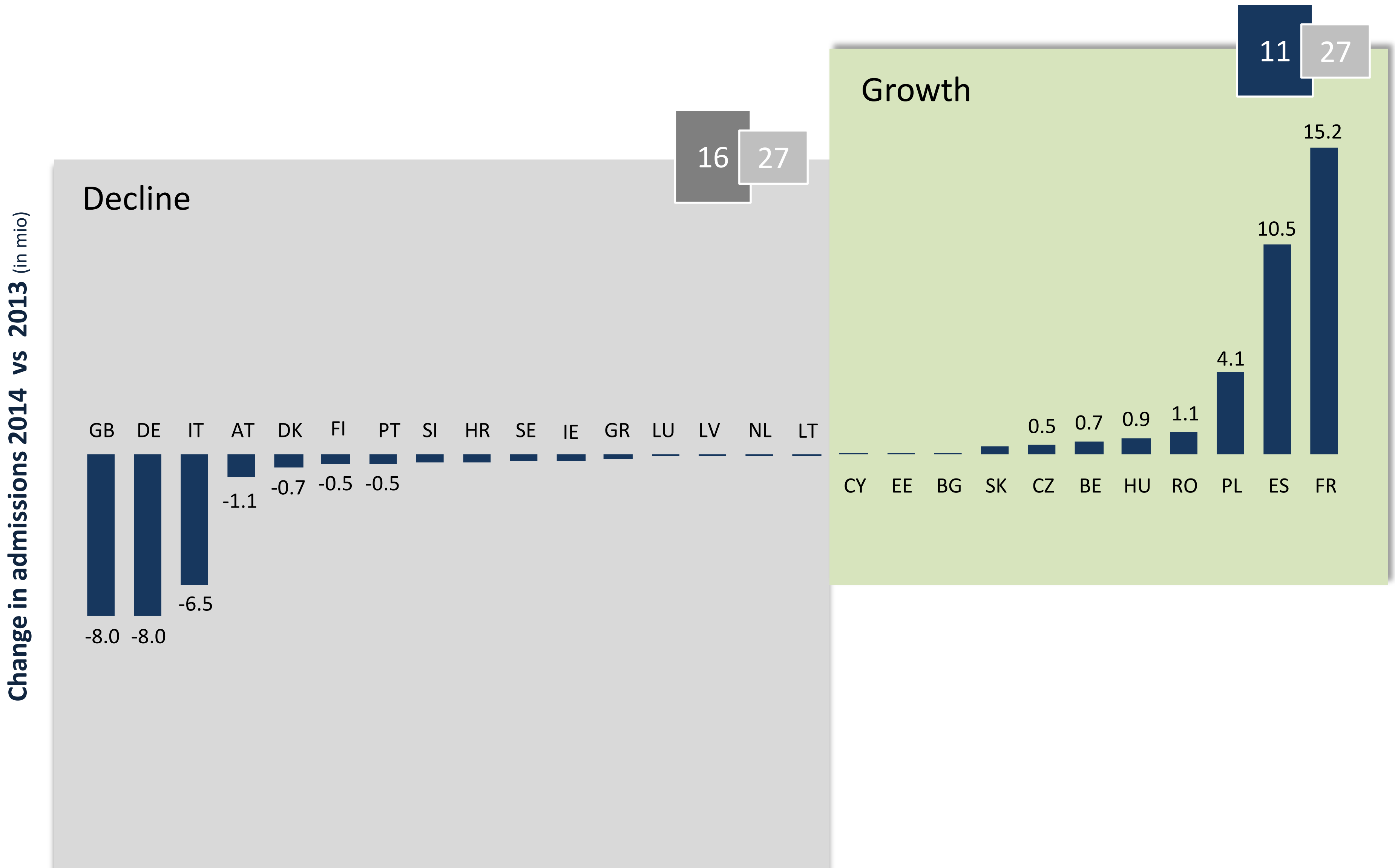
Source: European Audiovisual Observatory



