The rise of the online video market, and the repositioning of user-generated content platforms

By Richard Broughton, Director, IHS Electronics & Media

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Table of contents

1. *Ongoing growth of broadband access and speed.*

Fixed broadband access continues to climb, reaching 0.6bn homes globally in 2012

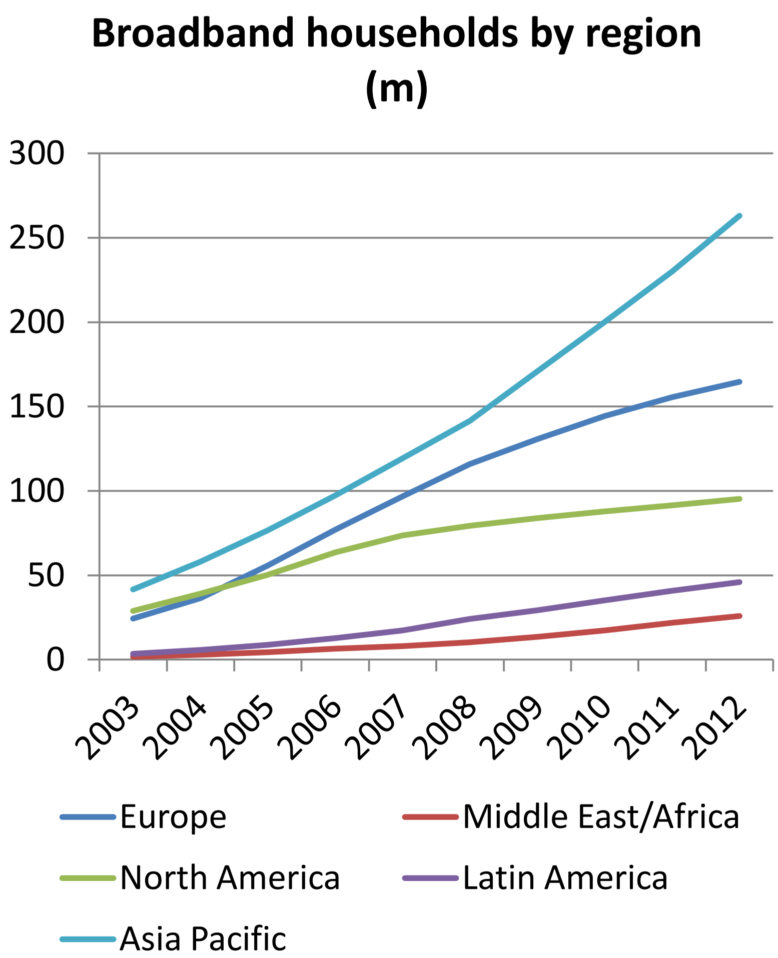
Fixed broadband services remain the primary mechanism for online video service delivery across the globe, and therefore the key enabler for sector growth.

Worldwide, broadband households reached close to 0.6bn at the end of 2012, having nearly doubled since 2007.

This represented an average penetration of 30 per cent of households, with approximately 1.8bn people able to access broadband at home.

By 2017, we expect an additional 0.5bn people to be online at home via broadband, with an average household penetration rate of close to 40 per cent.

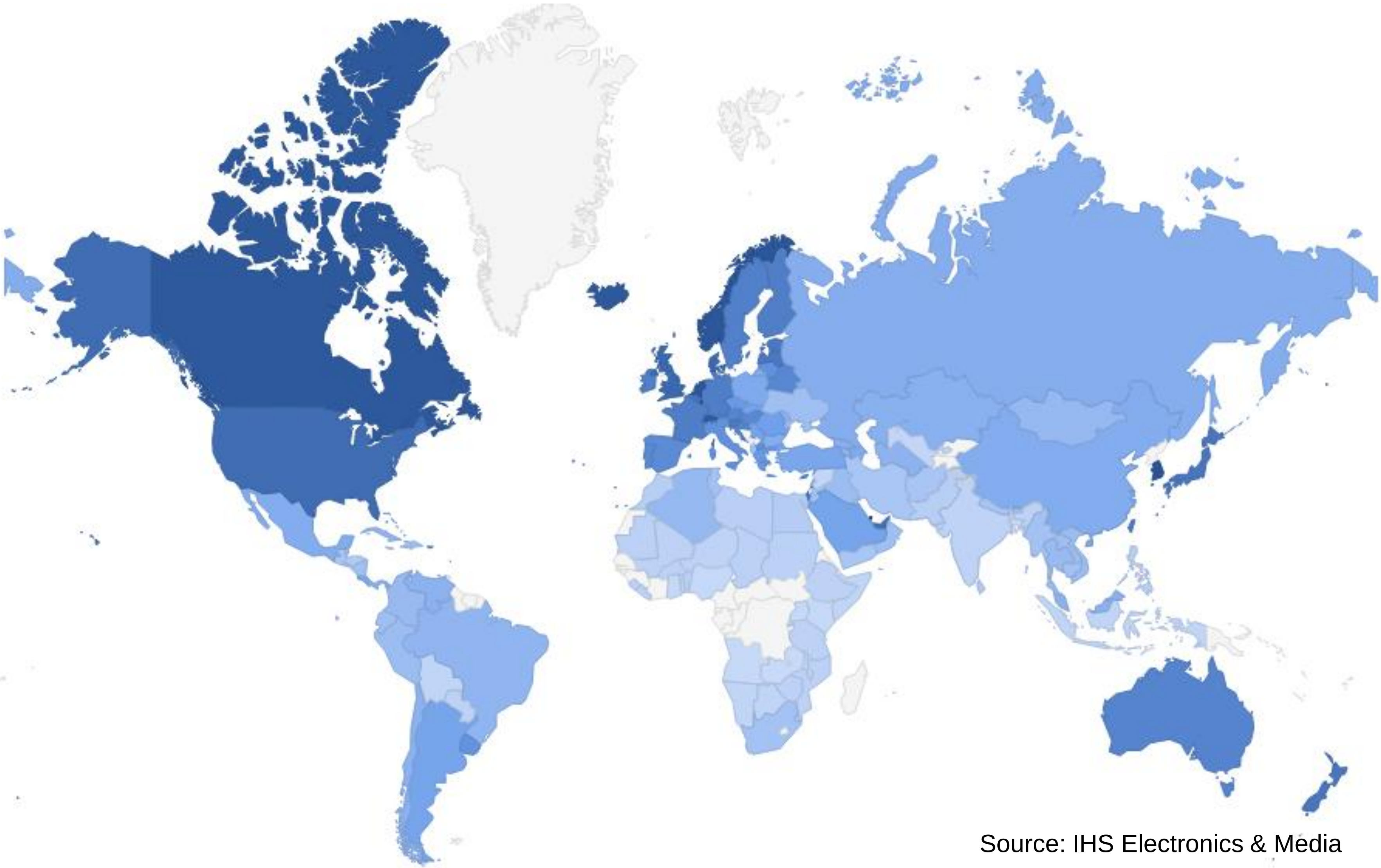
However, there are key regional differences in access, with Europe already at 50 per cent broadband penetration of homes, and North America at 70 per cent.



