



Doubling up on pay-TV

Deloitte predicts that by the end of 2014 up to 50 million homes around the world will have two or more separate pay-television subscriptions, with the additional subscriptions generating about \$5 billion in revenues¹¹³. A further 10 million homes will receive premium programming as part of their subscription to another service, such as broadband¹¹⁴. Over the coming years, the number of households with multiple subscriptions should continue rising, as more content owners and aggregators, including platform owners such as cable and satellite providers, make their content portfolios available via subscription video-on-demand (SVOD) delivered 'over-the-top' using broadband connections. A further stimulus to the market will be the increasing availability of inexpensive HDMI dongles, which connect TV sets to the Web.

Most of these 50 million households will have just two pay-TV providers, typically one platform-based (satellite, cable or IPTV) service and a secondary SVOD service, but about five million may have three or more providers¹¹⁵. By the end of 2015, twenty percent of homes in selected markets will have three or more pay-TV subscriptions, as more rights owners make their content available via video-on-demand (VOD), as broadband speeds increase¹¹⁶, and as premium programming is increasingly used as a customer retention tool¹¹⁷.

This trend is counter to historical expectations of 'cord cutting', whereby households would either drop their pay-television subscription altogether, or replace their platform-based subscription with a SVOD package¹¹⁸. Cord cutting has been anticipated for the past decade: in surveys, a significant proportion of pay-TV subscribers have signaled their intent to cease subscribing, yet year after year these intentions have failed to materialize, and the base of pay-TV subscribers has remained constant or even continued to rise in many countries, even in markets with a high pay-TV base such as North America, where over 90 percent of homes have pay television¹¹⁹. Overall, platform-based pay-TV has continued to grow in size, with 895 million homes paying \$245 billion in 2013, and revenues expected to reach \$287 billion in 2017¹²⁰. Although SVOD services have been growing, it appears that customers are continuing to subscribe to platform-based pay television, and adding SVOD to make a 'content stack'.

In markets where there are multiple platform-based providers of pay-TV, some of the players – be they satellite, cable or IPTV-based – are beginning to offer elements of their program portfolio on a SVOD basis to customers of other platform providers¹²¹. A cable TV customer may want both the high broadband speeds available via digital cable and also some of the content only available from a satellite provider; this customer could access the provider's content via an additional SVOD subscription, rather than purchasing a more expensive platform-based subscription.

It might seem extravagant for a household to double up on pay-television providers. However it reflects a longer-term trend to add to existing packages: rather than sourcing additional packages from other platform providers, thanks to high-speed broadband services customers are now able to source from other content services, often at a price equivalent to adding a minor bundle, typically for less than \$10. So while households may have two providers of video content, the second subscription is at a far lower cost.

It may well also be the case that a member of the household other than the platform-based pay-TV (billpayer) signs up for a SVOD subscription – perhaps without that person's knowledge. If so, no individual member of a household may be aware of the full range of pay-TV services being subscribed to by everyone in the home.

Another medium-term development which lessens the financial impact of a second subscription is that households adding SVOD while maintaining existing pay-TV are substituting spend that would have gone on DVD rental and purchase. Indeed in some markets, the decline in DVD box set revenues matches closely the emerging, rising spend on SVOD¹²².

