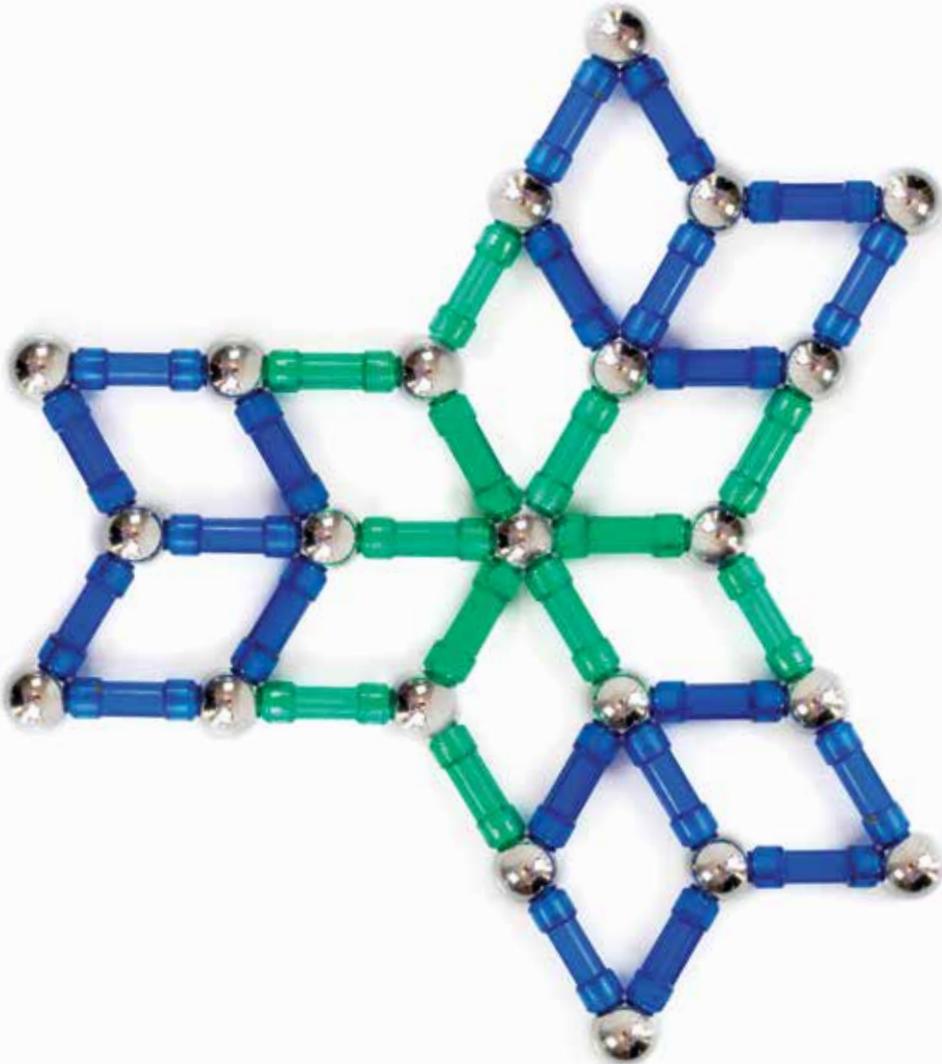


Technology, Media &
Telecommunications
Predictions
2014

Southeast Asia Edition



Igal Brightman, 1945-2013

This edition of TMT Predictions is dedicated to the memory of Igal Brightman who passed away in August 2013. Igal was the Global Managing Partner and Chairman of the TMT Industry Group for nine years, and his tireless energy and enthusiasm helped define much of our practice, including thought leadership.

Igal was a pioneering, unflinching supporter of Deloitte's research into the TMT sector. He was a steadfast advocate of the need for professional services firms to blend functional skills with leading industry knowledge. He was passionate about investing in research, and through Igal's support from its launch in 2001, TMT Predictions has become one of the flagship research titles used by Deloitte members firms in over 80 countries around the world.

Igal has left us, but his many legacies live on, including Deloitte's commitment to thought leadership.

As used in the Predictions, "Deloitte" refers to the Deloitte Touche Tohmatsu Limited member firm TMT practices.

Foreword

Welcome to the 2014 edition of Deloitte's predictions for the technology, media and telecommunications (TMT) sectors.

TMT Predictions' objective is to identify critical inflection points we believe should inform industry strategic thinking, and to explain how we think these will manifest over the next 12-18 months. Our perspectives are built around hundreds of discussions with industry executives, analysts and commentators, along with tens of thousands of consumer interviews.

For 2014, Deloitte has once again taken the Predictions a step further with the inclusion of the Southeast Asia TMT Practice's perspectives on the direction and applicability of trends in the region. While the global TMT Predictions will likely have similarly significant impacts on Southeast Asia, it is worthwhile to explore how the unique economic, political and social nuances in the individual markets will alter the trajectory of these trends as they unfold. For this reason, we have included a "Southeast Asia perspectives" section with a number of the global TMT Predictions.

As in each year that we have published a set of predictions, the core drivers of disruption in the sector remain the same: processor speed, connectivity and storage.

For the past decade, these three drivers have enabled massive advances in the utility, ubiquity and spend on connected devices. In 2014, we expect five connected devices which constitute the converged living room – TVs, PCs, video game consoles, smartphones (including phablets) and tablets – to generate \$750 billion in revenue.

Despite launching a mere four years ago, tablets are already mainstream and approaching maturity, in that the category now describes a wide, and widening, range of capabilities, sizes, user bases and uses. The largest component in the converged living room group, smartphones (\$375 billion revenue in 2014), are nearing saturation among most age groups, although there is still a prime opportunity among people older than 55 – a demographic likely to experience one of the steepest rises in penetration rate this year.

Smartphone and tablet vendors are emphasizing ruggedness as a key differentiator, which will make the cracked screen even less common in 2014. This focus also has the benefit of making consumer devices increasingly appropriate for use in non-office environments, and in 2014 we expect a rugged field-force device will cost as little as \$250.

New device form factors are expected to be launched in 2014, with wearable computers being one of the most talked-about categories. We predict sales of smart glasses, watches and wristbands will reach 10 million units in total this year, and will generate about \$3 billion in revenue; significant, but modest when compared to revenues from devices in the converged living room.

By contrast, revenue in the low billions is very significant for the recorded music industry, which has seen falling revenues over most of the last two decades. In 2014, we foresee one component of recorded music, performance rights fees, which are paid for use of music in public, to reach \$1 billion for the first time ever. This contrasts with the \$25 billion broadcast rights for premium sports (a 14 percent increase on 2013), or the \$100 billion forecast for text messaging services.

As is common in the TMT market, volume does not always equal value. While text messages will only represent about a third of all messages sent from mobile phones, they will account for close to 100 percent of revenues, with mobile instant messaging (MIM) services generating about \$2 billion.

A decade ago, broadband started at 128 Kbit/s. In 2014 multiple markets will feature speeds of over 100 Mbit/s and higher. The steady growth in bandwidth has enabled, and will continue to enable a steady widening of the scope of services than can migrate online. For example, we expect faster broadband will help move aspects of healthcare online, with 100 million eVisits – online medical interactions – projected to take place in 2014.

The super-fast broadband speeds that are now increasingly available also enable more video to be delivered online, which is a key factor behind the tens of millions of homes expected to double up on pay-TV by subscribing to an additional broadband-delivered service. As a portion of viewing of TV migrates online, measurement has to follow to ensure viewing, particularly among younger viewers is captured. This year, viewing data for countries representing over 100 million viewers should start to incorporate TV consumption on laptops, tablets and smartphones.

Video-on-demand services are predominantly offered in fast broadband markets, however service is also possible in regions currently lacking extensive broadband infrastructure. Satellites can relay movies and TV programs onto the ever larger hard drives of digital video recorders (DVRs), enabling providers to offer over a thousand hours of on-demand programming.

Most of our predictions focus on the next 18 months. However one topic, the emergence of Massive Open Online Courses (MOOCs) merits both a near-term assessment (modest adoption) as well as a longer-term view (significant take-up).

The focus of our Predictions varies from year-to-year, but one theme appears constant: the impact of TMT on our behaviors steadily deepens. In the time it took to read this foreword, over 100 million messages will have been sent via smartphones around the world.

We wish you all the best for 2014 and trust you and your colleagues find this year's Predictions a useful stimulant for your strategic thinking and market actions for the year ahead and beyond.



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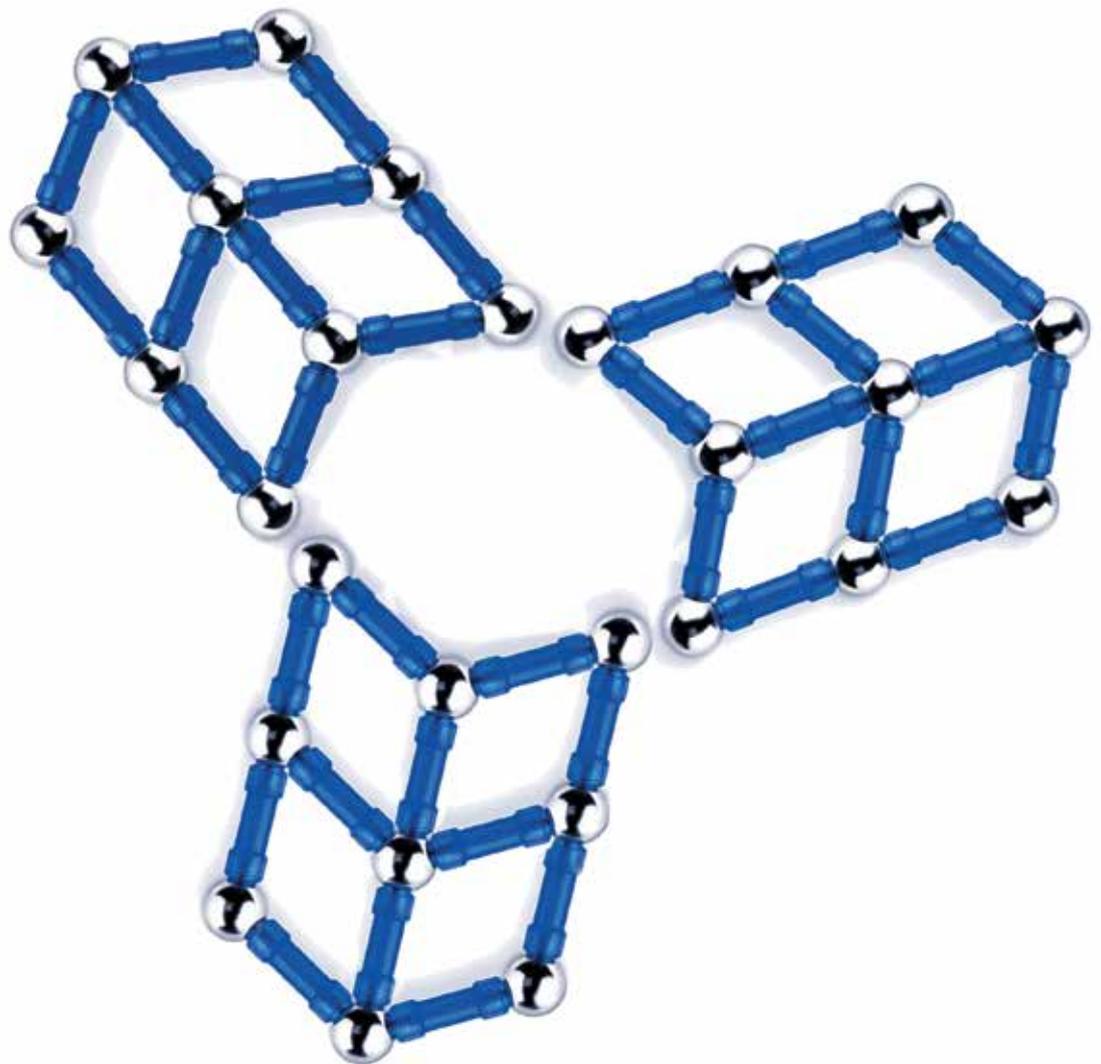


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Technology

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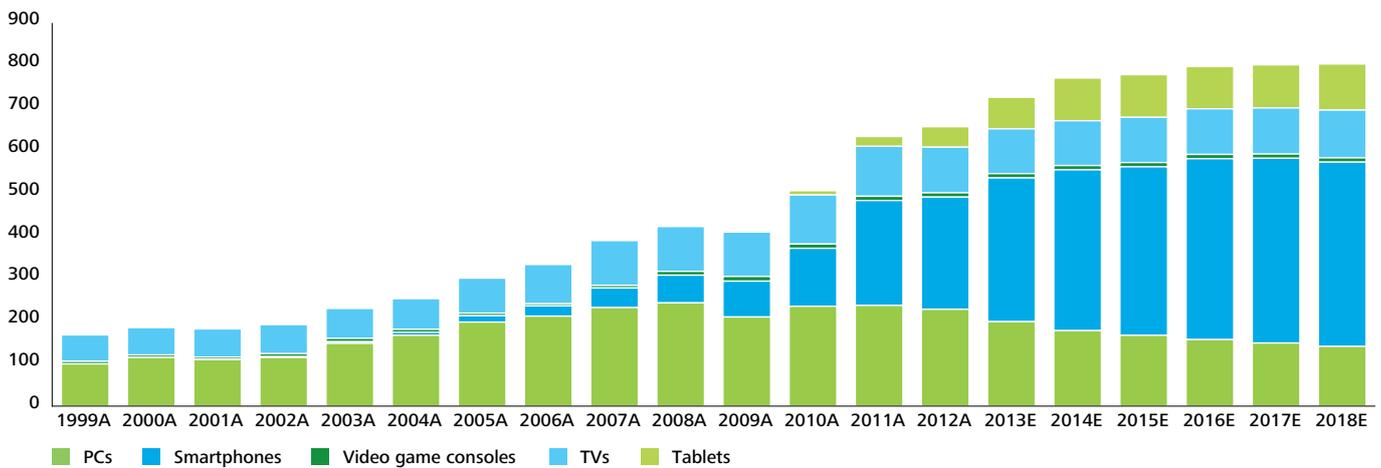


The \$750 billion converged living room: a plateau approaches

Deloitte predicts that global sales of smartphones, tablets, PCs, TV sets and video game consoles will exceed \$750 billion in 2014, up \$50 billion from 2013 and almost double the 2007 total (see Figure 1)¹. Combined global sales of these five products have grown remarkably since 2003, with trailing five-year compound annual growth (CAGR) of 6-12 percent per year over a decade (see Figure 2) (although year-over-year growth has fluctuated from a high of 27 percent in 2010 to a low of -3 percent in the recession year of 2009). In contrast, the growth rate for the global semiconductor industry was only 3.1 percent between 2000 and the end of 2012². However a plateau appears likely: sales are expected to continue growing, but at a slower rate than over the past 10 years, with an estimated ceiling of about \$800 billion per year.

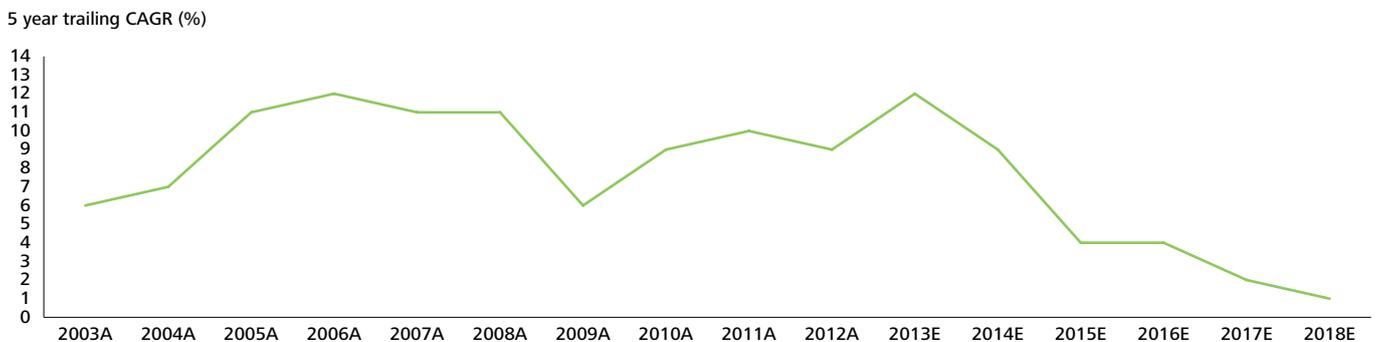
These five categories of consumer electronics devices are closely related in that they are currently the five largest by dollar value, are all multi-functional, and each plays a key role in entertainment and media consumption. Also, all five of these devices have benefited from common technology such as processors and screens (except for video game consoles, all of the devices make use of high resolution LCD technology)³. In contrast, other large segments such as portable video games devices, eReaders and feature phones tend to focus on a single function and thus have a narrower impact on general media consumption and entertainment.

Figure 1: Combined global sales revenues of smartphones, tablets, PCs, TV sets, video game consoles (1999-2018)



Source: Deloitte, 2013

Figure 2: Five year CAGR (2003-2018) for combined global sales revenues of smartphones, tablets, PCs, TV sets, video game consoles



Source: Deloitte, 2013

The simultaneous growth of these five devices created a virtuous circle over the last decade. For example, to supply the massive volumes of LCD screens required for large, flat HDTVs, manufacturers built plants capable of producing 400 million square meters of screens annually by 2013⁴. This drove prices for laptop screens down, which in turn focused research and development on better, smaller screens; which eventually led to high resolution screens for smartphones and tablets that made those devices much more appealing and useful.

There has also been a virtuous circle with solid state memory: the need for gigabytes of flash memory for each of a billion smartphones and tablets led to new manufacturing capacity and increased production volumes that lowered prices, which helped enable the creation of powerful gaming systems and ultrabooks. Also, massive economies of scale drove down prices for lower-end PCs, tablets and smartphones such that large numbers of less affluent families in emerging and developed markets could afford them. This further increased scale and enabled even less expensive devices, such as the \$100 smartphone. Further, the virtuous circle doesn't merely enable the low-cost smartphone; it makes possible the perennially improving smartphone, as well as the \$100 tablet.

These mutually beneficial forces allowed the five categories to grow at an aggregated average CAGR of 11.8 percent between 2004 and 2014 (estimated), almost four times faster than the underlying semiconductor industry, and almost twice as fast as global GDP, which in constant dollars grew at an annual rate of six percent between 2004-2014 (estimated)⁵. However, this impressive growth rate appears to be reaching a plateau.