Source: IHS Electronics & Media

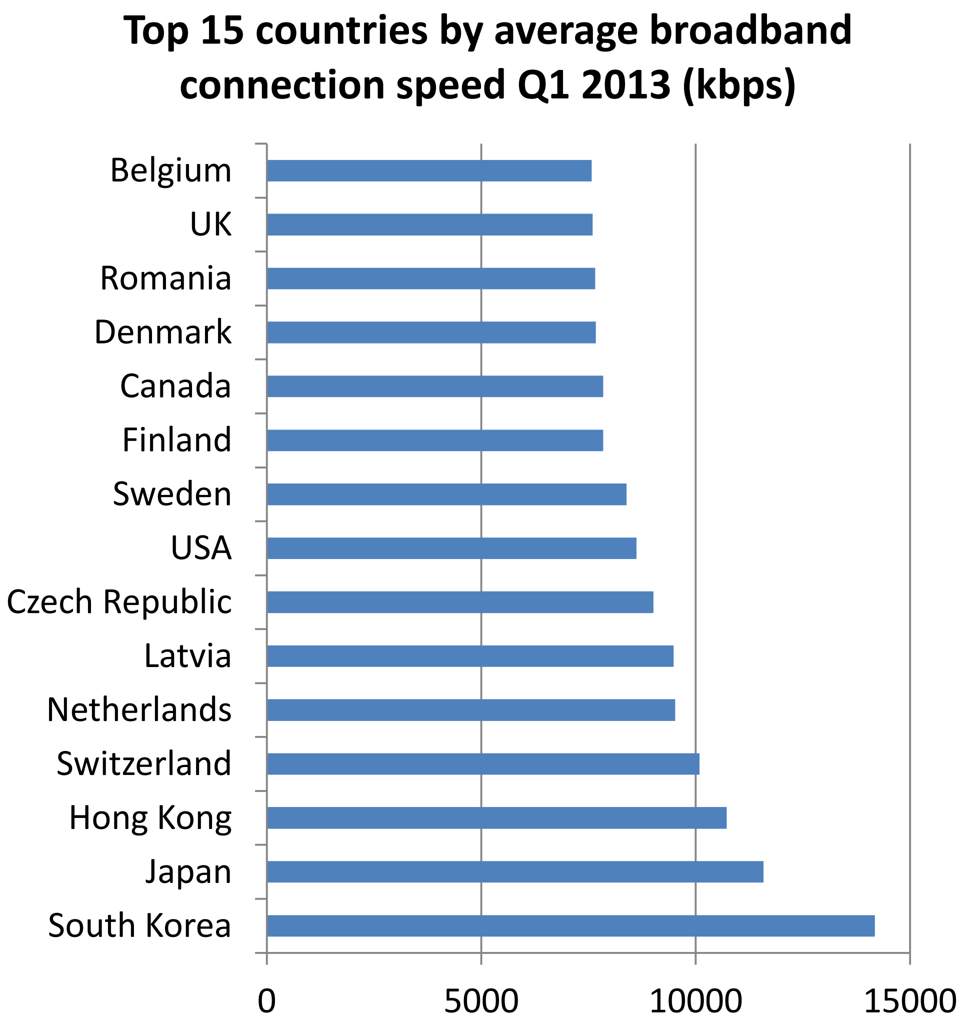
But large portions of the world remain unconnected–particularly Africa and South/South East Asia

2012: Broadband penetration by region (white low, blue high)



Source: IHS Electronics & Media

Speeds are getting faster, and in some developed markets, have reached an average of over 10Mbps



Source: Akamai

Broadband speed remains a key constraint for consumption of content services in many countries.

Online video services vary widely in their minimum requirements, but reasonable quality video typically requires a fairly stable connection of 2Mbps or more.

For HD video, this requirement is typically doubled, and for even newer 'Ultra-HD' formats, far higher.

Average connection speeds, according to content delivery network Akamai, have reached as high as 14Mbps in South Korea.

But as of Q1 2013, IHS analysis suggests that the median broadband speed globally was under 2Mbps, and over 25 per cent of countries had speeds lower than 1Mbps, posing a significant constraining factor on online video consumption

Although average broadband speeds are still skewed towards the low end for most countries

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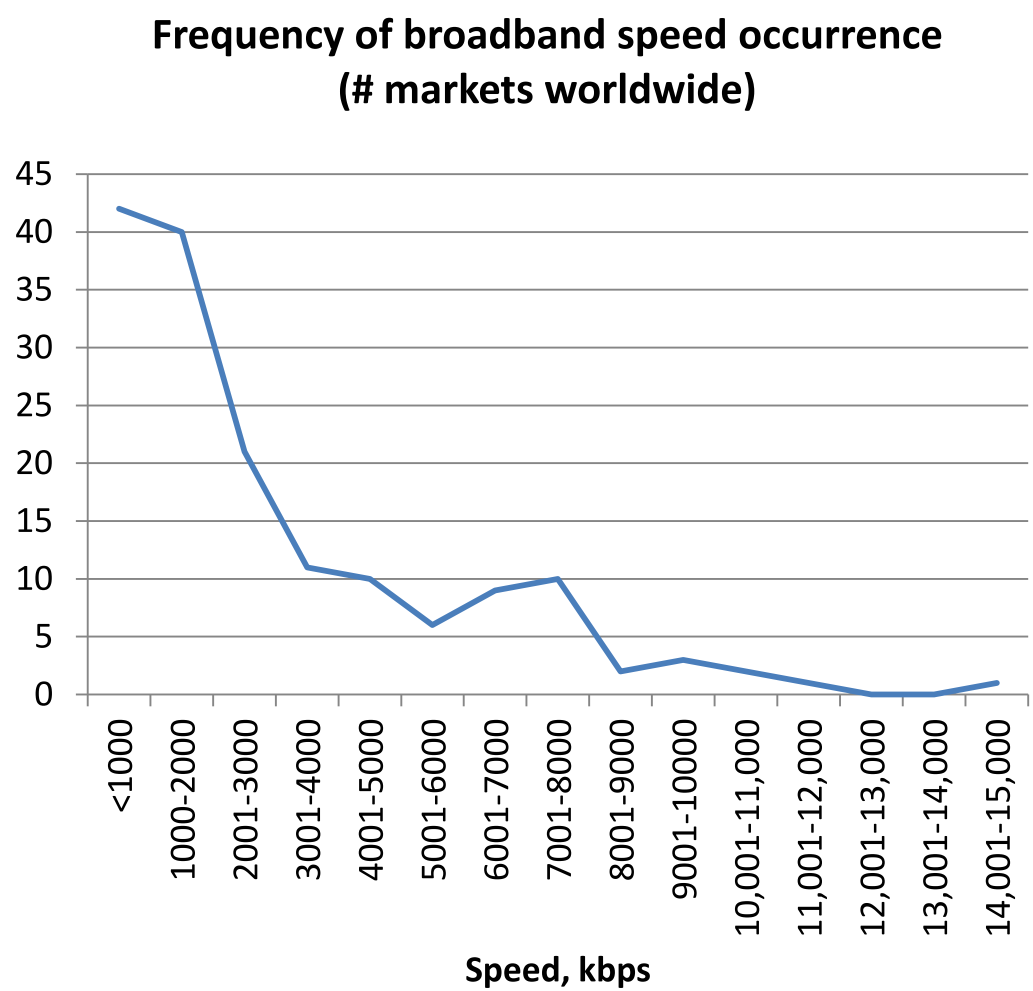
Broadband speeds are influenced by a range of factors, which include:

