

# TV and Video App Strategies in the 4G era

## *Monetisation, distribution, and content*

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**Mobile Technology Trends**

## Smartphones and tablets are driving growth in connected media devices

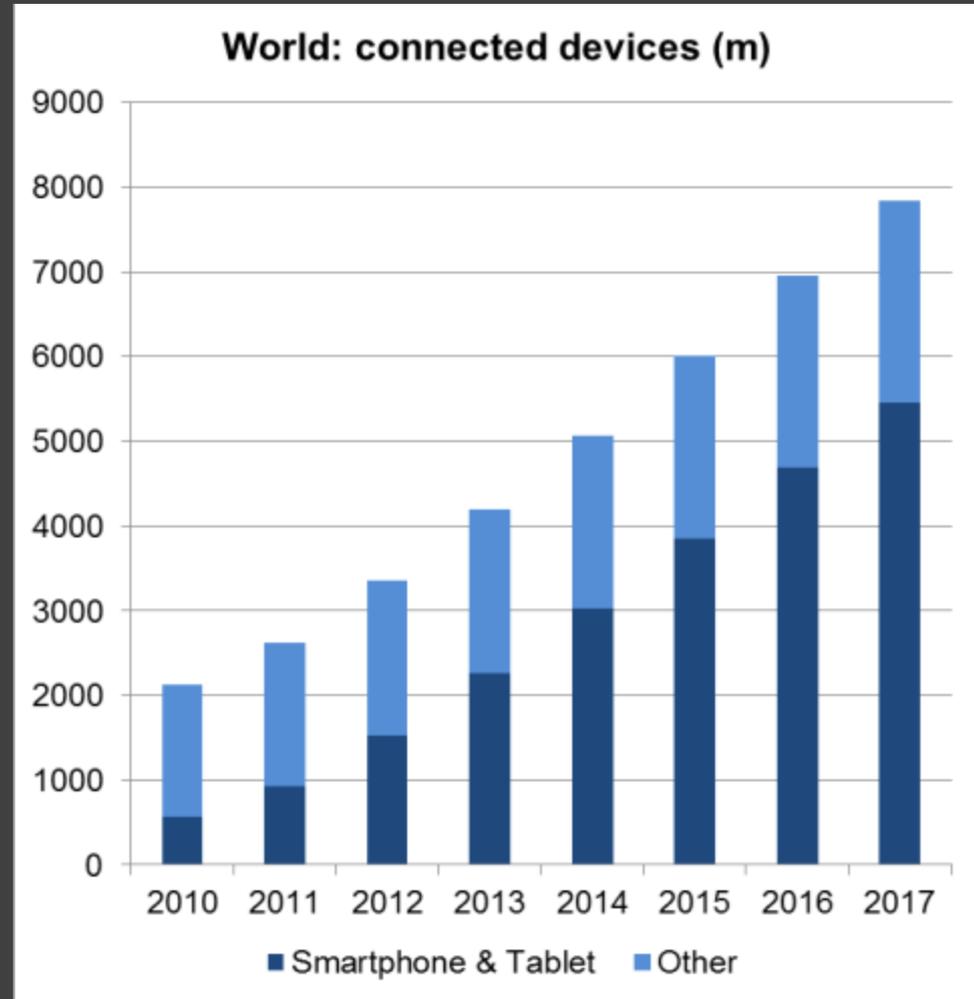
By 2017, IHS forecasts that there will be almost 8bn active connected media devices in use globally.

This includes PCs, Smart TVs, Games consoles and mobile devices.

Smartphones and tablets will account for 70% of all connected devices by 2017, up from less than 50% in 2012.

The 5bn plus smartphones and tablets installed base will fuel growth in the mobile apps market, in terms of downloads and app revenues. But for many content providers, the strategies about how best to monetise mobile apps continue to evolve.

With more than a million apps available, many TV companies have shifted their strategy, and now provide mobile access as part of their wider offer – with no premium charged for content consumed on mobile devices.



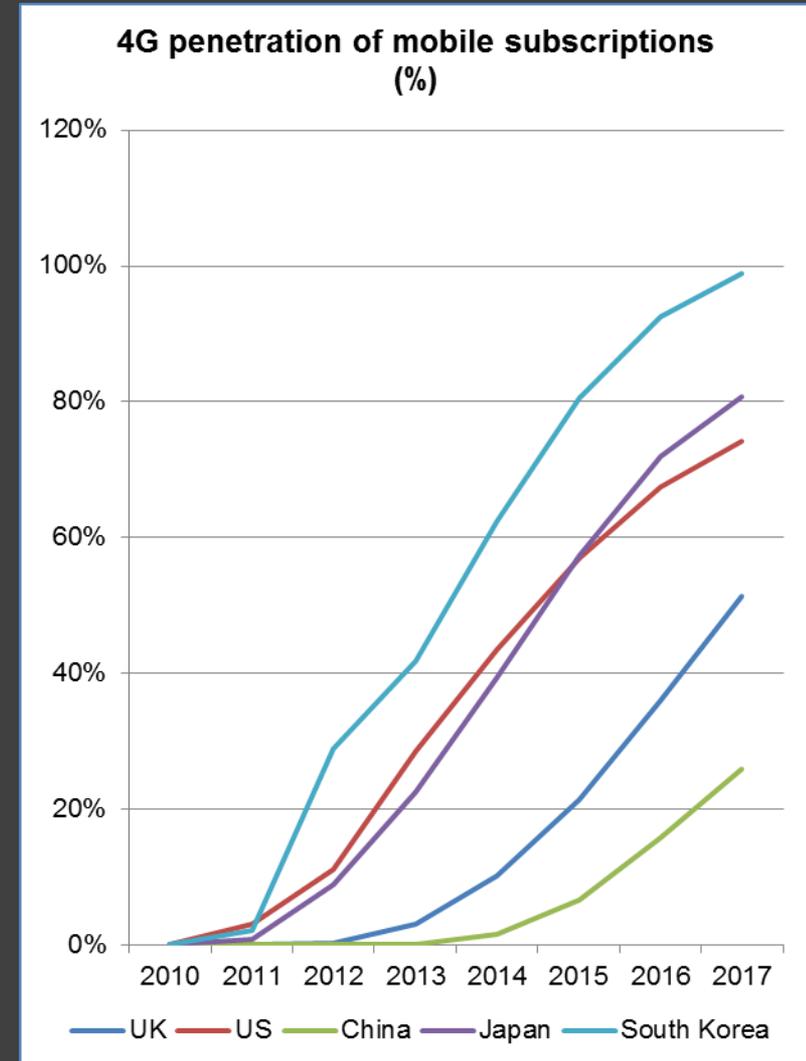
## Faster 4G networks provide new content opportunities But video monetisation remains more of a challenge

