

Online TV Video-on-demand

'TV for the iPod generation'

With the rise of video-on-demand, providers must keep up with viewer expectations of more content and better quality

Mark Sweney

Malcolm Wall, the chief executive of Virgin Media's content division, is enthusiastic when he describes the cable operator's video-on-demand (VOD) service. He calls it "TV for the iPod generation".

The loss-making cable company has had its share of setbacks, including losing Sky channels in a dispute over price it should pay for them, but Virgin holds up the increasing demand for its VOD service (nearly half of its 3.5 million digital TV subscribers use VOD on a monthly basis) as an important part of attracting and retaining subscribers.

"The UK is a really competitive market with 150 pay-TV channels, Sky, Freeview, Tiscali and BT's TV service. Our VOD service is a point of differentiation," Wall says. "It is an attractive play in acquiring customers, which is a financial and operational target, and it is a factor in achieving our low-churn [disconnection] rate of 1.2% in the first quarter".

According to Virgin, monthly VOD views in the first quarter of 2008 averaged 36m, up 155% on the same period last year. Virgin TV subscribers watched an average of 24 pieces of VOD content per month in the first three months of this year, up from 11 a year ago. Virgin says its VOD service has a bigger audience than Five.

"I don't want to get into a face-off with Five and won't make further claims about viewing until I can collect how long viewing is for every single programme [watched on VOD]," Wall says, but he claims the amount of time people are spending on VOD is "getting up there" compared to the time they are spending with major terrestrial channels on the Virgin Media platform.

A breakdown of viewer VOD habits for March saw about 39m views, consisting of 35% to Virgin Media's free, seven-day catch-up service. The most popular programmes for catch-up viewing are typically from the BBC.

In May, Virgin launched a cable-delivered version of the BBC's iPlayer, greatly increasing the hours of BBC programmes available to its subscribers on catch-up from 50 to 400 hours. Very early indications are that iPlayer has fuelled a 10% increase in overall viewing of BBC shows on-demand. There are also discussions about putting ITV's catch-up TV service onto Virgin Media but no deal has yet been signed.

There is a "slightly younger" demographic attracted to the BBC iPlayer, com-

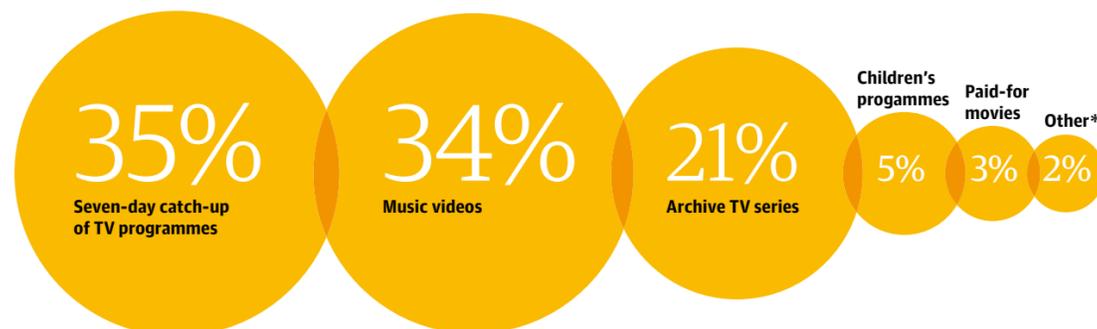


BBC's Gavin and Stacey: Virgin Media hope to attract greater audiences with catch-up services, including BBC iPlayer BBC

Virgin Media VOD usage

VOD programming viewed during March, %

Total of 39m pieces of VOD content viewed



SOURCE: VIRGIN MEDIA

*Includes Teachers TV, Baby Channel and adult content

pared to the pre-existing BBC content on the VOD service, says Wall, with viewers attracted to shows like Gavin and Stacey.

Wall says that Virgin's VOD music service will be developed over the next year to become more "sticky", allowing users to build their own playlists and tag songs. About 34% of views in March, (just over 13m), came from a catalogue of music videos. These cost 20p to 30p per video and £1.50 per concert for all except Virgin's top-tier XL customers who can access music VOD free of charge.

The TV Choice "archive library of TV shows" attracts 21% of all views; US programmes, such as The Sopranos and Six Feet Under, as well as comedy in general, do well. Children's TV accounts for 5% of usage and demand has "grown considerably since around September," says Wall.

There is some evidence that personal video recorders (PVRs) undermine VOD usage, but Wall says "the experience to date is that they are compatible." This view is backed up by Richard Broughton, an analyst at Screen Digest, who says that a lot of VOD content is not on regular TV, so it is distinct from the way consumers use their PVRs.

