

TV Services in Europe:

Update and Outlook

a Parks Associates white paper

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1.0 Overview: Why is Understanding Europe Important?

Watching the development of intense service provider competition in the areas of broadband-centric bundled services packages and advanced video services provides a key litmus test for making predictions about growth for the rest of the world. As service providers continually encroach on each other's territory and offer not only cutthroat pricing but also value-added features, we look to Europe to validate or altogether reject certain assumptions about the way in which video, broadband, and communications, and other entertainment services will be delivered. This paper focuses on the television and video aspects of the bundled services competition on the European continent.

Competition among incumbent and upstart telephone operators in Europe has been fostered by regulators' aggressive stance on local loop unbundling. Since the late 1990s, regulators in Europe have allowed alternative carriers to have access to last-mile connections that were initially built by the incumbents. Regulators established rules regarding the fees that could be charged to the competitive players, ensuring that these upstarts would only pay for the facilities and equipment that they actually used. This move has put the competitive players on equal footing with the entrenched players, resulting in a dramatic shift in the availability of operators from whom customers can choose. Where there was just one PTT (Postal, Telegraph, and Telephone provider) per country, now there are many.

As competition increases between and among multiple operators for digital television services, significant opportunities for solutions vendors in digital lifestyle markets are expected to follow. Specifically, as service providers seek differentiation, a "stickier" relationship with their customers, and new revenue streams, we anticipate that today's "me too" TV services will take on new attributes. Among the digital lifestyle applications that operators are closely examining are home networking, on-demand and interactive programming, and blending of services and devices – including communications and entertainment and fixed and mobile/portable.

2.0 The Highly Competitive European Market

The European broadband, communications, and television landscape is not just characterized by intense competition among telephone providers. The cable operators, telcos, and satellite providers not only need to keep a close eye on each other, but also players delivering digital terrestrial television (DTT) services. *Section 2.0* provides an overview of each of the major television service offerings.

As of the end of 2007, Europe had nearly 150 million television subscribers, eight percent growth from year-end 2006 (see **Figure 1**). The percentage of households with two-way interactive services capabilities (subscribing to digital cable and telco/IPTV), however, was only 12% of the total television households. This is in marked contrast to the North American market, where digital cable and telco/IPTV services are found in one-third of television households. The European market certainly has room to grow in providing interactive and digital television services.