The dawn of the 4G era brings with it new opportunities for a mobile video industry that to date has failed to fulfil its potential. But the business models around how best to directly monetise mobile video services are still evolving. And there is a case for not even seeking to try to monetise mobile video directly, but to use mobile video to support other revenue lines instead.

Unlike other mobile media services, for which established 3G networks have often proven “good enough”, mobile video provides the unique use-case to demonstrate the capabilities of high speed 4G services and so drive consumer demand for 4G.

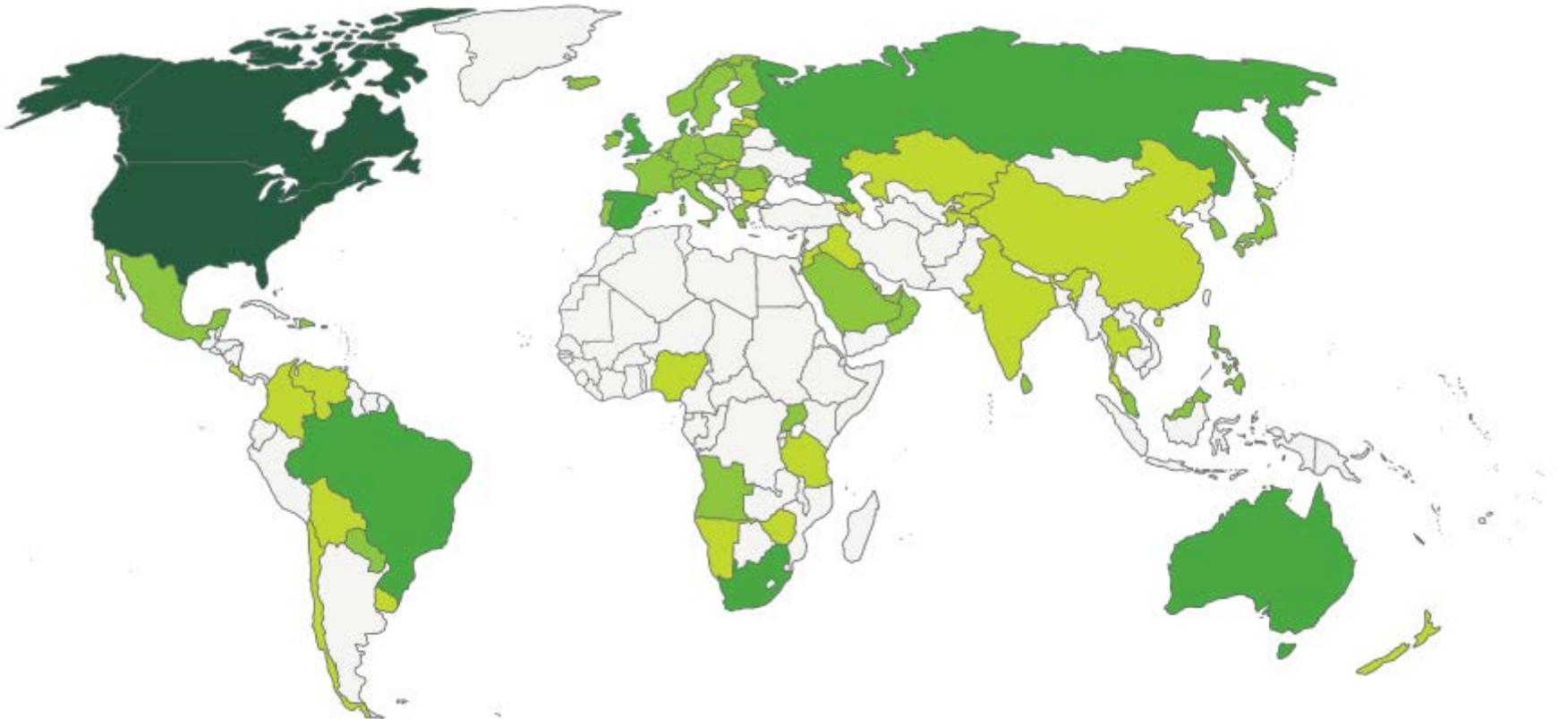
Video services dominate mobile operators’ 4G marketing campaigns, but most operators will fail to reap a direct revenue benefit from 4G LTE video services due to limited data caps, expensive pricing options, and competition from more compelling over-the-top (OTT) services. Consumers have come to expect being able to view mobile video across multiple screens at no extra cost.

European mobile operators remain some way behind their counterparts in Japan, South Korea, and North America, with 4G penetration likely to remain lower for the next few years. The addressable market for 4G content services will be lower, but European operators will also have a greater need for video content partnerships to help drive consumers on to new data plans and devices.