Between 2006 and 2012, annual PC industry sales oscillated within a narrow band of \$210-\$240 billion. But in 2013, sales declined by 12 percent to under \$200 billion, and many analysts forecast an additional four percent decline in 2014⁶. A constant decline in average selling prices (ASPs) means that while PC unit shipments may shrink by less than five percent annually over the next five years; revenues may fall at a faster rate.

The market for TV sets has also been shrinking since peaking at over 115 billion dollars in 2011: 3D technology, integrated connectivity, and voice and gesture control have not enticed consumers to upgrade their TV sets more frequently or at a higher price. Television set ASPs have been declining slowly since 2007; however, that erosion might be slowed or even reversed over the next five years by demand for Ultra High Definition (UHD) 4K TV sets, which are likely to command premium prices. Yet even with this possible boost, TV set sales in 2018 are expected to rise by less than \$10 billion over the 2014 forecast of \$105 billion.

New video game consoles were introduced in late 2013. Although early combined sales figures in markets where the new devices have been released have been higher than for prior generations of consoles⁷, the console business, at around \$10 billion per year, is unlikely to make much of a difference on the more than \$750 billion base.

These trends suggest that smartphones and tablets need to be the main engines for growth in the connected living room market.

Sales of smartphones should continue to grow, in units and revenues, but the rate of growth is likely to decline. Globally, feature phones are now a minority of sales: the steepest part of the growth curve for transition to smartphones has already occurred. The smartphone upgrade cycle is lengthening: while some people still line up to be the first to own the latest phone, the average consumer is happy with their current phone for longer than in 2008 and 2009, when each new model was a dramatic improvement over the previous model. Between 2007 and 2013, the handset upgrade cycle lengthened by over 25 percent, from less than 19 months to more than 24 months⁸.

The majority of smartphone sales over the next five years are likely to be in the developing world. These price-sensitive buyers are already having an impact on ASPs: in late 2013 the decline in smartphone ASPs dragged down overall mobile phone ASPs by four percent. While smartphone sales in 2014 are expected to rise to about \$375 billion, a 12 percent year-on-year increase, smartphone sales in 2018 are only expected to rise to \$430 billion, a 15 percent increase over four years.

In 2014, tablet sales are expected to reach 285 million units and surpass \$100 billion. Falling ASPs are being driven by the growing share of compact tablets (8.5 inches or smaller), which are typically lower-priced. ASPs of classic format tablets (nine inches or larger) are declining. Overall tablet ASPs fell 10 percent in 2013, and if that price decline continues then annual tablet sales are likely to remain near the \$100 billion level through 2018.

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Bottom Line

The living room's digital upgrade is nearing completion; peak disruption may have passed with no clear winner, except for the consumer, whose need for entertainment and media is now better served than ever at the hardware level.

In 2000 there were few connected devices. A few homes had PCs connected via a dial-up connection. There were video games consoles but they weren't connected; there were mobile phones, but not smartphones; there were books, but they were made of paper; there were televisions, but they were only used to watch TV shows and DVDs. Now, in 2014, the living room in developed markets is almost completely digital.

Over the period from 2000-2014 we have had a period of extreme turbulence, with nearly all aspects of the living room going digital and getting connected. Sometimes this led to profound changes in usage, such as watching TV with a second screen in our hands or on our laps. The music industry and video rental industries were transformed, probably permanently. On the other hand, alongside these profound changes, other behaviors haven't changed. Minutes of traditional TV viewing have remained about the same, even with the number of people paying for traditional TV growing over the same time frame worldwide.

It is important to note that the five categories discussed here are not facing a drop in sales, but merely a slowing of growth. Also, our prediction only extends to 2018: there may well be new developments that could cause the market for any or all of these devices to grow rapidly again after that date.

Further, as happened with tablets in 2010, a new category could emerge that generates annual sales of \$50 or \$100 billion, which would be big enough to move the needle.

The converged living room doesn't seem likely to have room for another "Next Big Thing", but moving outside offers an interesting possibility in smart glasses. Based on our 2014 prediction, first-year sales of these devices at \$2 billion appear to be less than half the first-year sales for tablet computers, so they seem unlikely to be big enough in dollar terms. Also outside the living room, 3D printers, also known as additive manufacturing, might make "every home a factory⁹." That sounds like a promising new category except that the most optimistic analyst forecasts say 3D printers will sell only \$5.7 billion by 2017¹⁰.

To put the likelihood of another disruptive technology into context, since the 1970s there have only been three consumer device categories (PCs, smartphones and tablets) that generated over \$100 billion in annual sales¹¹.

Hyper-growth of hardware sales in the last decade likely absorbed a significant share of the consumer wallet. However, as that growth slows, sales of software, services and content might accelerate. For example, slowing sales growth for flat screen TVs could free up money for multiple video services; lower growth in video games consoles might be offset by higher sales of video gaming titles.

With smartphones, a lengthening refresh cycle might reduce the need for carriers to subsidize phones in markets where that is common, and carriers may even want to encourage consumers to keep their phones for longer through innovative pricing plans. And in markets where phone purchases are not subsidized, it might allow consumers to spend more on data plans.

One interesting effect could be a deceleration in research and development costs for hardware manufacturers, as many consumers might refuse to pay for incremental technology improvements such as 100 megapixel cameras when 50 megapixels is good enough. At the same time, in a world of increasingly commoditized technology, spending on advertising might rise to stimulate demand and improve differentiation.

It is unclear what the implications might be for chip design: will device manufacturers respond to a plateau in growth by offering a new processor only every second generation, or will they try to claim a bigger piece of the same size pie by attempting to differentiate through even faster new processors?

The past decade has been especially challenging for those developing apps, content or software for devices. Sales growth was accompanied by an explosion in formats, aspect ratios, resolutions and operating systems, with developers forced to create a new version for every combination and permutation, or pick and choose likely winners. A plateau might provide a much needed respite for them, while helping to create a more stable environment with less fragmentation.

Southeast Asia perspectives

While there may be a global plateau for consumer electronics at US\$800 billion in sales per year, Southeast Asian markets are bucking the trend. Demand for consumer electronic devices in Indonesia is forecasted to increase 39% from US\$11 billion in 2013 to more than US\$15 billion in 2017²⁵⁵. These devices include PCs, smartphones, video, audio and gaming. The smartphone installed base in emerging Asia Pacific is forecasted to grow more than fourfold between 2013 and 2017, according to Gartner's latest analysis²⁵⁶, further demonstrating that no such plateau for consumer electronics sales lies on the horizon for Southeast Asia in the foreseeable future.

In addition, Smart TV penetration is on the rise in the region, in line with global trends, with two players dominating the market: Samsung and LG with a 37% and 28% global market share respectively. Studies estimate that Smart TV penetration in Asia Pacific will grow from 6% of households in 2013 to 16% in 2016 – a CAGR of 63%²⁵⁷. However, the Smart TV story is nuanced in Southeast Asia where there is, according to GfK, a lower tendency to adopt new technology like 3D and LED, compared to China and the more developed Asia Pacific countries²⁵⁸.

Overall, it is unlikely that Southeast Asia's demand for consumer electronics will reach a plateau in the foreseeable future: smartphone penetration rates still have much room for growth in most of the major markets such as Indonesia and the Philippines, and consumption of other devices such as Smart TVs and tablets are forecasted to grow significantly in the coming years. It is important to note, however, that Southeast Asia's outlook is nuanced: mature markets like Singapore may very well approach a plateau earlier than the emerging markets due to already high consumer electronic penetration rates. Replacement cycles for handsets are increasing in length, and the average Singaporean has 6.8 devices²⁵⁹, higher than the average for most mature markets in the West.

Wearables: the eyes have it

Deloitte predicts that smart glasses, fitness bands and watches, should sell about 10 million units in 2014, generating \$3 billion. Of these wearable computer form factors, smart glasses should generate most revenues, from sales of about four million units at an average selling price (ASP) of \$500¹². Smart fitness bands should sell four million units, at an ASP of \$140; smart watches should sell about two million units at an ASP of \$200¹³.

Smart glasses are go

The mass launch of smart glasses is likely to be met by skepticism and delight, as is customary with the launch of each new digital form factor¹⁴. And the first models of smart glasses are likely to appeal to, and be purchased by, a niche¹⁵. But at a global level the volume of early adopters in 2014 may well number in their millions, with demand increasing to the tens of millions by 2016 and surpassing 100 million by 2020.

This may seem an unlikely outcome for what is considered a new and slightly eccentric form factor, which has significant and fundamental constraints: smart glasses have to be transparent, may never work well in direct sunlight, and because they have low contrast are not suitable to long form video. The visible display size will always be small, for safety reasons, with fewer than 10 words readable at a time¹⁶; and the physical space available for a battery on the temple of the glasses is so constrained that adding cellular connectivity will be challenging¹⁷.

But smart glasses are the next stage in the roll-out of digital connected screens in our professional, social and private lives. They represent continuity, not a brand new start, much in the same way that tablets were simultaneously new and familiar when launched in 2010. Consider that in 2014, billions of us will glance trillions of times at connected screens, from vast digital billboards to computer screens, and from car dashboards to smartphones. The addition of a tiny screen which is permanently in line-of-sight will complement the array of screens we already use: it may enable some of us to stay permanently updated with the flows of information we crave.

The initial price point for the sale of smart glasses in 2014 should be between \$400 and \$600, which for most people is a significant sum of money for a device whose benefits are largely unproven. Some units will cost thousands of dollars, but demand for these will be minimal.

Nonetheless, in 2014 there are likely to be tens of millions of individuals who would consider paying an average \$500 for the first generation of smart glasses and millions who will actually purchase them.

These include: early adopters, for whom being at the bleeding edge of innovation is of paramount importance, even if the user experience in terms of interface and reliability requires further refinement; wealthy individuals for whom \$500 would be a relatively small amount to pay (there are about 12 million people with investable wealth of \$1 million in the world)¹⁸; and professionals whose job is to investigate the potential of new products such as smart glasses for increasing productivity.

Usage of smart glasses in 2014 is likely to focus on consumer applications, with enterprise usage become more prevalent later as the product specification improves.

The most common consumer usage of smart glasses is likely to be any screen-based application that frees up the user's hands for other tasks. A typical usage should be navigation. For business travelers, a few instances of smart glasses helping the owner to arrive without getting lost – and being able to brag about it – may justify the purchase price¹⁹. For tourists, smart glasses will allow them to take photos and video by winking²⁰. There may also be some video games applications, but the appeal of these will be limited by smart glasses' small screen size. Sports and fitness may also provide a rich context for usage, allowing participants to view performance metrics in real time, and analyze their performance as they play, bike or ski²¹.

Industries most likely to benefit from smart glasses in the medium term include manufacturing, oil and gas. Analysts have estimated that smart glasses could save companies up to one billion dollars per year by 2017, through displaying instruction guides, relaying photos and videos, and interacting with remotely-located experts²².

These devices may provide another insertion point for advertising, whose messages may be linked to the user's location, product in line of sight, or a bar code.

Wearing a screen to the right of one's nose may appear a little strange at first. Talking to one's spectacles may also seem eccentric.

But talking on a phone in the street, and more recently talking via hands-free kit have also seemed strange, as has taking photos with a ten-inch tablet. Yet these behaviors have subsequently become accepted as normal.

The price of smart glasses will be a function of the bill of materials and the margins that vendors want to make on the product. We expect that initial component costs will be at least \$200²³; miniaturization does not come cheap. If the first batch of smart glasses sells out, we are likely to see ultra-cheap versions sold at \$100, mirroring trends seen in the early days of the tablet and smartphone markets. But these devices are likely to be as good as the components they are built on, and sell in modest volumes. As for the likely margins, we would expect that some vendors may trade high margins for other benefits, such as income from applications and the rich stream of consumer data, such as location, that these devices will generate.

The hundreds of millions of people who have contact lenses or have had laser surgery are likely to consider smart glasses, despite having invested in removing the need for spectacles to correct vision. There is after all a significant market in sun glasses, items which can cost hundreds of dollars per pair, and may last only a single season before requiring replacement²⁴.

Smart fitness bands: moderately healthy

The smart fitness band, a form of wearable computing typically worn on the wrist, should enjoy reasonable demand in 2014; but the market for such devices may never be mainstream. Smart fitness bands measure a range of activities from paces walked to hours slept, and tap into the trend for the 'quantified self', whereby many aspects of one's activity and being are measured²⁵.

Interest may not become mainstream, even in the medium term.

There are likely to be two categories of buyers for these devices. One is sports enthusiasts who already undertake a lot of exercise and wish to track their activity. They are likely to focus on high-end devices that provide highly accurate measurement of a range of functions. The second and much larger category is individuals who may buy, or be gifted, a fitness band in order to effect a change in their behavior, hoping that by measuring the exercise they take, they will exercise more.

However for this group smart fitness bands may simply confirm, via an app or otherwise, a long-term lack of interest in exercising, and as such the device may cease to be used following an initial burst of enthusiasm²⁶.

A further, significant barrier to smart fitness bands becoming mainstream is the incorporation of advanced satellite navigation, accelerometer, gyroscope and compass in a growing range of smartphones²⁷. Owners of high-end smartphones that offer these functionalities are likely to number in the high tens of millions in 2014 and may decide that they do not need to spend an additional \$100 on purchasing a fitness band²⁸.

Less time for smart watches

We expect smart watches to sell approximately two million units in 2014, typically priced at \$150-\$300. They are likely to remain specialist devices and be outsold by smart glasses over the long term²⁹.

This may seem counterintuitive. After all, the value proposition for watches is well established. People have worn watches to tell the time, and to display status or wealth, for hundreds of years. By comparison, attaching a screen to a pair of glasses and then talking to the device may seem unnatural.

But arguably checking information on a wrist is a declining practice, whereas putting information in our line of sight, either via smart glasses or by placing a smartphone in the field of view, is an emerging one. Watches mattered from a practical perspective when they were the only way to tell the time³⁰. Today smartphones have assimilated most of the functions of an advanced wristwatch, and synchronize the time with mobile networks which rely on atomic clocks³¹. If users glance at their smartphone 120 times each day, they should already have a pretty good idea what time it is. Further, there are a host of other displays that show the time, from PCs to ovens, and the need for a wristwatch is diminishing especially among young age groups³².

Conversely, integrating smartphone functionality into a device that fits on the wrist is challenging, and entering data on small panels is tricky. Smart watch screens are small relative to those on smartphones, so the smart watch has to act as a companion device to a smartphone. Further, traditional watches trade on their ability to go for long periods without requiring a new battery or winding up, and smart watches that are not based on e-ink may need charging every day.

Incorporating smartphone capability into a watch is not cheap, and while a \$200-\$300 smart watch may cost less than smart glasses, there is likely to be little incremental benefit from having a smart watch in addition to a smartphone³³.

Bottom line

Wearable computing is a tantalizing and lucrative market, which is presently characterized by a degree of uncertainty.

A significant grey area is regulation, which has a major bearing on the potential market size. For example, there may be questions about the usage of smart glasses, which potentially enable anything heard or seen by a smart glasses user to be captured, shared and archived³⁴. However smartphones already have a similar capability to capture video, stills and audio, so smart glasses' ramifications on privacy are not wholly new³⁵.

Smart glasses may well get prohibited in some environments – such as in some schools, courtrooms, board rooms and golf courses, where smartphones are already banned – but that still leaves many other places where they could be used. It is worth considering that in some venues, such as restaurants and clothes stores, taking photos is actively encouraged and the quantity of photos taken, shared and rated is considered a positive.

Smart glasses are unlikely to be allowed when driving. In some jurisdictions, current laws make it explicitly illegal to have a monitor capable of displaying video in the field of view of a driver³⁶. It is not necessary for the police to prove that the driver was watching video instead of the mapping function: merely wearing a device with the capability is against the law.

A key imperative for all wearable device manufacturers is the need to foster app development: having a large range of apps will be core to the devices' utility³⁷. A challenge will be to get developers to create apps for a category of device with relatively few users. For smart glasses, apps would need to be built from scratch: existing apps cannot be used for glasses, which are fundamentally different from a smartphone or tablet. That said, early adopters tend to have high propensity to purchase apps, and so may be a small but lucrative market³⁸.

As well as apps, another ancillary market will be in complementary devices. For example, one device combines with smart glasses to enable remote control of devices, such as television sets³⁹.

The capability of wearable devices is likely to improve continually, but expectations should be set carefully. There are fundamental constraints of battery technology, acceptable weight and the bulk of wearable devices. This means that some notions, such as full-screen augmented reality built into a regular pair of sun glasses, priced at \$500 and with integrated 4G, is many years off – and may never be realized.

Trends such as the ageing of many nations' populations, widening cellular connectivity, and the move towards telemedicine (for more information, see the 2014 Prediction: eVisits: Redefining the Patient-Physician Relationship) may signal significant opportunities for wearables in the middle and long-term. Wearables may serve as sensors that are always in close proximity to the user, and could become a new communications platform providing larger images to those with dimming sight, or text messages to those with failing hearing. The combination of sensor, actuator and communicator may prove to be a compelling value proposition to patient, physician and insurance companies alike.

One became many: the tablet market stratifies

Deloitte predicts that in the first quarter of 2014, the installed base of compact tablets (with screens smaller than 8.5 inches) will surpass the base of classic tablets (8.5 inches and larger) for the first time. By the end of Q1 2014, we expect the base of compact tablets to be 165 million units, slightly ahead of the classic tablet base, with 160 million⁴⁰. Compact tablets will have taken segment leadership within about 18 months of the first mass-market models (with sales of at least five million units) coming to market, and within four years of the launch of the modern tablet category. The surge in compact tablet sales is accompanying a stratification of the tablet base, similar, but possibly ultimately more profound to that experienced in the smartphone market in the last two years⁴¹.

In 2014, the tablet market is likely to comprise an ever more diversifying range of devices, with key differences aside from size, being weight, processor speed, memory capacity and price. Each tablet model's combination of attributes will determine the likely users and patterns of usage.

