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How to make digital pay

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Despite the recession, experts say the only way to find growth is in the digital delivery explosion. Kate Bulkley reports.

Viewing television on a TV set is far from dead, but there is a clear trend towards watching telly and other entertainment on PCs and a wide variety of connected devices. The challenge for the industry is in how to make digital revenues pay, especially as big media companies struggle to protect their traditional revenue streams in the teeth of an advertising and consumer recession.

"Digital is probably one of the greatest financial and creative challenges we are going to see over the next decade," FremantleMedia CEO Tony Cohen told the recent Informa European Media Leaders Summit.

This is why: While digital accounts for more than a quarter of all growth in the media market worldwide, traditional media will still command 80% to 90% of revenues by 2012, according to PriceWaterhouseCoopers.

Add to that the recession, which is sucking advertising money out of the system and depressing consumer demand for paid for media, and the way forward looks difficult at best.

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"I think this recession is going to be pretty deep and pretty long," says Martin Pompadur, former Executive Vice President of News Corp. and a veteran of the media sector. He pointed to high consumer debt and lower spending as big problems for media in countries around the world. "We're certainly talking about a recession.

I hope we're not talking about something worse than that," he says.

Digital media may not be the short-term answer for ramping up big profits, especially in a recession, but that is where potential for growth lies.

In the UK, where broadband penetration is above 60%, the opportunity for online distribution is key to the business models of players ranging from the biggest commercial network ITV to the country's largest pay TV provider BSkyB, which announced plans this month to offer a PC-only subscription service to some of its pay TV packages.

The fragmentation of audiences that began with multi-channel TV, and has been more recently exacerbated by online TV, has chipped away at the size of audiences that big TV channels can attract, and that has started to impact their schedules.

ITV has seen its average audience share fall by more than 10% in the last decade and yet the hits holding up ITV's current schedule attract the same size audience as the biggest primetime shows were a decade ago, according to statistics from FramantleMedia.

"The X-Factor", "Britain's Got Talent" and "Dancing On Ice" achieve shares of 38% to 43%, way above ITV's current primetime average of 24%. This means these shows are "doing a great deal more work for the channel", according to Cohen.

"As producers, what we see is that these big primetime shows are going to become more and more valuable ... and of course we hope that is reflected in what the channels pay for our primetime shows," he says.

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At the same time that big, audiencegrabbing entertainment shows and live sport must work harder for the broadcasters, online, catch-up TV is no longer viewed as simply cannibalising TV viewing.

NBC Universal International President Peter Smith says TV viewing of NBC's Olympics coverage was not affected negatively

by online at all.

Despite the fact that some 12 million people watched 10 million hours of Olympics coverage online, NBC's research shows that people were using online to supplement their TV viewing.

"The broadband streams were for replay or to catch-up on an event they missed," says Smith. "I think the trend around digital is a de-bunking of the theory that digital cannibalizes traditional media." The problem, of course, is how to make online entertainment pay, especially when the online video leader is YouTube, a site that has only recently begun to add advertising and professionally made content to supplement its heritage as a user-generated site for home-made clips.

NBC Universal and News Corp.'s online joint venture Hulu.com is now the sixth most popular site in the US, says Smith, with 142 million videos streamed to users in September alone, a 42% month-on-month rise.

Screen Digest estimates that Hulu will post about \$70 million in revenues this year, and Smith says that it monetizes 100% of its content with advertising. But it is small beer compared to the billions still devoted to traditional TV advertising in the US.

How content is moved and monetised online is also something occupying minds at ITV. COO John Cresswell says it is "very important" to keep control of its relationship with the advertisers even as its programming moves from the TV screen to online.

ITV, along with the BBC and Channel 4, is waiting for the Kangaroo online joint venture to be approved by the competition authorities, hopefully in the New Year.

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"We looked to mobile as the place to go because kids were paying £2-3 for a ringtone, but now these mobiles are all becoming computers, so they are all watching YouTube instead of paying," Cresswell says. "Especially in the (recessionary) times we are going into, now we need to focus on the flagships, the triple-A productions that can make a difference and that broadcasters need to have to get people to tune in at 8 o'clock. And the rest will have to wait until later because it is not the time now to figure it out." Sony Pictures Television International President and Managing Director Europe John McMahon says online platforms such as Hulu do not yet generate the type of revenues that would encourage financing new productions.

"Most of them are unwilling to put up any upfront money to commission an original show and they only want to talk about a revenue share model," McMahon says. "We believe that these platforms are where consumers will be viewing content but we think it has to be complementary to what we are doing with linear broadcasters." As companies try to figure out how to make online distribution pay, the appeal of these new distribution choices continues to grow, particularly among younger people. Digital evangelist Erik Huggers, the BBC's Director of Future Media and Technology, says the success of BBC iPlayer is showing the real appetite for online TV entertainment.

He sees the BBC in the vanguard of helping online and connected-device consumption to grow even further. "I would like to see a world where by 2012 bbc.co.uk or BBC online is only second to BBC1 in terms of audiences that it reaches," he adds.

"If you look at the agenda of government around broadband Britain and the digital economy, I am convinced that the BBC and other broadcasters can drive demand for big broadband pipes directly to consumers and my hope is that we have lots of growth left in the system." But Huggers also thinks that the broadband world has a big technical and strategic hurdle in front of it.

“The next wave of innovation has to be how you get the internet in all its glory on the TV in the living room,” he explains. “How do you avoid a situation where broadcasters must constantly create bespoke deployments of the same service because there are 10, 20 or 100 devices out there that have all decided to use different sets of technologies?” Huggers believes that the BBC should take the lead to help establish an open IP standard that will allow the easier flow of broadband content to the TV. But he admits this will require “the entire value chain from consumer equipment manufacturers and broadcasters, to regulators, to the BBC Trust and the ISPs” all working together. Says Huggers: “If we believe it is important to build a digital broadband Britain, then this could be a wonderful opportunity to help speed that up and create consumer demand above what it is today.”

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