Backing up a business model

It may be early days for VOD on Virgin but already some analysts are thinking that the business model is more about dissuading viewers from disconnecting the service than it is about creating a wholly new revenue stream. Screen Digest estimates that 90% of Virgin Media's monthly VOD views are free at the point of consumption because they are offered as part of a premium pay-TV subscription or paid for by advertising.

"Virgin is closely modelled on the US operations of cable operators like Comcast," says Broughton. "Comcast bundles the VOD service mostly free with a subscription to linear TV." According to Broughton, Virgin's VOD strategy, like Comcast's, is designed to drive subscribers to pay for more expensive TV packages.

Comcast is the "premier VOD provider in the US market", adds Gerry Kaufhold, principal analyst at In-Stat, a leading provider of digital communications market research. Comcast reports that the aggregate number of VOD views per month is at about 275m, with about 90% of those for free content, meaning 27.5m views, or only 10%, are for content that requires payment.

But Virgin is not limiting itself to VOD accessed via the red button on the TV. It also operates an online TV service through its broadband internet portal. This receives about 20m weekly views fuelled by an internet highlights deal for Barclays Premier League.

Wall says that the aim is to "replicate more of what we offer on the TV platform for the portal," including a music VOD service and a transactional online movie offering.

On-demand releases fall in line with DVD

Movies usually become available for sale online about a month after being released on DVD – will removing this delay create more profit?

Mark Sweney

In March, Warner Bros Entertainment took the controversial step of being the first Hollywood major to offer some of its movie titles to video-on-demand (VOD) systems on the same day that the films are available to buy or rent on DVD.

The collapsing of the two "release windows" into one signals that Warner Bros believes that feeding customer demand earlier is in the interest of their bottom line. The change effectively means that VOD services such as those run by BT Vision, Sky Box Office, and Tiscali TV are getting movies for VOD earlier – traditionally the VOD distribution "window" has come a month or so after movies are available on DVD.

"Consumers are saying 'we want content', and we want it early," says Marc Gareton, executive vice-president of Warner Bros' international digital distribution network. Gareton believes that, if early indications hold up, VOD could become a much more meaningful revenue stream over the next 18 months.



The Warner Bros film December Boys was released on DVD and VOD simultaneously

'DVD release has to be protected at all costs as it is the single biggest revenue and profit generator'

The risk for the studios is upsetting the traditional "release windows" for their films. Currently revenues are generated in each segment of the film's value chain, beginning with its theatrical release in cinemas and moving through to DVD, then to VOD, then pay-TV, until the film is finally available on free broadcasters such as ITV and the BBC.

Simultaneous release

While the other Hollywood major studios are watching, Warner Bros is bullish about its decision to move the VOD window to coincide more or less with DVD. However just how close the VOD release will be to the DVD release is, for the time being, a film-by-film decision. "A couple of years ago we were focused on files flying over the internet and digital piracy," says Gareton. He says the situation has now changed and he believes that Warner's approach is somewhat overdue: "We should have tested one European market a year ago."

In a trial in the Nordic region late last year, Warner Bros recorded a doubling of VOD transactions. "We need six months' data to make a meaningful conclusion [but] if we see anything like the Nordic results in the UK it will be a meaningful revenue stream in 18 months."

However, Ben Keen, chief analyst at Screen Digest, says that Warner is "ploughing a lonely furrow" and that the other studios "on the whole remain

unconvinced that the strategy works".

"Windows are about maximising revenues, and collapsing a less profitable window like VOD into a more profitable DVD sales window is potentially dangerous," he says. "DVD is the release window that has to be protected at all costs as it is the single biggest revenue and profit generator as far as movies are concerned for studios."

Gareton argues that rather than cannibalising DVD sales the trials have shown "incremental sales" improvements.

BT Vision and Tiscali TV have both upped the price of earlier release films on their VOD services, by 50p and 25p respectively, to "reflect the price people pay at Blockbuster," says one executive.

"We will not see the bottom fall out of the DVD market; people will want to consume in different ways," says Marc Watson, commercial director of TV services at BT Vision. "Consumers are changing how and when they watch films. Time Warner are the first to do it. Maybe for them it is a tipping point of growth. We would expect, if they are successful, others will follow."

For the likes of BT Vision and Tiscali TV, the belief is that the "rency effect" of offering films earlier boosts the "buy rate" and will increase loyalty and customer acquisition and reduce churn rate.

"VOD is the new video store online," says Hugh Williams, director of programming and content at Tiscali TV.

Online TV Bandwidth/DVDs

The need for speed

Improving the UK's stretched broadband network is vital for the nation's economy and its competitiveness, but who will pay for the upgrade?