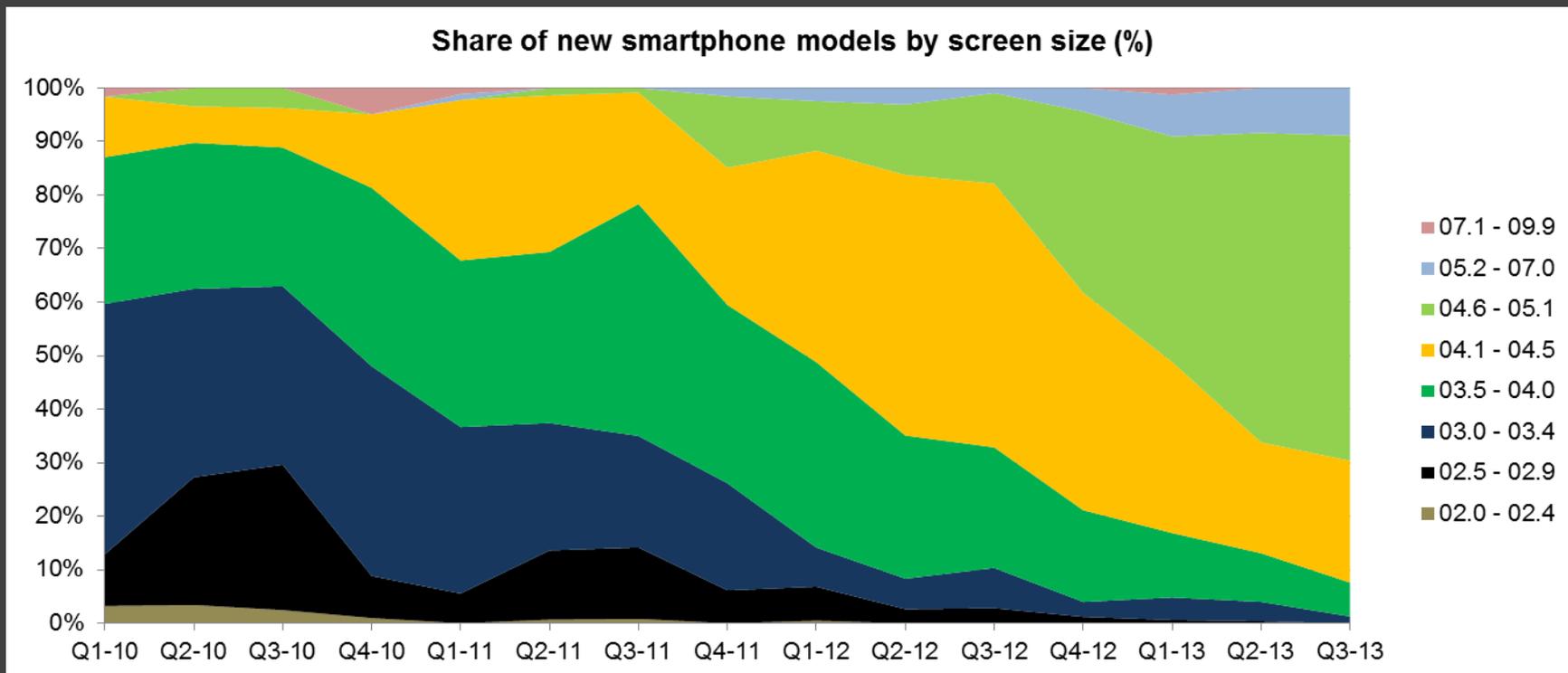


## Most major European, North American and S.E. Asian markets now have live 4G networks

World: LTE deployments – November 2013 (dark green – most deployments)



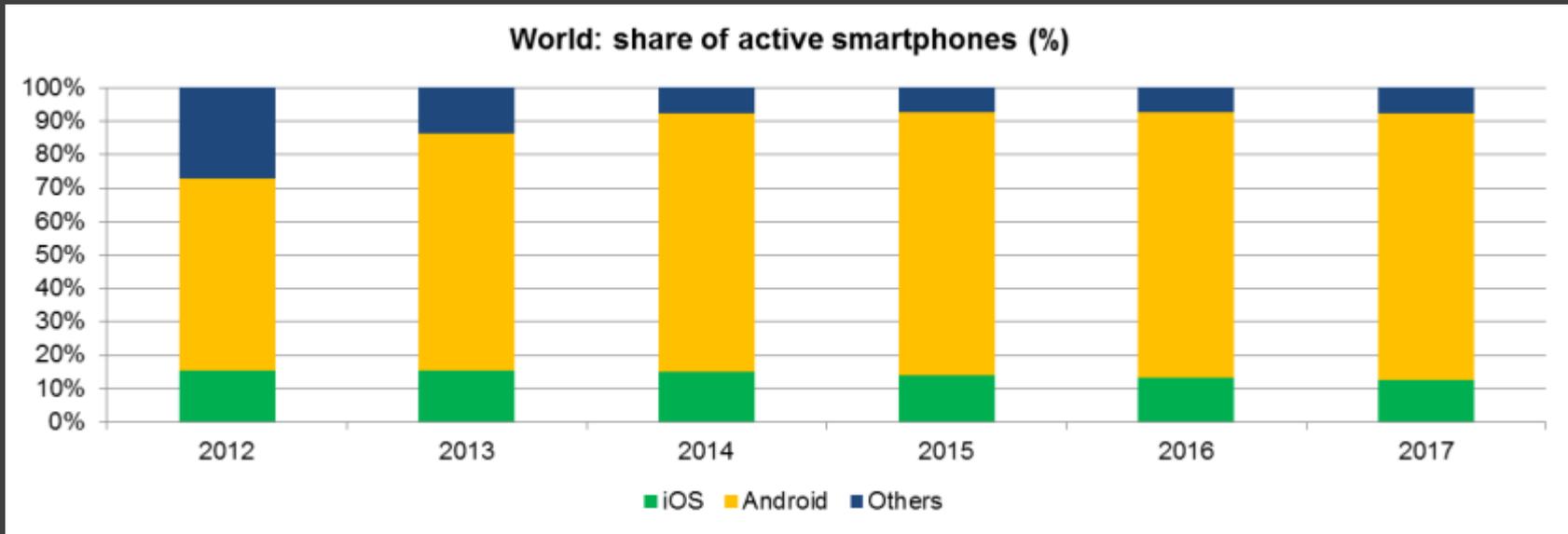
## Larger screen devices are also helping drive and address demand for mobile video and apps



Alongside the rise of new faster 4G networks, mobile device manufacturers are also helping drive and address increased consumer demand for mobile video services with larger screen smartphones that provide a more compelling video experience now being the norm. IHS research shows that with a few notable exceptions (including Apple's iPhone range) the vast majority of new smartphones launched now feature screens greater than 4.5 inches – a trend that is occurring across a broad range of price points and not just at the high-end.

