Broadcasters and the Internet

Executive summary

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Distribution Strategies
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INTRODUCTION: BROADCASTER ONLINE VIDEO STRATEGIES

Media companies are fully engaged in exploring Internet opportunities and particularly in the expanding market for online video. For many it has been a period of experimentation and trial governed more by caution and copyright protection concerns, however, with a dramatically expanding market and shifting consumer behaviour, many broadcasters now perceive the risk of under-engagement as greater.

In the US and several European markets, Apple inaugurated mass online video distribution two years ago when it established numerous partnerships with major content owners to sell downloads through its iTunes store. However, there is clear trend emerging toward ad supported streaming and away from paid downloads. The difficult question for broadcasters is how to split their services between their own properties and third party websites that control large volumes of Internet traffic.

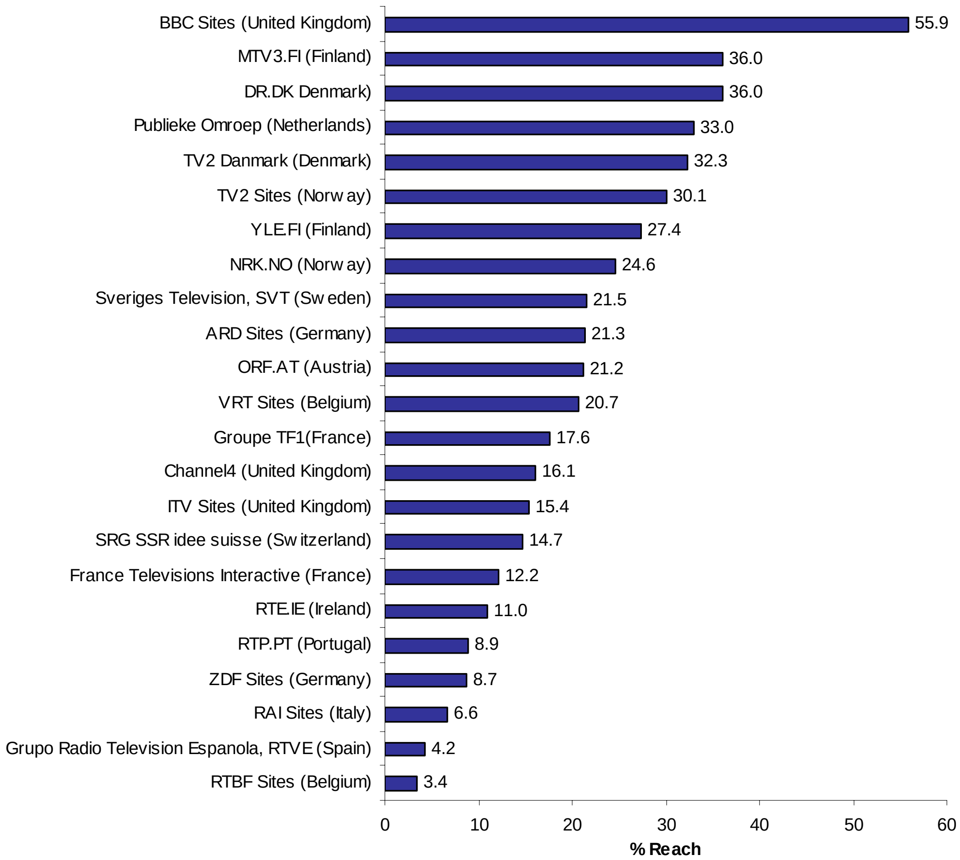
In the forthcoming television season more content will be streamed by US networks than ever before. This shift in strategy has been guided by two realisations: online video consumption tends to be additive and does not replace normal TV viewing; and advertisers are moving more and more of their budgets into online. Broadcasters face a trade-off between reaching mass audiences on the most popular Internet sites and building loyalty and reach for their own properties. At this point, there seems to be no easy answer and individual broadcasters have developed their own specific strategies.

PUBLIC SERVICE BROADCASTERS ONLINE

On average, a fifth of all Internet users in Europe visit an EBU Member website at least once a month.