PROVISIONAL & ESTIMATED

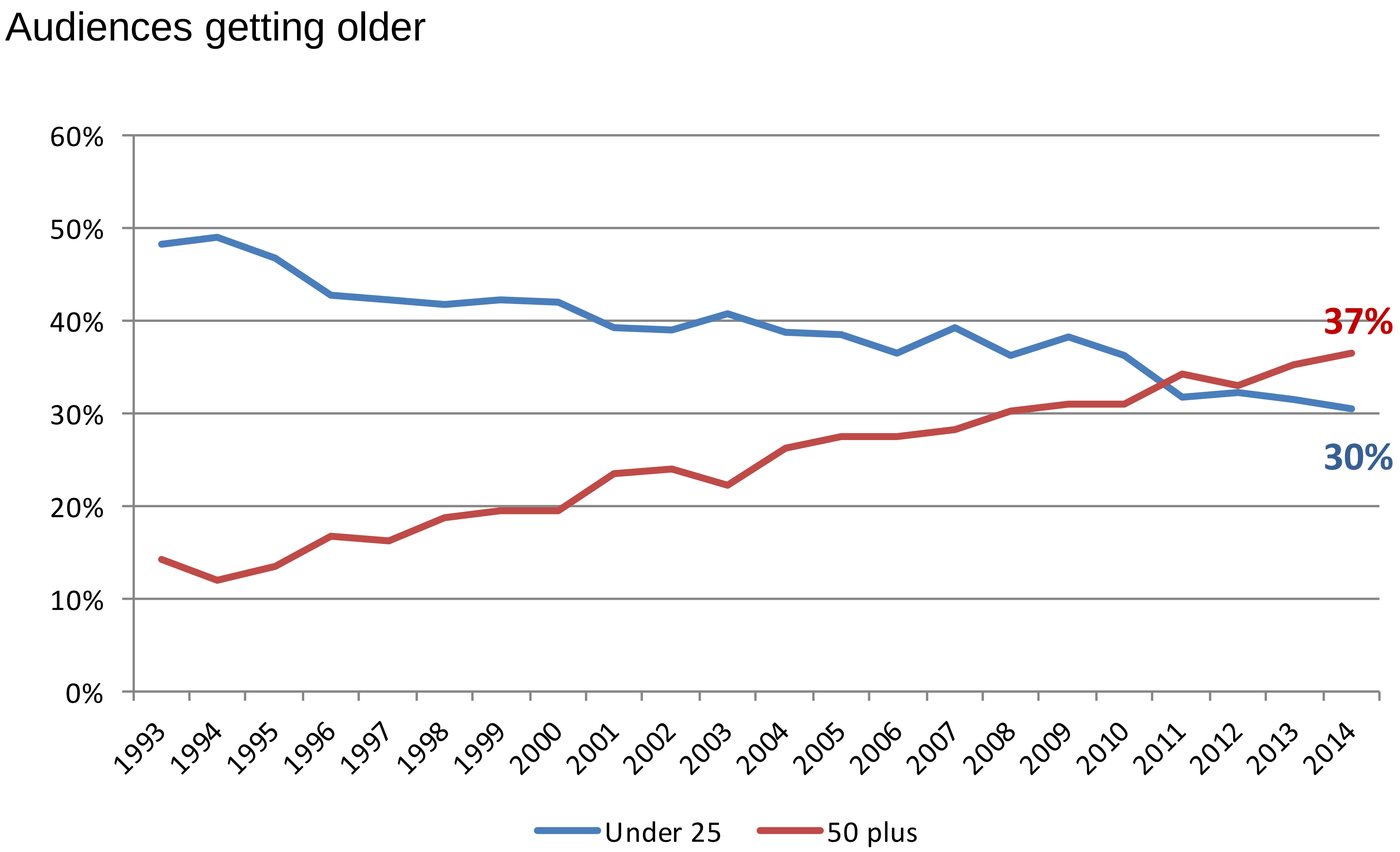
… thanks to strong performances in France, Spain & Poland