These large devices, combined with fast 4G networks and mature app store content distribution will help drive increased consumption of mobile video services – but the revenue challenge remains. IHS recommends that companies understand the evolution of device screen sizes and to better target and deploy their apps.

## The smartphone market is a two horse race Challenger Operating Systems struggle for content



Google's Android mobile operating system will continue to dominate the smartphone market with around 80% of active smartphones in 2017. Apple's iPhone will remain a solid second place with around 12% of active smartphones in 2017, but the opportunities for other operating systems (with less than 8%) will remain limited.

Attracting compelling content including a wide range of apps and video services, particularly those from local providers, is a major hurdle for all challenger operating systems, and until they reach a certain level many media companies will be reluctant to invest in content for smaller audiences.

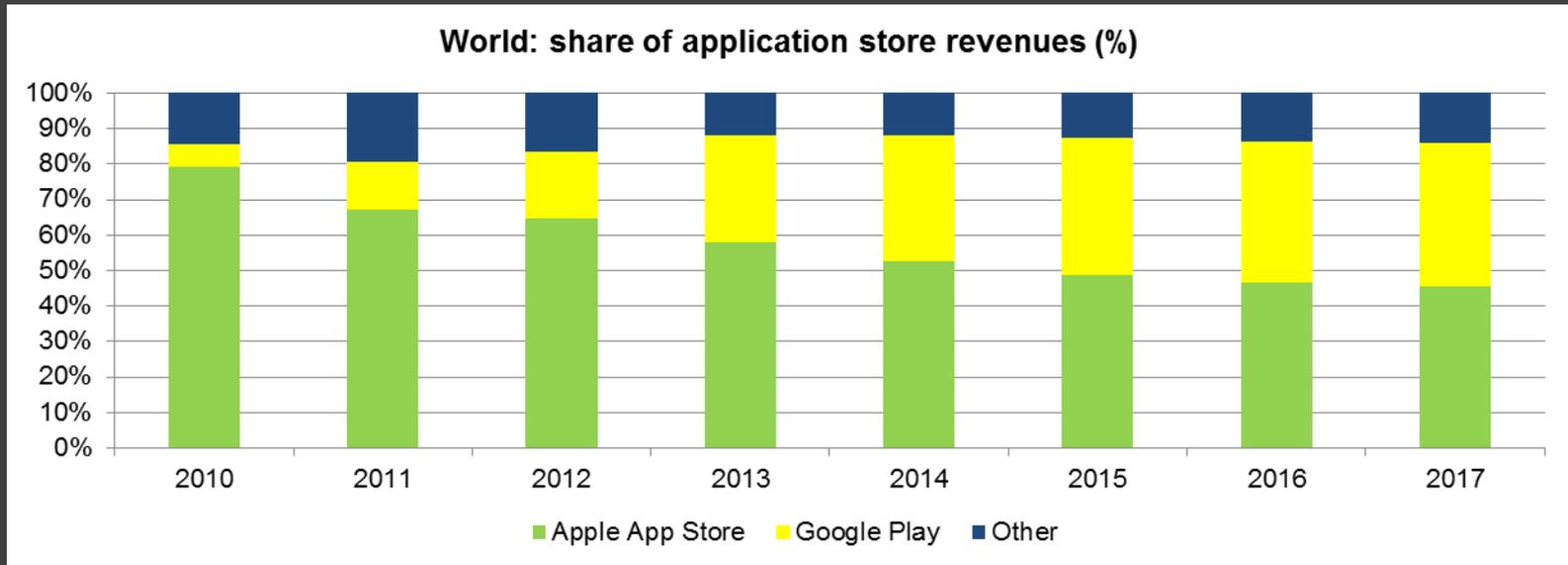
Regional differences mean that in some markets other operating systems will become more attractive to content providers. New device manufacturers and operating system providers are often keen to partner media companies to help boost demand for their new platforms. Companies must target their video apps to operating systems and devices based on their market share in different regions.



**Mobile Media Trends**

## Google starts to catch up in app revenues

But Apple remains well ahead in revenues per device



Apple and Google's dominant mobile operating system market share is reflected in their share (more than 80%) of smartphone and tablet application store revenues. Apple has been ahead of Google for some time but, driven by its huge Android installed base, Google is starting to catch up.

Apple, however, will remain way ahead of Google in terms of mobile content and app revenues per active smartphone and tablet. Apple iPhones and iPads will remain at the premium end of the mobile device market and this, combined with its tight integration with the iTunes and App Store content and billing platforms, and the lack of alternative iOS content stores will help Apple retain its lead.

Android devices span every price point and so average spend on Google Play will be lower. The lack of paid Google Play content in China, where local apps are growing at a rapid rate, and the availability of alternative Android content stores such as Amazon's Appstore for Android present further challenges to Google Play.