A comparison of the websites and distribution strategies of EBU Members shows some notable diversity in terms of successful exploitation of the Internet for distribution of broadcast content. With reference to national Internet reach of EBU Members' website properties, the BBC has the most attractive online property by far, reaching almost 60% of the British Internet audience. With 19.9% less reach, the second most popular property is Finnish MTV3. In Aug'07, the majority of EBU Member websites achieved a reach of 15% or higher, and the average, calculated across all Members, is 20.8%. With an EBU Member average reach of more than 20% in Western Europe, it is clear that PSBs have established an important presence online.

EBU Members' website reach - Aug'07 (% reach among national population)



Source: EBU based on comScore

Almost all EBU Member sites rank in the top 50 most visited web properties in their respective countries.

Eight EBU Member websites, among them DR in Denmark and Publieke Omroep in the Netherlands, are ranked in the top ten in their markets.

Comparison of EBU Members' online reach

Internet property	Country	Ranking among top100 web properties	% Reach (Jun'06)	% Reach (Jun'07)	Increase of reach
BBC Sites	United Kingdom	5	55.3	59.6	4.3
DR.DK	Denmark	7	36.8	33.2	-3.6
Publieke Omroep	Netherlands	7	33.0	33.4	0.4
MTV3.FI	Finland	7	45.5	35.3	-10.2
YLE.FI	Finland	8	30.9	30.9	0.0
TV2 Danmark	Denmark	8	32.0	31.4	-0.6
TV2 Sites	Norway	9	N/A	33.6	N/A
ORF.AT	Austria	10	22.2	22.0	-0.2
VRT Sites	Belgium Fl.	11	18.9	19.4	0.5
NRK.NO	Norway	13	27.0	28.4	1.4
Groupe TF1	France	16	19.4	23.8	4.4
SRG SSR idée Suisse	Switzerland	19	15.9	17.3	1.4
Sveriges Television - SVT	Sweden	19	20.2	18.6	-1.6
RTE.IE	Ireland	21	12.4	13.2	0.8
ARD Sites	Germany	22	24.6	21.1	-3.5
Channel4	United Kingdom	26	18.6	19.4	0.8
RTP.PT	Portugal	28	10.1	11.6	1.5
RAI Sites	Italy	34	11.5	11.3	-0.2
France Televisions Interactive	France	37	13.5	16.7	3.3
ITV Sites	United Kingdom	45	11.9	14.4	2.5
ZDF Sites	Germany	86	12.0	5.8	-6.2
RTBF Sites	Belgium Fr.	Not listed	4.4	3.3	-1.1
Grupo Radio Television Espanola- RTVE	Spain	Not listed	5.2	4.9	-0.3

Source: EBU based on comScore

EBU Members are increasing collaboration with YouTube

While some content providers reject YouTube, others see it as a way of reaching new audiences and choose to cooperate with this new platform for distribution of video programming. Most of these companies are commercial like MTV, Sony BMG and CBS Corp. but public broadcasters like the BBC, Swedish SVT, Norwegian NRK have also made similar deals with YouTube. EBU Members have during the past year chosen to partner with YouTube to set up their own branded channels on their website. The reasons are primarily: to build brand, to drive traffic to own websites, to gain new users, and to reach a wider audience with their content.

3FM radio channel, The Netherlands - The 3FM branded YouTube channel was launched in April 2007 using a web design very similar to the one used for 3fm.nl. From the start ten playlists filled with Internet-only video content were made available to users containing on-demand content. The site has a direct link to 3fm.nl.

TSR, Public TV broadcaster, Switzerland - TSR decided to carry out a trial with YouTube to try and deliver digital content through a new platform and the new channel was launched in July 2007. The goal was to gain new audience and create higher awareness for tsrvideo.ch.

Although YouTube represents access to the largest number of users among UGC sites, there are many more and EBU Members have made deals and formed alliances with a variety of them.

COMMERCIAL MEDIA GROUPS

Large media groups are extending influence online: the top three media conglomerates control 900 million users.