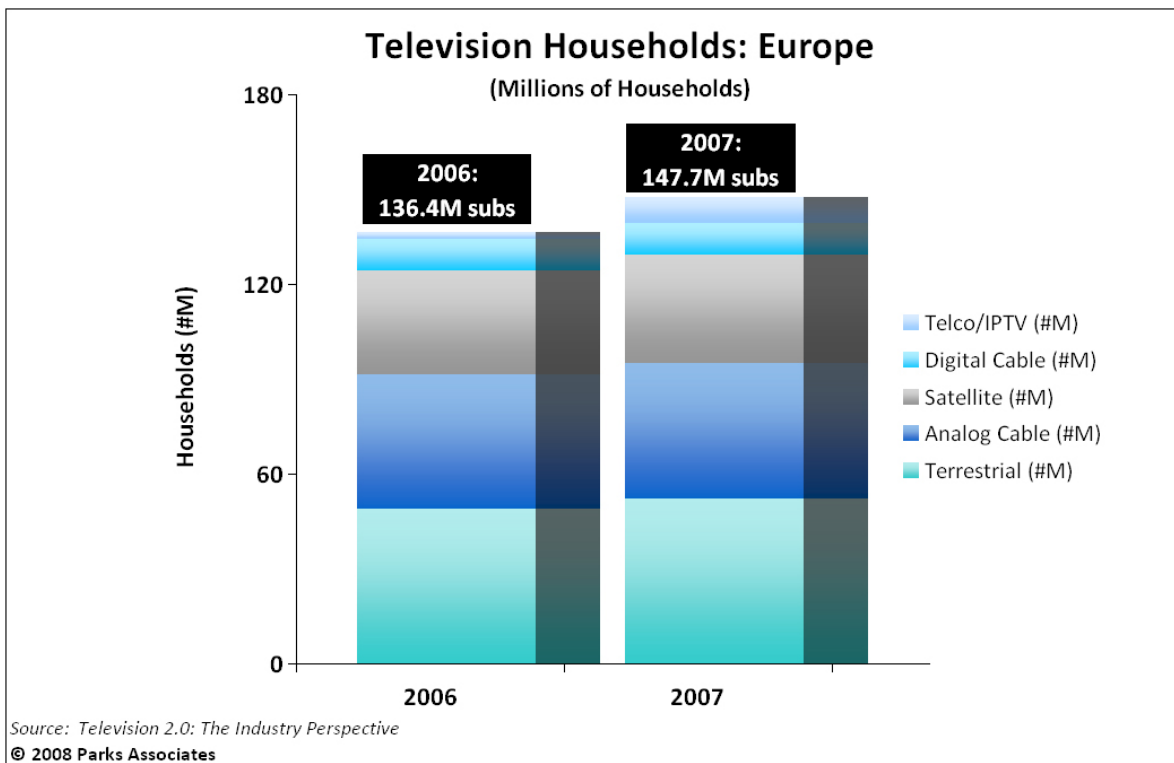


Figure 1 European TV Households Year-end 2007

2.1 Digital Terrestrial Television (DTT) Services in Europe

Under the European Union Commission directive for a single European communications market, all of the markets under its jurisdiction face a deadline to switch from analog broadcasting to digital broadcasting by 2012. Terrestrial television is still a major source for viewers in some of the major Western European markets including France, Italy, Spain, and the United Kingdom (U.K.). Almost 55% of the television viewership in these markets relies on terrestrial services for television. It is therefore expected that Digital Terrestrial Television (DTT) offerings will play a very important role in the TV market in Europe over the next five to ten years, even as cable, satellite, and telco television providers ramp up their offerings

While inherent market conditions in many European markets, where there is strong presence of terrestrial TV viewership, favor DTT growth, it is not wholly accurate to portray DTT as an “either/or” offering that could preclude a household from choosing a telco in particular for a bundled services offering. In much the same way that satellite television services are a standard offering for many U.S. telcos, DTT provides the telecommunication service providers a way to sell bundled services – including video services – at competitive prices. A prime example of this type of bundle is the BT Vision service.

The aggressive local loop unbundling taking place in Europe is creating a new class of CLECs (competitive local exchange carriers) that do not have their own video distribution infrastructure. They may also take advantage of DTT services to offer bundled services that include video, VoIP (voice over IP), and broadband features.

These market dynamics have created a dynamic market for DTT offerings. For example, Spain sold almost two million DTT set-top boxes after a little more than seven months of operation. The U.K.’s Freeview DTT service is regarded as a major success with a user base closing in on that of BSkyB, the dominant pay-TV platform in the country. Similar success can be found in Finland, Sweden and France, although pay-TV channels are also included in the DTT service offerings in these countries. Encouraged by these early successes, Portugal, Norway, Denmark, Switzerland, and Ireland have either already or are planning to launch their own DTT services. As **Figure 2** indicates, the U.K., France, Germany, Spain and Italy – which happen also to be the leading markets for telco/IPTV services – lead the way in terms of DVB-T receivers sold or rented.

Largest European DVB-T Markets		
Country	DVB-T Services Launched	Receivers Sold (to nearest half-million)
U.K.	1998 (2002 Freeview)	19 (17.5 since 2002)
France	2005	8 (includes rentals)
Germany	2002	7
Spain	2000	5.5
Italy	2004	4.5
<i>Source: DVB Fact Sheet, August 2007, DVB.org</i>		

Figure 2 Largest European DVB-T Markets

2.2 Cable Services in Europe

In spite of a relatively slow growth in subscriber base, cable operators still control approximately 36% of the television market spread across Western Europe. One key aspect of the European cable market is that almost 80% of it is served by analog cable. In a sense, Europe offers a potentially fertile market for cable operators willing to invest in cable plant upgrades and who see an opportunity in building significant revenue streams by moving customers from analog to digital television services and by bundling robust broadband and voice offerings with video.

Leading Cable Operators in Europe				
Country	Operator	Total Subscriber Base (#M)	Digital Subscribers (#M)	Pay TV Subscribers (#M)
Germany	Kabel Deutschland	9.1	0.747	0.763
Germany	Unity Media	6.0	0.789	0.436
France	Cinven (Numericable)	4.0*	n/a	n/a
U.K.	Virgin/NTL	4.8	0.9	1.5 (VoD)
Germany	Kabel BW	2.3	0.240*	0.150
The Netherlands	UPC	2.2	n/a	n/a
Belgium	Telenet	1.7	0.7*	0.420

Figure 3 Leading Cable Operators Year-end 2007

Although cable operators have struggled in recent years (with notable reorganizations in the U.K.), there is a growing consensus among operators that investments need to be made to upgrade mainly

analog networks for digital services. These investments will certainly impact their competitors' decisions. Two key areas that the cable operators intend to invest significantly in are infrastructure upgrades and customer service. Although DOCSIS 3.0 is scheduled to be deployed as early as second quarter of 2008, with LiWest in Austria and Multicable in the Netherlands leading the way, the operators are also in the process of developing the Digital Video Broadcasting Standard (DVB-C2). DVB-C2 further enhances the operators' ability to monetize their physical infrastructure by providing means to enhance the capacity per channel. A recent study by the Center for Customer Driven Quality at Purdue University indicated that 68% of the customer loss was driven by service experience. This has renewed the cable operators' focus on enhancing their commitment to customer service.