# Consumers spend \$15bn on mobile apps in 2013

But games take lion's share of revenues

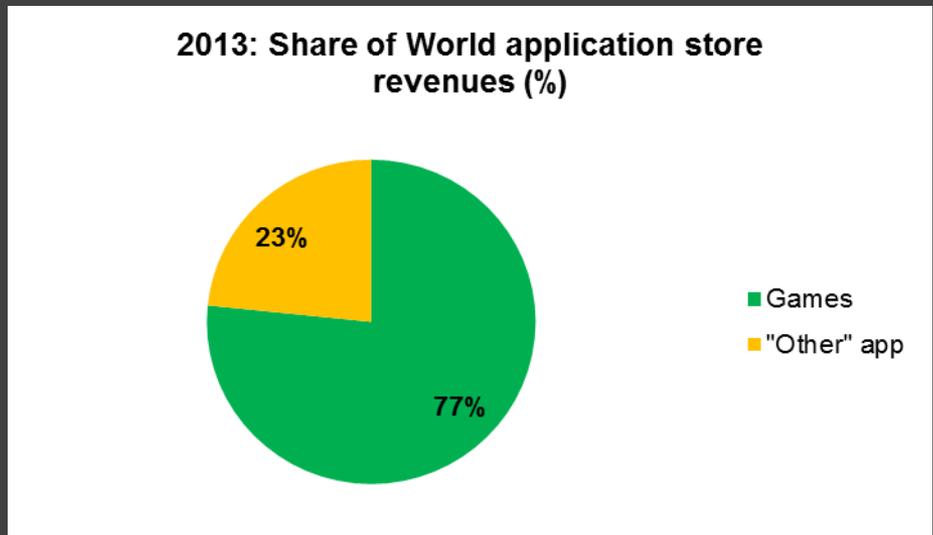
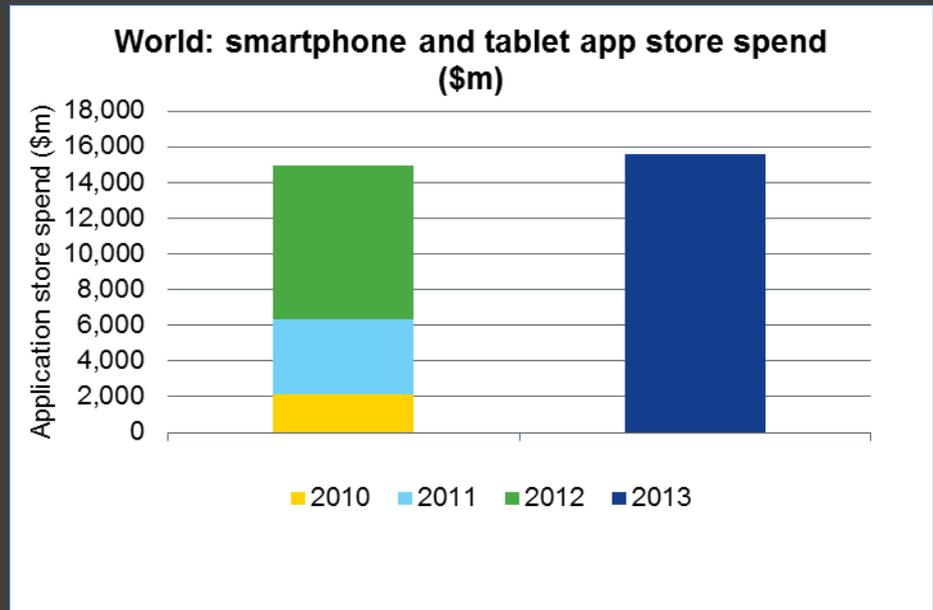
Consumer spend on mobile apps in 2013 is more than \$15bn, more than the previous three years combined.

Fuelled by the rise of freemium business models and in-app purchases, games remains the leading app category with almost 80% of all app store revenues.

Other leading app categories for revenues include:

- Navigation – which can charge a premium for high-value services and subscriptions.
- Social and Communications – largely driven by the success of subscription dating apps.
- Music – from subscription apps that offer access to premium on-demand services.

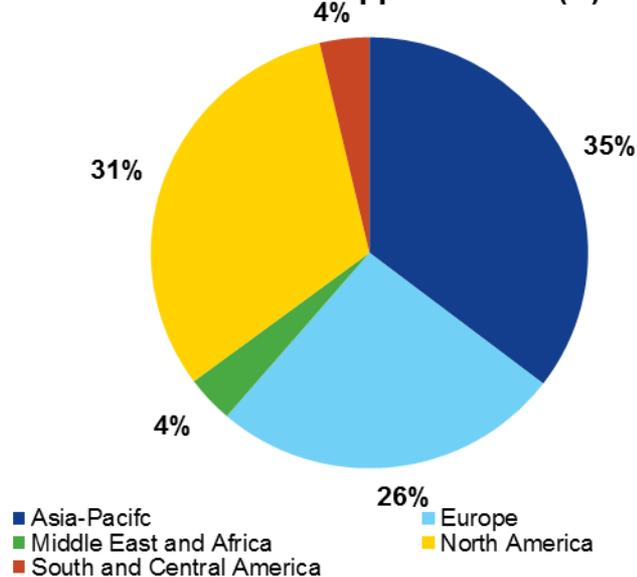
So far, video apps and those from TV companies have had little impact on revenues. Many such apps now offer mobile video access as part of a standard wider subscription, monetise outside of app billing platforms (where Apple and Google take 30% of revenues), or through mobile advertising.



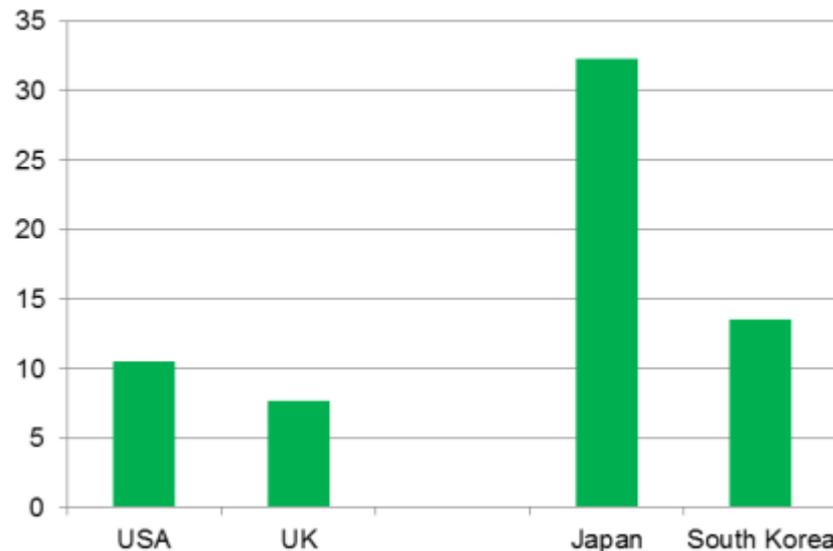
## Asia-Pacific markets lead in content monetisation