Richard Wray

When headlines warning that the success of the BBC's iPlayer web-video service would bring the internet to its knees started appearing earlier this year, Stephen Timms could be forgiven for having a wry chuckle to himself.

Timms used his first speech as minister of state for competitiveness in November to warn that the UK risks being left behind in the race to build the next generation of super-fast broadband networks and held an industry summit to kick-start the debate.

Since then, the hypothesis that the UK will need an even faster residential broadband network has hardened into fact. In April alone, the iPlayer had 21m requests for streamed and downloaded programmes. On some ISP networks the iPlayer regularly accounts for more than half their traffic and some of the smaller – and less well capitalised – operators are struggling to cope.

But the iPlayer is just the tip of an iceberg of bandwidth-hungry internet and TV services headed our way and the problem is: who is going to foot the multi-billion pound bill for the networks that will support them?

Timms has since been shuffled out of his post, but his replacement at the Department for Business Enterprise and Regulatory Reform, Baroness Shriti Vadera, wasted little time in calling on former Cable & Wireless boss Francesco Caio to lead an investigation into how and when next-generation access networks can be delivered.

Caio, who has an office at Lehman Brothers, where he is the vice chairman

of the investment bank's European group, is reticent about giving away his thoughts as he works towards his report for the government, due in early autumn. However, he says he comes to the debate with no preconceived ideas. "This is a very collaborative investigation."

Having already carried out his own extensive research into how other countries are dealing with the thorny issue of paying for super-fast networks, Caio began meeting with major UK industry players earlier this month. Privately, he does not seem wedded to the idea that the UK must have a one-size-fits-all network. Instead – at least in the early stages – the UK is likely to have a patchwork of next-generation technologies, he believes.

The patchwork will include some fibre optic cabling to the home, or at least to a connection point in a street cabinet close to homes, which would allow speeds beyond 50 Mbit/s and cost between £7.5bn and £15bn; better use of the existing copper networks to get them up to 24 Mbit/s; and also the possibility of super-fast Wimax wireless broadband.

Raiding the public purse

Meanwhile, having already held a public discussion about next-generation access networks, Ofcom is planning its own investigation into the issue. Caio says his review is very much working in tandem with the regulator. Some in the industry – and some politicians – claim the government will need to stump up some of the cash or that content providers themselves, including the BBC, should help pay for the upgraded networks.

Speaking to a joint session of the Commons Culture, Media and Sport, and

'The cost here is very considerable and I would have thought it was an unnecessary use of public funds'

Business and Enterprise committees in April, however, Ofcom chief executive Ed Richards said: "I am not convinced myself that the right answer ... is to get the BBC to pay for the iPlayer."

Ofcom's chairman, Lord Currie, thinks public money should not be used to pay for new networks. "I would have thought the cost here is very considerable and it was probably an unnecessary use of public funds."

Clearly, the regulator would rather see industry invest in super-fast broadband, with public money plugging any gaps. But Richards stressed that the government should not jump to conclusions about where the gaps might be. In the early days of the current broadband rollout, experts predicted it would only ever be available to 60% of the UK population. In fact, BT has rolled out broadband to more than 99% of the country. Now BT intends to have 24 Mbit/s broadband available to 10m homes by April next year, using its existing copper lines.

BT will realistically be the main provider of next-generation infrastructure to the majority of the UK, as Virgin Media does not have the funds to expand its cable network beyond the half of the country it currently covers. So the next question is how to get BT to invest in fibre optic networks.

Newly appointed BT chief executive Ian Livingston told journalists, after the company's financial results on May 15, that once the bulk of the company's investment in its core "21st-century" network has washed through – by about 2010 – it could switch its investment focus to fibre. The key, however, is in reaching a settlement with the regulator that allows BT to make a return on that investment. The company knows it will have to make its new lines available to rivals, so it needs a regulatory settlement to match that already achieved in existing broadband through its wholesale Openreach unit.

"If we can deliver to shareholders a great return, I am sure they would be interested in the concept of investing [in fibre]," Livingston says.



The UK risks being left behind in the race for super-fast broadband David Hoffman/Alamy

There's life in the old disc yet

Despite films being available online at the click of a mouse, DVD rental companies, such as LoveFilm, are predicting plenty of growth to come

Mark Sweney

Given the rapid increase in online video you could be forgiven for thinking the DVD rental business was dead. In fact, although the bricks and mortar DVD rental stores are seeing a massive fall in business, their online cousin – where discs are ordered on the web but delivered by post – is very much alive and kicking.