Source: European Audiovisual Observatory

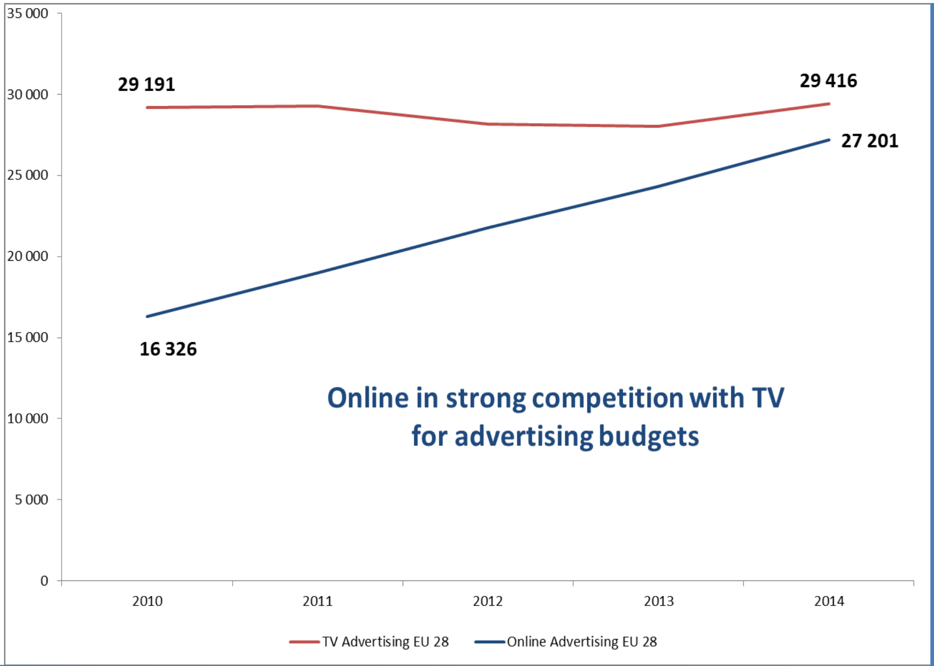


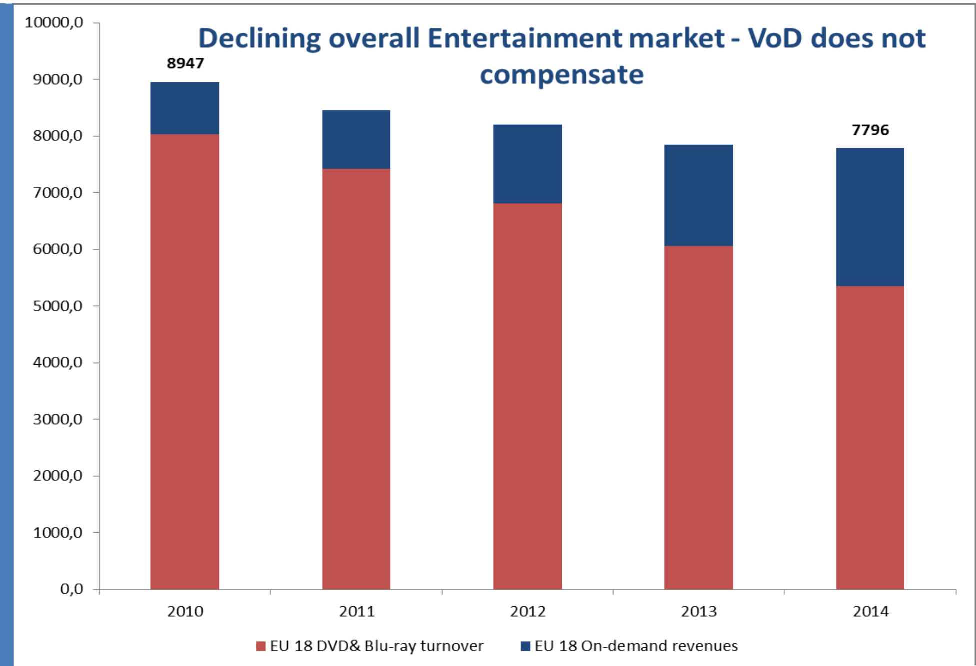
But Cinema audiences are getting older

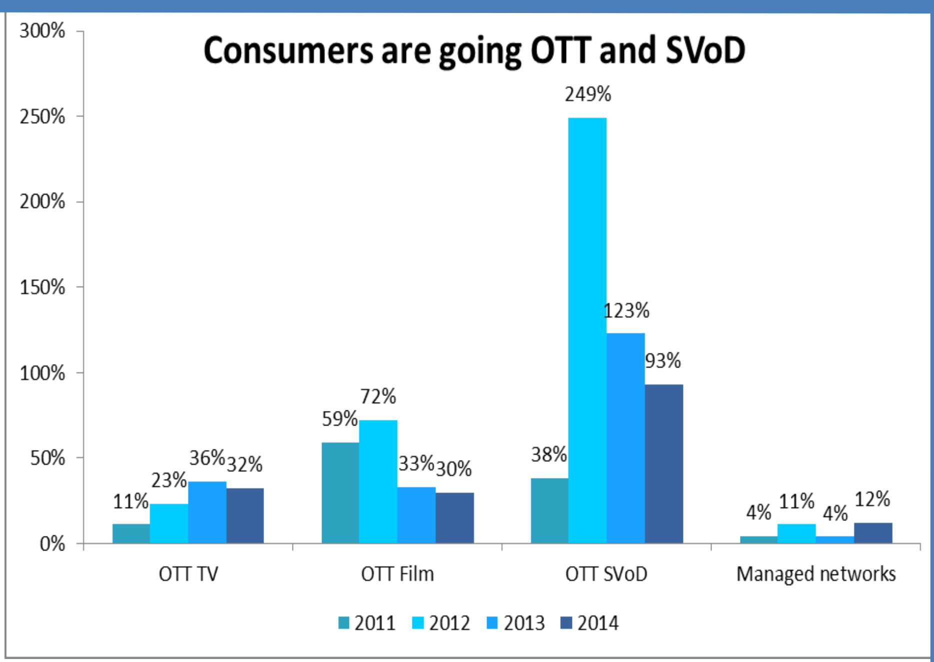
Source: CNC

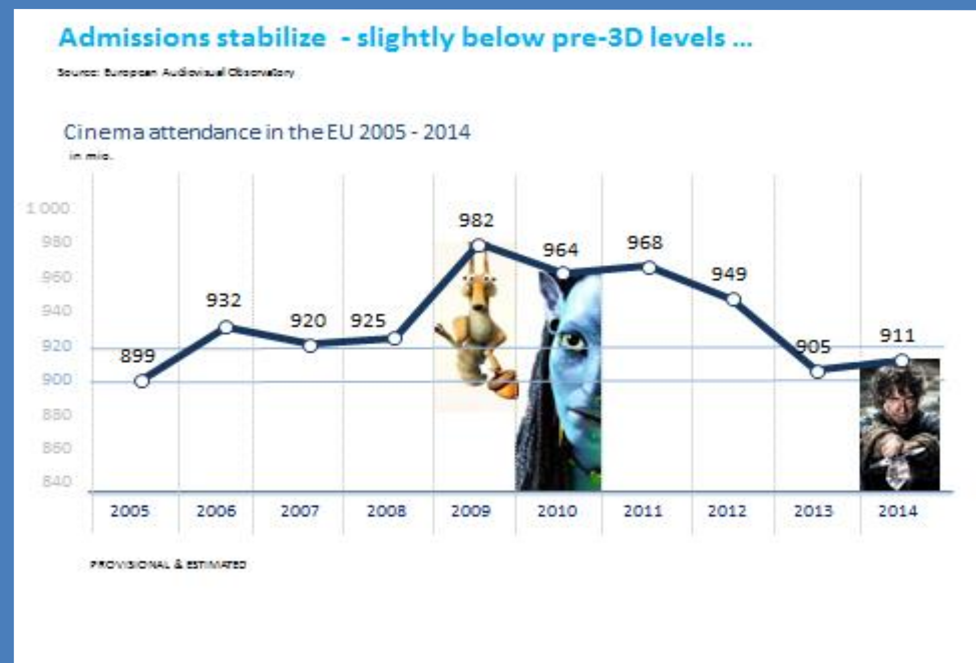


Summary – Impact on traditional markets









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 »

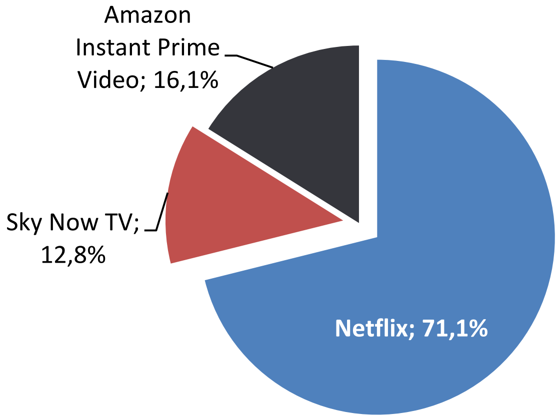
- **Lower monetization** of content than physical (DVD/Blu-ray)

- **Access to premium content** increasingly more **expensive** ➔**need of orginal 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?