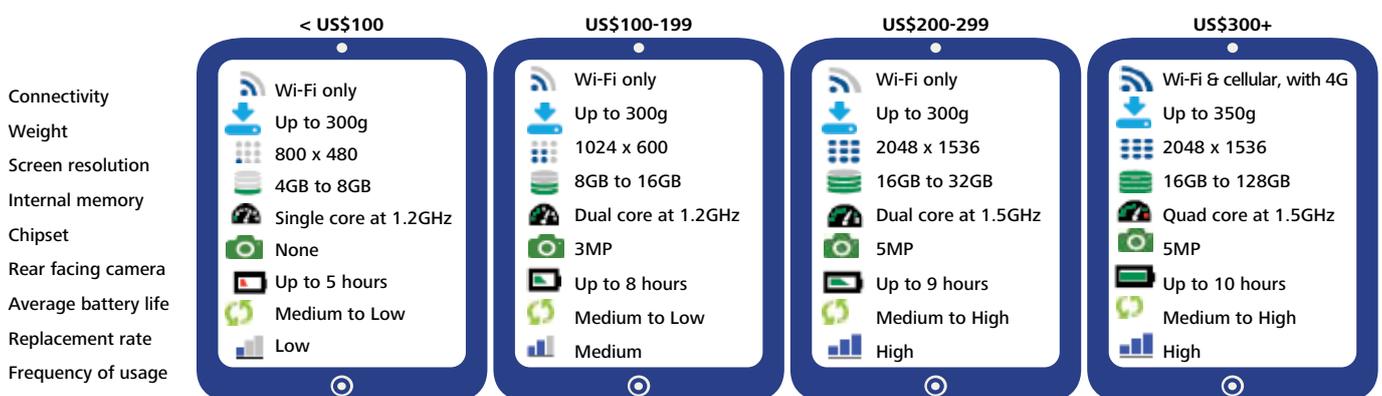
Differences in screen area have major implications on the usability of content: a 10-inch tablet has 50 percent greater screen area than an eight-inch tablet, and may have double the screen area of a seven-inch tablet⁴². Most web pages designed for access on a PC render well on a 10-inch tablet, especially ones with a high resolution screen. As of year-end 2013, the majority of websites are designed for PCs, and PC web page views represented the majority of page views in most regions, including those with high tablet and smartphone penetration. However the same page may be hard to read when viewed on an eight-inch screen, and is even more challenging to read on a seven-inch screen.

Screen size becomes particularly critical for applications that require form filling such as e-commerce, and has implications for watching video, with smaller standard-resolution devices less suited for long-form video.

Screen size also has a bearing on the weight of tablet models. The median weight of the installed base of 10-inch tablets is about a third heavier than for eight-inch devices, and about double the weight of a typical seven-inch device⁴³. The weight, as well as the size, influences how devices are likely to be used⁴⁴. Smaller, compact devices are more likely to be carried around; the classic tablet, while perfectly portable within homes, venture outdoors less frequently. Weight also affects the suitability of each tablet model for different genres of games. Smaller and lighter tablets may be better for games that use motion sensors, and require moving the device around. Larger devices may tire the user out, but their larger screens are more suited to board and strategy games. Smaller, cellular-equipped tablets may also be more apt for enterprise e-mail usage: they add less weight to an already congested briefcase or bag.

Compact tablets are generally lower-priced, as vendors of smaller tablets are likely to have different business models than those selling larger tablets⁴⁵. Retailer-branded tablets are likely to be sold at or near cost, with monetization resulting from product sales generated by the device⁴⁶. The lower price of compact tablets is a principle driver of their adoption. But a lower price also implies lesser specifications, and along with that a more limited capability. For example, processor speed also affects ability to play graphics intensive games⁴⁷. Figure 3 provides an indication of what each level of spend offers.

Figure 3: Tablet specification by price band



Source: Deloitte, December 2013.

Note: The specifications refer to popular models in each price band

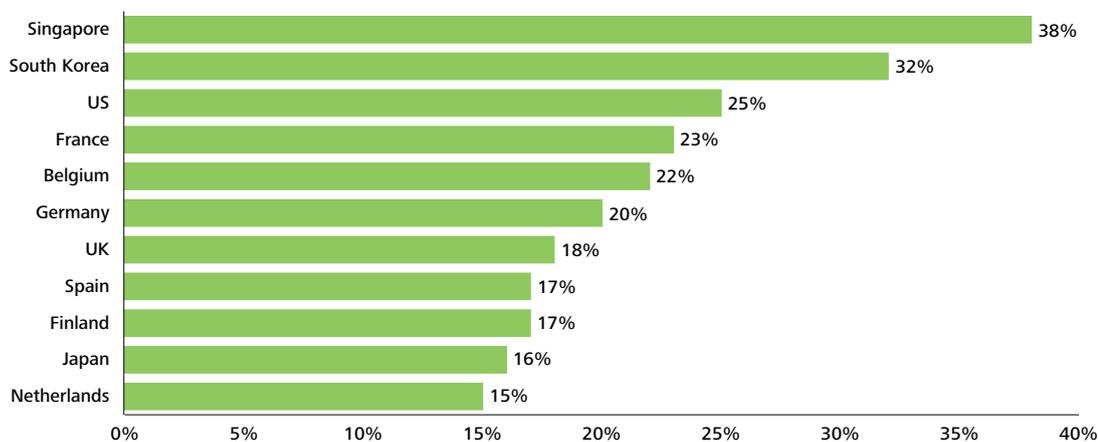
The growing range of tablets is leading to a diversifying ownership profile. Owners of the first tablets tended to be relatively prosperous, that is individuals who could afford a \$500 tablet in addition to a laptop computer. These individuals tended to have a higher propensity to purchase online⁴⁸. More recent owners of tablets include those for whom the tablet replaces an existing device, such as a handheld games console, or a netbook computer. These owners may be far less likely to use e-commerce, and in some cases may rarely use their tablets to go online, as the device's primary function may be to play games. Owners of lower-priced compact tablets may be much less inclined to buy apps and content, and make other purchases via their devices. The inclination to engage in these activities may be limited by lower levels of user literacy with digital devices, and perhaps age – many low-cost compact tablets are purchased for children as substitutes for dedicated portable games consoles⁴⁹.

The widening array of tablet form factors and price may also encourage ownership of more than one tablet. In developed markets, on average 20 percent of consumers own both a large and a compact tablet (see Figure 4). Whilst some of these are early adopters who would typically sample any exciting new product, many more have two tablets for a reason. Oftentimes the second, smaller tablet – being more portable – is used on the move, whereas the larger device stays at home, used for more visually demanding tasks such as games and video. In other cases, one device is for work, the other for personal use. In still further cases, one device is shared with other family members, the other is uniquely personal.

Figure 4: Medium tablet owners that own or have access to a large tablet

Question: Which, if any, of the following portable devices do you own or have ready access to (tablets)?

Proportion of medium tablet owners having a large tablet



Source: Deloitte Global Mobile Consumer Survey, Developed countries, May-June 2013

Weighted base: (Medium Tablet owners): Belgium (183); Finland (90); France (182); Germany (203); Japan (134); Netherlands (386); Singapore (443); South Korea (228); Spain (430); UK (609); US (263).

Bottom line

Tablets have gained popularity with extraordinary speed, and manufacturers will have to work hard to stay on top of the evolution of the market. There appear to be more users and use cases for tablets than many had imagined. Getting the balance of form, function and price right will likely be a moving target during 2014, especially at the lower end of the market. Whereas the large tablet market has generally been highly lucrative for manufacturers, the surge in smaller low-cost models may dilute levels of income and profitability. Manufacturers should research usage carefully, so as to understand users' needs and expectations across the whole category, and design devices that comprise only the components that are necessary. A first time buyer is more likely to become a repeat purchaser if their first device performs well in terms of battery life and screen quality, even if that comes at the expense of integrated GPS or a massive hard drive.

Apps developers and website owners need to research in more detail how users of different types of tablet interact with content, and which legacy features frustrate. They should note that there is a substantial variance in screen size, which will impact interface design. As more web access moves to the touch screen, the size, shape and function of HTML links, buttons and other features will likely need to adapt.

Mobile carriers need to identify which models of tablet are most likely to be used over a cellular network. The compact premium tablet may be the most suited to a cellular subscription in 2014. Their size makes them more likely to be carried around and used on mobile networks; their owners are more likely to be able to afford an additional mobile data subscription. In some markets, tablets could be added to pooled usage tariffs, with various devices using one monthly data bundle. For Wi-Fi only tablets, owners could be encouraged to pair these with their smartphone's tethering capability. This is not as elegant as having integrated mobile broadband, but it works, even if it can drain the host smartphone's battery. For everyone else, mobile operators with hot-spots could offer access to their network.

Fixed operators with no mobile coverage could also target Wi-Fi only tablet owners by offering them access to their Wi-Fi hot spot networks, either as a separate subscription, or as a feature within existing fixed line services subscriptions. Tablets are often used when stationary, and Wi-Fi capacity should be located wherever people tend to linger, such as shopping malls and train stations.

Marketers should consider how to vary strategy by tablet model. In some regards, advertising on smaller tablets is harder. When the average screen size for a tablet was over nine inches they generated around \$7 advertising income, per device, per annum⁵⁰. As the average screen size falls, display ad revenue may be impacted, but not necessarily negatively, as the greater portability of compact tablets may increase hours spent with these devices.

Content providers should focus specific attention on where, when and why different form factors are used. Larger devices lend themselves to movies, video and television; smaller devices tend to be used more commonly for text such as the web, books and magazines. As the tablet becomes more mainstream and widespread, entirely new content formats may be warranted; but as a basic minimum, optimizing existing formats for different form factors will likely be required.

Enterprise CIOs should assume that falling prices and increasing capabilities of tablets mean that they are more likely to be used in a work capacity⁵¹. The right approach depends on each company's specific context. For some, the right answer may be to block access by any device not provisioned by the IT department. For other companies installing strong authentication solutions and partitioning tablets to have separate professional and personal areas is the solution.

Companies with field force departments should also constantly review the growing range of tablets launching on the market, to assess whether a combination of a consumer-oriented device, combined with a robust case, costing a few tens of dollars, may be sufficiently resilient to be suitable for use for staff working outside of office environments (for more information, see the 2014 Prediction: Ruggedized devices at \$250: reinventing the business case for mobile field force).

Limited storage means less room for apps and content, and lower processor speeds often means apps running slowly, or not at all. Low screen resolution often means pixelated video and poorly rendered images and text. While some consumers, especially younger ones, may have low expectations and will be satisfied with such performance, for many consumers, the low-cost tablet will represent a false economy.

Southeast Asia perspectives

Tablet penetration rates in Southeast Asia are relatively high. According to Deloitte's Global Mobile Consumer Survey in 2013, approximately 80% of Singaporeans and 80% of affluent Indonesians had access to either a medium or large tablet. Usage of these devices was also noteworthy, with over five app downloads per month in Indonesia and a range of 3-5 app downloads per month in Singapore²⁶⁰. Tablets are more popular devices than smartphones for activities such as watching video content, streaming and watching TV and movies, and reading books²⁶¹ in Singapore and Indonesia.

Operators in the region are offering a wide range of tablets and accompanying plans to capitalize on this growth: SingTel in Singapore offers a range of tablets, priced from S\$58 (US\$46) to S\$638²⁶² (US\$503). Similarly, SMART Communications in the Philippines offers various tablet plans ranging from P199 per month (US\$4.50) to P1,299 per month (US\$29) with a large variety of brands: Acer, Coby, Samsung, Cherry, Asus, Nexus, and Apple, just to name a few²⁶³. Fixed network operators like PLDT Home are also trying to capitalize on this trend, enriching PSTN and fixed broadband offers with a tablet called Telpad, which allows customers to stream movies and TV series²⁶⁴.

Usage of tablets has also started to shift and expand beyond the consumer space. Tablets are gaining popularity as work-related devices in the region and, according to a survey by Gartner, over 60% of organizations in Indonesia and over 50% in Singapore allow the usage of tablets in their office environment²⁶⁵. This expansion of tablet usage lends itself to further customization and specialization in the tablet market.

Massive Open Online Courses (MOOCs): not disruptive yet, but the future looks bright

Deloitte predicts that by 2014, student registrations in Massive Open Online Courses (MOOCs) will be up 100 percent compared to 2012 to over 10 million courses, but the low completion rates mean that less than 0.2 percent of all tertiary education-equivalent courses completed in 2014 will be MOOCs. The growing awareness of online education will force educational institutions to increase investment in this area, drive more acceptance of online education as it becomes accredited, and increase adoption by corporate training groups.

The idea that MOOCs will cause imminent disruption of the existing tertiary education market (also known as higher education or post-secondary education) appears frequently in the media, with over fifteen thousand articles on the subject published in 2013⁵². While this hype creates interest, most large educational institutions will experiment with MOOCs, but they will not disrupt education significantly in the near term. Enterprise training and continuing education looks likely to be the fastest adopter of MOOCs, with significant growth in 2014 and 2015. Although the for-profit and not-for-profit tertiary education market is the largest, at \$400 billion per year, the corporate skills development market is not small, at \$130 billion annually⁵³.

Predictions normally look only at the next 12-24 months, but there appears to be a “perfect storm” of conditions that could make MOOCs a major factor by 2020, representing over 10 percent of all courses taken in tertiary and enterprise continuing education. We discuss this perfect storm after exploring the state of MOOCs in 2014.

Alternatives to in-person education are not new: arguably the first occurred in 1895, in the shape of correspondence courses distributed by mail. In 1921, courses were offered over the radio. In the 1950s, televised courses emerged, and in 1962 Stanford offered the first course on a computer network⁵⁴. Now, most universities and colleges offer at least some courses online, many governments offer training courses over the Internet and more than 75 percent of large organizations use online courses as part of their ongoing employee training processes⁵⁵.

How are MOOCs different? They are massive, with potentially millions of users. And they are open: available to anyone, often for free or at minimal cost, much less than a traditional university or college course.

Today, when a tertiary educational institution offers a first year physics course online, it is typically available only to students who have been admitted and enrolled in that school and the tuition is the same as for the traditional version. MOOCs are more efficient because they avoid duplication of effort: first year physics courses tend to have very similar content at every university, which means MOOCs could be used to make a single, well-designed online version available to anyone, for a relatively low fee.

Online training courses on spreadsheet use are common at accounting firms, but tend to be restricted to a firm’s employees. However, spreadsheet skills are fairly universal: what if a single, extremely well done spreadsheet course was available to anyone? Enterprises are already beginning to adopt MOOCs for this kind of training.

At the moment, one of the biggest differences between traditional education and MOOCs is the completion rate: one survey found that 93 percent of students who register for a MOOC fail to complete their prescribed course of study⁵⁶. By contrast, most people taking a university course or corporate online training course want to complete it, need to complete it, and keep trying until they pass.⁵⁷ There are exceptions, with some students only “auditing” a course for the sake of learning, but this is rare. Even at universities where dropout rates of 50 percent make headlines, students are still completing their education at a rate seven times higher than the average MOOC.

Why is the MOOC completion rate so low? Not because courses are not enjoyable. One study found that 91 percent of students ranked their MOOC as good, very good or excellent – even though only four percent of those who registered ended up completing the course⁵⁸. Nor is it that MOOCs don’t teach subject matter well enough: one experimental Artificial Intelligence course at Stanford was also offered as a MOOC, and 410 online students got better marks on the final exam than any of the in-person Stanford students. Other studies provide early evidence that MOOCs lead to equivalent educational outcomes⁵⁹. Also, MOOC pedagogy is still in its relative infancy: traditional university courses have had centuries to perfect their teaching and learning methods, compared to less than five years for MOOCs. It appears that, at present, the vast majority of MOOC students that register have goals other than finishing the full course.

Some might be trying out the MOOC format; some might be merely curious. But the number one aspiration is “to learn more about a subject area,” not to complete a prescribed curriculum⁶⁰.

Given this crucial fact, MOOC registration numbers in the millions need to be viewed in context. There are approximately 100-125 million students enrolled in traditional tertiary and corporate education globally, many of which are taking and completing the equivalent of eight to 10 courses per year, resulting in around one billion non-MOOC courses completed annually⁶¹. While the top-line growth in MOOC registrations looks impressive, Deloitte predicts that MOOCs completed will represent less than 0.2 percent of all tertiary⁶² courses completed in 2014. This suggests that MOOCs’ near-term disruption of the \$1.5 trillion global market for tertiary education⁶³ will be minimal.

So, after all the media hype, why haven’t MOOCs created more disruption yet?

Despite the view that ‘education for education’s sake’ is a good thing, most people expect something tangible in return for their investment of time and money. Although tuition costs vary widely, fees for tertiary education in mature markets such as Canada, the UK, and the US are typically around \$10,000 per year⁶⁴. So a free or low-cost MOOC course offers enormous savings. But in 2014, completing a MOOC course and receiving the course credit carries less weight than passing a traditional or university-sponsored online course: in many cases the credit the student receives is not considered a proper “credential” by the institutions that care most about education.

To enjoy success with tertiary-level students, MOOC course credits need to be fully recognized by some or all of three different groups: government, employers and educational establishments.

Some governments consider enrollment in tertiary study as a factor when providing social assistance benefits and many don’t require repayment of student loans as long as such study continues⁶⁵. Also, some jurisdictions offer tax benefits or military exemptions related to student status⁶⁶.

In 2013, governments were just starting to debate whether enrollment in MOOCs would satisfy these kinds of requirements⁶⁷, and it could be years before the debate is settled.

Employers often require formal levels of tertiary education for new hires, or as part of re-training or on-the-job learning. Requirements can range from full graduate and undergraduate degrees and professional designations to two-year diplomas or even completion of single courses. In 2013, only a few employers recognized MOOCs completed and passed as meeting these requirements⁶⁸. Also, many enterprises are reluctant to accept MOOCs as full degree substitutes: according to one survey half of employers would not consider hiring someone who had earned their degree completely online⁶⁹.

However, not all education is degree level.

Many employers, from web portal companies to steel pipe manufacturers, are enthusiastically adopting MOOCs for internal corporate needs⁷⁰. In fact, one survey found that 70 percent of companies are interested in MOOCs for corporate training, and 31 percent have active plans to use them⁷¹.

Traditional educational institutions are taking a much more conservative approach to recognizing MOOCs: in 2013, it was estimated that very few accredited tertiary educational institutions accepted MOOC credentials, and few students even bothered to take advantage of such credits⁷².

Education is a source of revenue for traditional education institutions, but is a cost for governments and enterprises, so it’s not surprising that they might be more eager to accept MOOC credits than are universities and colleges, who may see low cost MOOCs as a threat to their business model.

Some early evidence suggests that MOOCs do not lead to inferior educational outcomes⁷³, so credentialing is likely the biggest impediment to MOOCs becoming truly massive. Resolving this issue might be all that is needed for MOOCs to achieve their disruptive potential.

The Long Term

There appears to be a confluence of major trends and conditions that will likely lead MOOCs to cause disruptions for students, governments, the educational industry, the pace of innovation, continuing education, the digital divide, and society at large.

Cost of education to individuals. The single biggest driver of MOOCs adoption is likely to be their relatively low cost relative to traditional tertiary education: this is a trillion dollar issue over time.

While there are many different models for how students pay for tertiary education, in countries where students pay for a significant portion of tuition and books, the cost of traditional education has been climbing much faster than inflation: in the US, for example, since 1985 the consumer price index has risen 115 percent, while college tuition has risen almost 500 percent⁷⁴. The money that students can earn at minimum wage has not kept pace, therefore US student loan debt has gone from just over \$200 billion in 2003 to almost \$1 trillion in 2012 while other lending, such as auto loans and credit card debt have stayed in the \$600-800 billion range each over the same time frame⁷⁵.