- Access technology used–each technology has inherent speed limits. Basic ADSL has a maximum theoretical downstream speed of around 8Mbps.
- Distance from exchange–broadband speeds typically attenuate over distance. Normally, the longer the so-called 'last-mile' of cabling to the consumer premises, the slower the speed.
- Network congestion–the more users connected to broadband in a locality, the less bandwidth there is per person, potentially affecting speeds.
- CPE devices–wireless routers may result in some attenuation to speed.
- In-home wiring–old in-home wiring can increase interference and affect broadband speeds.

Upgrading networks can be expensive–a fibre connection can cost as much as €500-€4000 per home connected.



Source: IHS Electronics & Media analysis of Akamai data

But broadband growth is slowing down globally, as many markets reach saturation point

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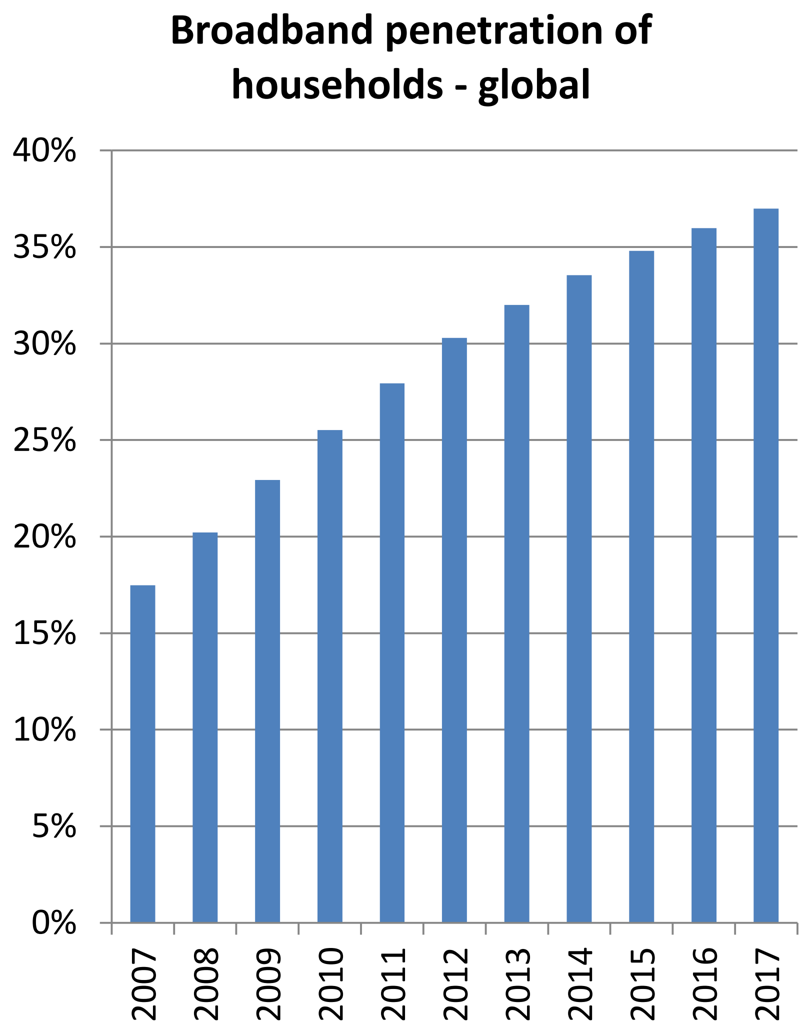


Despite the fact that broadband penetration of households reached just 30 per cent at the end of 2012, growth is beginning to slow.

Uptake of broadband relies on a number of contributing factors:

- Access to undersea/core international cables, allowing more rapid communication with the wider global Internet.
- Availability of power infrastructure
- Effective competition in the ISP sector

Additional issues include dispersed populations and low population density–which increase network rollout costs.

So as major developed markets reach saturation point, with 70 per cent or more households having broadband, the core drivers for broadband in many developing or emerging markets are still at least partially missing. As a consequence, the drive to universal connectivity will be a slow process.

Source: IHS Electronics & Media

2. Sizing the online video sector

The global online video market is now worth over $12bn–expected to reach approaching $30bn by 2017

Globally, the online video sector reached approximately $12bn in size in 2012.

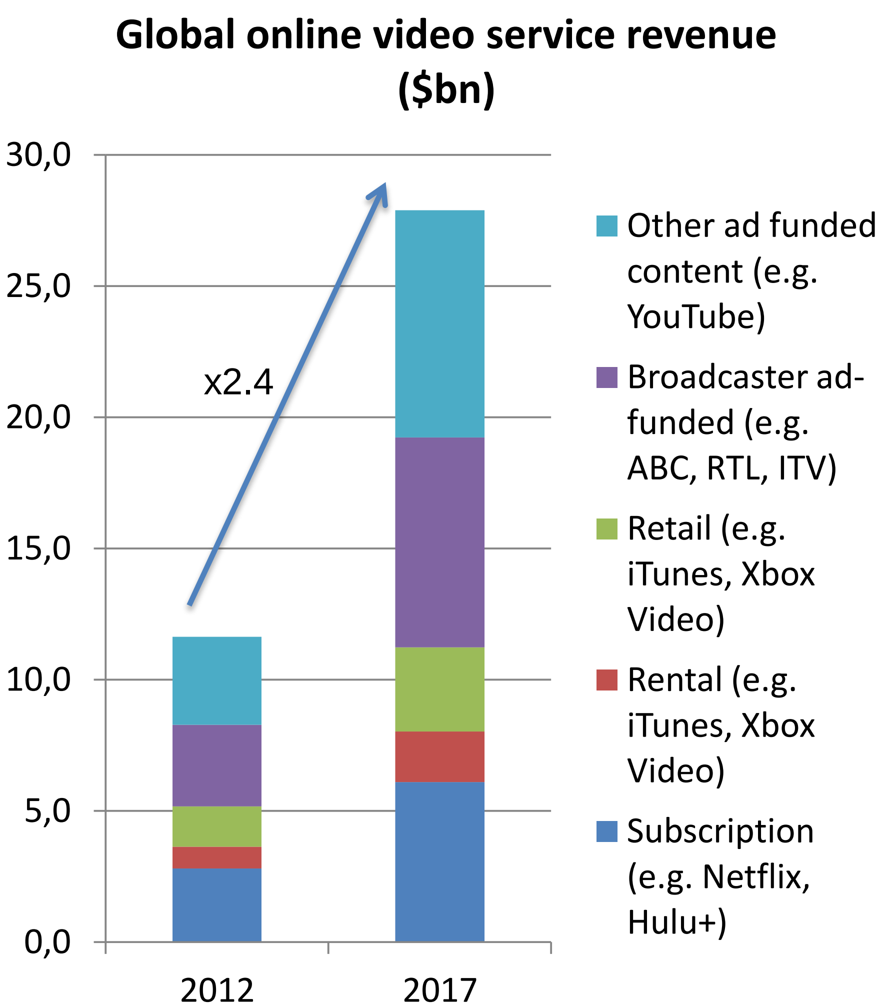
Approximately half of this was made up of paid-for services–transactional (retail and rental) and subscription players.