Driven by mature Japanese and Korean mobile content industries

2013: Share of app revenues (%)



Annual mobile media and apps spend per subscription (\$m)



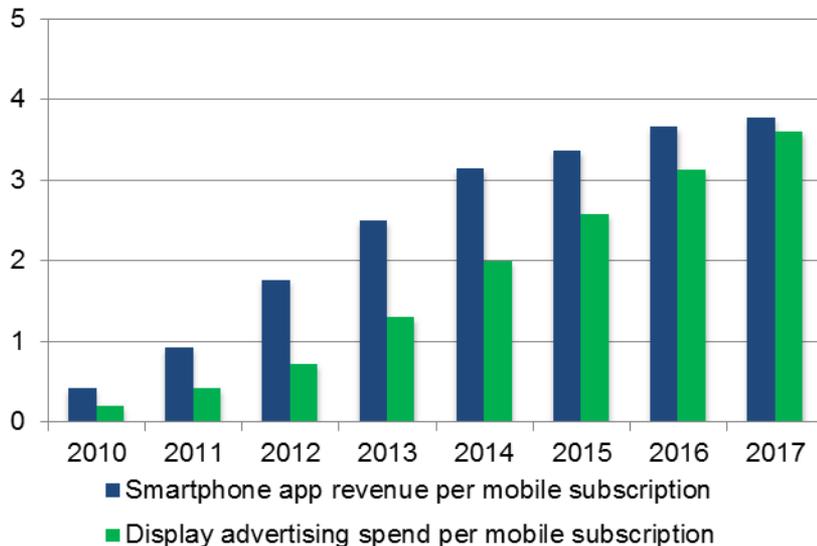
Asia-Pacific is the leading region for smartphone and tablet app revenues with 35% in 2013, ahead of North America (31%) and Europe (26%). The rapidly growing mobile subscriber base in markets such as China, where app revenues will pass \$1bn in 2013, India, and Indonesia will help Asia-Pacific remain in the lead in the coming years. But, it is the success of more mature mobile content markets such as Japan (where annual mobile content spend per subscriber is over \$30) and South Korea that have driven the success so far.

As a result of fierce domestic competition, many Japanese and Korean content companies are looking to international markets for growth, but they will struggle to match the same levels of success in Western markets – where other content poses more of a challenge to mobile. These companies are also targeting less mature Latin American and Asian markets, where revenues will be lower but the scale of the audience is huge and growing quickly.

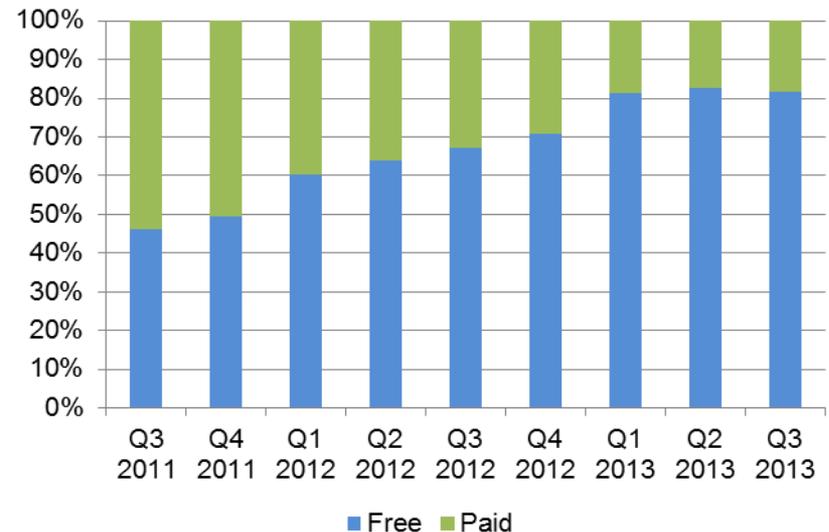
## Freemium business models lead app revenues

Media companies much choose which model is right for their content

**Western European app revenue & display advertising per mobile subscription**



**USA: share of top grossing iPhone apps (%)**



The rise of the freemium business model, where apps are downloaded for free and monetised through a combination of in-app purchases and/or mobile advertising has been another major mobile media trend over the past few years.

In-app purchases have grown rapidly since 2010 (when paid downloads were in the lead), and now account for the vast majority of consumer spend on mobile apps. The success of in-game virtual currencies has been a major factor behind this, with games successfully driving users to make repeat purchases.