This sharp rise in student debt would be less of an issue if it positioned students to find jobs that paid well enough to repay the loans. Unfortunately the reverse is true: the cost of public four-year college tuition and fees in the US is rising faster than the average earnings of full time workers aged 25-34 with a Bachelor's degree only: 72 percent growth in tuition since 2000, versus a 15 percent decline for earnings over the same period⁷⁶.

Skills half-life is shortening across industries.

In the past, a skill learned often created value for a lifetime. In contrast, the hundreds of millions of workers worldwide whose jobs either have been outsourced to a low-cost country or supplanted by new technology or robotics need to learn new skills. And it's not just older workers who need retraining: the pace of technological advancement is such that the programming techniques computer students learn in first year might already be obsolete by the time they graduate, only four years later.

Cash-strapped governments and re-training.

Obsolete skills translate into lower productivity and higher and persistent unemployment rates – both issues of great concern for governments at all levels.

Broadly speaking, in the wake of the 2009 global economic crisis, many governments can't afford to re-educate the 20-40 percent of their older workforce that requires it (let alone students who graduated in the last year) in traditional bricks-and-mortar universities, colleges and technical/vocational schools. Governments need a more cost-effective solution for re-training: MOOCs seem likely to be one possible more cost effective solution.

Advances in online education/pedagogy. Education, both online⁷⁷ and in person, is moving away from the "sage on stage" approach⁷⁸. "Flipped learning" is a new approach based on the idea that traditional tertiary education has it backwards. Instead of a professor lecturing to passive students, who then go home and struggle with material unsupported, students view lectures at home, and then come to class to get help on assignments from the professor in person. Recent data suggests that over 80 percent of professors who are using flipped learning believe it improves their students' mastery and retention of information⁷⁹.

Flipped learning is possible in traditional schools, but because the technique is based on recorded lectures distributed over the Internet, it is particularly suited to MOOCs.

Push vs. Pull. Traditional education is a lot like traditional TV: students show up at scheduled times for lectures and write exams at even more rigorously scheduled times. As younger viewers transition from a world where content is pushed to one where they pull content towards them, we are likely to see students embrace MOOCs that allow them to learn what they want, when they want. Also, younger viewers often don't lock themselves into specific channels, viewing patterns or fixed schedules, but might consume video in small chunks and clips, or perhaps might go on a binge and view everything at once. In the same way, they might acquire education in ways that differ from traditional tertiary education with its clearly defined curriculum and end point. In this new world, completion rates might be less meaningful.

Big data/analytics/granularity. As the cost of education rises, it becomes increasingly necessary to measure its effectiveness. At a national level, across millions of students, measurement and analysis of education outcomes tend to be partial, slow and coarse.

Even collating final exam results from hundreds of institutions takes weeks to months. In contrast, analysis of MOOCs can use modern big data tools to run real-time queries – not just of every mark for every assignment and every test for every student – but even looking at text or lectures while students are reading or viewing them, and then examining specific passages that are being replayed, which might indicate they are poorly written or hard to understand. In this way, educators could use real-time data to improve MOOCs on a daily basis⁸⁰.

Technology. Robust Internet, pervasive broadband (landline and wireless) powerful connected devices, powerful collaborative software tools, as well as big data tools and analytics will all make the MOOCs of 2020 even more potentially effective and disruptive than in 2014, especially outside the developed world.

Bottom line

MOOCs are a fast-growing trend in the educational landscape. In the short term, MOOCs aren't a threat to traditional tertiary education providers, and in fact might never be a threat, even in the long term: MOOCs and traditional education might not be a zero-sum game. People whose primary learning motive is certification or in-person networking might still pay the higher cost of traditional programs. However, providers of MOOCs are branching into new business models. In addition to the revenue from providing fee-based platform services to traditional universities, MOOCs are currently collecting modest fees from certification options, as well as from partnerships with employers to provide targeted learning programs, which might become material in the medium term if the enterprise MOOCs market is the first to take off⁸¹. The US Department of Education's decision to provide funding based on demonstration of competencies rather than hours spent in the classroom suggests that at least one government is willing to start endorsing non-traditional education approaches in the face of mounting pressure to do something about the looming student debt crisis⁸².

MOOCs don't provide the same on-campus experience and social component as bricks and mortar institutions. However, the percentage of students over the age of 25 is increasing faster than the percentage of students under the age 25 as life-long learning becomes a requirement for continued employment⁸³. These older learners might be less interested in the campus experience that is so appealing to 18-22 year olds, and might prefer being able to learn on their own time and turf: particularly as the perceived isolation of online learning is mitigated by new social media elements. MOOCs seem well placed to meet the needs of the next generation of learners, who are increasingly disillusioned with the idea that a degree is necessary for success⁸⁴, more comfortable with multi-media content delivery, and increasingly averse to student debt.

While MOOCs might not be a significant presence in the traditional for-profit tertiary education market today, colleges and universities need to take the MOOCs threat seriously and learn how to harness it, much like traditional media and music companies have benefited from embracing digital content.

As MOOCs become larger and better credentialed, they could become a disruptive force, especially because of how cross subsidization works in for-profit tertiary educational institutions today. The current financial model for most high tuition tertiary education is that courses in the first and second year tend to be very large (with thousands of students in a lecture hall listening to a single professor), while third and fourth year classes are very small (less than 50 students). Yet the tuition is the same because the first two years effectively subsidize the cost of the final two years. However, MOOCs seem particularly well suited to replace first and second year classes. If students take those classes through MOOCs, and then transfer into a traditional tertiary school for the final two years, colleges and universities may become almost entirely uneconomical, unless they raise tuition for the later years to reflect their true cost (more or less double the current levels).

One of the key positive aspects of MOOCs is the educational opportunities they provide to those who would otherwise not have access to tertiary education, due to factors such as cost, distance, language, and the need to work. MOOCs can be a game changer in those instances, and in developing nations won't have the same kind of installed base of incumbent educational institutions to compete with for credentialing status. Also, there is an opportunity in those nations for governments to support MOOCs in the same way public universities are supported in many developed countries.

eVisits: the 21st century housecall

Deloitte predicts that in 2014, there will be 100 million eVisits globally, potentially saving over \$5 billion when compared to the cost of in-person doctor visits⁸⁵ and representing growth of 400 percent from 2012 levels. eVisit usage will likely be greatest in North America, where there could be up to 75 million eVisits in 2014, representing 25 percent of the addressable market: there are 600 million annual visits to general practitioner offices in the US and Canada, and about half are for problems that could also be solved by an eVisit⁸⁶.

In some form or another, there have been alternatives to in person doctor visits for decades. There were new technologies like the telephone in the 1920s, satellite calls in the 1970s for remote communities, or connected kiosks as part of the Minitel network in 1991⁸⁷. All offered the potential for cost savings and mass adoption. But despite 20 years of predictions that eVisits were about to become common, adoption remained low until recently.

In contrast, 2014 should see an inflection point in their adoption, primarily due to changes in technology and telecommunications infrastructure and also due to continued pressure to reduce medical costs and improve care. Pervasive PC deployment, ubiquitous fixed Internet, greater comfort using technology among older patients, who make up the bulk of doctor visits, and the mass adoption of mobile devices combining with available and affordable wireless broadband make eVisits, and viable in ways that were not possible even four years ago. Advances in analytics offer much greater ability to automate the back office elements of eVisits, and pervasive fiber optic networks to hospitals and clinics facilitate the more data intense applications of eVisits, such as the transmission of brain scan images for tele-stroke applications.

A common misperception of an eVisit is that it is a video conference where the patient sits down in front of a PC, connects with a doctor, and then sticks out a tongue and says “ahhhh” to the web camera. This type of eVisit represents only a small part of the market and offers only minor cost savings compared to an in-person visit⁸⁸. The vast majority of eVisits are likely to be more functional and focus on capturing patient information through forms, questionnaires and photos, rather than through direct interaction with a physician. For example, patients with symptoms of certain illnesses such as sinusitis, strep throat, allergies, bladder infection or acne would complete an online form and then receive a diagnosis and, if required, a prescription⁸⁹.

In the US in 2010 there were 1.2 billion patient visits to physician offices, emergency departments and hospitals (for outpatient services), equivalent to 3.3 visits per US citizen. Just over half of those visits were to primary care doctors. Prescription refill, coughs, stomach pain, sore throat, earache and skin rash accounted for over 110 million of the office visits: all categories that could be screened or resolved via an eVisit⁹⁰.

The total addressable market for eVisits in developed countries is estimated to be about \$50-60 billion, calculated as follows. In 2010, EU citizens averaged 6.3 doctor consultations, per capita⁹¹. Assuming EU habits are similar to North America; about half of those would be for primary care physicians, suggesting that roughly three to four visits per year can be reasonably assumed for a developed world country. That group of countries has about one billion people in it, which means the addressable market in the developed world for doctor visits is approximately 3.5 billion visits annually. The cost of a doctor visit varies considerably from \$11 in Spain to \$40 in Germany and \$89 in the US⁹². If we assume a \$50 developed world average, the dollar value of all in-person doctor visits is \$175 billion per year. Not all in-person primary physician consults are appropriately handled by eVisit solutions, but even if only 30-40 percent are well suited for eVisits, that still implies a \$50-60 billion total addressable market.

eVisits are a subset of the telehealth market, which is estimated to be \$25 billion by 2015 and which also includes professional-to-professional consultations, remote monitoring, alerts/notifications, and some other smaller markets⁹³.

The business environment in 2014 is primed for significant growth in the volume and value of eVisits. Global healthcare best practices aim to decrease costs by focusing on prevention and early intervention to decrease the burden of illness, and by continuing to integrate information technology⁹⁴. Trends such as the increasing global physician shortage⁹⁵ and the increasing availability of health insurance for the formerly uninsured are also likely to drive increased interest in eVisit technology. eVisits enable less travel time and cost and increased convenience and faster treatment for patients, so demand should be strong. On the downside, the greater convenience of eVisits may cause the number of consultations to rise, possibly offsetting some of the savings that eVisits provide⁹⁶.

North America is likely to lead the predicted global increase in the use of eVisit services. Multiple US services are experiencing significant market growth, offering care that is as clinically effective as in-person visits while reducing costs⁹⁷⁻⁹⁸. Further, US technology providers are already working in partnership with governmental and insurance providers⁹⁹. Canada is also seeing rising use of eVisits at more than 50 percent annual growth¹⁰⁰, with wait times reduced by days for primary care and by 6-8 months for some highly specialized dermatology consultations conducted via eVisits¹⁰¹.

Outside of North America, eVisit adoption varies widely. The UK and Denmark both provide some services¹⁰². Penetration in Asia Pacific is limited; however, pilot programs are achieving success in Indonesia¹⁰³. One interesting early adopter is Kenya, where a serious physician shortage and accessibility challenges¹⁰⁴ have created a strong need for an alternative care delivery system. The Mashavu Networked Healthcare Solutions' pilot project has demonstrated that eVisits can be successfully deployed outside the developed world¹⁰⁵.

While complex diagnoses and treatments are likely to remain face-to-face encounters; basic diagnoses, prescription refills and even specialty services such as dermatology may routinely be done from a conveniently-located kiosk or the comfort and privacy of one's own home.

As eVisits are proven and adopted in the developed world, and as the necessary infrastructure is deployed in the developing world, they are likely to offer affordable primary medical and diagnostic care to very large populations that do not have access today. Although the initial benefit of eVisits may be saving billions of dollars, over time the greater good may come from saving tens of millions of lives.

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Bottom line

Outside the health care field, the most obvious beneficiaries are the technology and telecommunications industries. As the market grows, they will see growing demand for data volumes, quality of service data, high speed broadband and machine-to-machine connectivity, on wireline and wireless networks. Device manufacturers are likely to benefit, and as mHealth (mobile health) accelerates in 2014 and beyond, there are likely to be new growth opportunities for devices, peripherals, and apps. One report that discusses the 66 percent CAGR in data growth between 2012-2017 identifies 'medical applications' as one of the key drivers of this traffic increase¹⁰⁶.

Public and private organizations should continue the push to reform policies that disallow payment to providers offering eVisits. Such payment reform has already begun in areas with mature telemedicine programs. Ontario, Canada recently added a public insurance payment code for physicians to bill for "eConsults"¹⁰⁷ and the Australian and French government health ministries changed funding rules to actively support and promote eVisits¹⁰⁸. From a private-sector perspective, US payers are showing interest in eVisit programs, particularly with the number of insured Americans increasing exponentially under health reforms. However, at the moment only 18 US states have passed laws that require or will require private payers to reimburse for telemedicine visits¹⁰⁹.

Educational, research-based, and non-governmental organizations have the ability to accelerate eVisit adoption by supporting pilot studies and conducting comprehensive evaluations¹¹⁰. North America's organizations dedicated to the advancement of telemedicine – Ontario Telemedicine Network and the American Telemedicine Association – will likely need to play a key role in publicizing eVisit potential using these avenues.

Governments with successful eVisit solutions will be in a position to share their insights about impacts, effective incentive structures and ways to combat legal and technical barriers to adoption. Denmark has offered eVisit services for years and is piloting several new variations, such as tele-psychiatry. These pilots will undergo large-scale testing in an effort to produce proven, established solutions that others can draw on to help justify their own eVisit services¹¹¹.

Physicians, hospitals and other healthcare providers should consider which investments they need to make in patient portals, electronic medical records, and security and privacy systems to benefit from all the efficiencies and improvements in patient care that eVisits promise to deliver. Technology providers should likewise model the burgeoning telemedicine ecosystem that eVisits are likely to accelerate, and then determine how and where their companies should participate in a future where patients themselves are part of the healthcare management solution, leveraging sensors, devices and communications systems to monitor treatments and health status.

Regardless of the institution implementing eVisit services, human resource training, familiarization with computer use and telemedicine, and overall organizational readiness are imperative to success. Support from governments and other partners (such as employers, who will benefit from reduced absenteeism for doctor visits) should include recommendations, public education on the benefits of eVisits, policy changes and financial allocations for implementation¹¹².

One critical step will be to communicate the many benefits of eVisits for physicians. Media coverage tends to focus on the benefits for patients and insurers/payers; however, for eVisits to take root, physicians will need to invest in improving their technology infrastructure and staff up for a potential flood of new online interactions. Although some physicians may view eVisits as impersonal and lacking in human interaction, others will see them as an opportunity to spend more time on more serious and complex cases, while improving quality and efficiency for simpler cases. Also, as long as liability for virtual diagnoses is handled properly, physicians will likely enjoy many other features of eVisits, including: the ability to share clinical data and information virtually with colleagues, the ability to help more patients in less time and across greater distances, and the potential for more flexible work arrangements.

Southeast Asia perspectives

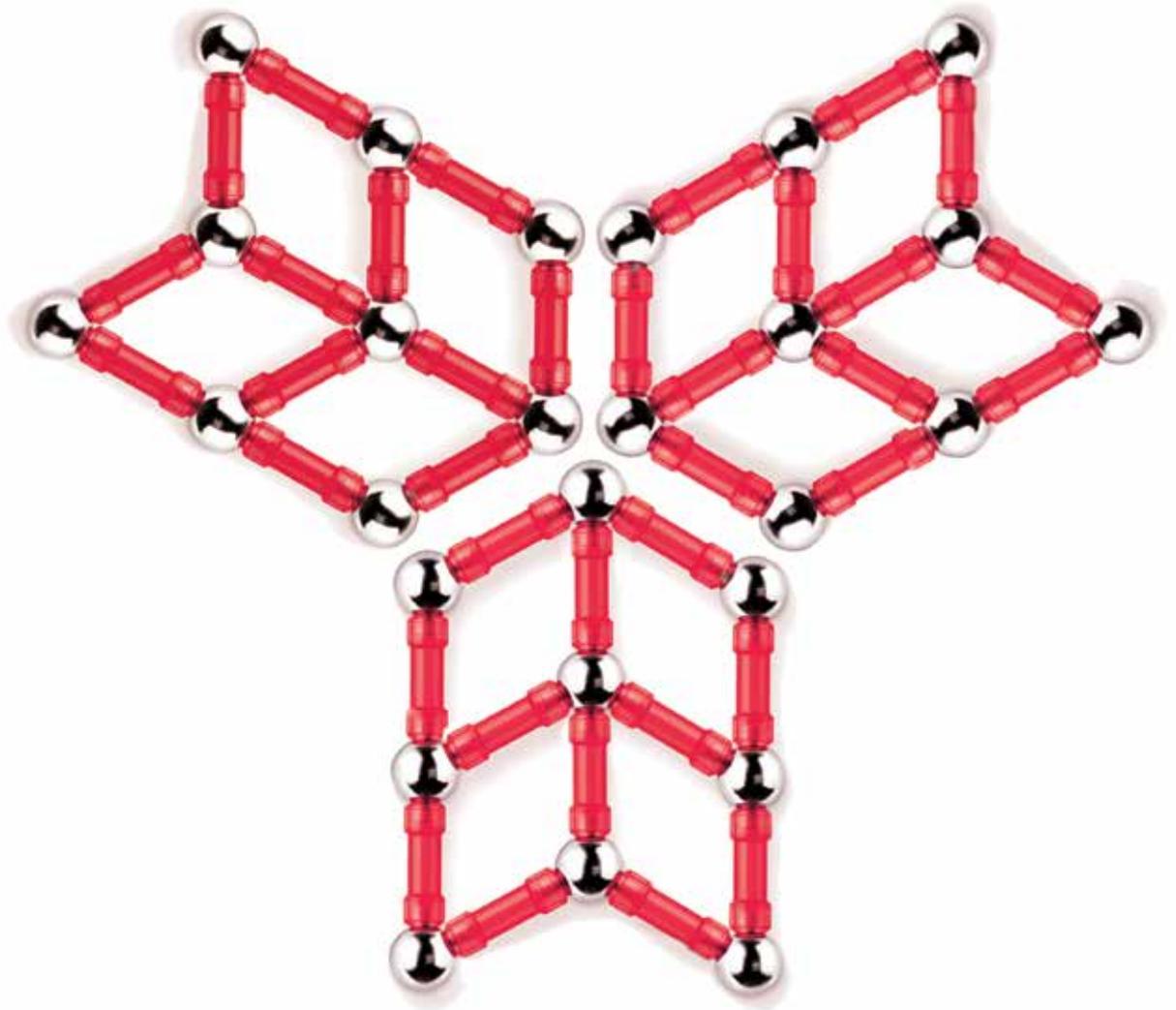
Southeast Asia seems to be ripe for eVisit adoption, but for different reasons across markets. For example, in Indonesia, the trigger would be uneven supply of adequate health care professionals, inefficiencies (low utilization levels) and challenging geography conditions²⁶⁶ whereas, in Singapore the trigger will be continual pressure to reduce medical costs and make healthcare more affordable in general.