The major paid-for players were services such as:

- Subscription: Netflix, Lovefilm, Hulu+ were the key contributors to the global subscription sector value in 2012.
- Transactional: iTunes is the leading retail/rental player in most markets worldwide, joined by services such as Xbox, Google Play and Sony's PSN.

The remaining half of the market was derived from advertising funding in and around video content. This was driven primarily by:

- Broadcaster catch-up video–ad-funded 7-day catch-up services.
- Non-catch-up services, primarily YouTube and comparable local/regional counterparts.



Source: IHS Electronics & Media
Note: Excludes pay TV VoD/PPV services

The US is the largest market for online video by some way–equal in size to the rest of the world combined

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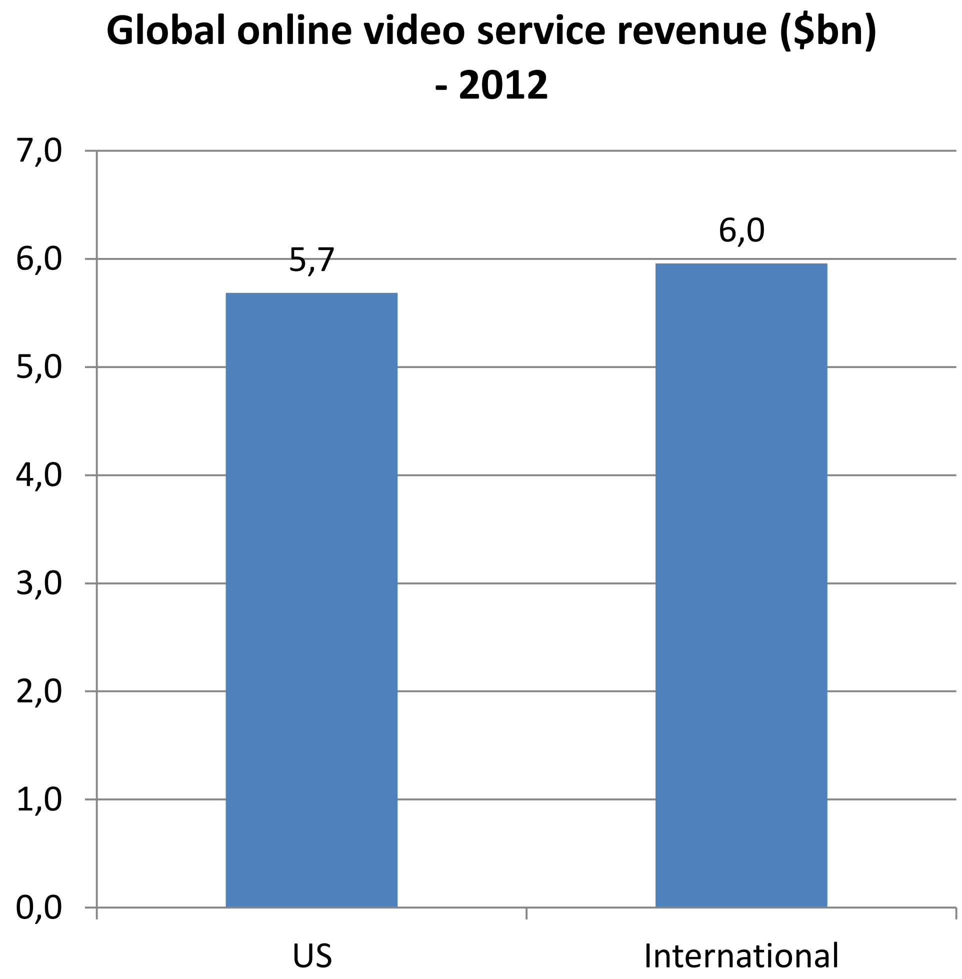
The US is by far the largest market for online video at present, dwarfing any other single country.

Nearly half of all global online video revenues are generated in the US, with the country ending 2012 having generated $5.7bn in turnover.

By contrast, the rest of the world's countries combined reached only a little more - $6bn in revenue in the same period.

But the contribution of different services and business models is also a key difference between the US market and international territories.



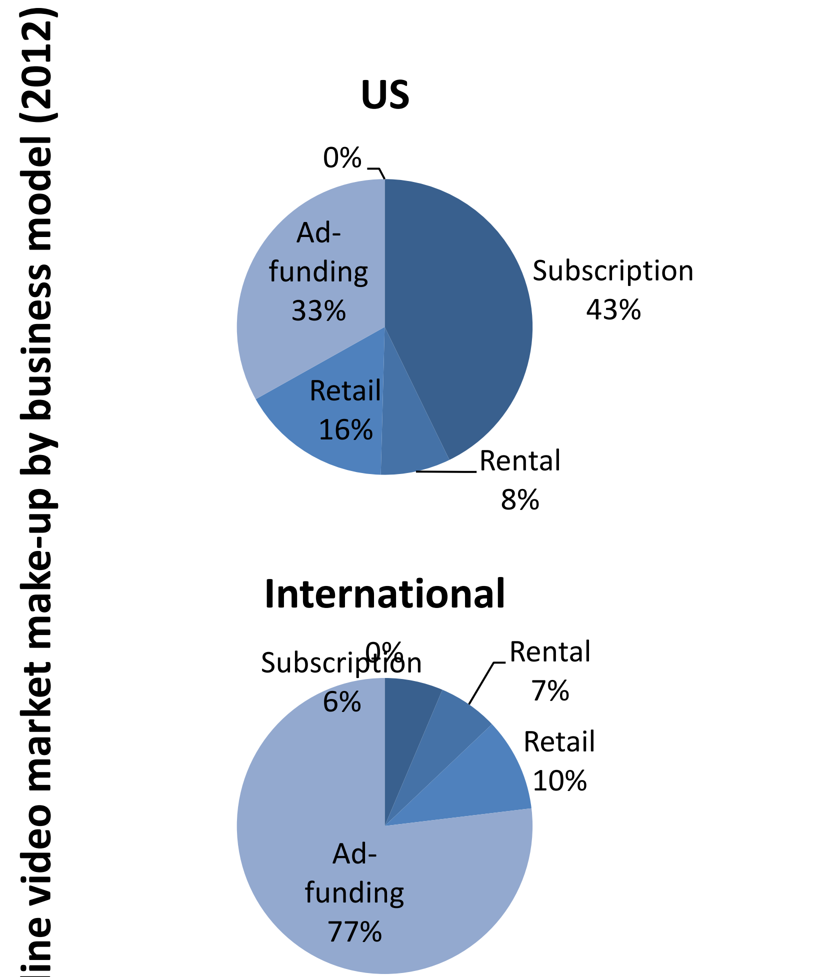
Source: IHS Electronics & Media

In the US, the market is very much subscription-driven–a contrast to ad-funded international markets

In the US, subscription services such as Netflix and Hulu+ contribute the single largest amount to online video service revenues at present, with ad-funded services such as broadcaster catch-up and YouTube representing just a third of turnover.

