September 2017

SATELLITE Markets & Research

MARKET BRIEFS

Executive summaries of market trends and opportunities in key market segments and regions worldwide

The European Broadcast Satellite Market

Highlights

- **Based on 138 countries, Digital TV Research estimated 254 million additional pay TV subscribers (up by 35%) between 2010 and 2016 to take the global total to 969 million.**
- **Consumer VoD traffic will nearly double by 2020. Ultra High Definition (UHD) will be 20.7 percent of IP video-on-demand (VoD) traffic in 2020, up from 1.6 percent in 2015.**

by Elisabeth Tweedie, Associate Editor
Satellite Markets and Research

IBC celebrates its 50th anniversary this year, and what started off as a technology conference for broadcast engineers, is now taking a very different tack. The opening keynote session focuses on 'fans' – formerly known as viewers – what they want and how their viewing habits and attitudes are driving the business. The other main theme is collaboration, with an increased presence of the non-traditional players: Google, Amazon, Facebook etc. 4K, which until recently was THE hot topic, is still being talked about, but more in the context of "why aren't we seeing more" as opposed to with the euphoria that used to surround it.

So what do fans want? Quite simply, they want video consumption on their own terms. To be able to watch what they want, when they want, not solely when a network scheduler thinks they should do so. In other words, Over the top (OTT) is the hot topic. This will come as no surprise to anyone who works in, or who has been following the media business, or even what I write. Nor will it be a surprise to anyone who has ever done any binge viewing, and that apparently is most of you. According to the latest Ericsson Media Survey, a full 71% of all consumers do so at least once a month. This survey considers the habits of 100,000 people in 40 countries, making it a representative sample of 1.1 billion people.

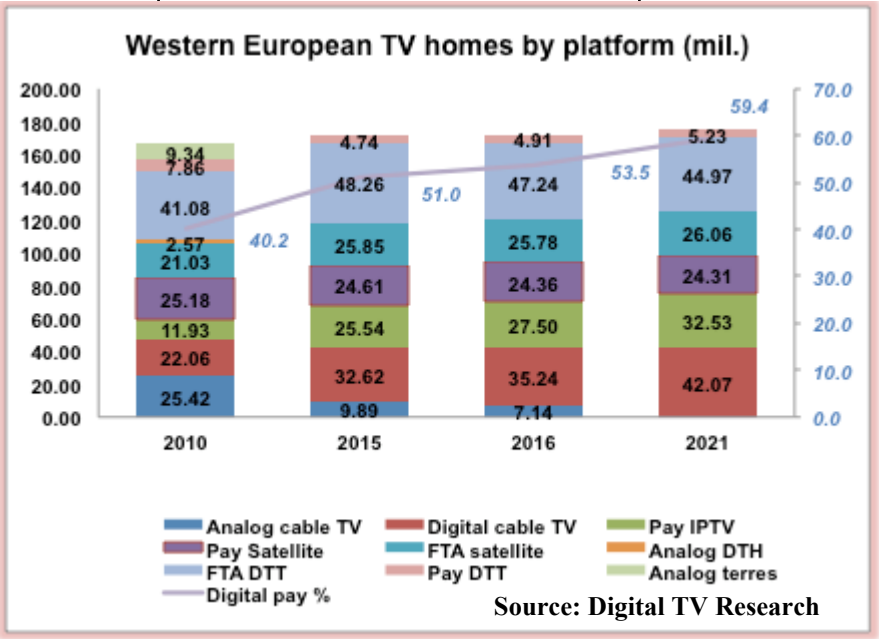
The survey also sheds light on the key drivers behind, and the speed of the move to OTT. When asked to list the most important factors for a video service, over 60%, of respondents stated a preference for on-demand over scheduled viewing. In 2010, this figure was below 40%. In complete contrast, only 30% said that the traditional (linear) TV service provider "gives me all that I want." The survey also showed very clearly, the significant increase in the multiplicity of times and places that video is viewed. Between 2013-16, out of the home viewing increased in all categories: commuting, at work or school, and out and about or in a café. For example, the percentage of consumers that weekly watched video whilst out and about, increased from 6% to 25%. More interestingly, viewing on all occasions and locations increased. At home during the day, from 39% to 67% for example. This increase in locations and occasions translated into an overall increase in total viewing. Since 2012, the aver-

age consumer globally has increased their viewing on mobile devices by 4 hours a week, while their fixed screen viewing has declined by 2.5 hours a week. This means that today, they spend an extra 1.5 hours watching TV and video than they did 4 years ago. Even more encouragingly for the industry as a whole, is the fact, that at 34 hours a week, millennials are spending an additional six hours, watching video from all sources, than those over 35 years of age.