Additional positive impetus is likely to come from regulation. For instance, in 2012, Indonesia passed its universal health care law, with the objective of covering the poor and near poor (approximately 110 million) by January 2014 and extending this coverage to almost all of the population by 2019²⁶⁷. This may be difficult to achieve given inadequate healthcare infrastructure and mismatch of demand and supply across regions. In April 2011, Singapore launched the first phase of its National Electronic Health Record (NEHR) system. Additional push in Singapore will come from a high broadband penetration rate (approximately 90% at a HH level²⁶⁸) and an increasing ageing population (about 10% are above 65 years old). A recent survey further confirms this: almost three out of four (73%) of tech-savvy seniors (65+ years old) in Singapore are seeking digital options for managing their health services remotely²⁶⁹.

However, despite all the favorable demand conditions and regulatory impetus, the overall adoption is still quite low, largely due to supply side conditions. For example, only half of Singapore healthcare providers currently seem to be providing any significant capabilities of offering health care services remotely²⁷⁰. In Indonesia, the initiatives have been decentralized and piecemeal so far and therefore a disparity of standards and lack of nationwide initiatives have limited any significant adoption.

Media

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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.

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.

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.

Southeast Asia perspectives

This trend also resonates in mature Southeast Asian markets such as Singapore, where Pay TV penetration levels are more than 60% of all households and some households subscribe to multiple monthly payment options, such as both StarHub and SingTel Pay TV offerings²⁷¹. Previously, double-subscriptions in Singapore were mainly driven by exclusive sports rights, but the regulator stepped in and mandated the cross-carriage obligation of content. But there is still some differentiation between operator offerings: SingTel's Mio TV allows subscribers to rent movies on demand, while StarHub's focus is more on regular broadband TV with an array of international channels. In addition, SingTel's partnership with Samsung is paving the way for creative partnerships: the companies will develop two Smart TV applications – SingTel Video Store and SingTel Video Search²⁷² – to further reach out to the consumers via new channels.

Emerging Southeast Asian economies are expected to experience strong growth, where Pay TV revenues are forecasted to more than double in the Philippines, Thailand and Vietnam and triple in Indonesia between 2012 and 2018²⁷³. This surge is mainly driven by lower starting points – in Indonesia and the Philippines, the current Pay TV penetration rate is lower than 20% of all households. Another key driver is the rising middle class on the back of economic growth, which has positive implications on demand for technology and monthly subscription services of all kinds.

Operators across the region are leveraging fiber networks for content delivery (IPTV and VOD). In the Philippines, PLDT Home is bundling free IPTV (Signal Digital TV) and VOD (Clickplay) for fibre broadband subscriptions beyond 20 Mbps²⁷⁴. Telkom Indonesia signed a four-year IPTV construction contract with ZTE in April 2013²⁷⁵. Astro in Malaysia is partnering with Maxis to expand its IPTV reach using Maxis' fiber network; Astro Malaysia is already the dominant Pay TV provider in Malaysia, and is predicted to penetrate 53% of Malaysia's TV-owning households by 2017²⁷⁶.

Another noteworthy offering that has emerged in the region is TV and VOD on the go. In Singapore, both StarHub and SingTel offer a TV Everywhere service, enabling subscribers to consume content on various devices and at their preferred times and locations. In Singapore, Mediacorp launched early 2013 an OTT service called Toggle, competing head-on with StarHub's "TV Anywhere". Malaysian operator Astro also offers up to 22 channels viewable on smartphones and tablets, and Thailand's TrueVisions offers up to 65 channels viewable on smartphones and tablets²⁷⁷.

However, Southeast Asia's Pay TV market is challenging with obstacles such as signal theft and piracy²⁷⁸. Mr Handiomono, the legal chief of the Indonesian Multimedia Operators Association (APMI), said that with monthly pay TV subscriptions being offered for around Rp 300,000 (US\$27) and pirated ones for a tenth of that price, it was obvious what at least some consumers would opt for²⁷⁹. These issues are being addressed through new encryption methods which should partially alleviate the threat of piracy on the market but are expected to only defer the problem as with any software security. Data from piracy experts Mark Monitor suggest that approximately half of Singaporean internet users visit websites with pirated content each month, ranking them as the highest per capita users of pirated content websites in Southeast Asia²⁸⁰.

There are no concrete figures that indicate a doubling up of Pay TV in Southeast Asia, but there are indications that it is a supply-side driven push for subscribers to have two or more separate Pay TV subscriptions. Operators are driving this as part of their retention activities to reduce churn rates by providing multiple services to the subscriber, but also to stimulate ARPU through the cross-sale of VOD content.

Television measurement: for better and worse

Deloitte predicts that in 2014 the measurement of domestic television program viewing should become more accurate in a number of countries, including Germany and the UK, because of the introduction of hybrid measurement¹²⁷. This new methodology integrates TV viewing on PCs, tablets and smartphones into overall viewing numbers, and also includes other data sets, such as set-top box channel selections and video-on-demand (VOD) server logs¹²⁸. Without hybrid methodologies, TV consumption will be under-counted, particularly for the younger age groups that are more likely to watch on devices other than TV sets and more likely to use VOD, with an adverse impact on advertising and subscription revenues¹²⁹.

However, while measurement of the domestic schedule should become more accurate, more people are likely to view TV schedules of other countries via over-the-top (OTT) services, leading to significant under-counting of TV consumption by some foreign-born individuals¹³⁰.

Accurate measurement is fundamental to the largest ad product in the world: TV advertising, worth \$200 billion per annum globally, which is priced by ratings. Measurement has been critical to the continued TV ad spend against a background of increasing hours spent online and declining spend on other traditional media. Further, share of viewing audience is a key performance indicator for any license-fee funded channel. Audience size still matters for pay TV operators, for advertisers, and for on-screen talent looking to understand the potential exposure that a television appearance would offer. Subscription VOD (SVOD) providers wanting to show advertisements are also likely to offer their usage data for including on core TV viewing data.

In most of the largest TV markets, television viewing volume is monitored via viewer panels. When panel members start watching, they press a button, and a device in the home notes which program is being watched at that time, and who is watching it. Viewing data from each household is uploaded and analyzed, and typically published the day after. These panels are considered highly accurate at measuring live and catch-up viewing on TV sets¹³¹.

But monitoring has not kept pace with some of the recent changes in viewing behaviors and devices. For example, TV viewing is no longer restricted to television sets. In recent years, about one percent of viewing has been via on-demand services, typically with laptops, tablets, and smartphones, but also connected TVs¹³². Growth in on-demand viewing is about 25 percent year on year.

The steady growth in the number of channels has also led to a shift in viewing patterns. While the majority of viewing in most countries – even if hundreds of channels are available – is of a few programs on a few channels shown during prime time, there is growing viewing of programming with a small but significant audience share. This includes premium and specialist sports (such as darts and snooker), high-end drama and regional programming. For these programs, a 10 percent increase in viewers may not be accurately measured.

Measurement of viewing on other connected devices will be enabled by software placed on devices owned by panel members. There are various ways of recognizing programs being watched, such as using voice recognition to map dialog to a specific program, and identifying metadata tags embedded in program content by broadcasters¹³³.

We estimate that viewing on non-TV devices in developed markets with 75 percent or higher broadband penetration represents about one to two percent of all viewing. But among younger viewers, the proportion is typically higher, at up to five percent, and crucially this is the age group that watches traditional television least. Under-counting this group would affect the perception of television's relevance and impact.

Inclusion of set top box (STB) data will improve the measurement for channels with smaller audiences. In 2014, it should lead to a lower margin of measurement error for viewing of specialized programming, perhaps falling from +/- 20 percent accuracy to +/- 10 percent accuracy. It may also lead to mainstream programs losing a marginal amount (fractions of a percent) of share. The inclusion of STB and VOD server log data should help improve measurement in the long run, although it will still only be approximate.

Hybrid measurement will not however reflect consumption of TV schedules of other countries, delivered via broadband. Hundreds of millions of people live away from their country of birth or origin: many of these would like to be able to watch that country's TV schedule. Satellite is one way of addressing this demand, either via subscription from domestic satellite-based broadcasters or by installing larger dishes. However this approach can be expensive and limited: the international channels of foreign broadcasters may not show the programs that friends and family of the foreign-born individuals are talking about. High-speed broadband enables demand to be met more easily, and those interested are more likely to live in cities where the fastest access speeds are available¹³⁴.

Following foreign TV schedules is not restricted to those born abroad: fans of programming in other countries may use on-demand services to view programs ahead of the broadcast schedule in their own country. For example, those wanting to watch the latest series of a US drama can use paid-for on-demand services to watch programs as soon as they are broadcast in the US, months ahead of their broadcast release window in their home country¹³⁵. If legal services are not available, some may seek illegal alternatives – sometimes by millions of individuals¹³⁶.

Deloitte expects that as a result of foreign TV schedules becoming available via OTT services, the majority of viewing for some foreign-born individuals may fall outside of current measurement systems.



Bottom line

The current approach to quantifying television consumption was most accurate when there was a limited choice of channels, there was no other viewing choice and viewers watched on TV sets. In this context, a sample of a few thousand viewers was an accurate guide to how many people watched each program, and the share for each channel at each point of time could be estimated with a high degree of certainty.

While watching television has remained a firm feature in the lives of billions of people around the world, where, when and what we watch has evolved, necessitating a move to hybrid measurement. However hybrid measurement is likely to be a work in progress in 2014, with significant iteration required to get the best out of the additional data sources. In the long-run this new approach should be more accurate; in the near-term it may introduce some distortions.

For example adding in broadcasters' video-on-demand server data has the potential to make measurement more accurate; server logs can tell exactly how many programs have been requested and, for streamed content, how long they have been watched for. However as of 2014, in the majority of cases, these logs do not measure how many people watched each program; while it is likely that a program streamed to a smartphone is being watched by one person, that content may be mirrored on to a television set and watched by a household¹³⁷. Further, if programs are downloaded to be watched later, the service may not measure if, or for how long, the content is watched. Including VOD data requires all entities that provide viewing data to have the same parameters.

The key advantage of incorporating STBs into measurement is their quantity: there are hundreds of millions of units around the world which can log which channel they are tuned to. But STB data has three principal deficiencies. It cannot tell who in the home is watching each program. It may not even know if the TV set is on: a STB may remain on, and tuned in, when the TV set has been off for many hours. And finally, the platform owners collecting STB data may not know the membership of each customer's household.

Analysis of STB data along with measurement data enables the development of algorithms that can interpret STB patterns better. For example a STB switched to the same channel for two hours after midnight, with no zapping between ad breaks, is likely to be connected to a TV that has been switched off.

Measurement of television viewing is getting more complex, and as a result may get more expensive. Adding additional devices and measuring viewing of foreign TV schedules are technically possible, but add to costs, possibly significantly. In some regards, fully comprehensive measurement, which includes a range of foreign TV schedules, may not be worth the effort or the cost.

Broadcast sports rights: premium plus

Deloitte predicts that in 2014 the value of premium sports broadcast rights worldwide will increase to \$24.2 billion, a 14 percent rise, or \$2.9 billion over 2013¹³⁸. This increase in rights fees will be driven by new agreements with certain top tier European domestic football (soccer) leagues and major North American sports leagues. The double digit growth compares to average growth of five percent between 2009 and 2013, and is likely to exceed forecast increases in global pay TV revenues for 2014¹³⁹. Premium sports rights fee growth is outpacing that of the broader economy¹⁴⁰.

We have defined premium sports broadcast rights as the most popular sports competitions in the biggest sports around the world. These include: the top-tier domestic football leagues in each European, Asian, Latin American, Middle East and African country; the respective top regional clubs' football competition on each continent; the four major North American professional leagues – Major League Baseball (MLB), National Basketball Association (NBA), National Football League (NFL), National Hockey League (NHL); the top US college sports conferences; National Association for Stock Car Auto Racing (NASCAR), Formula 1, the Indian Premier League and Indian national team cricket.

The premium sports in each market represent a small proportion of all professional sports activity measured by the number of minutes televised but they represent the vast majority of viewer interest and the bulk of all television revenues.

In 2014 about three quarters of the total value of premium broadcast rights fees will be generated by 10 competitions: the top-tier domestic football leagues in England, France, Germany, Italy and Spain, the UEFA Champions League, and the four major North American professional leagues. The substantial revenue growth in 2014 has been driven largely by new broadcast deals for England's Premier League, Germany's Bundesliga and Major League Baseball¹⁴¹.

Television and premium sports are well matched for each other: at the highest level, sport is great unscripted live drama for television, and constant advances in technology lead to ever more sophisticated, compelling ways in which sports can be portrayed.

While many commentators continue to ask when the sports rights value bubble will burst¹⁴², leading to stagnating or declining rights fees, our view is that rights fees for live content to premium properties overall will likely continue to grow .

Premium live sport continues to deliver large audiences, typically characterized by an attractive demographic profile. It drives subscriptions and/or generates advertising for broadcasters, particularly in an increasingly altered media landscape. In some cases, premium sports broadcast rights fees seem to have been insulated from wider economic pressures by multi-year contracts.

The development of pay-TV in particular has transformed the broadcasting of premium sports leagues. Live content is a key subscription driver for those leagues and underpins pay-TV business models. As the pay-TV subscriber base rises and revenue per user grows, operators are investing increasing sums to secure this key content.

New market entrants looking for attractive differentiating sports content have intensified competition driving substantial uplifts in rights fees. For example, BT's entry into the UK sports rights market, acquiring sports content to help retain and build its telephony, broadband, and pay-TV services, has resulted in substantial revenue uplifts.

Methodology for calculating the value of premium sports rights

Our methodology for determining the value of premium sports rights takes the following approach:

- Only recurring annual competitions/seasons are included. Olympic Winter and Summer Games, FIFA World Cup and UEFA European Championship are not included.
- Rights fees have been averaged over the duration of the respective contract.
- Fees have been converted into US dollars where applicable, using the June 30 exchange rate in that particular year.
- Values for each year are based on cumulative rights fees generated either in that particular year for competitions operating on a calendar year. For competitions operating across calendar years, it is the year in which the competition finishes. So 2009 refers to competitions operating in 2009 and 2008/09.
- We have obtained information from publicly available information released by rights holders, and trade publications, and from confidential and proprietary sources.

The Premier League enjoyed a 71 percent increase in the value of its domestic live rights from 2013/14, while the amount paid for UK rights to UEFA's top club competitions should double in value from 2015/16¹⁴³.

There used to be just one video sports product – broadcast television – often funded by advertising or by license fee.

The range of sports video products has diversified significantly, even if consumption of sport has remained principally via the television set. Sports fans now have a wealth of video products as well as broadcast: from online video clips, to streamed video to any device.

Bottom line

Sport as a contest has had a passionate following for millennia. Television's role has been to show this to a global audience with each viewer having the best seat in the house. The price paid for broadcast sports rights may surprise, but the symbiosis between television and sports is potent, and may become more so. Sports' mix of elite contest, success and disappointment make compelling television.

Along with substantial growth in rights fee spend, there continues to be increased investment in the quality of broadcast production for sports. Premium rights owners face a continuing challenge to ensure cutting edge broadcast quality, for example by evaluating the viability of ultra-high definition (UHD, also known as 4K) coverage, while broadcasters are required to consider their investment in terms of both rights fee and production spend¹⁴⁴.

It is important for broadcasters and production teams to review continuously the technologies available to them to enhance the value that their viewers and customers derive from being able to watch sport. For the television experience, this includes UHD, super-slow motion and a choice of live matches. On-demand services for viewers include a choice of live matches, camera angles, player tracking and instant replays, statistics and commentary. Making all this available not just via the television but also any other device that the fan may want to use should increase perceived value, even if these additional viewing options are seldom exercised.

Sports rights owners and new technology companies continue to develop their relationship, and consider how sports content can be both broadcast and appropriately monetized. A number of rights owners are experimenting with YouTube or other online video platforms, in order to stream live content in territories where broadcast rights have not been sold or to provide additional content. We see this trend continuing.

Owners of non-premium rights should not despair: rights fees for non-premium sports have in many cases increased, but at a fraction of the rate or scale achieved by premium properties. For these competitions and events, the challenge is to secure distribution through a suitable media platform, to obtain exposure. While rights fees themselves may be comparatively low, they may typically be a relatively important source of revenue that can also have benefits for other revenue streams.

There is also room for innovation to create new sports and formats for a global TV audience. Consider for example the case of Ultimate Fighting Championship (UFC), whose growth has been driven significantly by pay-TV television exposure. UFC was purchased by its current owners for \$2 million in 2001; it now turns over \$500 million annually, is broadcast in 148 countries, and pay-per-view fees are up to \$50 per transaction¹⁴⁵.

Performance rights lift recorded music revenues

In 2014 Deloitte predicts that revenues from performance rights, a license payable for the right to play music to the public, should exceed one billion dollars for the first time¹⁴⁶. This may seem insignificant relative to other parts of the technology, media and telecommunications sector, but for the \$16 billion recorded music industry, this is material¹⁴⁷. Performance rights, which are collectable from all sizes of company from bars to broadcasters, should continue to grow over the next few years, and are likely to be the fastest growing industry segment¹⁴⁸. Over time performance rights revenues should reach \$2 billion, although the timing for this is uncertain.

Music is everywhere. But its ubiquity is arguably under-monetized. There are few of us who go a day without being exposed to music in some form, be this a song played on the radio, a tune in a shopping mall or an elevator melody. For millions of businesses, music adds value¹⁴⁹. It relaxes passengers when entering a plane, it sets the mood in movies and TV programs and it exhilarates younger shoppers. Collectively we listen to broadcast music trillions of times a year, on the car radio, in the hairdresser and elsewhere: in 2014 the global collective license fee for this is likely to be under \$3 million per day.

Growth in performance rights revenues, both recent and anticipated, has been driven largely by three mechanistic developments.

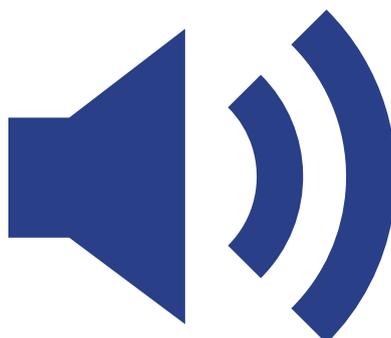
First, in countries where a license is obligatory, there has been a steady growth in the number of businesses paying a license. Typically collection societies would contact companies currently not paying a license, but in some markets growing awareness of the legal requirement to pay a fee has driven pro-active payment, which has reduced the cost of collection¹⁵⁰.