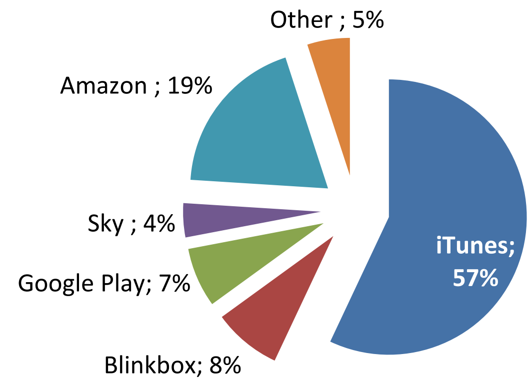
Market concentration – United Kingdom 2014

UK SVoD Volume market share
in % of volume



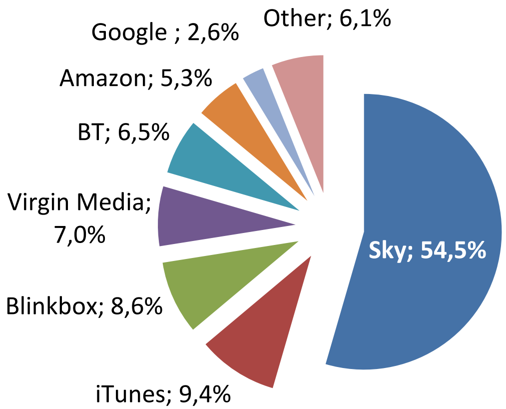
Market value: £ 381 million

UK Digital retail market shares
in % of value



Market value: £ 168 million

UK Digital rental market shares
in % of value



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

IPLA catalogue

Low matching rate

Breakdown by Region of Origin (films where variable was identified)										
1065										**82%**
European					**Non-European**					
518				49%	547				51%	
EU 28		National			US		Others			
498	47%	70	7%		456	43%	91	9%		

Kinoplex catalogue

Breakdown by Region of Origin (films where variable was identified)										
1176										**92%**
European					**Non-European**					
677				58%	499				42%	
EU 28		National			US		Others			
637	54%	108	9%		384	33%	115	10%		

iTunes Poland catalogue

Breakdown by Region of Origin (films where variable was identified)										
2320										**92%**
European					**Non-European**					
315				14%	2005				86%	
EU 28		National			US		Others			
274	12%	4	0%		1557	67%	448	19%		

Chili.tv Poland catalogue

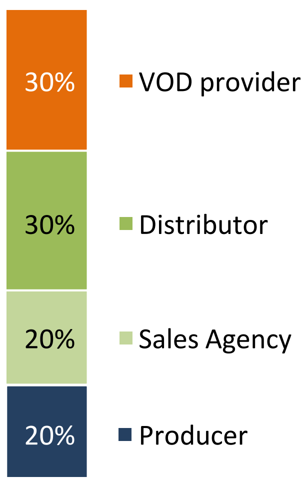
Breakdown by Region of Origin (films where variable was identified)										
950										**100 %**
European					**Non-European**					
139				15%	811				85%	
EU 28		National			US		Others			
139	15%	25	3%		791	83%	20	2%		

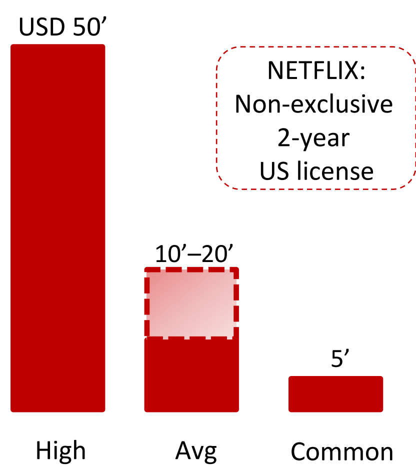
Source: OBS Study on VoD catalogues 2015 (forthcoming)