However, as has been said before; linear is far from dead. Accounting for approximately 30% of all viewing hours, it is still roughly twice as big as any other TV or video type.

4KTV

4K may not rolling out as fast as was expected, but 72% of respondents said video quality is key when choosing a new paid TV or video service. HD and 4K also rated in the top three features that consumers are willing to pay for. (An ad-free service was number one.)



Non-Traditional Players

Given all of this, it's no surprise that as well as the "traditional" OTT players (Netflix, Amazon and Hulu), other well-heeled, non-traditional players, namely Google, Facebook and Apple, are entering the market. Obviously, there is a battle for eyeballs, but rather than reach, this is now translating into a battle for original and compelling content.

HBO spends US$ 2 billion on content production. This year Netflix, is reported to be spending US$ 6 billion, but planning on spending US$ 7 billion next year. J.P. Morgan estimates that Amazon will spend US$ 4.5 billion on content this year, but in a recent conference call the company stated that it would increase spending in the third quarter of the year. Apple, which is seeing a decline in its share of the video sales and rental market, has already entered the original content market with "Carpool Karaoke" and "Planet of the Apps", neither of which have been very successful. However, it is upping the stakes. According to a recent Wall Street Journal article it now plans to spend US$ 1 billion producing and procuring original content in the next year.

Google and Facebook don't intend to be left out. Facebook has said that it is willing to spend US$ 3-4 million on an episode of new content. The company has plans to add a "watch" tab, to its website, where consumers will find original and other content. Unlike Netflix and Amazon, the company apparently plans to release content on a scheduled basis, rather than releasing a complete series at once. It is also focusing on content that will appeal to younger viewers, and that will generate "buzz" on the site.

Google, the parent company of You Tube, has said that it will fund over 40 original shows and movies in the next year, and reportedly is willing to spend US$ 3-6 million per hour for original content. Like Facebook, it is also focusing on content for 16-35 year-olds. Some of the content will be free, and some will be subscription driven. You Tube is taking advantage of user content searches on the service to identify the most suitable content to create. For example, it is making a "Karate Kid" spinoff, due to the numbers of searches for clips from the original movie. As Mr. Kyncl, Chief Business Officer of You Tube, said: "Data searches provide a window into the demand for Hollywood product on YouTube. Why not fulfill this demand? It makes absolute sense. It's in the service of our users."

OTT

At the same time as these OTT players are increasing their budgets on drama and other scripted content, some of the traditional players are cutting back. A&E and WGN have stated that they will stop producing scripted content. However, given the increasing budgets of Netflix and Amazon, coupled with the new entrants, overall, the volume of scripted content will continue to grow. This year over 500 scripted shows will be produced, double the number produced in 2011.The OTT players are not just throwing money around, they are also poaching some big-name producers from the Hollywood studios and also venturing into co-productions with the traditional players, as evidenced by the announcement from Netflix in March, that it had partnered with the BBC to co-produce two high-profile dramas: "Troy – Fall of a City" and "Black Earth Rising."

Not only are the OTT players taking over the content production market, at least one, namely Amazon, is also trying to get its share of the more traditional marketplace. In the UK (as in the US) Amazon has introduced its Channels service, as an add-on for Prime subscribers. This introduces members to "skinny bundles," allowing them to pay for just a single channel (Discovery for example), rather than for a collection of channels offered by the cable or DTH company, which may include many that are of no interest.

And what about quality? As mentioned above, viewers say they are willing to pay for HD and 4K; will they get it? In Europe, HD is widely available, and from Amazon and Netflix, there will be plenty of original 4K content. There is also no shortage of available 4K and even high dynamic range (HDR) TV sets. However, what is lacking, is programming from the legacy linear channels. For these players, without such deep pockets, there are no signs that 4K is going to become mainstream in the next few years.

Quite simply, it is still hard to close the business case for 4K. Putting aside for a moment, the fact that all the standards have yet to be agreed; producing and distributing 4K content, requires upgrading the entire value chain from cameras, to storage and delivery. In order to justify this, the content producers need to either, take a very expensive leap of faith, or be assured that there will be increased revenues, to offset the investment. Very few are willing to do the former, and so far, there is not much evidence of the latter. Advertisers are not willing to pay for a technically superior advertisement that will be seen by fewer people. Similarly, given that cost is given as the main reason for cord-cutting, the prospect of significant numbers of viewers, being willing to pay a premium for a UHD channel, is not very likely.