- 113 As of year-end 2012, there were over 60 million subscription video-on-demand customers, with the largest base in North America, with 50 million subscribers. See: Research and Markets: *Worldwide Over-the-Top Subscription Video on Demand Market: North America Highly Competitive with More than 25 OTT SVOD Service Providers as of 2013*, Business Wire, 19 November 2013. <http://www.businesswire.com/news/home/20131119006080/en/Research-Markets-Worldwide-Over-the-Top-Subscription-Video-Demand>
- 114 For example, customers to UK Internet Service Provider BT Broadband service receive BT Sport for no additional charge. For more information, see: *Choose how you want BT Sport*, BT, 2013. http://sport.bt.com/pages/sport/75_intcid=con_int-ban_itsport_pink_butt; BT Sport channels attract 2 million customers, *Guardian*, 31 October 2013. <http://www.theguardian.com/business/2013/oct/31/bt-sport-channels-attract-2-million-customers>
- 115 One sample of 9,956 pay-TV homes in the US undertaken by TiVo found that 57 percent of respondents subscribed to Netflix, half had Amazon Prime subscriptions, and 18 percent paid for Hulu Plus. Eight percent subscribed to all three services, implying four pay subscriptions in total. See: *TiVo Research and Analytics: Netflix Not Cannibalizing Traditional TV Viewing*, TiVo, 29 July 2013. <http://pr.tivo.com/press-releases/tivo-research-and-analytics-netflix-not-cannibal-1037757>
- 116 As an example, in the 12 months to May 2013, average broadband speed in the UK jumped 64 percent to 14.7 Mbit/s, about four times the performance in November 2008. Upgrades to high speed broadband provide a one-off jump in broadband speed and in the year to June 2013, about two million households upgraded to high speed broadband. See: *UK broadband, telephony and pay-TV trends Q2 2013: Revenue strong, uncertainties abated*, Enders Analysis, 14 August 2013. <http://www.endersanalysis.com/content/publication/uk-broadband-telephony-and-pay-tv-trends-q2-2013-revenue-strong-uncertainties-ab> (Subscription required)
- 117 For example see: *Amazon and A24 Announce Exclusive Content Agreement Making Prime Instant Video the Only Premium Subscription Service to Offer Films from A24*, Business Wire, 21 November 2013. <http://www.businesswire.com/news/home/20131121005387/en/Amazon-A24-Announce-Exclusive-Content-Agreement-Making>; *Amazon signs new licensing deal with Viacom to expand exclusive TV content on Prime Instant Video*, *The Next Web*, 4 June 2013. <http://thenextweb.com/media/2013/06/04/amazon-signs-new-licensing-deal-with-viacom-to-extend-exclusive-tv-content-on-prime-instant-video/>; *Wannabe models launch exclusive content on Tesco's Clubcard TV*, *The Grocer*, 9 May 2013. <http://www.thegrocer.co.uk/companies/tesco-kicks-off-exclusive-content-on-clubcard-tv/343150.article>
- 118 There are thousands of articles on the subject of cord cutting, most of which focus on the US market. For some examples, see: *Evidence Grows on TV Cord-Cutting*, *Wall Street Journal*, 7 August 2012. <http://online.wsj.com/news/articles/SB10000872396390443792604577574901875760374>; *Proof that Americans really are cutting the cable TV cord*, *Quartz*, 12 November 2013. <http://qz.com/146664/proof-that-americans-really-are-cutting-the-cable-tv-cord/>
- 119 At the time of writing, pay-TV subscriber gain/loss numbers for the first three quarters of 2013 were available, and this showed a decline of 71,000, or 0.07 percent of the base of 101 million homes. For Canada, the decline was 0.09 percent, or 10,873 homes in a market of 11.8 million homes.
- 120 For information on subscribers, see: *Global pay TV market grows by 23 million subscribers*, *Digital TV Europe*, 6 September 2013. <http://www.digitalteveurope.net/97142/global-pay-tv-market-grows-by-23-million-subscribers/>; For information on revenues, see: *Worldwide Pay TV Service Revenue to Reach USD 245 Billion in 2013 with Telco TV Service Gaining Market Share*, ABI Research, 4 September 2013. <https://www.abiresearch.com/press/worldwide-pay-tv-service-revenue-to-reach-usd-245->

Demand for SVOD is likely to be further increased by the growing availability – with 20 to 30 million units expected to ship in 2014 – of Wi-Fi-enabled streaming dongles that provide access to SVOD services via the HDMI port. TV programs tend to be most appreciated when watched on a TV set rather than on the smaller screens of PCs, tablets or smartphones. However, SVOD on a TV screen requires a connected TV set (still a minority of the installed base of televisions) or a connected device (games console, PC, tablet or smartphone) which acts as a conduit for streamed programming. The Wi-Fi dongles make non-connected TV sets connected, or can free up devices that would otherwise be used as the Internet streaming adapter for a non-connected TV. By the end of 2014, we would expect about twenty content owners to offer access to their content via branded streaming dongles¹²³.

We expect subscribers to start accumulating SVOD suppliers because there may no single company that can offer all the content that all members of a household want. Each SVOD supplier that acquires content, either through original commissions or exclusive distribution deals, is likely to choose content that is most attractive to its customer base.

We would expect a broader range of companies to commission content in the future – not just broadcasters or platform owners, but also technology companies and retailers, or any entity hoping to differentiate its offering through exclusive content; and the cost of exclusive content is so high that no individual provider will satisfy the needs of every household.

Bottom line

With the Internet and pervasive broadband, content creation and ownership is now spreading among more and more companies. The rise in the number of entities commissioning content means there will be increasing competition for on-screen talent, writers, producers, and even set designers¹²⁴.

Some part of the growing spend on subscription video-on-demand is substituting for money that would have gone on purchasing DVD box sets. Content providers will need to forecast a changing revenue mix carefully, so as to avoid either under-investing in content, or spending over budget.