In other markets, there is plenty of scope for payments to increase, as the current degree of under-collection is notable. For example, the Netherlands currently collects more performance rights revenues than Spain, despite having a third of the population.

Second, the fee paid by larger entities, such as television and radio broadcasters, has been increasing year-on-year on a sustained basis in major markets. Historically, the quantity of some licenses has been agreed on an ability-to-pay basis. So a small radio station may claim that its profits would only permit a modest fee. But increasingly fees are being agreed on the basis of value. Fees paid by small businesses have also increased in some markets¹⁵¹.

Third, a growing number of countries which formerly did not collect revenues on a formalized basis have introduced, or are in discussions to introduce a licensing process. The most significant of these markets is China whose inclusion could add tens of millions of dollars per year¹⁵².

Global performance rights revenues are likely to be affected by the evolution of the US music market, which is the largest recorded music market in the world – generating almost half of all revenues. The US market could generate a significant uplift from the introduction of a performance right on analogue FM radio, which is currently exempt from such payments¹⁵³. Songwriters receive a fee every time a song is played on FM, but the performer currently does not. However songs played-out on digital services, such as satellite radio or online streaming, do generate a performance payment, and usage of these services is growing. At the end of 2013, there were 26 million subscribers of satellite music service in the US, and about four million subscribers of online music services¹⁵⁴.



Bottom line

In every industry, no matter how bruising the environment there is normally a green shoot¹⁵⁵. And for the music recorded industry, the biggest growth engine is performance rights. Performance rights revenues may appear modest, but for the music industry they are significant, as receipts largely flow to the bottom line: collection in most countries is handled by collection societies, whose costs are deducted from fees collected.

To maximize revenues from performance rights – and to deliver growth to the sector – the music industry should consider the following:

- Emphasizing the ability of good quality recorded music to add value to businesses: this should help avoid the perception that license payments are a form of tax. The industry needs to help licensees understand that without quality music, their businesses may be less appealing places;
- Raising awareness of the need to pay a license, and facilitating self-service payment and renewal;
- Ensuring the collection of license money is performed in the most efficient way both within and potentially across countries. This could include joint collection ventures with the publishing collection societies and related outsource deals.

The music industry needs to price its assets cleverly to allow its licensees to grow whilst maximizing its regulatory right to the revenue¹⁵⁶.

Music is everywhere. But its ubiquity is arguably under-monetized. There are few of us who go a day without being exposed to music in some form, be this a song played on the radio, a tune in a shopping mall or an elevator melody.

‘Cordless’ video-on-demand leaps in Sub-Saharan Africa

Deloitte predicts that in 2014 the number of video-on-demand (VOD) users in Sub-Saharan Africa (SSA) will grow by about one million – despite the lack of broadband infrastructure in the region. Users will select movies, TV programs and short clips from a catalogue of hundreds of titles, which will then play on-demand, typically to television sets. This user behavior will be equivalent to that taking place in millions of broadband-equipped homes around the world. However in the SSA region, VOD content will play back from digital video recorders (DVRs) and the files will have been distributed principally via satellite links, and for a few households via digital terrestrial transmission.

VOD is a service that has reached maturity in the hundreds of millions of homes around the world that have sufficiently fast broadband speeds¹⁵⁷. Delivering high-definition programming is expected to require about two megabits per second of dedicated capacity in 2014¹⁵⁸. However Sub-Saharan Africa has not participated in the wave of VOD adoption, in most part due to the lack of fixed broadband infrastructure. Just one percent of people have access to fixed broadband in the region¹⁵⁹. At their peak in the 1970s and 80s, copper networks were never extensive; and following the liberalization of most markets in the 90s, capital poured into mobile infrastructure, leaving fixed infrastructure on the sidelines. While mobile broadband is more commonplace, with 13 percent penetration, its price (on average about fifty times prices in the EU) and limited reach make this technology unsuitable for bandwidth-hungry services like VOD¹⁶⁰.

Yet VOD is a desired service among higher-income households, especially in South Africa and Nigeria, whose citizens account for over 50 percent of consumer spending in SSA¹⁶¹. In these countries, and in a growing number of wealthier capital cities across the continent, there is considerable buzz about the availability of VOD services in developed countries. Satellite and DVRs can provide a solution that replicates a video-on-demand experience¹⁶².

The key advantages of satellite in the SSA region are coverage (several dozen satellites are already launched and in orbit¹⁶³, and many cover 100 percent of the territory) and capacity (hundreds of channels are possible). Satellite transmission is not flawless, and quality can be compromised by factors such as adverse climatic conditions¹⁶⁴. But once a satellite is in orbit and functioning, any home with a satellite dish can receive hundreds of channels. This compares to the challenge of deploying mobile broadband networks, and the near impossibility of extensive fixed network roll-outs in the near term.

Satellite transmission is used throughout the world to relay television signals, and DVRs are typically used by viewers to record linearly-distributed scheduled programs, to be watched later. When DVRs were first launched at the turn of the millennium, the size of hard drives, at about 80 GB, meant that it was best to let the user select what to record. Now that the price of hard drives has fallen such that DVRs are available with several terabytes (TBs) capacity and multiple tuners, the machines can also serve as a repository for hundreds of titles. A two-TB drive can hold about 1,600 hours of standard definition video¹⁶⁵. Complemented by five tuners, this should be enough to allow users to record the specific programs they want to save, and leave sufficient tuners and hard disk capacity for a substantial local VOD cache, filled with what are expected to be the most-demanded movies, programs or even short video clips.



A broadband-delivered VOD service offers infinite choice in theory, but the range of content could over-serve the market, as actual demand for on-demand content tends to be narrow and predictable – usually for the programs with the highest live ratings, or movies with the greatest box office success¹⁶⁶. It should be a relatively simple matter to predict and distribute content sufficient to meet 95 percent of requests¹⁶⁷.

We have predicted a million additional users of this service in 2014, which is equivalent to about 250,000 homes. This may sound a modest target for a region with over 900 million people¹⁶⁸. But the SSA region has just 40 million television households¹⁶⁹. For the rest of the region, television sets are too expensive, or are difficult to power due to a paucity of homes connected to the electrical grid and unreliable mains supply^{170 171}.

In the long-term broadband in SSA should roll-out, and when that has happened, more traditional VOD services should flourish; but even then VOD is likely to remain focused only on mainstream content and a narrow selection of the continent's several thousand languages.

But in 2014 VOD needs to work within existing parameters; and in the region, a credible, appealing and economically viable VOD service is achievable by blending two traditional, proven technologies – satellite transmission and hard disk storage.

Bottom line

In 2014, the majority of the addressable market for VOD and similar services is likely to manifest in a few dozen cities, as opposed to countries. Urban centers are where wealth and, critically, reliable electrical power are concentrated. It will likely be more sustainable and effective to focus marketing, sales and support activities on those locations, in spite of the continent-wide coverage provided by satellites. Demand for satellite-based VOD is likely to be concentrated in South Africa and Nigeria, which are home to a fifth of the region's population, the majority of its television homes and the lion's share of electricity-generating capacity. By contrast nations such as Chad, Ethiopia, Liberia, Rwanda and Burundi may continue to have TV and mains electricity penetration at below five percent¹⁷². Satellite VOD providers may find greater opportunity in the short to medium term in other parts of the developing world, especially India, where even though fixed broadband penetration is at a similar level to SSA, the reach of the electrical grid is substantially greater¹⁷³, as is the number of television households¹⁷⁴.

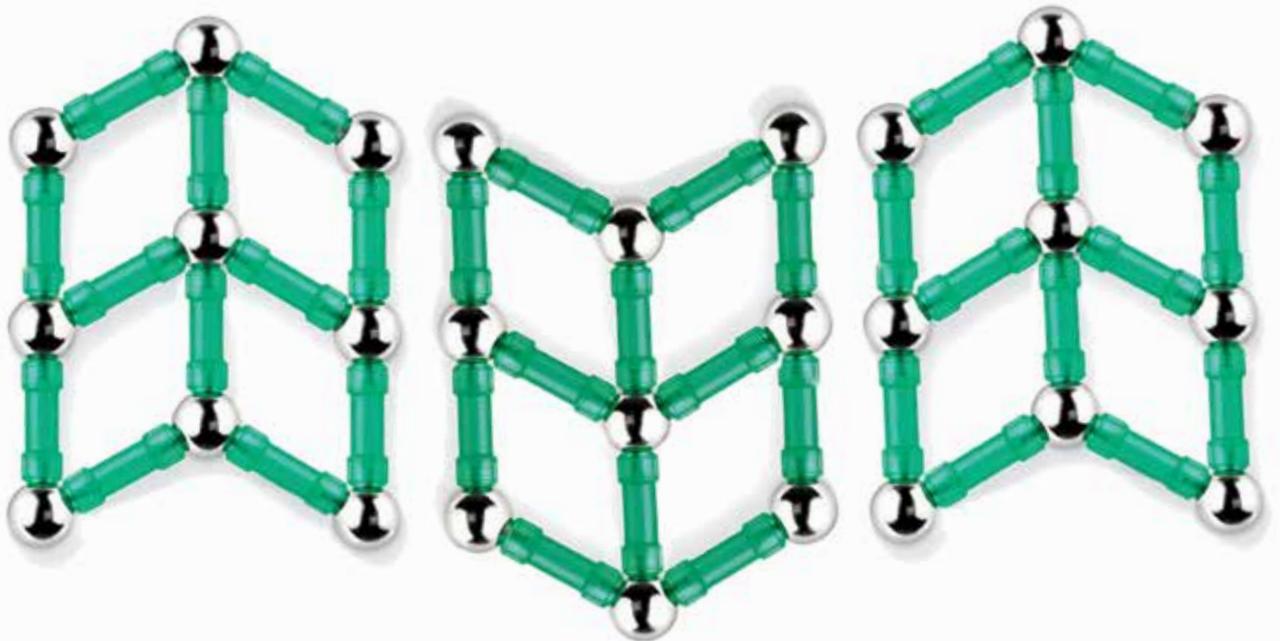
Providers of these VOD services should consider what other content could be distributed using this combination of technologies. As well as movies and television programs, the most popular clips watched on YouTube and other online video sites could be delivered to DVRs. Games – both platform based and social – could also be broadcast to DVRs and the content then relayed to smartphones and tablets via internal Wi-Fi networks or Bluetooth.

There is a role for telecoms operators in this model, although not the triple-play bundle of TV, telephony and broadband offered by many carriers in developed countries. In SSA, carriers could provide mobile payment solutions for VOD services. For the most part, there is insufficient capacity for video content to be streamed to a large number of homes or devices over mobile infrastructure at affordable prices.

Device makers could examine the potential for TV equipment that runs on batteries. Solutions exist, but have mostly been marketed as portable supplements to full-sized television subscriptions, and have gained little traction¹⁷⁵. But there are hundreds of millions of African citizens who are deprived of access to television. The company that solves this problem might well find itself as the preferred supplier when African households reach a level of disposable income that allows them to buy a full-sized TV set. A solution that works for Sub-Saharan Africa may also appeal to consumers in many other emerging markets with similar combinations of low fixed infrastructure but wide satellite coverage.

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Short messaging services versus instant messaging: value versus volume

Deloitte predicts that in 2014 instant messaging services on mobile phones (MIM) will carry more than twice the volume (50 billion versus 21 billion per day) of messages sent via a short messaging service (SMS)¹⁷⁶. This is a significantly greater ratio than in 2012, when 1.1 instant messages were sent for every text message¹⁷⁷. It might be supposed that the growth in MIM is coming at the expense of SMS and mobile carriers. However despite the burgeoning volumes of messages carried over MIM platforms¹⁷⁸, we expect globally SMS to generate more than \$100 billion in 2014, equivalent to approximately 50 times the total revenues from all MIM services¹⁷⁹.

So MIM services may win the battle for volume in 2014, but SMS will be victorious in global revenue terms. We expect SMS to continue to generate significantly greater revenues than MIM even as far out as 2017, by which point global SMS revenues are expected to have started falling¹⁸⁰. We would also expect MIM services on mobile phones to continue to substitute not just for SMS, but all other forms of communication, from e-mail to phone calls.

Text messaging's superior revenue-generating ability is due to three main factors: ubiquity, infrequency and price.

SMS is the one messaging standard common to almost every mobile phone¹⁸¹. There are 3.2 billion unique mobile subscribers that can send and receive SMS¹⁸². MIM is popular, but it requires a smartphone, tablet or MP4 player. It also needs a mobile data plan, or a connection to a Wi-Fi network. Both are ubiquitous in some regions in the world, but in some markets, such as most of the African region, only a minority has mobile broadband, and even fewer have fixed broadband.

Further, many over-the-top (OTT) providers are incompatible with each other. Communication via an OTT service requires all parties to have the same app. A WhatsApp customer cannot message a WeChat user directly. In order to communicate, the requisite app would need to be downloaded; otherwise SMS would have to be used¹⁸³.

Some MIM services only work with a single brand of phone. When sending a message to someone using a different manufacturer's phone, SMS is the choice by default.

While SMS is common to all smartphones, most smartphones are likely to send far fewer SMSs than MIM messages in 2014. But the relative infrequency of sending SMS compared with MIM may be a key reason why SMS is able to generate greater value. Mobile phone users may be relatively insensitive to SMS tariffs as they send few text messages relative to those sent via MIM services. Feature phone users may send few messages via their phones. For both types of mobile phone, users may be willing to spend 10 cents per message on the assumption that in a given month they would send fewer than 10 messages.

It is also important to note that while MIM and SMS are based around messaging that is predominantly text based, there are subtle but fundamental differences which engender different behaviors. MIM is based around two-way communication and an interchange of quick-fire responses. Presence awareness often acts as a signal for one correspondent to start conversing with another – or multiple others. Further, instant messaging's origins are as a free-of-charge PC-based service. By contrast SMS is more about individual, paid-for messages, for sending information.

Smartphone users travelling abroad may prefer to use text messaging, as it may be cheaper while roaming to send an SMS than to purchase a mobile data package so as to be able to send and receive MIM. And some users may simply not have mobile data roaming enabled.

MIM's lower direct revenues may also be due to the provider's business model. Some MIM services are a value-added offering to all users of a manufacturer's device. For example Apple's iMessage service is a feature of the device ecosystem and there is no subscription involved¹⁸⁴. Facebook's communications services for mobile devices may help drive mobile advertising revenues. Some services such as WhatsApp seem to be focused, at least for now, on capturing the largest possible user base, and are not focused on revenue. Other services such as Snapchat may focus more on the value from accumulating large volumes of users, to whom value-added services can subsequently be sold¹⁸⁵.

In 2014 it is very likely that trillions of MIMs will be sent in place of a text message. But it is also very likely that, billions of times per day, MIMs will also be sent instead of e-mail, tweets or other forms of communication such as phone and video calls.

SMS's significant revenues and margins in 2014 are likely to contrast with the challenges facing some standalone MIM service providers. Competition between MIM providers may prevent significant profitability from being achieved¹⁸⁶. With some providers relying on revenues from app purchases or one-off annual fees, average revenue per customer is low. For example, WhatsApp charges a dollar a year per subscriber¹⁸⁷. Other providers have included virtual goods or games in their offering, and their revenues are growing fast¹⁸⁸. For example Line generates about 69 cents per customer per quarter from in-app purchases, advertising and games¹⁸⁹. As more services become available and competition increases, some providers are forced to buy TV ad space to raise awareness, rather than relying on free viral marketing¹⁹⁰. Indeed the MIM business model may face substantial challenges in 2014, and the upper limit on revenues may be surprisingly low: a MIM provider with seven billion users, charging a dollar per year, would have a fraction of SMS' global revenues.

MIM and SMS are likely to be regarded as direct competitors in 2014¹⁹¹. One analyst estimated that in 2013, MIM depleted SMS revenues by \$32 billion. A single text message costs a few cents to send, but an MIM consisting of 200 characters of text may generate about 0.01 cents if the subscriber is paying \$10 per gigabyte, and the MIM provider may not earn anything from this¹⁹². Given the rising volumes of MIM messages in 2014, the implicit loss might be even higher¹⁹³. However over the past few years, global SMS and MIM volumes and revenues have grown in tandem¹⁹⁴.

But while MIM may be taking revenue from mobile operators in the form of lost text messaging revenues, it may also be driving demand for mobile broadband. And in 2014, revenues for mobile broadband may overtake SMS¹⁹⁵. While it is difficult to assign an exact value for the impact of instant messaging on the take-up of mobile broadband, it is sizable, and should become larger still over time, as MIM services are used increasingly to send large audio and larger video files. A one minute-long video sent via MIM is more than 1,000 times larger than a text-only MIM (see Figure 5 for approximate file sizes by different type of messages).

Figure 5: Approximate file sizes by type MIM message

Type of MIM message	Approximate size (in KB)*
Text-only MIM (approximately 150 characters)	10
Photo	100
Audio file (one minute long)	150
Video file (one minute long)	12,000

Source: Deloitte analysis based on publicly available information¹⁹⁶

* File sizes are considerably compressed when sent via an MIM application and will not reflect its actual size.

Bottom line

Text messaging's heyday is approaching but in 2014 it should still generate significant margin for the mobile industry. Its importance should be neither overlooked nor underestimated.

There are several ways for operators to respond to the negative long-term outlook for SMS.

One would be to try and create an operator-owned OTT MIM to rival the existing providers. For this to work as well as SMS, it would need to be a global standard; if the industry relies on opt-ins on a per carrier basis, adoption is likely to be too slow¹⁹⁷.

A further option would be to incorporate MIM-type features into SMS, such as by replicating the ability to send messages to groups easily, and to include audio and video clips. Presence functionality may also help.

A third option would be, rather than compete with MIM services, to encourage their adoption, so as to increase take-up and usage of mobile data. Carriers should evaluate the merits of exposing network and data assets to OTT players via APIs (Application Programming Interfaces)¹⁹⁸. Carrier APIs allow third parties to integrate their applications and services more closely with the mobile device, the SIM card and elements of the network. Functionality ranges from in-app advertising through to 'add-to-bill' processing, which allows the value of in-app purchases, such as emoticons, stickers and games, to be added to the monthly phone bill. Given that MIM services tend to have low consumer loyalty, carriers could help improve the dynamics of OTT MIM, whilst at the same time positioning themselves to capture a share of MIM revenues. Figure 6 provides an example of some of the APIs that a carrier could expose.

Figure 6: Examples of carrier APIs



Source: Deloitte research using various publicly available sources¹⁹⁹.

A final option for carriers would be to encourage the usage of SMS as a bearer for application to person messages (A2P), which are used to send personalized messages to individuals, from advice of bank balance, to warning of a delay to a flight, to a reminder for a medical appointment. One analyst has estimated that A2P messaging volumes could grow an average six percent per annum over 2013-2017²⁰⁰.