Monetization: VOD is harder to monetize than DVD/Blu-ray…

	TVOD/EST	SVOD	AVOD
	Transactional VOD	Subscription VOD	Ad supported VOD
Business model:	Consumer pays a fee to buy or rent a film	"All you can watch" for monthly subscription fee	Free for consumer, advertising income
Key players	iTunes	NETFLIX, amazon instant video	YouTube
US consumer expenses:	Rental : USD 4 Purchase : USD 3-8	Monthly fee: USD 3-10	Free

Revenue split:



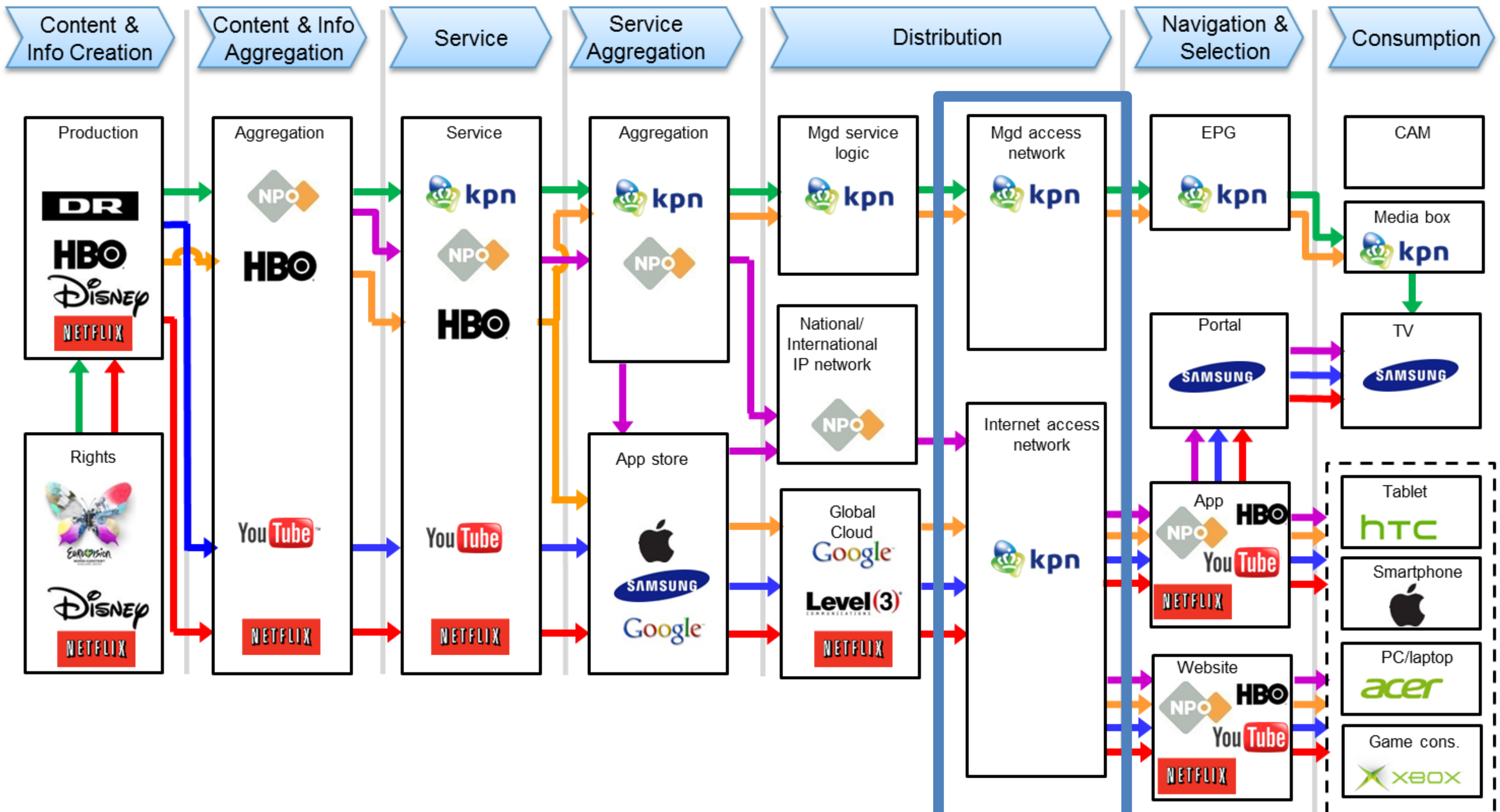


Source: DocumentaryTelevision.com (27 April 2015)