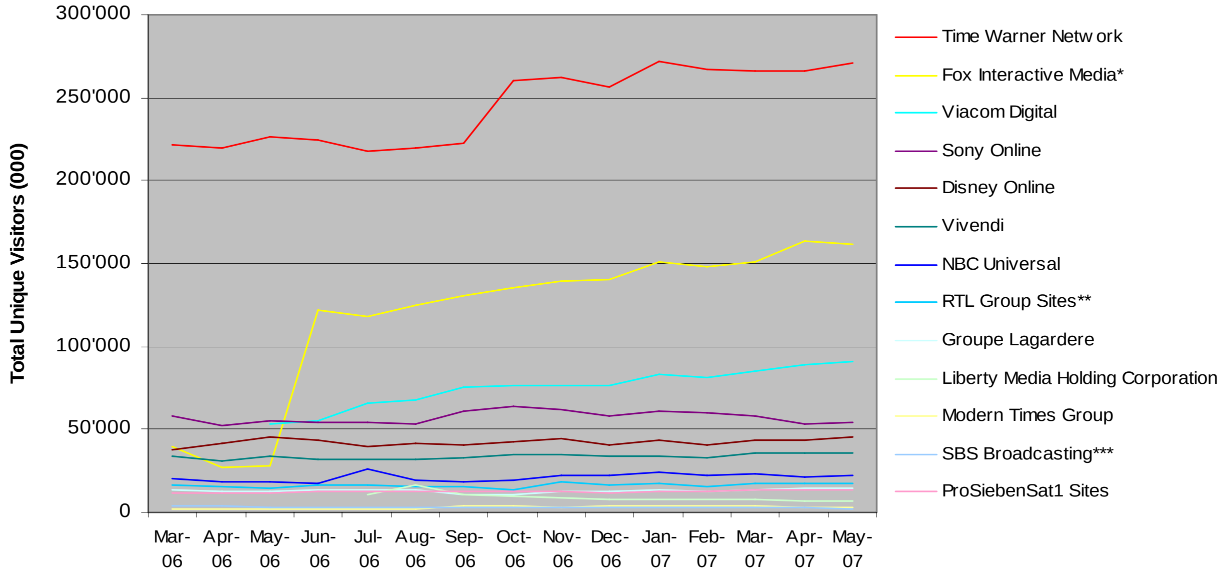
At least one of the top ten web properties - the companies with the strongest online presence – were visited by 707.5 million users in June 2007. These ten properties alone reach 90.7% of all Internet users worldwide and therefore enjoy a position of enormous impact in today's online media space. Large media groups like Time Warner Network, Fox, Disney and Vivendi can all be found among the top global properties. On the top ten list of most visited sites two of the largest global media corporations are represented: Time Warner Network and Fox Interactive Media (News Corp.).

The largest growth was achieved by Fox Interactive Media, owned by News Corporation, increasing the number of unique monthly visitors by 50 million in one year, which represents a 277% growth. The main driver behind this important growth is News Corporation's acquisition of Intermix Media (owner of highly popular social networking portal MySpace.com), IGN Entertainment and Scout Media. With these acquisitions News Corp broadened its online content offering of Fox-branded sites and increased its total web traffic significantly. News Corp's competitor, Viacom Digital, followed with acquisitions of Atom Entertainment, XFire and Neopets.

Significant increases in web traffic seem to be driven principally by powerful properties acquiring new sites to broaden their content portfolio and increase their overall visitor base size.

When adding web traffic to company subsidiary sites, the vast reach of large media corporations increases dramatically: News Corporation controlled sites had 403.8 million unique visitors in June 2007, Time Warner 442.8 million visitors in July, and Vivendi 33.9 million visitors in August 2007. The total for just these three companies reaches close to 900 million users (not unduplicated).

Large Media Groups - Growth in unique visitors (worldwide)



* Owned by News Corporation
** Owned by Bertelsmann
*** Acquired by ProSiebenSat1 in June 2007 and is merging at a corporate level

Source: EBU based on comScore

Moreover, the largest properties are aggressively launching European versions. For example, in August 2007, MySpace France, became the first European non-English-language version of News Corp's social networking site. In the UK, MySpace has seven million members and new language versions in German, Spanish, Italian, and Dutch are forthcoming. While websites from the US are by far the biggest in the Internet universe more than half of traffic to the top 25 US web properties comes from Europe and other regions. Ten years ago the US represented the majority of global online population but that figure has now fallen to less than 25%. The globalization of top Internet brands is a continuing phenomenon.