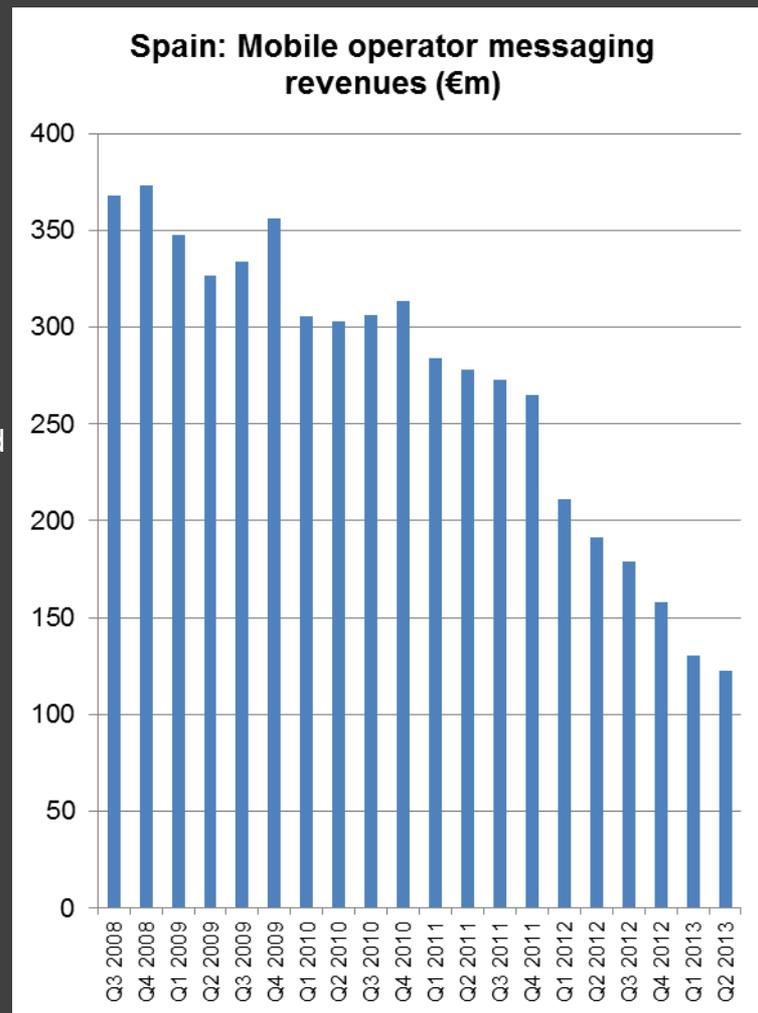
Other forms of content are increasingly embracing the freemium business model, but will struggle to match games' success because of limits on how much they can charge (or how much consumers are willing to spend) for subscription content which has limited price points, and specific content or features that don't suit virtual currency-based models.

## Messaging platforms provide further options for content monetisation

The leading categories of mobile games and social and communication apps are increasingly overlapping. Amid fierce competition, many communications app makers are struggling to charge for core communications. Instead, they are establishing strong mobile entertainment platforms—tightly integrated with their communication apps—in order to monetise and engage their messaging audiences. Asian companies have led the way with this strategy. Leading Asian messaging apps and services include South Korea’s KakaoTalk, Line in Japan, and China’s WeChat.

Most western social and communications app makers have not yet monetised their apps beyond communications services or mobile advertising. Many of these offer a wide range of free communications and even those that do charge, such as WhatsApp, generate relatively little revenue per subscriber (WhatsApp charges \$0.99 per year after one year of free access).

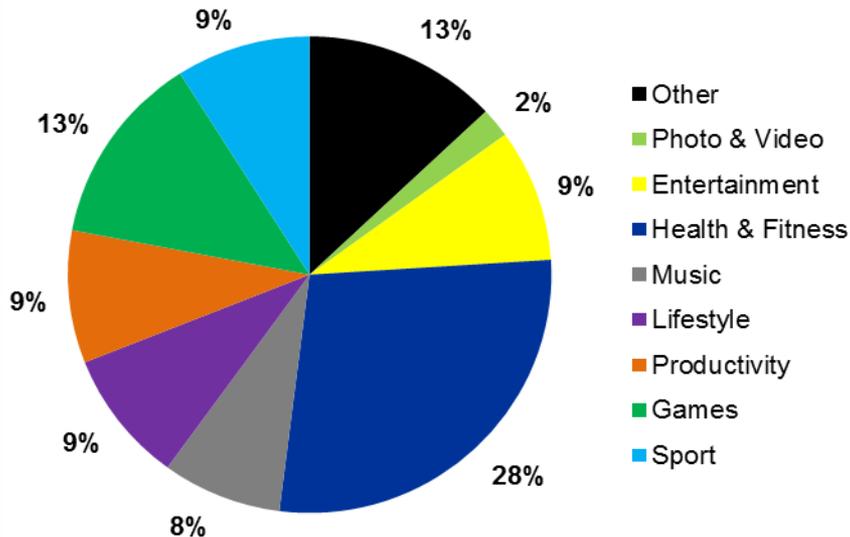
Mobile operators were first to feel the impact of free or very low cost OTT communications apps. The worst hit operators are in countries such as Spain, where messaging revenues declined from a Q4 2007 peak of €397m to €131m in Q1 2013. Content-centric mobile messaging business models present an acute problem for operators. If the makers of over the top (OTT) messaging, social and communication apps choose to monetise communication offerings via content, operators will struggle to persuade consumers to pay for communications.



## Mobile content moves beyond the smartphone and tablet

Peripheral apps and wearable devices provide new opportunities, but the market is still nascent

**Peripheral and Accessory apps by category (%)**



2013 has also seen the rise of new categories of mobile apps that interact with wearable and peripheral devices beyond smartphones and tablets. Notable devices in 2013 include: Samsung's first smartwatch, the Galaxy Gear, which interacts with its high-end Galaxy smartphones; new smartwatches from Sony and Qualcomm; and the continued rise of health and fitness devices such as Nike's FuelBand, FitBit, and Jawbone's UP.

The health and fitness category leads in terms of the number of apps that interact with peripheral devices (with 28%), with games coming some way behind in second place (14%).

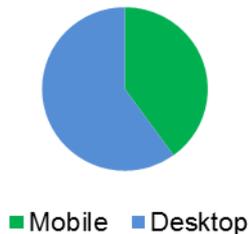
The opportunities for video apps and TV companies in this space has so far been limited, and will likely remain so. But a number of media companies are looking to invest in health and fitness apps, devices and services. As consumers spend more time interacting with them it could draw their attention (and advertisers' budgets) away from more traditional content and services.

The business models for these apps are still nascent – with some monetising through paid services, others through device sales, and also mobile advertising.