% share of ad revenue

Monetisation potential:	Highest potential	Depends on title	Low / Need of scale

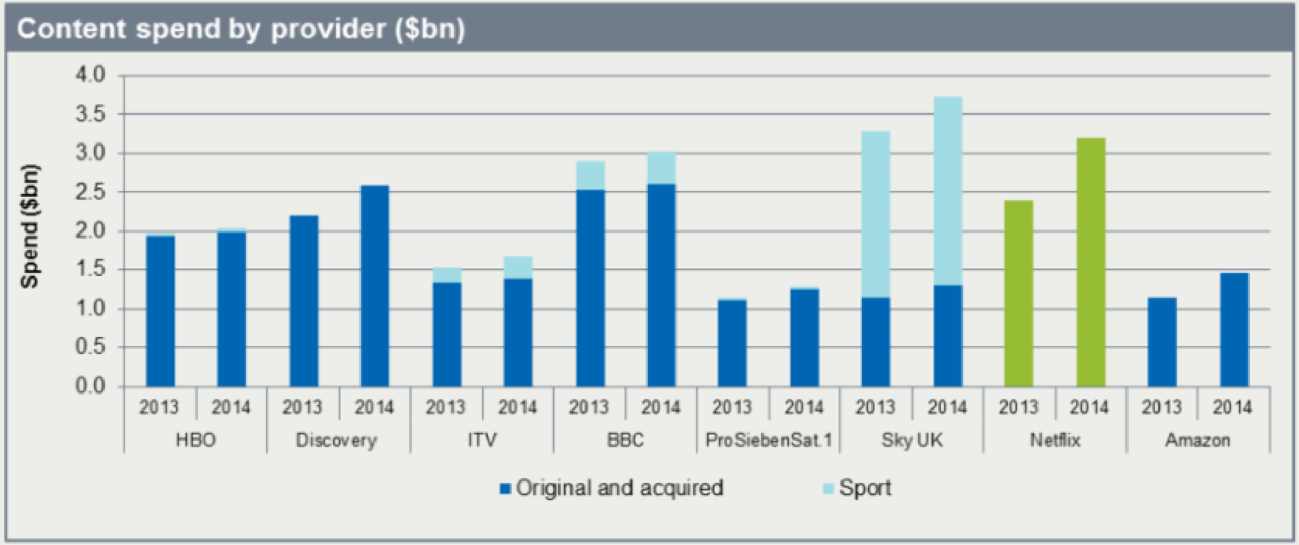
…and Digital players conquer the value chain



Access networks still under control of traditional players

Source: TNO White Paper "Regulation in the converged media-Internet-Telecom value web"

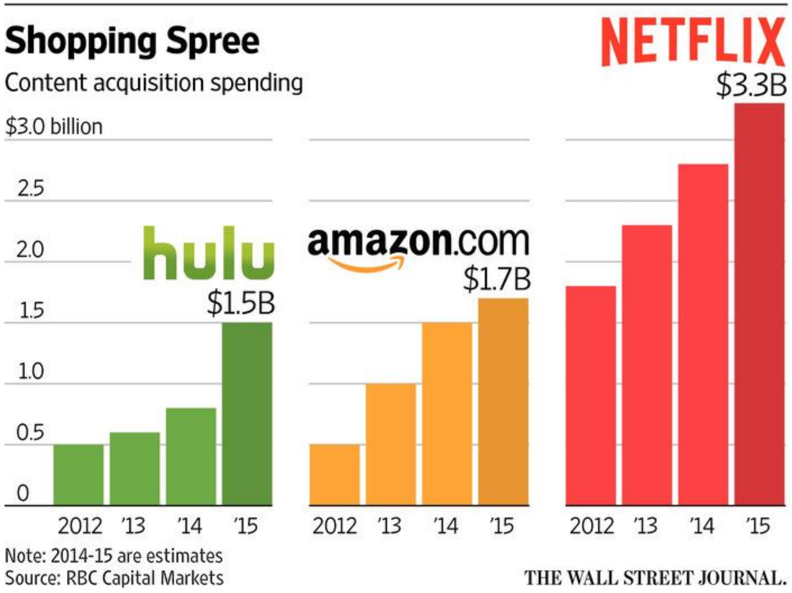
With deep pockets, acquiring and investing in (original) content



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



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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