ONLINE VIDEO AND SOCIAL NETWORKING

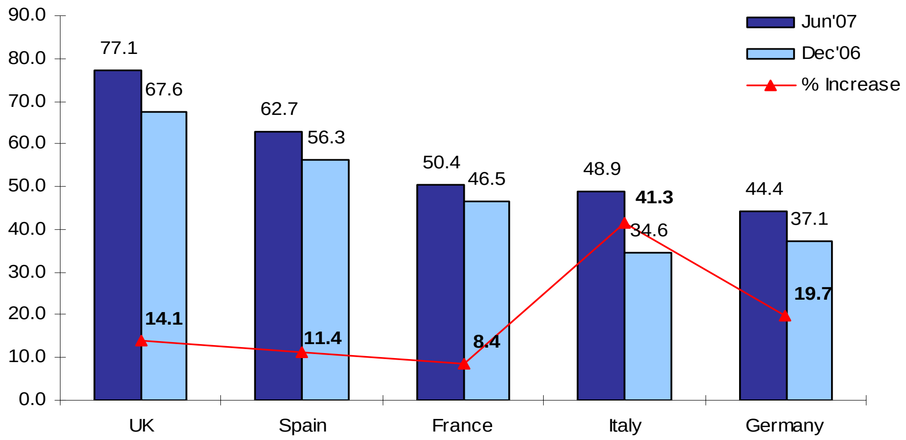
Consumption of video online will see double digit growth in 2008 driven by Social Networking and User-Generated Content sites

These most highly-valued and popular websites, as exemplified by MySpace and YouTube, have seen tremendous growth in the last several years. These types of sites have been the main drivers for video consumption online and have acted as a catalyst to broadcasters to increase their offers and distribution. For many broadcasters a critical question remains: is this a short term phenomenon or a prolonged trend that warrants a strategic shift and new investment?

Social networking sites[1] have grown in importance over the years and new sites keep popping up. In Aug'07 more than half of European Internet users - 56.4% - visited a social networking site at least once and, although the monthly reach is higher among the youngest Internet users, the popularity of this site category is increasing across all ages.

The increasing popularity of online communities and the interest in creating links and sharing ideas across borders using tools like instant messaging, photos and personal blogs have created a mass market for social networking sites. Today, over half of European citizens - an average 117.7 million unique monthly visitors - go to sites with the objective of participating in online networks.