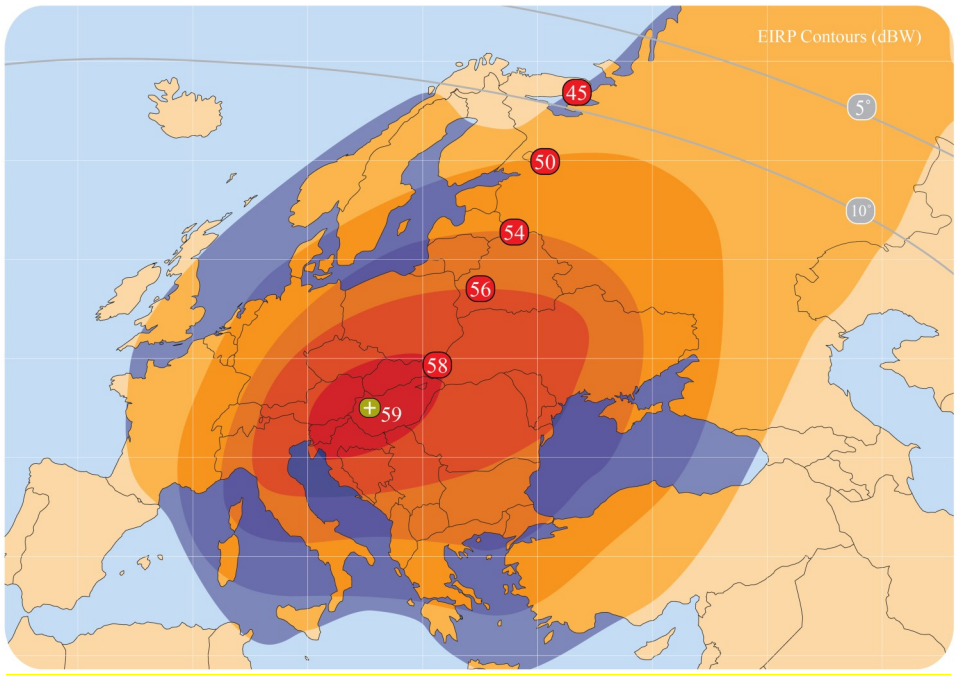
For a few genres, the business case is more compelling. High quality drama and nature programs, tend to have a long shelf-life, so the payback may extend over many more years. Sports is another case. Fans, aka viewers, have already demonstrated a willingness to pay a premium for top-tier sports, which are generally viewed on larger screens, where the superior quality of 4K is much more obvious, so it is no surprise that this genre is at the forefront of 4K content.

Conclusion

So what does all this mean for the satellite industry? Well the obvious good news, is that linear is still the most significant delivery mechanism. The second piece of good news is that younger people are actually watching more video than their older counterparts, and according to the Ericsson survey, half of this is live or fixed schedule viewing. For both of these, satellite can retain its traditional role in the content creation and delivery value chain.

More mobile viewing, places heavy demands on cellular networks, creating the need for more backhaul capacity. In some areas, this represents an opportunity for satellite. Historically, satellite has been used for backhaul in less developed parts of the world, and for some rural areas in the developed world. A combination of lower prices per bit from high throughput satellites (HTS); new technology, in the form of flexible hubs, that can provide the flexibility of TDMA, with the reliability of SCPC; and higher speed modems, mean that satellite is becoming a viable alternative in other areas. This has been demonstrated by Sprint in the USA, which as well as using satellite backhaul in rural areas is also using it to extend its service to metro-edge locations, and also to off-load traffic for special events.

The video industry is in the throes of transitioning to a new business model, with many new players, and distribution methods. This creates opportunities, it also creates challenges. And for the satellite industry the main challenge will be to remain nimble and secure its place in the new ecosystem.



Spacecom's AMOS satellite constellation, consisting of AMOS-3 & AMOS -7 co-located at 4°W and AMOS-4 at 65°E, provides high-quality broadcast and communications services across Europe, Africa, Asia and the Middle East. With AMOS-17 planned for launch to 17°E in 2019, Spacecom will further expand its reach, reinforcing its position as a leading satellite operator. Picture here is AMOS 3's European Ku-Band beam.

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