By contrast, paid-for services are much less developed internationally–subscription players are only just taking off, fuelled in part by Netflix's global expansion.

Instead, ad-funded services–both those belonging to the traditionally strong FTA broadcasters, as well as other newer players, are more significant in-scale.



Source: IHS Electronics & Media

One of the key influencers of this is service availability, which is still lacking–especially for TV

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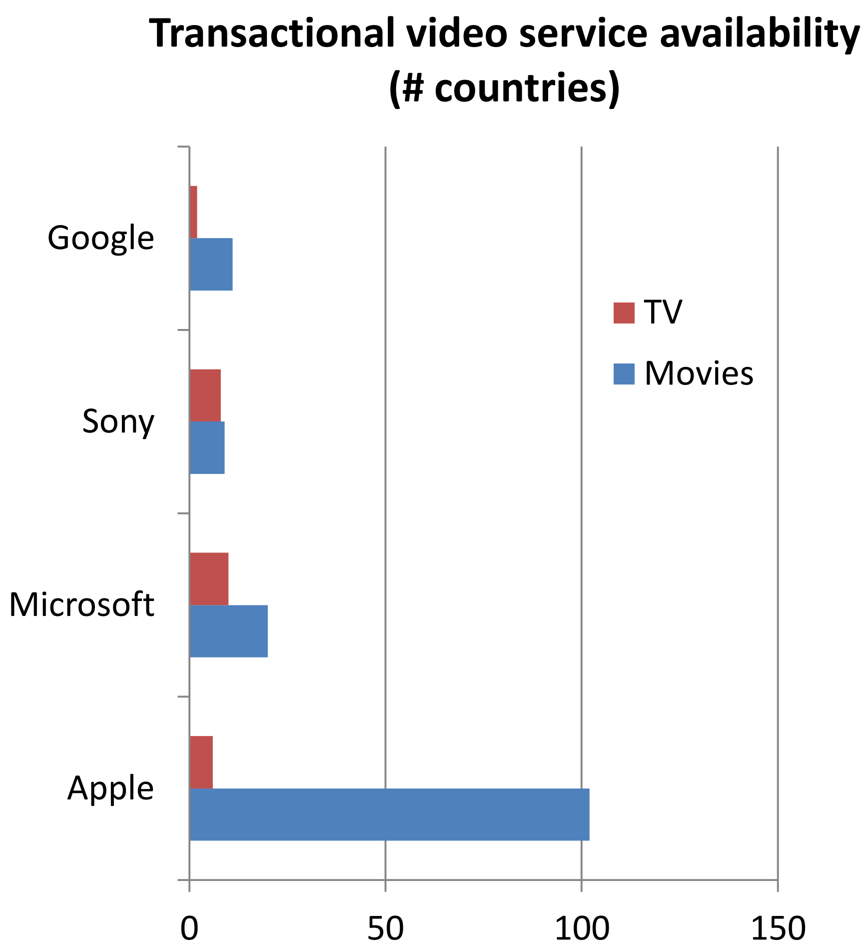

Source: IHS Electronics & Media

One of the key determinants of the scale of the paid-for segment of international markets has been the availability of services.

To-date, the leading paid-for services have not offered complete coverage in terms of international availability–although Apple has made significant moves in recent years to expand the reach of iTunes movies.

But despite this, key Asian and Latin American markets are not covered by most of the other major services, which have focused primarily on North America and Western Europe.

In addition, retail TV coverage (i.e. download-to-own TV shows) is still lacking, with service providers covering just a handful of markets with their TV offers, and little in the way of expansion over the past few years.

With steady growth in broadband uptake however, it is likely only a matter of time before service providers begin to take advantage of the huge numbers of addressable homes across markets outside Western Europe and North America.

But catch-up TV services are flourishing, with 20bn FTV video streams across Euro Big-5 in 2013

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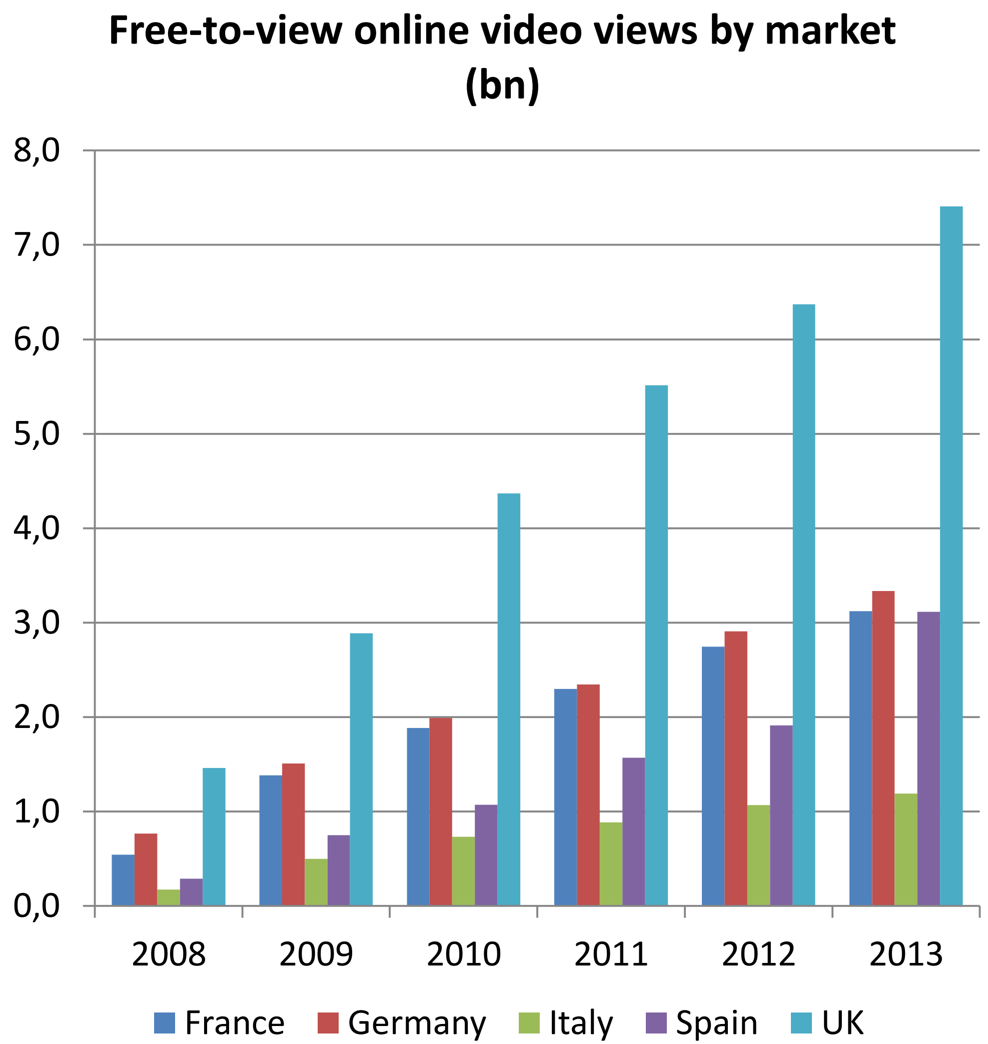
Catch-up TV, by contrast, has been one of the main drivers of online video viewing and revenue across many international markets.

