



Price squeeze looms as telcos compete for pay-TV customers

London 9th June 2008. IPTV is increasingly being offered free by telcos across Europe to encourage people to choose their broadband services. According to the latest research from media analysts Screen Digest, IPTV is rapidly becoming a commodity - bundled for no extra cost with a broadband and/or telephony package. The result is that nearly half (40%) of today's European IPTV households are currently enjoying the service for free.

Free IPTV is often cited as an antidote to the heavy churn affecting the broadband sector; Screen Digest believes that this is only half the picture. In many cases, the sheer size of the investment needed to deliver IPTV far outweighs the cost savings resulting from even a substantial drop in broadband churn, particularly as IPTV is currently generating so little revenue. Rather, as Screen Digest Analyst Richard Broughton comments, "The primary intent behind most of the major IPTV services is to add new broadband subscribers – not to drive profits or even to act as a churn reducer."

This is confirmed by the number of IPTV operators reselling third party content packages rather than offering content of their own to attract viewers. Almost every major satellite operator in Western Europe has a deal in place – Viasat's deal with Telia in Sweden being the most recent – to offer their content to the IPTV channels. With the players abandoning their own packages in favour of third party ones, it would appear that they are not overly concerned about making a direct profit from IPTV – rather broadband is their key focus.

From Pay-TV to Free-TV – what it means for the consumer

So while some of the developments in the broadband and TV markets are potentially disadvantageous for the companies involved, for the consumer, IPTV presents a great opportunity.

France now enjoys some of the cheapest pay-TV in the world, with much content available free simply with a broadband subscription. For this reason, nearly a fifth of French households will be using IPTV as their main method of TV viewing by 2012. Furthermore, the enhanced competition generated by the IPTV space will begin to put pressure on the cable and satellite sector. CanalSat, which bought rival operator TPS in 2007 has recently been lacking any true pay-TV competition, but with France Telecom (arguably in a better market position than TPS was) stepping up to the challenge, Vivendi's dominance of the pay-TV market may no longer be so absolute. For the consumer, the increased options and the potential for cut-price TV offers brought about by an increase in competition can only be a boon.