Between 2007 and 2012, UK consumer spending on DVD rentals from stores is expected to fall by more than 50% from £297m to £144m, but online film rental subscription services like the UK's LoveFilm, are predicted to grow by over 80% from £77m to £139m, says Screen Digest.

In fact, Screen predicts that, by 2012, just 4% of consumer spending on movies will be via digital delivery, not accounting for movies delivered through TV VOD. So that means that some 96% of consumer spending for films online will still include "physical" DVDs in some way.

"Everyone is getting excited about digital delivery," says Helen Jayalath Davis, a senior analyst at Screen Digest. "Growth rates are substantial. Online subscription rental systems, such as LoveFilm, have a lot of growth to come."

LoveFilm dominates the UK online DVD rental business with a 78% share and online retailer giant Amazon merged its European operations with LoveFilm in January. However, the growth of online movie streaming, downloads and on-demand films on TV does pose a looming threat to online DVD rental businesses.

Simon Calver, chief executive of LoveFilm, believes that his online DVD rental business still has a lot of life in it. He argues that there are big barriers to digital distribution, including slow broadband speeds, low storage capacity for film files and limited availability of movies. Perhaps most importantly, he says there is still some



Here to stay? DVDs are threatened by video-on-demand and online delivery Alamy

"fear of downloading" versus the "tried and trusted experience of DVD".

"There is going to be an awful lot of road kill on the digital highway and a lot of road left for us," says Calver, dispelling any suggestion that LoveFilm may be outmanoeuvred, or made obsolete, by the rise of digital distribution. Calver argues that for the foreseeable future DVD will also offer a better experience than digital delivery, particularly with the extra quality offered by technologies such as Blu-ray.

Flexibility is key

Despite this confidence, Calver knows that online distribution is coming. "Our business model is based on physical DVD rentals, but there have been a number of changes in the last two to three years; one is to become more of a film portal with tickets, rental and even downloads to own or rent," he says, adding that the aim is to

be "less dependent on physical DVD rental when the market moves".

The move to make LoveFilm a portal will include the roll out of "social media" facilities and wikis. There is, however, the slightly thorny question of the long-term relationship with Amazon, which is thought to have about a 30% stake in LoveFilm, and its own ambitions with digital service Amazon Unbox. Calver says that there is no issue as Amazon Unbox is only in the US. However this ignores the fact that the UK is, frequently, the second market after the US for new products.

"Amazon handed over its DVD rental business but it is now the largest investor in LoveFilm," says Screen's Davis. "Digital delivery is where the industry is heading. For Amazon the opportunity is to increase investment in digital distribution without the distraction of a physical business – but it sees the future potential of Lovefilm".

Race for bandwidth

BT and Virgin Media are both trialling technology that could make next generation, high-speed networks across the UK a reality

Richard Wray

A massive redevelopment site in Ebbsfleet, Kent, is where the first glimpses of next-generation, high-speed networks can be found today. BT plans to begin installing fibre optic cables to new premises there in August. The technology is being provided by Chinese firm Huawei and should provide speeds of up to 100 Mbit/s – 20 times faster than the average speed today.

The Ebbsfleet site is three times the size of London's Hyde Park and will take 20 years to be fully built, but it is a perfect test bed for BT as it looks at the cost and technology involved in rolling out these new access networks.

Already Ebbsfleet has thrown up issues that will need to be addressed before fibre to the home – or its cheaper alternative, fibre to the roadside cabinet – will be ready for a possible national rollout.

BT wants its existing obligation to provide every new home with a copper line to be waived before it considers a national

fibre rollout. BT is also keen to clarify how much its wholesale unit, Openreach, can charge both BT users and others for the use of the fibre. The first set of indicative prices, announced by BT in January, were eye-wateringly high, ranging from £100 a year for a basic line to £530 a year for a 100Mbit/s line. That compares with £80 for a fully "unbundled" copper line today.

Meanwhile, Virgin Media has been testing 50Mbit/s services in Ashford, Folkestone and Dover. It is using its existing network – which runs fibre to the cabinet and then a traditional twisted copper pair into homes and offices – but using new technology called Docsis 3. This technology will begin rolling out across the company's cable footprint towards the end of this year.

Virgin Media will benefit from the fact that it is switching off the analogue television part of its service this year, freeing up capacity for other services such as video on demand. The company has also limited the impact of high BBC iPlayer traffic on the internet access part of its network by routing iPlayer through the TV video-on-demand service part of its network.

The perennial problem with Virgin Media, however, is that the heavily indebted company does not currently have enough money to be able to expand its network beyond its existing coverage area, which passes only about half of the UK population.



Digital home: a fibre-optic roll-out could boost bandwidth, but costs are high Alamy