2.3 Satellite Services in Europe

Satellite services in Western Europe have exhibited a healthy growth of 5% catering to approximately 23% of the total market in that region. The growth in areas where there is a significant digital divide due to lack of broadband penetration is expected to be higher.

Satellite operators in Europe may also have advantages inherent to their business plans vis-à-vis operators in other parts of the world. Satellite service providers in the U.S. lack a broadband access network to deploy two-way interactive services. This dilemma is also the case in Asian countries where, like in the U.S., telcos are not required to unbundle their broadband access lines and allow competing service providers to lease them. In Western Europe, however, unbundling regulations are strictly enforced. As a result, satellite TV providers are more actively exploring interactive TV services as a means to differentiate their offerings. The most successful example is the U.K.'s BSkyB. Since 1999, BSkyB's Sky Interactive division has been the frontrunner in offering an enhanced TV experience through interactive TV services. Leading applications include TV voting, synchronized quiz/game shows, betting, shopping (BSkyB even issued its own credit card), and a barrage of TV-based communication services. Such applications do not consume a large amount of bandwidth and thus can be deployed over the copper phone line with or without a broadband connection. With the purchase of EasyNet, a broadband ISP in the U.K., many expect BSkyB to add a full suite of interactive TV services soon.

2.4 Telco/IPTV Services in Europe

Telco/IPTV services are among the fastest-growing television services in the world, jumping from two million households in 2005 to more than 14 million households in 2007 (**Figure 4**). Europe overtook Asia as the leading telco/IPTV services market, and now boasts nearly 60% of households using such services.

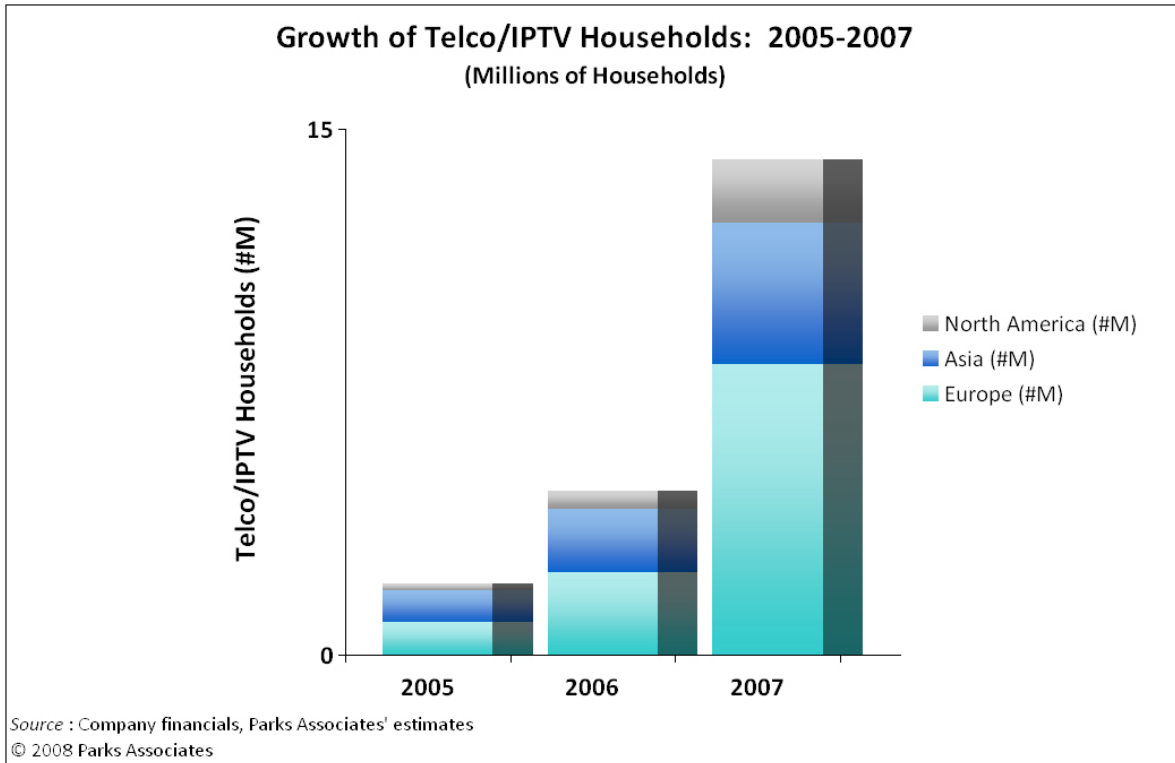


Figure 4 IPTV Households: 2005-2007

In Europe, the IPTV market is shaping up nicely thanks to a more fragmented yet competitive TV market and a smaller territory, which makes broadband networks less costly to build in each country. IPTV deployment accelerated during 2005-2007 in major countries such as France, Belgium, Italy, and Spain, making Europe the top region in the world in terms of total subscribers. Most importantly, the potential to see even faster growth between 2007 and 2010 is substantial, as most operators have not yet penetrated 10% of their service markets.