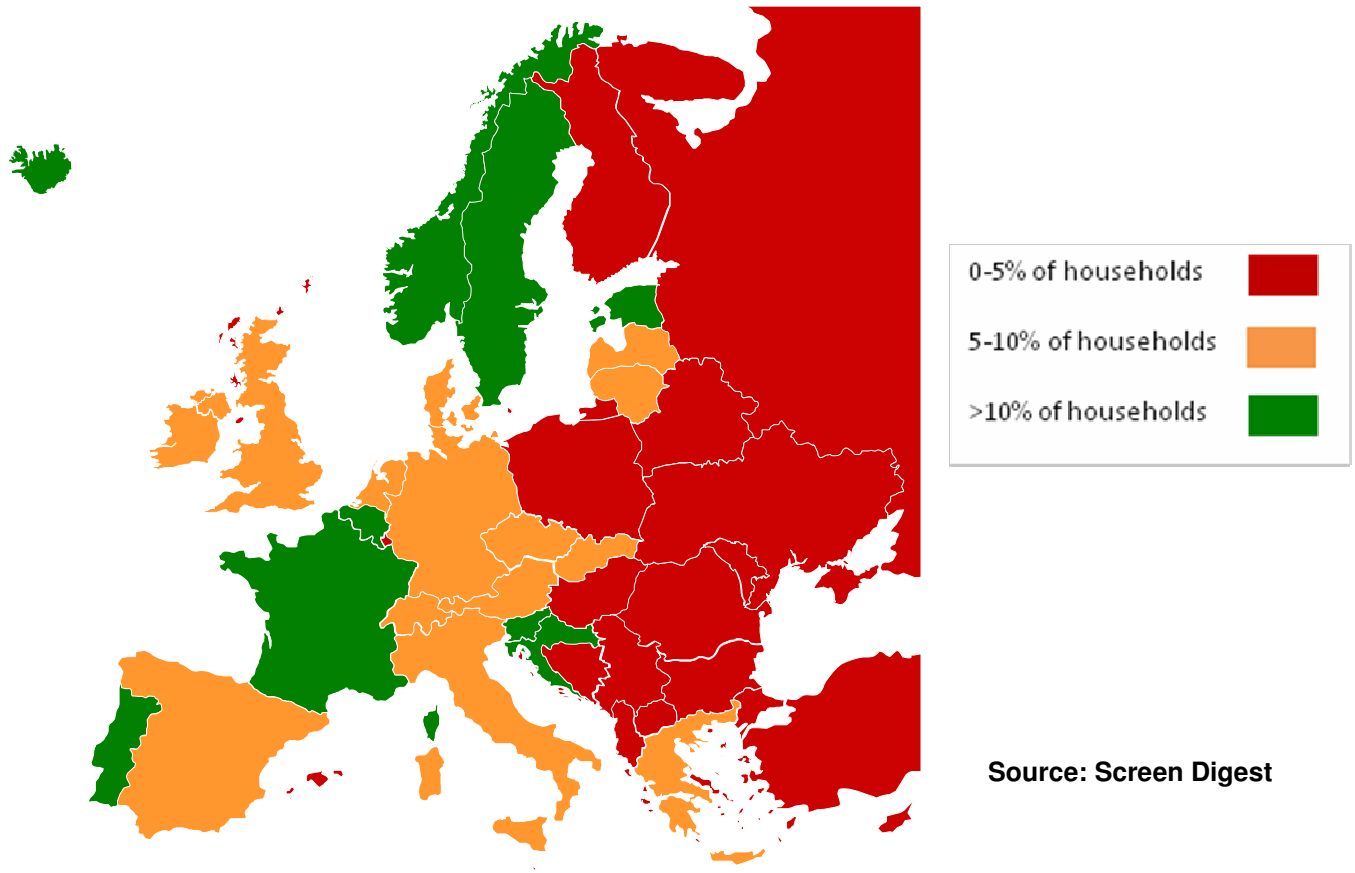
In the UK, the situation is similar. Customers of BT Vision or Tiscali TV can use features (like PVR functions) that will generally require a subscription, or hefty purchase cost, on Virgin Media cable or Sky's satellite TV, at no cost beyond installation and broadband subscription. Following the trend begun by BT Vision's subscriber pick-up in late 2007/early 2008, roughly 6 per cent of households will be watching IPTV within five years. With Virgin Media also offering a TV option available free with broadband, a fifth of UK households will be on a 'pay' TV platform which can offer them free content/features beyond those available on Freeview or analogue terrestrial.

Europe in five years' time

Looking forwards to 2012 reveals a disparate picture for IPTV in Europe, with certain markets benefiting more than others from the technology. While the UK,

France, Germany, Italy and Spain will contribute the majority of IPTV subscribers, there are other important markets emerging. (See map)

The European IPTV Market in 2012



The Baltic countries will enjoy significant IPTV growth in the next half decade. Estonia's DigiTV already occupies a significant proportion of the digital pay-TV market, and by 2012 is aiming to reach 20 per cent of Estonia's households. An in Scandinavia over 10 per cent of households will be watching IPTV in Sweden, Norway and Iceland, with Denmark only a short way behind.

In the south, Slovenia and Croatia companies including Slovenije Telekom and Croatia's T-Com have achieved significant growth in recent years. Other markets that Screen Digest believe are worth watching include the Czech Republic and Slovakia.

Broughton concludes “In all of these markets, the wide availability of triple-play and relatively low-cost TV options will ensure that consumers begin to enjoy a better deal for their TV. Both in terms of price and functionality, households across Europe will see their pay-TV options increasing substantially over the next few years.”

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About this research

The research in this press release is based on data from Screen Digest’s online service, TV Intelligence. The service is used by many of the world’s leading broadcasters, pay-TV operators, investment banks and content providers. Analysis has been provided by Guy Bisson, Head of Television and Richard Broughton, Analyst specializing in IPTV and on-demand content and services.

About Screen Digest

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