Development of Social networking sites - Large European markets



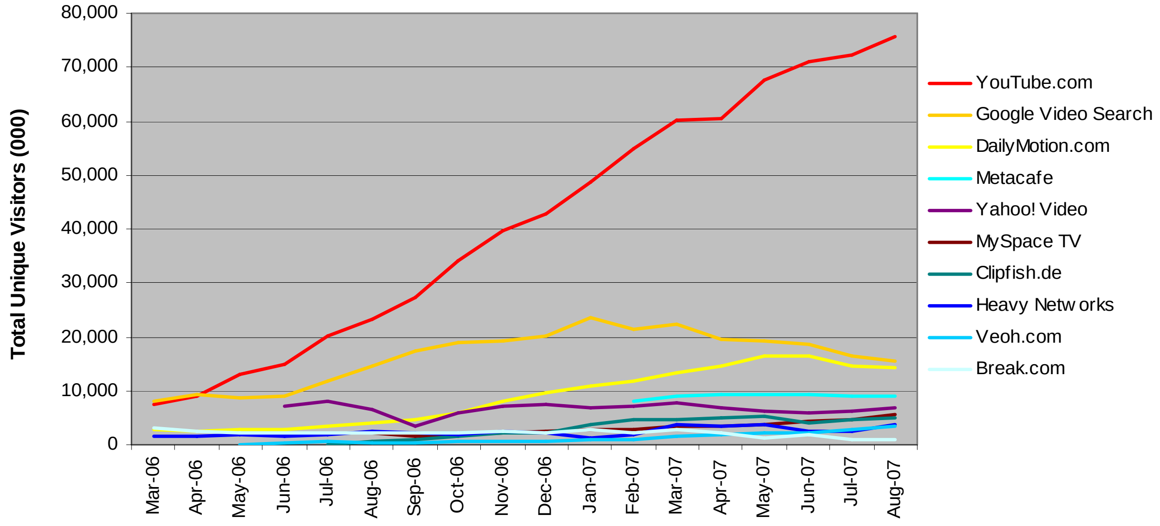
Source: EBU based on comScore

The Internet has become an important distribution channel for media consumption and, in line with the theme of social networking, the launch of YouTube in February 2005 was the beginning of a new media trend: user-generated video content distribution online. Today, the major video sharing sites attract millions of users and the most popular site in this category, YouTube, registered an average of over 55 million unique monthly visitors. Some of the main video sharing sites provide user-generated content only, while others offer both user-produced videos and content coming

[1] ComScore def.: Social Networking provides a virtual community within Internet websites and applications to help connect people interested in a subject. Social networking sites offer a way for members to communicate by voice, chat, instant message, videoconference and blogs. These groups of people use a variety of tools such as e-mail, messaging, photo sharing, etc. to connect.

from well established media companies. With the success of online video sharing, community sites like Metacafe, YouTube and Dailymotion have become market leaders of online video broadcasting. Metacafe is attracting users by encouraging people to create and submit their own produced videos with the possibility to get wide exposure, receive acclaim and also to earn money. As shown by the table below, there is a significant audience gap between the top video sharing site, YouTube, and the remaining sites, which indicates the market advantage for this Internet channel.

Internet traffic to main video sharing sites (Europe)



Source: EBU based on comScore

Meanwhile, behavioural studies have indicated that online video consumers are showing a marked preference for professional content but do not want to pay.

At this point, the popularity of these types of sites continues unabated and the phenomenon does not seem to be simply a fad.

PEER-TO-PEER PLATFORMS

Emerging peer-to-peer platforms will succeed in increasing video consumption but capacity issues may push up costs for broadcasters

For broadcasters one of the major limitations of streaming video from their own servers has been the capacity limit as more and more users access the service. Peer-to-peer (P2P) distribution systems are intended to solve that problem by facilitating the transfer of large files by breaking them up into pieces that can be shared among a large number of individual computers in a network. Three companies of note have launched initiatives in this area.

The highest expectations lie with Joost, a company that will begin testing its live streaming with programming providers in the first quarter of 2008. Joost is backed by a large variety of content from established media content owners and is buoyed by the reputation of its founders who started Skype, the Internet telephone service. Content and advertising deals have been signed with Viacom, Warner Music Group, CBS Corp, Coca-Cola, Nike Inc., Microsoft, Procter & Gamble, Sony, Visa, CNN, and Chum TV. Joost also has direct deals with rights' owners like the National Hockey League and has signed an agreement with Creative Artists, a talent agency, to provide access to programming through its many contacts with major studios, record companies, artists and independently-controlled content libraries. The company has strong financial backing and investors include Viacom, CBS Corp., Sequoia Capital, the Li Ka-Shing Foundation and Index Ventures. Joost is still refining its advertising business model but says there will be less than on broadcast television.

Babelgum is another key player using P2P technology, but its content strategy is somewhat different. Babelgum will attempt to harness the long tail of niche content by offering a broad range of specialized content. Like Joost, video will be professionally produced and the business plan based on advertising with no payment from users. Babelgum will not allow users to download content permanently to their PCs or share video files. The service will include a basic set of channels with software allowing users to customize their own channels. Babelgum has also lined up serious investors and is leveraging the pedigree of its founder who started Fastweb, the successful Italian broadband provider.