Standalone MIM service providers aiming to maximize revenues may need to diversify their income streams. Some providers may become content platforms. In Asia Pacific, companies such as KaKao and LINE are monetizing their significant installed bases by positioning their service as a platform for games, virtual goods and advertising. Deloitte estimates that revenues generated for MIM service providers from games bought or played on their platforms and other virtual goods, such as stickers, will be worth over \$1 billion in 2014 – a significant sum, albeit still a fraction of revenues generated by SMS services. Standalone MIM providers may also want to generate additional revenue from advertising, but this might cause some users to change their service.

Southeast Asia perspectives

Global trends suggest an increasing prevalence of instant messaging in lieu of SMS, with 50 billion messages sent per day over MIM as opposed to 21 billion over SMS. This trend is already a reality in Asia Pacific, which is forecasted to see a decline in annual revenues from SMS from US\$45.8 billion in 2013 to US\$38 billion in 2018²⁸¹. The growth in smartphone penetration rates in the region serves to bolster this trend, by making OTT messaging available to a larger audience.

Substitution of SMS by MIM is particularly salient in markets like Malaysia and Singapore, where 3G and LTE coverage is widespread and reliable enough to support MIM apps. Indeed, the SMS market peaked in Malaysia in 2009, after which there has been a gradual decline in SMS²⁸², likely due to the rising popularity of MIM apps like WhatsApp and KakaoTalk. Singapore shows a similar decline, with SMS volumes falling by half since 2010. These developments have made the net neutrality discussion more important, with SingTel requesting the right to charge OTT players like WhatsApp and Skype for the use of SingTel's networks or risk a major decline in network investment²⁸³.

MIM apps are also challenging the SMS market in Indonesia, where more messages were sent via chat apps in 2013 than via conventional SMS. Indonesian demand for MIM apps has been explosive, with LINE attracting over 10 million users, KakaoTalk adding over 120,000 users per day in Q2 of 2013, and WeChat growing its user base 50-fold in Indonesia since its launch in February 2013²⁸⁴.

In Indonesia, several measures are being taken by operators in order to address this threat: XL Axiata has started providing a free activation and data package for all users of WeChat. In addition, Telkomsel, Indosat and XL each offer free data usage for KakaoTalk users, and Axis has partnered with Viber to offer subscribers a "Viber-Only" user plan for users who only require data to use Viber, an example of the 'All you can app' trend that Deloitte predicted in 2013. Similarly, Globe Telecom in the Philippines has partnered with Viber in an 'All you can app' deal, giving subscribers access to free unlimited Viber chat²⁸⁵. These operators appear to be trying to embrace the OTT players, rather than fighting them with their own service offers or through the regulator, with the objective to stimulate data usage beyond the use of MIM apps. In addition, the rise in use of MIM apps has implications for mobile advertising agencies, as they must now consider various platforms for mobile ads and target their ads accordingly. Facebook's recent acquisition of WhatsApp might signal a trend toward alternate monetization of MIM services. WhatsApp's messaging volume is already approaching that of the entire global SMS telecom volume (19 billion sent and 34 billion received per day)²⁸⁶.

Phablets are not a phad

Deloitte predicts that in 2014 shipments of phablets, smartphones with 5.0-6.9 inch screens will represent a quarter of smartphones sold, or 300 million units²⁰¹. That is double the 2013 volume, and 10 times 2012 sales. Phablet revenues should be about \$125 billion, implying a \$415 average selling price, which is about 10 percent higher than for smartphones as a whole²⁰². But after initial rapid consumer success, 2014 may mark a 'peak phablet' year, as only a (sizeable) minority of smartphones users will want to handle such a large device.

But even at 25 percent of the market, it is tempting to ask: "Where are all these large-handed people, and where do they buy jeans big enough to fit their phablets?"

Two thirds of phablets in 2014 will be less than 5.1 inches, only just meeting the definition, and less than 10 percent are likely to be six inches or larger²⁰³. About 25 percent of 2013 phablet sales were new versions of existing devices that enlarged the screen and shrank the bezel, rather than actually making the phone itself larger²⁰⁴.

Although almost all phablet growth is at the low end of the size range, the category as a whole is more popular in some markets than in others.

In the second quarter of 2013, Asia-Pacific excluding Japan saw 25 million phablets sold – more than tablets or notebook computers. Phablet sales doubled quarter over quarter, and 620 percent over the last 12 months²⁰⁵. Other markets that have seen dramatic increases in phablet sales include the Middle East²⁰⁶, Singapore²⁰⁷ and India, where phablet sales were over 30 percent of the smartphone market in Q2 of 2013, and unit sales were up 1,700 percent from the same period in 2012²⁰⁸. In contrast, EMEA sales of phablets represented only eight percent of smartphone sales in late 2013²⁰⁹, and North America was only slightly ahead at 10 percent²¹⁰.

There are various explanations as to why phablets are so much more popular in some markets than others. One theory is that the phablet may be a superior mobile gaming device. In South Korea, for example, the most popular app store generates 68 percent of revenues come from video games; and for those who can't afford or don't want a console or PC gaming solution, the large phablet screen is a leading choice²¹¹. Another possible explanation is that for a portion of the population, especially in urban Asia-Pacific settings with crowded mass transit systems, phablets act as an all-in-one device that combines the features and functionalities of a smartphone, portable gaming device, tablet and PC²¹².

Another possible cause relates to language, and may explain why phablet sales in much of Asia Pacific are strong, but weak in Japan²¹³. Written Japanese has three scripts: kanji, hiragana and katakana²¹⁴. Texting in kanji (based on Chinese symbols) is more difficult on a smartphone screen, so the other two scripts dominate texting as they are easier²¹⁵. In comparison, Korean, Chinese and to a lesser extent Hindi and Arabic are like kanji, and more complex for a small screen, and texting may be easier on the large screens and larger virtual keyboards of phablets.

Prior to 2007, the average smartphone screen was small: the need for a physical keyboard meant that the screen area was typically 2.5 inches or less, even for large devices. The arrival of capacitive touch screens meant that the screen could expand to occupy most of the smartphone, boosting size to 3.5 inches. At first that seemed sufficient, but manufacturers tried out something slightly larger and four-inch screens began to sell in small volumes. Over time, there seems to be a 'screen creep', where phones that were deemed too large to use at first become the new normal over time.

Therefore it seems reasonable to ask whether there is any limit to screen inflation, and what percentage of the smartphone market might be captured by phablets, especially those over 5.1 inches?

The human body and clothing are almost certainly limiting factors.

Most smartphone users want to type on their device with only one hand, at least some of the time. Even for a big person with big hands, that normally requires a phone less than six inches²¹⁶, and many smaller people may struggle with phones bigger than 4.3 inches²¹⁷. While some users may be willing to use two hands on their phone, and some software techniques make one-handed use easier on a phablet²¹⁸, it seems likely that most users will prefer smaller devices.

Next, many smartphone users may not want a phablet that appears out of scale next to their head when making voice calls. Some people may use a headset, or make very few calls, but they seem likely to be a minority.

Finally some users who habitually carry their smartphone in their jeans, jacket or small purse. Although one clothing manufacturer increased its front pocket size to handle larger phones²¹⁹, it seems likely that many consumers will not consider a phablet because of stowage reasons.

Given the sizes of the various groups who will not want a phablet as their everyday phone, it seems probable that they may have an upper limit of between 30-40 percent of the total smartphone market, which suggests that their market share may reach a plateau in either 2014 or 2015.

A complicating factor may be multi-device ownership. According to Deloitte's research, in every country with significant numbers of phablet owners, more than 50 percent also had a smaller smartphone; and the number was more than 70 percent in Singapore, South Korea and Spain²²⁰. If an increasing number of users choose to own both form factors, it seems likely that on those days when small size, lots-of-voice-minutes or one-handed usage is most important, the smaller device will be jammed into a pocket. But when the day's usage tilts towards text, video and gaming, the larger device will get put into the backpack or purse. Ultimately, it may be more appropriate to think of the phablet as a supplementary device for many users, with very few thinking of it as their only smartphone.

It is likely that the buyers of phablets over the next year will be mostly gamers, texters and mass transit users. Another potentially large market is those in the 55+ age group. Currently under-represented in the smartphone market, older consumers may find the large, bright screen, comfortable virtual keyboard and audible loud-speaker just the right ingredients to persuade them to buy (for more information, see the 2014 Prediction: The smartphone generation gap: Over-55? There's no app for that).

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Bottom line

The biggest difference from smartphone usage compared to phablets is the size of the screen. Currently very little video is watched on smartphones, although it is growing rapidly: almost six hours per month in the US, versus 160 hours per month for traditional live and time-shifted TV on a TV screen²²¹. Tablets, with their larger screens, have 40 percent more video consumption via apps than smartphones²²². As more phablets become part of the installed base, the number of hours of video watched on all smartphones devices is likely to climb. In spite of limited viewing hours, video already represents 40 percent of downstream primetime mobile data traffic in North America and 36 percent in Europe²²³. Operators will need to consider the implications of growing phablet penetration on their networks, both at the radio access network level and the backhaul level.

Further, large screens are likely to be better for display advertising and in-app purchase. As the Deloitte 2013 Prediction pointed out, large screen tablets generated \$7 per device per year in displays ads, while smartphones (mainly under five inches in 2013) generated only \$0.60 per device per year²²⁴. A five-inch phablet may only be a few cents more in annual display advertising revenues, but a screen of over six inches would likely be capable of generating more than an additional dollar in revenue.

Bigger screens on phablets don't necessarily mean higher quality pictures: a lot depends on pixel size. Some phablets offer true 1080p (1920x1080) screens. Others, even of the same screen size, support 1280x720 images. As at the end of 2013, no phablet has a 2160p (Ultra HD) screen; but a few have cameras that shoot in Ultra HD, and since there are seven-inch tablets with Ultra HD screens, some phablet manufacturers may offer this option in 2014²²⁵.

As phablet screens move to higher resolution, the data required for video or gaming will increase sharply, with 2160p requiring 16 times as many bits as 720p, all other things being equal. Carriers' data plans will need to reflect the fact that phablet users are likely to be amongst the heaviest smartphone data users.

A challenge for website and app designers will be how to best use the larger screen area that phablets offer, with the choices being more critical for devices over six inches. For video consumption, it's not an issue: a bigger screen is almost always a better screen. But for email or web browsing, there is a fundamental design decision: do users want and need bigger fonts and larger objects, or do they want more things (at the same size) to be shown on the larger screen? For phablet buyers aged over 55, a preference for bigger fonts and larger virtual keyboards seems likely, while younger users may prefer having more information at their fingertips.

In a similar vein, device manufacturers should think about how best to use screen real estate, especially within the context of the operating system. Simply making the user interface (UI) components and features larger is unlikely to be enough to please increasingly sophisticated customers. Specific features that make the most of the screen size, such as UI components optimized for single-handed usage, or custom input devices such as styluses, may help to create a more refined and appropriate user experience.

Some smartphones support multitasking, with more than one application running in the background. Larger screens introduce the possibility of having two apps open at the same time²²⁶; this will put pressure on application processors, graphics capacity and even memory.

Southeast Asia perspectives

Phablet popularity is also set to grow in Southeast Asia, where multiple Asia-based manufacturers like HTC, Huawei, LG and Samsung are continuing to launch new phablets to capitalize on this growth.

Many consumer electronics sectors/products see adoption rates differ between emerging Southeast Asian markets and more mature ones; the story for phablets is similar across the region. In emerging Southeast Asian markets like the Philippines, local brands like Cherry Mobile and MyPhone launched phablets successfully for a retail price below P12,000 (USD 270)²⁸⁷. Phablet shipments overtook those of portable PCs and tablet devices in Asia Pacific (excluding Japan) in Q2 of 2013. According to IDC, phablets first started as a trend driven by mature markets like Hong Kong, Singapore and South Korea. Demand in these markets continues to rise and is supplemented with the added demand of phablets in emerging markets²⁸⁸.

The GSMA Mobile World Congress confirmed the proliferation of phablet offerings, with companies like Asus, Huawei, Lenovo and ZTE launching new devices to keep ahead of the curve. This growth in the market has several implications on demand for other consumer electronic devices as the increased demand for phablets has a cannibalizing effect on both smartphones and tablets sales. In addition, we can expect to see further differentiation and customization of these devices by specialized purposes: Sony's phablet line is known to be good for reading and a possible threat to the e-reader market, whereas Samsung's phablets are known for their camera applications as well as their advanced video-viewing capabilities²⁸⁹.

Overall, Southeast Asia's increasing concentration of young professionals – a prime market for portable large screen devices – lends support to the phablet market's positive outlook.

The smartphone generation gap: over-55? There's no app for that

Deloitte predicts that in 2014, the over-55s will be the age group experiencing the fastest year-on-year rises in smartphone penetration across developed markets. Ownership should rise to between 45 to 50 percent by year-end, lower than the 70 percent penetration rate for 18-54 year olds, but a 25 percent increase from 2013 (see Figure 7 for smartphone penetration as of May-June 2013)^{227 228}. Over the coming years, the gap should steadily narrow and become negligible by 2020.

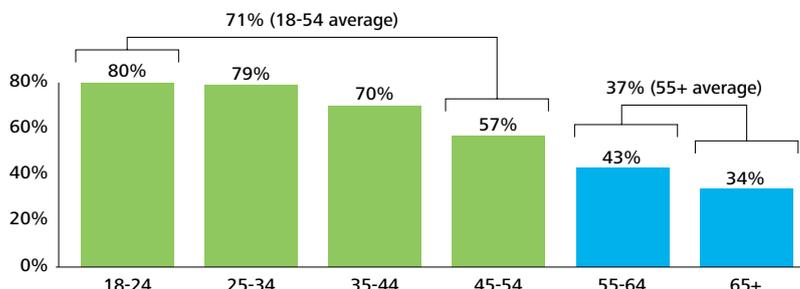
The closure of the gap is inevitable: it is becoming almost impossible to buy a feature phone. But while the difference in smartphone penetration by age may disappear, in 2014 there will likely be substantial differences in how individual age groups use them. Although over-55s are increasingly buying smartphones, some use them as feature phones. Getting them to exploit the data functions is a key opportunity for network operators.

Older generations have been slower in adopting PCs and using the Internet²²⁹. However once the 55+ group overcame their initial lack of confidence, they became and remain enthusiastic users.

The situation with smartphones is more nuanced: while less powerful than most PCs, smartphones have a wide array of features and functions, from GPS navigation to Internet radio to HD video cameras. Some of this functionality is not straightforward to use, so while features such as navigation may be appealing to seniors, accessing them can be overwhelming.

An additional challenge with exploiting smartphones' full potential requires interacting with the broader ecosystem – such as apps stores – which delivers much of their utility. Deloitte's research found that among 11 developed countries at least one in four smartphone owners aged 55+ had never downloaded an app to their device (see Figure 8)²³⁰. One of the reasons for this may be the scale of the marketplace: two million apps are daunting, particularly when there is no filter by the user's demographic²³¹. In 2014, we expect a quarter of 55+ smartphone owners may not download a single app.

Figure 7: Smartphone penetration in developed countries as of May-June 2013

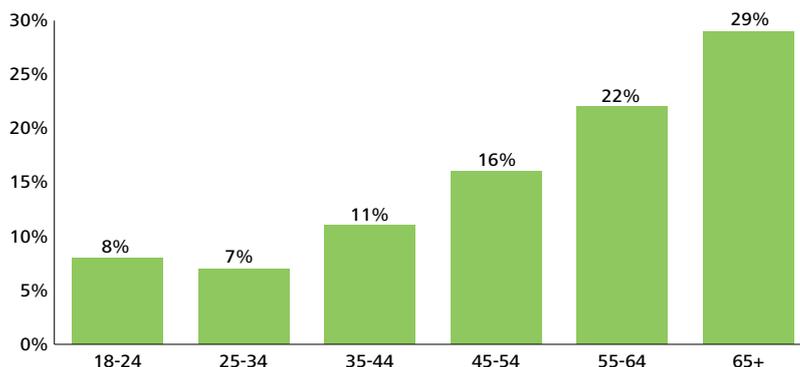


Source: Deloitte Global Mobile Consumer Survey, Developed countries, May-July 2013

Weighted base: (Respondents from all age groups) Belgium (2,000), Finland (1,000), France (2,000), Germany (2,000), Japan (2,000), Netherlands (2,009), Singapore (2,000), South Korea (2,011), Spain (2,000), UK (4,020), US (2,000)

Note: The averages have been calculated by using actual numbers

Figure 8: Smartphone owners that have never downloaded an app by age groups (Developed countries)



Source: Deloitte Global Mobile Consumer Survey, Developed countries, May-July 2013

Weighted base: Smartphone owners (main phone): Belgium (690), Finland (467), France (969), Germany (997), Japan (603), Netherlands (1,136), Singapore (1,632), South Korea (1,587), Spain (1,242), UK (2,392), US (999)

A reluctance to download apps may have an impact on many other dimensions of smartphone usage. For example, we expect that over two thirds of smartphone owners aged 55+ will not use mobile instant messaging (MIM) in 2014. Across the entire base of smartphone users, MIM is one of the most widely used app-based services for smartphones: 56 percent of 18-24 year old smartphone owners use MIM on a weekly basis (see Figure 9).

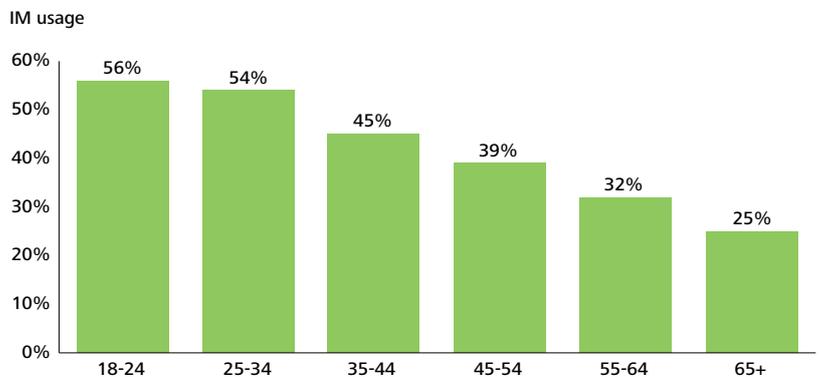
Similarly, more than two-thirds of over-55s do not use their smartphone for social networking while 75 percent of 18-24 year olds do (see Figure 10). Yet on PCs, as of May 2013, 60 percent of 50-64 year olds and 43 percent of 65+ year olds in the US were using social networking sites²³².

There are a number of factors that inhibit smartphone adoption by seniors. For example, consumers of all ages are confused by metered data plans; this confusion may be particularly acute among older consumers. Indeed, a quarter of over-55 smartphone owners do not know how large their data allowance is, compared to a sixth for 18-54 year olds. Moreover, many over 55s may be put off by press articles about bill shocks caused by exceeding data allowances²³³.