Content producers should consider how ever-improving broadband speeds open up new markets for them; they may no longer have to deal directly with platform owners to reach end-users. Content owners should however be cognizant of the implications of selling direct to the end-user, such as the need to provision local network storage and payment options. Further, cutting out a distributor may increase margin, but at the cost of addressable market.

Platform owners should tap into the growing demand for additional pay-TV subscriptions to increase their addressable market, by offering their content over-the-top to those who do not subscribe to their platform service. On-demand subscribers are likely to pay smaller monthly sums than subscribers paying for the platform package; it will be important to balance pricing such that both sets of customers feel they are getting value for money and OTT solutions do not cannibalize the platform base.

The quality of OTT VOD services will be contingent on the quality of broadband for each subscriber. The SVOD provider may have little control over this, aside from allowing the customer to vary the bit rate according to available bandwidth, and advising consumers on how to optimize broadband speeds¹²⁵. Monthly data allowances, where these exist, constrain the number of hours that can be watched for heavier-viewing households.

There is upside for broadband providers, some of which may also be the platform owners. The more VOD watched, especially at higher resolutions, the greater the demand for broadband. Households with a high propensity to use SVOD may well upgrade to higher-speed packages, or may pay more to have higher monthly download allowances. Indeed a major reason for the growth in fiber to the home/cabinet (FTTH/FTTC) connections is likely to be because households want to be able to consume one or more SVOD service at the best available quality.

Broadband providers tapping into the growing demand for SVOD should be aware of viewing patterns, which are likely to resemble those for broadcast television, and build to meet capacity peaks cost-effectively. SVOD companies may need to deploy local caches of video content. Demand for video content may vary by neighborhood, and carriers should use analytics to understanding localized viewing trends, and provision for edge of network storage accordingly.

121 For example Sky in the UK offers day passes enabling broadband-delivered access to its portfolio of sports content. For more information, see: Pay As You Go Sky Sports Only on NOW TV, Sky Sports, 2013: <http://www.1.skysports.com/nnowtv/>; Sky Deutschland made a range of its content available to non-subscribers in December 2013. See: Sky Deutschland to launch open VOD service, Rapid TV News, 11 December 2013: <http://www.rapidtvnews.com/index.php/2013/12/11/131297/sky-deutschland-to-launch-open-vod-service.html>

122 For the UK market, subscription VOD revenue increased by £100 million to £160 million in 2013. Sales of all DVDs (for movies and TV shows) fell from £2.12 billion to £1.66 billion between 2011 and 2012, according to data from the British Video Association (BVA); approximately a quarter of all DVD sales are for TV material. For more information on UK pay TV trends, see: http://www.deloitte.com/view/en_GB/uk/industries/tm/industry/uk-tv-industry-report/index.htm For more information on DVD box set trends in the US, which have seen declining units but constant nominal revenues, see: Six reasons why DVDs still make money – and won't die anytime soon, Forbes, 7 August 2013: <http://www.forbes.com/sites/dadehayes/2013/07/08/six-reasons-why-dvds-still-make-money-and-wont-die-anytime-soon/>

123 For more information on streaming dongles see: Your TV never looked so smart, Now TV, 2013: <https://shop.nowtv.com/>; The honest Chromecast review: Three weeks with Google's TV stick, Gigaom, 14 August 2013: <http://gigaom.com/2013/08/14/honest-chromecast-review/>

124 In 2007 the Writers Guild of America West (WGAW) reported \$456 million in earnings from 3,356 individuals. In 2012 earnings had risen to \$667 million from 3,508 writers, a 40 percent rise in earnings per writer. See: Annual Financial Report, Writers Guild of America, West, June 29, 2013: http://www.wga.org/uploadedFiles/who_we_are/annual_reports/annualreport13.pdf

125 VOD companies may want to help their customers by offering web advice on in-home network optimization and best practices, a primer on what network speeds mean, and how to contact Internet Service Providers

126 For more information, see: Global Internet Phenomena, Sandvine, November 2013: <https://www.sandvine.com/trends/global-internet-phenomena/subscription-required>

Cable, IPTV and FTTC broadband services are rivalrous: the more people watching video within an area affects the quality of service for others in the same locality, and video already represents the bulk of capacity usage in many markets. For example, video streaming represents over half of all downstream capacity in North America¹²⁶. Therefore platform-based TV services may always have an advantage when it comes to delivering consistent quality of service to the majority of homes. Although many of the additional pay-TV subscriptions will be delivered via broadband, the need for platform-based service is likely to remain.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries.

With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2014. For more information, contact Deloitte Touche Tohmatsu Limited.

Designed and produced by The Creative Studio at Deloitte, London. 31916A