For broadcasters these developments have several implications. If successful, these projects will accelerate the process of content disintermediation as distribution platforms seek deals directly with content owners like independent producers and sports organisations. Portals like Google and iTunes have already faced difficulties in reaching comprehensive agreements with major broadcasters and have turned instead to hundreds of small and medium-sized individual rights owners to fuel their need for product. The emphasis on professional content may also impact established broadcasters. It is estimated that even on so-called user-generated sites like YouTube up to 70% of content is not user-generated at all, that is professional content from studios, broadcasters, and others that has been uploaded by individuals. As buyers and sellers of content, broadcasters will need to consider carefully their future participation in the new platforms.

Video consumes an inordinate amount of bandwidth compared to other Internet applications. YouTube alone serves over 100 million videos per day and some estimates show that total annual video streams in the US will double in five years to more than 90 billion.

In the UK regulators and ISP[2]s are expressing concern that more video usage online will raise costs for broadband companies and disrupt overall service.

Ofcom estimates that £830 million will need to be invested in networks over the next five years to accommodate rising online video usage. ISPs in the UK are particularly worried that the popularity of the BBC's iPlayer could boost Internet traffic to unprecedented levels. The BBC has been asked to share network costs.

Many are now questioning whether the current Internet infrastructure can support mass video content delivery. Even P2P delivery systems which are designed to be more efficient and employed by companies like Joost will bring additional pressure to Internet backbones. It is estimated that current illegal P2P file-sharing already represents over 70% of the Internet traffic. Telecom and ISP advocates view both legal and illegal P2P as parasitic and warn that websites and consumers will eventually need to share the costs. As networks become strained, restricting service to certain users may become necessary. ISPs claim they may be forced to take steps like throttling down download speeds to heavy users or charging them more.

[2] Internet Service Provider

PUBLIC SERVICE BROADCASTERS

The future of Public Service hangs in the balance: opportunities and threats

As large players, the power of established media brands on the Internet has positive implications for Public Service Broadcasters (PSBs). PSBs are simultaneously affecting and affected by these developments and are making overall strategic decisions balancing their distribution choices. 2008 will be a pivotal year for online video as all key players refine strategies and business models.

For PSBs the guiding principle is how to extend the public service remit to reach and serve citizens. The commercial imperative, on the other hand, is to determine how to create a compelling user experience than can be monetized in the long run and extend brands and businesses. Many commercial broadcasters believe they have found the answer and are shifting to ad-based business models. For PSBs the solution will be more complex.

However, for PSBs that do not depend on advertising, finding a sustainable financial model is not that simple. For them, legal and financial empowerment is the prerequisite for making the innovation of online distribution a sustaining one.

The opportunities for broadcasters are many: increased overall reach and consumption; increased television and audience share; if applicable, revenue potential (both domestic and international); increased awareness, access to better market information; promotion to audiences; promotion to international acquisitions markets; increased traffic to their own online properties; controlled investment. And PSBs can exploit the opportunities with clear advantages: quality, copyrighted content; a wealth of archive material; strong brand trust; professional editing and content packaging skills; and technical quality, including high-definition content.

Meanwhile, media companies that have not traditionally been video-based have expanded into this area on their own sites as well as the video-sharing sites. Newspapers have been aggressive in offering audio-visual content as their print revenue has declined. The four major global music distributors have already made major forays into online video as well.

The greatest single threat may be the risk of inactivity by being too slow or too late in engaging online audiences. Additionally, the process of disintermediation, in which content providers like producers or sports groups bypass broadcasters entirely, can threaten the status quo of broadcasting. Moreover, what is still not perfectly clear is the extent that online viewing can cannibalize broadcast viewing. PSBs are finding a balance between these opportunities and threats.

In the final analysis broadcasters will be required to strike a series of delicate balances. The balance between copyright protection and wider distribution; the balance between providing universal service and catering to niche interests; the balance of safely fulfilling a clear remit or stretching the boundaries of its interpretation. These trade-offs all involve weighing the short-term and the long-term complications as well.

Beyond serving audiences and expanding distribution, PSBs can exploit the popularity of their websites by acting as a counter weight to emerging gatekeepers of mass audience: Google, iTunes, Joost, and now even companies like Amazon and other retailers. As an independent source of content and information PSBs can become important supports of pluralism.