Although consumers are watching increasing amounts of TV on an on-demand basis, much of this remains inherently linked to the broadcast schedule, which has meant that the main public and commercial broadcasters have been at the forefront of growth.

IHS expects nearly 20bn free-to-view streams of video from major professional video services (excluding part-user-gen services such as YouTube, Dailymotion etc.) across the European big-5 markets in 2013–most of this driven by broadcaster catch-up services.

Multichannel players such as Discovery, Disney and others have been broadly absent from this space–largely due to their links with pay TV operators constraining their ability to go-direct to consumers.

But broadcasters are not alone in attempting to monetise the ad-funded online video space, with video sharing services now revising their content catalogues and business models to attempt to further tap into this growth market.



Source: IHS Electronics & Media

This is being aided by the proliferation of connected devices

The increased availability and uptake of broadband has been one factor in the growth of catch-up video viewing, but the proliferation of appropriate viewing devices has been a key driver.

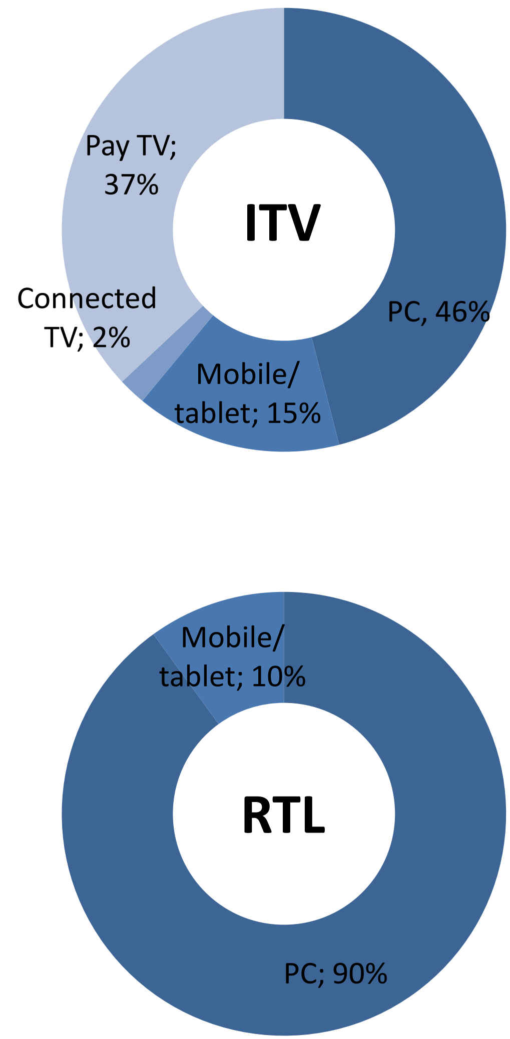
By 2017, IHS expects the global installed base of video-enabled connected devices will have nearly doubled in size, reaching over 8bn by the end of the period.

Content companies are increasingly taking advantage of this–less than half of UK commercial broadcaster ITV's streams are to PCs, with other devices such as set-top boxes, connected TV devices (inc. games consoles) and smartphone/tablet devices key.

Indeed tablets and smartphones have been important growth drivers for many companies. The BBC, for instance, sees roughly 1/3rd of iPlayer consumption via tablets and smartphones–spurred by the launch of a download to device option.

Reaching these devices is increasingly simple, with a few key operating systems (Android, iOS) dominating the sector–however, monetising a fragmented audience is a challenge–identifying users across devices, reaching them with appropriate advertising and measuring ad-viewing (particularly on downloaded content) represent key hurdles.

Online video market make-up by business model (2012)



Source: Company data, IHS Electronics & Media

3. The renewed threat from ‘user-generated content’ services

YouTube taking in 40 per cent of global video advertising revenue, but challenges ahead

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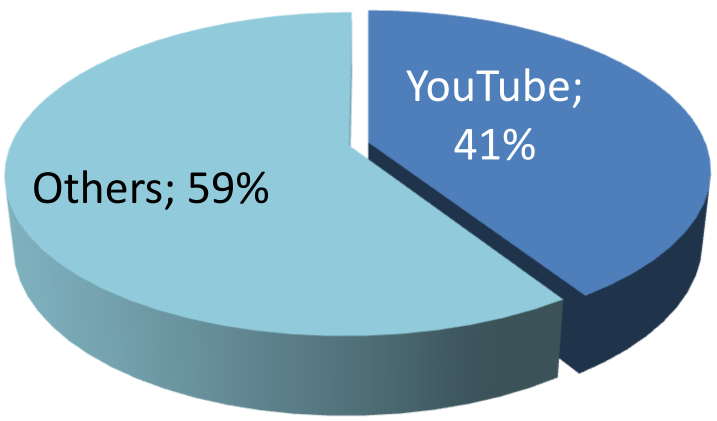
Through 2013, IHS estimates that YouTube will have made approximately $3.6bn in advertising revenue, which will represent as much as 40 per cent of global online video advertising revenue for the same period, and nearly a quarter of all online video revenue (including subscription, all digital rental and retail, catch-up TV etc.).

However, with a slowdown expected in user growth, future revenue growth must come from better monetisation of its existing user base. Previously driven by increasing broadband access, higher speeds and more devices, it now seems that with broadband access maturing, YouTube's strategy must switch from that of 'acquiring more users at any cost', to improving engagement, time spent and associated advertising-spend.

But it is nonetheless in this area which YouTube faces its most testing growth challenge. Currently, the company makes, depending on the market, as much as $2-$3 per 1000 video views. While for certain videos, this can be more than twice as high, it still lags the levels seen by major TV broadcast groups for both their linear channels and online properties.