The strong growth of IPTV services on a European-wide scale is attributable to the work of many of the major incumbents as well as challengers entering the space. **Figure 5** provides an overview of household adoption of telco/IPTV services by carrier.

Leading IPTV Operators in Europe (Year-end 2007 Subscribers)		
Country	Operator	Subscriber Base (#M)
Belgium	Belgacom	0.31
France	France Telecom	1.24
France	Iliad/Free	2.90
France	Neuf TV	0.75
Germany	Deutsche Telekom T-Home Entertain	0.12
Italy	FASTWEB	0.75
Italy	Telecom Italia	0.08
Italy	Tiscali	0.20
The Netherlands	KPN - Known as 'Mine'	0.24
Spain	Telefónica	0.51
Denmark	Dansk Bredband	0.03
Russia	Comstar Direct	0.11
Sweden/Finland	TeliaSonera	0.38
Switzerland	Swisscom - Bluewin TV Services	0.07
U.K.	Tiscali	0.05
U.K.	BT Vision	0.15

Figure 5 Leading European IPTV Operators

Given France’s ultra-competitive broadband landscape, it is not surprising to see Europe’s highest growth among France Telecom (Orange Group), Free (Iliad), and Neuf Cegetal. BT has finally gotten off the ground with its BT Vision service, now accounting for 150,000 customers. Also notable are the results from two of Microsoft’s larger European customers – Deutsche Telekom and Swisscom. DT has been aggressively marketing its Entertain service, and it is looking for this to pay dividends in boosting interest in and subscriptions to its fixed-line bundled services packages that include voice, data, and video offerings. DT announced 150,000 customers at the end of last year. After some technical issues delayed Swisscom’s entry into IPTV with Bluewin, the company notes that it has 70,000 subscribers at year-end 2007. Although it is reporting better success in terms of driving customer acquisition costs down (it notes that customer support calls have been halved in the last six months and fulfillment times have been reduced), the company does acknowledge that customer support is still a higher cost

than it would prefer given some lingering technical issues. Overall, Swisscom notes that its customers give it higher marks for the content, features, and usability of the IPTV service.

As telcos in particular begin reporting higher take-rates for their IPTV services, they are indicating that video-on-demand applications have become increasingly popular with their subscribers. Additional features for interactivity and for television personalization – including customized channel lineups, new search features, advertising, and communications applications – are also seen as vital to both differentiation and revenue growth. Telcos will be seeking technology partners with a wide breadth of expertise in network infrastructure, set-top box, and other CPE development, and in delivering interactive features.

3.0 Growing TV Services in Europe: Key Considerations

Service providers have been investing heavily in next-generation technologies to upgrade their network infrastructure. These investments have thus far focused on two main aspects: convergence and capacity. Although these elements are seen as critical in increasing both the quality and the flexibility of the services that operators can provide, will they respond to the bundled services offerings in the same way that U.S. cable customers have? With the telcos, cable, and satellite operators all vying in many cases for the same European customer, will rock-bottom pricing still rule as a strategy, or will consumers readily see the increased value in broadband- and video-centric bundles, remain more loyal, and eventually be willing to pay more for these services?

Two other aspects that will also play a key part in reducing the churn rate for service providers are the switching costs and customer satisfaction. These two key factors depend heavily on the speed and the extent to which the service providers will deliver on their promises on integrating communications and entertainment. There is a significant amount of work to be done in standardizing the next-generation technologies and integrating them onto one manageable platform to enrich the consumers' experience.

The need for integration is all the more acute in Europe where mobile service penetration in many markets is 100% (and more!). European Union regulations require that all service providers support number portability that will allow consumers to switch to a provider of their choice without having to

change their mobile identity (i.e., their number). Service providers must view convergence as not only a way to manage their costs and bring uniformity to their service delivery but also as a way to empower customers as active participants in this confluence of entertainment and communications and to build their own converged identities. It is this identity that the subscribers will most-directly associate with switching costs. Any service provider that moves in this direction and provides a platform for a converged identity and backs it up with a commitment to customer satisfaction will have a clear first mover's advantage in garnering the largest market share.

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