A second challenge is the user interface. Though smartphones have ever-larger screens, few apps and services cater for consumers with less acute vision. One smartphone vendor, however, offers an 'Easy Mode' with fewer home screens, apps with bigger icons and a home screen dedicated to calling, all which are meant to aid the transition to a smartphone for first-time buyers²³⁴.

Then there are the apps themselves, which are arguably designed by younger people, for younger people. Among the more than two million smartphone apps, few have been designed for older generations. Apps developed for older consumers tend to focus on health and wellness; some remind these individuals of their diminishing faculties²³⁵. There is no obvious reason why older consumers should not enjoy the same breadth and depth of services as other generations – they should just be customized to be easier to use, or at least more intuitive for older generations with application and functionalities brought to their fingertips.

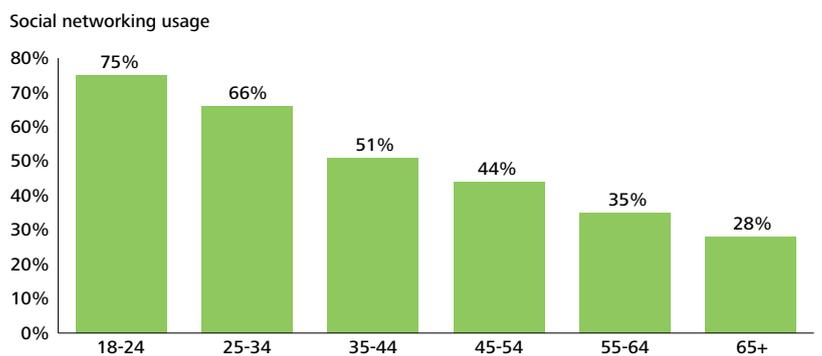
Figure 9: Weekly IM usage on smartphones by age groups (Developed countries)



Source: Deloitte Global Mobile Consumer Survey, Developed countries, May-July 2013

Weighted base: Smartphone owners (main phone): Belgium (690), Finland (467), France (969), Germany (997), Japan (603), Netherlands (1,136), Singapore (1,632), South Korea (1,587), Spain (1,242), UK (2,392), US (999)

Figure 10: Weekly social networking usage on smartphones by age groups (Developed countries)



Source: Deloitte Global Mobile Consumer Survey, Developed countries, May-July 2013

Weighted base: Smartphone owners (main phone): Belgium (690), Finland (467), France (969), Germany (997), Japan (603), Netherlands (1,136), Singapore (1,632), South Korea (1,587), Spain (1,242), UK (2,392), US (999)

Bottom line

Over a quarter of adults in developed countries will be 55 or older²³⁶. The attractiveness of the 55+ group has long been recognized: with longer life expectancy²³⁷, older consumers are likely to continue working, accumulate an ever-greater share of global wealth and be increasingly interested in technology²³⁸.

This age group – which is likely to continue growing in absolute numbers and share of adults over the medium term²³⁹ – is likely to control a large proportion of disposable income in their countries²⁴⁰. They are not just an untapped market; they are a lucrative untapped market.

For wireless carriers, targeting the over-55s could be particularly effective. Carriers should ensure that all aspects of service, from the structure and explanation of tariff plans, to customer service are appropriate for this group. They could also offer all-you-can-app tariffs, which would provide unlimited access to customers' preferred services for a fixed fee²⁴¹. Network operators may wish to offer multi-generation family tariffs, which would, for example, allow older generations to gift air time and data bundles to relatives.

Carriers should create dedicated customer service programs labelled as 'for first-time' users, but with seniors likely to be key users and beneficiaries of such a service. The service should include online, telephone based and in-store assistance with app downloads, browsing, GPS based navigation, video calling and mobile instant messaging²⁴². A dedicated customer service plan could become a key differentiator in a market in which self-service is being increasingly pushed by operators. Mobile carriers may consider setting aside dedicated retail space for first time smartphone users within their stores to grow revenues not just from older consumers but also from tentative smartphone users of all age groups.

Discoverability remains a key inhibitor to app downloads. App store providers may need to consider adding filtering options based on demographic relevance. Moreover, as some consumers in this age group may delegate the app discovery and download process to friends or family, app developers may need to consider adding a functionality that allows approved users to take control of devices remotely.

'Ruggedized' data devices at \$250: reinventing the business case for mobile field force

Deloitte predicts that in 2014 the entry price for a ruggedized, connected data device that can be used by some field force workers, and used to undertake tasks such as car rental check-in inspections, inspecting highways or delivering packages, will fall to \$250. We expect incremental annual sales of almost 10 million units in 2014, effectively increasing the size of the entire rugged data device market by almost 50 percent to over 30 million units in 2014²⁴³.

The main driver for this fall in price will be a shift in approach, from only deploying data devices that are built to be rugged and capable of withstanding rough handling, exposure to dust and moisture, and the occasional fall on hard floors, to purchasing a standard consumer smartphone or tablet with a toughened screen, and further protecting it by adding a rugged case²⁴⁴.

This development does not signal the end of the existing market for ruggedized data devices. Rather, it indicates that the lower price points made possible by twinning selected consumer data devices with a rugged case will open up connected working for tens of millions of additional field force workers around the world in 2014. This should increase their productivity, through enabling a range of connected applications such as data entry, job allocation, and viewing maps and drawings. The lower entry price for rugged connected data devices, particularly when combined with pay-per-use mobile field force software²⁴⁵, may remove the need even to present a business case.

Connected data devices – smartphones, and more recently tablets – have for many years been ubiquitous among the hundreds of millions of office users, but have had relatively low use among field force workers. Connected devices in offices have been used in a fairly benign environment, protected in pockets and purses, and rarely exposed to harsher, outdoor, dusty settings; most connected data devices launched over the past decade would not have survived intact in harsh environments. And this is why for many years field force workers have been issued with highly rugged devices, be they walkie-talkies or PDAs used for data entry. In the latter case, resilient devices could cost over \$1,000 per unit, and software a few hundred dollars per year.

But not all field force deployments require the same level of ruggedness: for millions of existing rugged device applications and tens of millions of potential users, ultra-rugged devices may be overkill.

Therefore in 2014, alongside continued utilization of existing models of rugged data devices, we would expect about 10 million additional deployments of standard, consumer smartphones and tablets to field force workers, with the only adaptation required being a case, priced between \$30 and \$100. This would enable the cost of smartphone plus case to start from about \$250 for a specification sufficient for a field force worker: a 1.5 GHz processor, eight gigabytes of RAM, a sufficiently toughened screen (4.5 inches or larger), Wi-Fi, Bluetooth and cellular mobile²⁴⁶.

There are three key trends at play which enable the price of devices suitable for field force usage to fall to \$250 including the case.

First, Moore's Law and exceptional economies of scale deliver a markedly improving specification for devices at each price point over time²⁴⁷. About 1.5 billion smartphones and tablets, built for the consumer market, should ship in 2014. This compares to about twenty million units of ruggedly-built devices sold in 2012²⁴⁸.

Second, consumer devices over the years have become increasingly robust, able to cope with increasingly intensive usage patterns, and also to act as a differentiator. Today's smartphones and tablets need to be able to cope with thousands of hours of active use in their life time, and many thousands of hours being carried around in pockets and bags²⁴⁹. This has led to the incorporation of scratch-resistant screens and casings – and even cases that 'heal' minor scratches. Screen resilience should continue improving, and in 2014 devices with synthetic sapphire screens, sufficient to withstand repeated knocks against concrete, are likely to reach mainstream consumer devices²⁵⁰. There are already touch-sensitive screens which have been designed to work with standard gloves, a critical feature for devices used in cold environments²⁵¹. A growing range of consumer smartphones and tablets are water-resistant, and able to cope with pool-side and bathroom usage. This feature, which also provides dust-proofing, makes them much more suitable for use in the field²⁵².

Third, rather than depend on physical protection for devices, enterprises are also focusing more on behavioral change and identifying how workers could be encouraged to look after their devices. A device that is set up to provide both business functions and personal applications, such as consumer instant messaging, or simply taking good quality photos of family, may be more likely to get careful treatment.

Bottom line

Using mobile technology to increase the productivity of the world's billion field force workers has long made sense, and it has long since been regarded as a key application for mobile networks. But many projects have historically foundered on cost. Deployments that have been signed off have required a significant investment in business process reinvention to make the case viable, limiting the number of mobile field force projects that get approval.

However, the price of devices, software, and mobile broadband are all falling and this is creating ample opportunities to harness mobile-enabled devices to increase field force worker productivity.

For carriers, greater mobile field force use would increase data traffic and revenues. Field force systems integrators should identify which consumer-targeted smartphones and tablets being launched, or already being sold, could be readily re-purposed for field force usage. For software developers, one approach would be to create standard, off-the-shelf field-force solutions and apps that customers can use: for example an app that takes a picture of a defective water heater part, automatically assigns it a trouble ticket, and geo-tags it to the customer's address and links to its file. Software publishers should also identify the contexts in which field-force software could be used in a bring-your-own-device context.

Enterprises evaluating the rising applicability of mobile field force should be risk-aware: as with all technology deployments, security is paramount. To mitigate risk, enterprises should consider using a 'sand box' approach, whereby consumer data is kept separate from enterprise data, and incorporating remote-kill functionality that can instruct a stolen device to wipe its enterprise contents²⁵³. Most smartphones and tablets have integrated cameras, and in some contexts these may need to be disabled during working hours or in certain locations, to lessen the possibility of intellectual property being compromised.

While encouraging use of corporate-issued field force devices for personal applications, companies should pass on mobile data costs resulting from usage of non-work related applications. While the price per gigabyte over cellular mobile is falling, it is still between \$5 and \$10 in many markets. This may be acceptable for work usage, but is not justifiable for watching video or sending photos of friends and family.

Employers should also consider all approaches for encouraging workers to protect, and not punish, their devices. One option may be to have a scheme for selling devices to employees after a couple of years' usage – this may well encourage better treatment, if the price is right²⁵⁴.

Endnotes

- 1 Deloitte's estimate of device sales and average selling prices for these five categories over the period 2000-2018 is based on actual, forecast and in some cases interpolated data. These were then used to produce annual revenue figures which were then summed. 2000-2012 numbers are actual or interpolated figures. 2013 numbers are based on year-to-date figures up until Q3, combined with industry forecasts and Deloitte estimates. The 2014-2018 estimates are a combination of published industry forecasts and Deloitte estimates. Sources used include, but are not restricted to, IDC, Gartner, Canals, IHS, and DisplaySearch.
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- 132 In many cases, there has been no shift in behavior: all that has changed is the device. Today's teenagers in developed countries may watch on a 15-inch laptop, using their phones to instant message their friends; their parents may have made do with a 14-inch portable cathode ray tube (CRT) television set and a novelty-shaped wired phone. Both generations were exercising the same need: to consume television in privacy, with friends and outside of their parents' scrutiny.
- 133 Breakthrough in tracking IP television, BARB, 13 June 2013: <http://www.barb.co.uk/whats-new/277>
- 134 In the UK, as of the 2011 census, 12.3 percent of the population was foreign born and eight percent were foreign citizens. The concentration of those categorized as 'foreign born' is higher in cities, which also generally have better broadband networks. In inner London, 42 percent of the population was foreign-born; in outer London the figure was 32 percent. See: Migrants in the UK: An Overview, The Migration Observatory, 17 December 2013: <http://migrationobservatory.ox.ac.uk/briefings/migrants-uk-overview>
- 135 For example, Netflix subscribers in the UK and Ireland were able to watch episodes of Breaking Bad shortly after the show was broadcast in the US. Breaking Bad finale coming exclusively to Netflix in UK and Ireland starting August 12, The Next Web, 26 July 2013: <http://thenextweb.com/uk/2013/07/26/breaking-bad-finale-coming-exclusively-to-netflix-in-uk-and-ireland-starting-august-12/>
- 136 According to one analysis, about 11 million subscribers watch Game of Thrones illegally, and about four million access pirate copies. See: 'Game of Thrones' exec says piracy is 'better than an Emmy.' He has a point., The Washington Post, 9 August 2013: <http://www.washingtonpost.com/blogs/the-switch/wp/2013/08/09/game-of-thrones-exec-says-piracy-is-better-than-an-emmy-he-has-a-point/>
- 137 Awareness of the ability to mirror smartphone content, including video, on to a television screen is already quite high according to one survey, which found that 40 percent of smartphone and tablet owners were aware that this was possible. See: Screen mirroring awareness reaches 40 percent of smartphone and tablet owners, according to The NPD Group, NPD Group, 15 April 2013: <https://www.npd.com/wps/portal/npd/us/news/press-releases/screen-mirroring-awareness-reaches-40-percent-of-smartphone-and-tablet-owners-according-to-the-npd-group/>
- 138 Our methodology for determining the value of premium sports rights is based on recurring annual competitions only; we have not included the Olympic Games, FIFA World Cup or UEFA European Championship. Rights fees have been averaged over the duration of the respective contract. Fees have been converted into US\$ where applicable, using the June 30 exchange rate in that particular year. Values for each year are based on cumulative rights fees generated in that particular year for competitions operating on a calendar year and competitions operating across calendar years, so for example, 2009 refers to competitions operating in 2009 and 2008/09. We have obtained information principally from publicly available information released by rights holders, trade publications, confidential and proprietary sources.
- 139 Global pay TV revenues are forecast to increase by about four percent in the year to 2014 from \$245 billion to \$255 billion. See: Global pay-TV market to see double-digit revenue growth, Rapid TV news, 20 August 2013: <http://www.rapidtvnews.com/index.php/2013082029310/global-pay-tv-market-to-see-double-digit-revenue-growth.html>; 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->
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- 148 In 2012, performance rights revenues increased by 9.4 percent to \$943 million. See: IFPI's Recording Industry in Numbers 2013 – the must-read of global music – published today, International Federation of the Phonographic Industry, 8 April 2013: http://www.ifpi.org/content/section_news/20130408.html. In 2013 the dollar valuation of revenues may decline due to depreciation of the Yen relative to the dollar: Japan is one of the largest recorded music markets, and generates over \$100 million in performance rights revenues annually, but the dollar value is subject to currency fluctuation.
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- 160 Measured as a percentage of GNI per capita, mobile broadband services in Europe are the lowest in the world, at less than two percent of GNI per capita; in sub-Saharan Africa, they represent closer to 60 percent of GNI per capita on average, and indeed in some countries such as the Democratic Republic of Congo, Niger, Sierra Leone and Zimbabwe, the cost of a gigabyte of data is more than 150 percent of GNI per capita. See: Measuring the Information Society, International Telecommunication Union, 2013: http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2013/MIS2013_without_Annex_4.pdf. The cost of one GB of mobile broadband data in Sub-Saharan Africa ranges from around \$20 in Kenya to over \$100 in Namibia, Mozambique, Zambia, Botswana and even South Africa. See: Lifting barriers to internet development in Africa, Internet Society, 8 May 2013: <http://www.internetsociety.org/sites/default/files/Average-price-per-GB-of-traffic-in-Africa---rev12.pdf>. The average cost of one GB of mobile broadband data in Europe is less than \$2.50. See: European LTE operators look to new pricing strategies to boost mobile broadband revenues, GSMA Intelligence, 9 August 2012: <https://gsmaintelligence.com/analysis/2012/08/european-lte-operators-look-to-new-pricing-strategies-to-boost-mobile-broadband-revenues/345/>
- 161 The dynamic African consumer market: Exploring growth opportunities in Sub-Saharan Africa, Accenture, 2013: http://www.accenture.com/SiteCollectionDocuments/Local_South_Africa/PDF/Accenture-The-Dynamic-African-Consumer-Market-Exploring-Growth-Opportunities-in-Sub-Saharan-Africa.pdf
- 162 In some contexts digital video broadcasting, a terrestrial transmission standard, can be used to broadcast content; but this approach is generally more expensive than using satellite. Digital terrestrial television requires the use of masts to provide nationwide coverage, and in the majority of Sub-Saharan African countries, they are generally too few to provide service (legacy analogue television masts are comparatively scarce on the continent). See: Case study of digital tv switchover in Tanzania, Analysys Mason, 29 July 2013: <http://www.analysismason.com/About-Us/News/Insight/Case-study-of-digital-TV-switchover-in-Tanzania/>. In most cases, therefore, African nations have yet to make the transition from analogue to digital television, because of the cost associated with transitioning infrastructure. However, this year 47 African nations signed an accord that should see countries undertake migration by 2015 for UHF frequencies, and by 2020 for VHF. The motivation for this agreement was to free up 'digital dividend' spectrum for mobile operators, so as to create more mobile broadband capacity. For more information, see: 47 African countries agree on 2015 digital switchover, freeing 700MHz, 800MHz mobile spectrum, TeleGeography, 10 September 2013. : <http://www.telegeography.com/products/commsupdate/articles/2013/09/10/47-african-countries-agree-on-2015-digital-switchover-freeing-700mhz-800mhz-mobile-spectrum/>
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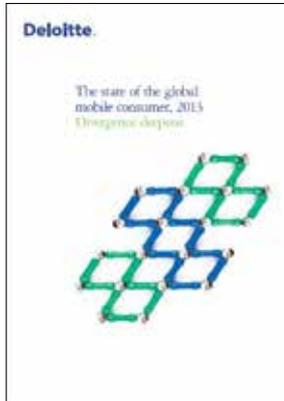
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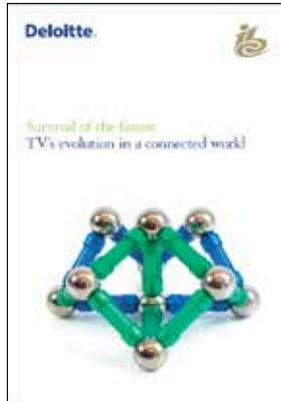
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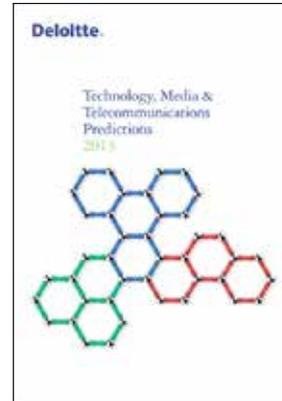
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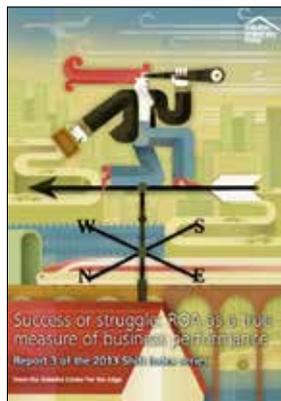
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