Global ad-funded video revenue - 2013 ($9bn)



Source: IHS Electronics & Media

YouTube has already passed the inflection point in its user growth curve

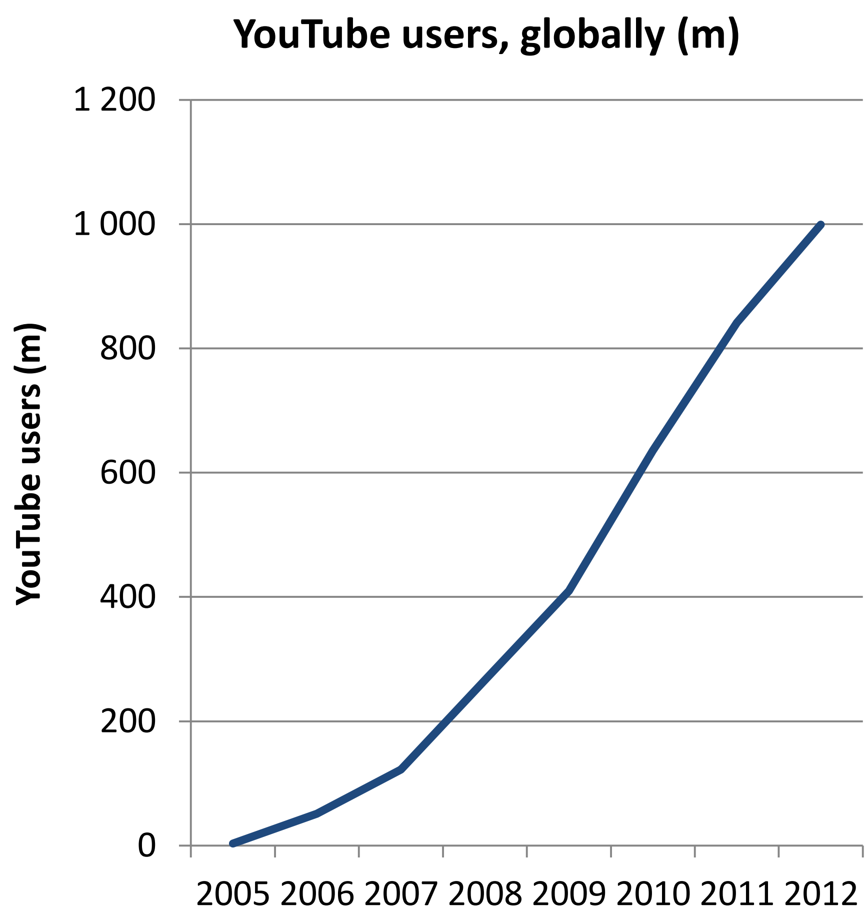
The saturation which we are witnessing in broadband uptake is translating into a potential constraint on online video growth.

YouTube is the largest video platform globally, and is beginning to run into some of these constraints.

YouTube passed its user growth inflection point in 2010–since then, growth in new users has begun to drop.

This is not surprising however–at end 2012, YouTube's monthly user base had reached nearly 80 per cent of the level of the global consumer broadband user base–roughly two users per active broadband household.

YouTube's growth in terms of users is now being limited by growth in the absolute number of broadband connections, which as shown previously, is beginning to slow. This poses a constraint on YouTube's maximum user growth rate.



Source: IHS Electronics & Media

So Google has set in motion various strategies for improving video monetisation

Google has set in motion a number of plans in motion to attempt to improve the monetisation of the videos on YouTube, including:

Formal partnerships with key content creators, typified by its relationship with Vevo (the music video JV from Universal Music, Sony Music and ADMC), and through its investment in YouTube channel Machinima. This strategy is designed around Google being able to influence high-value content creators and ensure that they remain YouTube supporters, improving the overall quality and perception of quality of its videos.

Up-front direct investment in original content creation to ensure that Google isn't missing out on major content companies fearful of the risks of programming the platform with original content, by providing up-front incentives. The overall aim of the plan is to ensure that higher value unique content makes it onto YouTube, improving usage and quality.

The partner programme, which allows everyday content uploaders to begin monetising content via an ad-revenue cut, prompting more regular uploads and higher quality content–both impacting usage of the platform and advertiser perceptions of YouTube as a viable advertising medium. The system was fully automated across many of YouTube's markets in 2012.

A move into real-time bidding for video advertising. In 2011, YouTube launched real-time bidding for in-stream video advertising, followed later in the year by a widening of the net to including trading of advertising on partner channels. Ultimately, the idea leans on the success which Google has seen in the wider search and display markets with real-time trading mechanisms, aiming to apply it to video as well.

A departure from ad-sales into subscription via the new paid-channels programme. Recognising that YouTube in its current form is not appropriate for very niche content or very high value content, Google's subscription plans aim to widen the appeal of YouTube and ensure that the platform doesn't lose out to rival players such as Dailymotion, which have already launched subscription options for content uploaders.

The original content programme is aimed at attracting both new and traditional content creators

YouTube's 'Original Channels' initiative is one of the higher profile developments on the platform, and aims to take some of the risk out of developing original programming for YouTube.

Google provides up-front funding ($200m+ to-date) for content creation, provides the distribution platform and facilitates monetisation.

100 per cent of the channel revenue is returned to YouTube until the investment is paid off, at which point a rev share agreement kicks in, with the channel owner taking circa 55 per cent.

There are currently 185 YouTube original channels in operation at present–primarily targeting the US, UK, France, Germany and Japan.

The key facet of the initiative however, is that it has persuaded major production brands to join the platform–companies such as Zodiak, All3Media, Fremantle, Warner and others–alongside new media specialists.

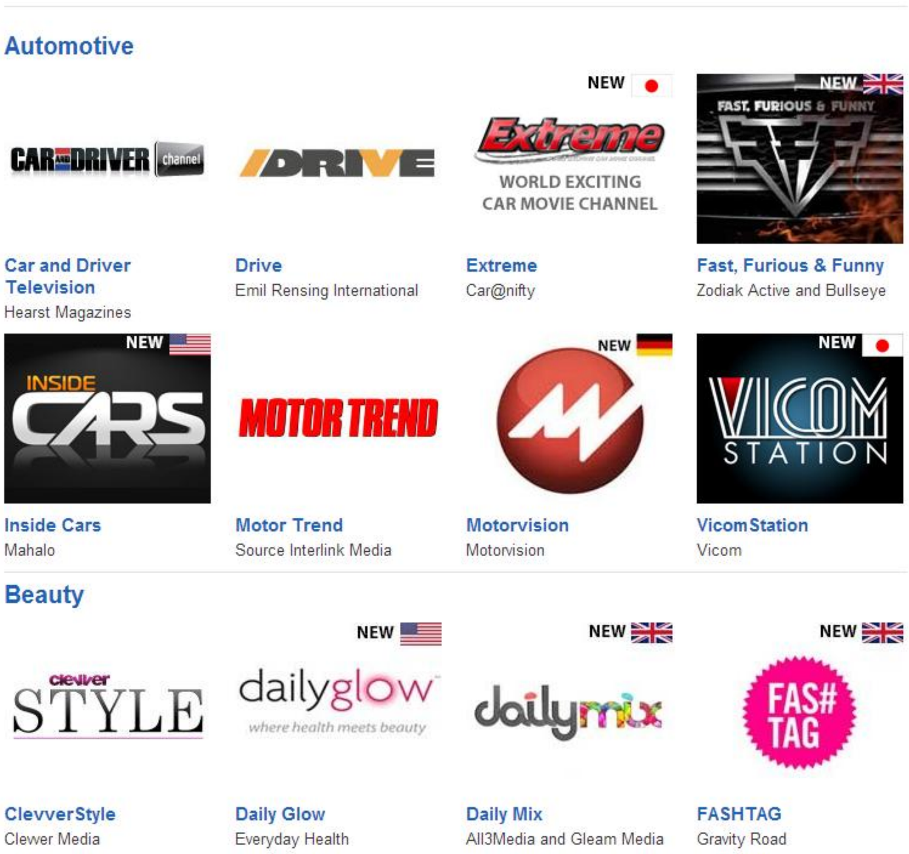


Image source: YouTube

YouTube's moves have been mirrored by those of other players in the sector

YouTube has not been the only platform moving away from user-generated video in favour of partnerships with professional content sources and home-grown productions.

In Germany, ProSiebenSat.1's MyVideo has shifted focus from its original UGC beginnings to include far greater volumes of professional video from the wider ProSiebenSat.1 portfolio–'Community videos' are much less prominent on the site than historically.

Dailymotion has begun to develop its own content production division and has launched subscription services to better monetise key content.

In Russia, social network and video site VK has begun to engage in formal partnerships with key local content companies, shifting away from user-uploaded video, and providing alternative business models via which partners can monetise content.

China's Youku Tudou has made a number of deals with local and international content companies (including US, UK, Japanese and Korean distributors) for TV series and films, which are now promoted heavily on its service home pages.

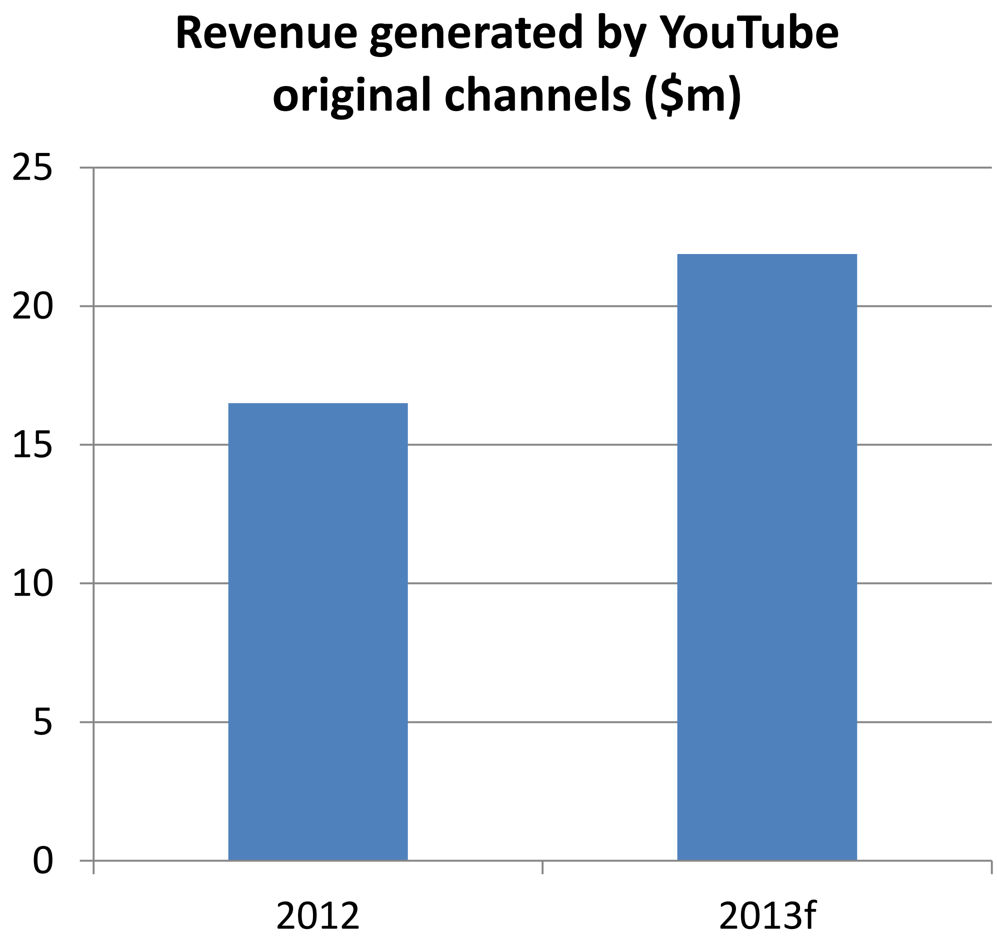
But how have YouTube's original content plans been faring?

So far, YouTube's original channels have had mixed success–and will be making (by IHS estimates) just over $20m per year in 2013.

This contrasts with the hundreds of millions of dollars which YouTube has ploughed into the ventures to-date.

At the end of 2012, YouTube conducted a cull of the original channels–re-investing in roughly 40 per cent of those which it originally commissioned.

However, YouTube's key selection criteria for reinvestment surround consumption vs. cost, and not revenue yet–a key indication that the company is still highly focused on building audience first, monetising later.



Source: IHS Electronics & Media

Conclusions

Conclusions

1. Fixed broadband access continues to climb, reaching 0.6bn homes globally in 2012, but growth is beginning to slow, being held back by structural issues in many emerging markets.

2. Nonetheless, IHS expects there to be 2.3bn people globally with home broadband by the end of 2017–up from 1.8bn at the end of 2012.

3. The increases in broadband access in recent years have been accompanied by growth in online video, with the global market reaching roughly $12bn in turnover in 2012.

4. IHS expects that growth in broadband speed, users and connected devices, this market will have expanded to close to $30bn by 2017.

5. Across many markets, this segment is dominated by ad-funded players, such as broadcasters and user-generated services, as major device-based platforms have yet to roll out the full complement of content services.

6. But there are growth challenges ahead for many video providers–they can no longer rely on growth in user base driven by broadband rollout to drive service usage and monetisation.

7. YouTube provides an early indication of this, having already reached its user-growth inflection point. YouTube is now focusing efforts on increasing the time spent by its existing user base, promoting the development of original content and developing new monetisation models.

8. But building new content brands is a slow process, and broadcasters have time to react to developments to shore up their own content portfolios and take advantage of existing reach to build their own brands around web originals–a move which many are now beginning to make.

About the author

Richard Broughton: Director, Broadband; IHS Electronics and Media

Richard Broughton heads IHS Screen Digest's London-based Broadband Media and Technology teams, following areas such as broadband access, digital media, video-on-demand and connected devices. He also heads IHS Screen Digest's research into advanced TV and cross platform services, covering such areas as IPTV, pay-TV video-on-demand and TV-based interactive applications. Richard has developed a number of highly detailed financial models describing many of these sectors, both for IHS Screen Digest's flagship Intelligence services and for bespoke consultancy projects.

Data mentioned in this report can be found at www.screendigest.com/intelligence/broadband

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