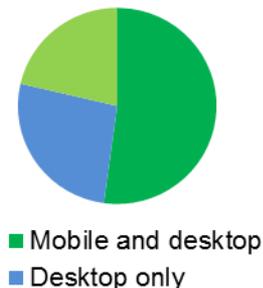
# Facebook's mobile strategy pays off

## YouTube lags behind in mobile monetisation

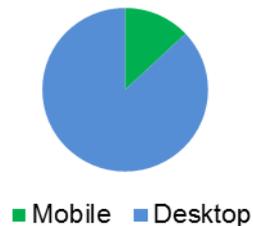
**YouTube consumption (%) - 2013**



**Facebook users (%) - Q3 2013**



**YouTube revenues (%) - 2013**



**Facebook advertising revenues (%) - Q3 2013**



At the time of its IPO in early 2012, Facebook highlighted the lack of monetisation of its mobile audience as one of its major potential risks. Since then, Facebook has successfully transitioned to a mobile-focused strategy which has seen mobile advertising revenues reach almost 50% of its Q3 2013 advertising total. IHS expects this to grow beyond 50% throughout 2014. Mobile users, including those who also use desktop, account for 73% of Facebook's user base — with mobile-only users comprising 21%.

To drive its mobile strategy Facebook made a number of acquisitions, partnered mobile operators to provide free or low cost data access to Facebook services, and launched its App Center mobile content discovery portal. Facebook is keen to play a role across different parts of the value chain; it scaled back its plans to launch a mobile web content store in favour of the App Center, which now plays a key role in driving its core mobile advertising business.

Facebook launched its own mobile games publishing scheme in 2013, to use its social integration to further drive content revenues from in-app purchases. Its ability to engage users once they have downloaded an app or game and get them back to content is increasingly important, particularly when freemium business models require on going app engagement.

YouTube — which sees 40% of consumption now on mobile devices, but less than 15% of revenues on mobile — has lagged behind Facebook in mobile monetisation. Banners and display advertising around video content are a significant contributor to YouTube's desktop advertising revenues, something which it hasn't yet replicated on mobile, though mobile revenues are growing. To grow its mobile revenues (and audience in emerging markets), YouTube could follow Facebook's strategy to partner operators to provide free or low cost data access to YouTube services, something that Google has already done with other services.

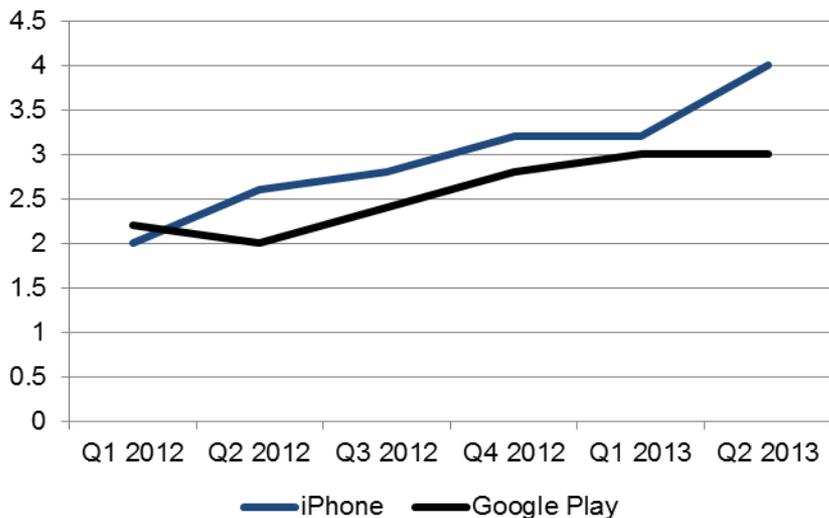


**TV and Video Apps Focus**

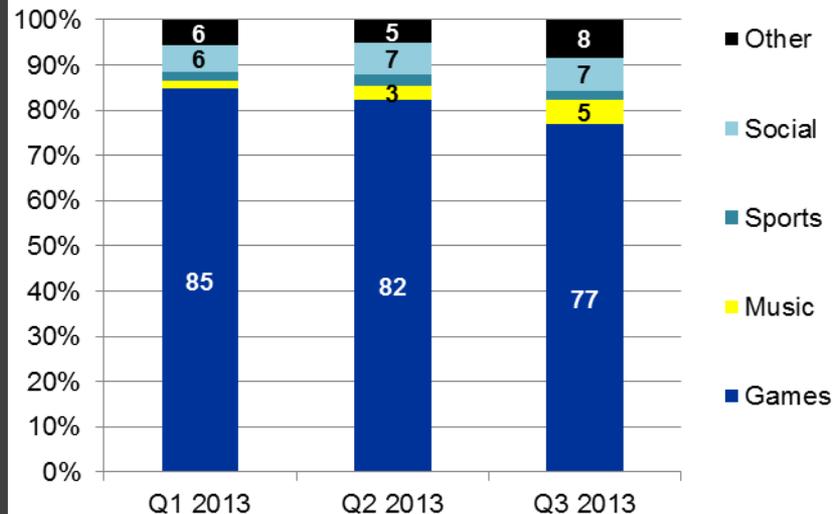
## Video apps grow share of downloads

But app-specific revenues are rare

Share of US smartphone app downloads (%)



Share of top grossing US iPhone apps (%)



The share of apps downloaded from the leading mobile app stores which feature long form video content has been rising since 2012. In the US, only around 2% of the top free apps downloaded in Q1 2012 featured long form video, in Q2 2013 this had doubled to more than 4%. On Google Play, video apps' share of downloads is slightly lower at 3%. On both stores video apps are likely to retain only a relatively minor share of downloads in future as other app categories such as games are more suited to users downloading a larger volume of apps, whereas apps that offer video content are often more service oriented and aim to engage users longer term.

For transactions processed by Apple's or Google's application stores, video apps make very little impact. Outside a few apps that offer live sports video, there are few which monetise users (in terms of paid content) via the application store billing platform. Video content providers are often unwilling to part with the 30% revenue share demanded by Apple and Google, and also provide video content as part of a wider cross-platform proposition or subscription.

## Operators use 4G to renew interest in video services

*But mobile specific services will struggle for revenues*

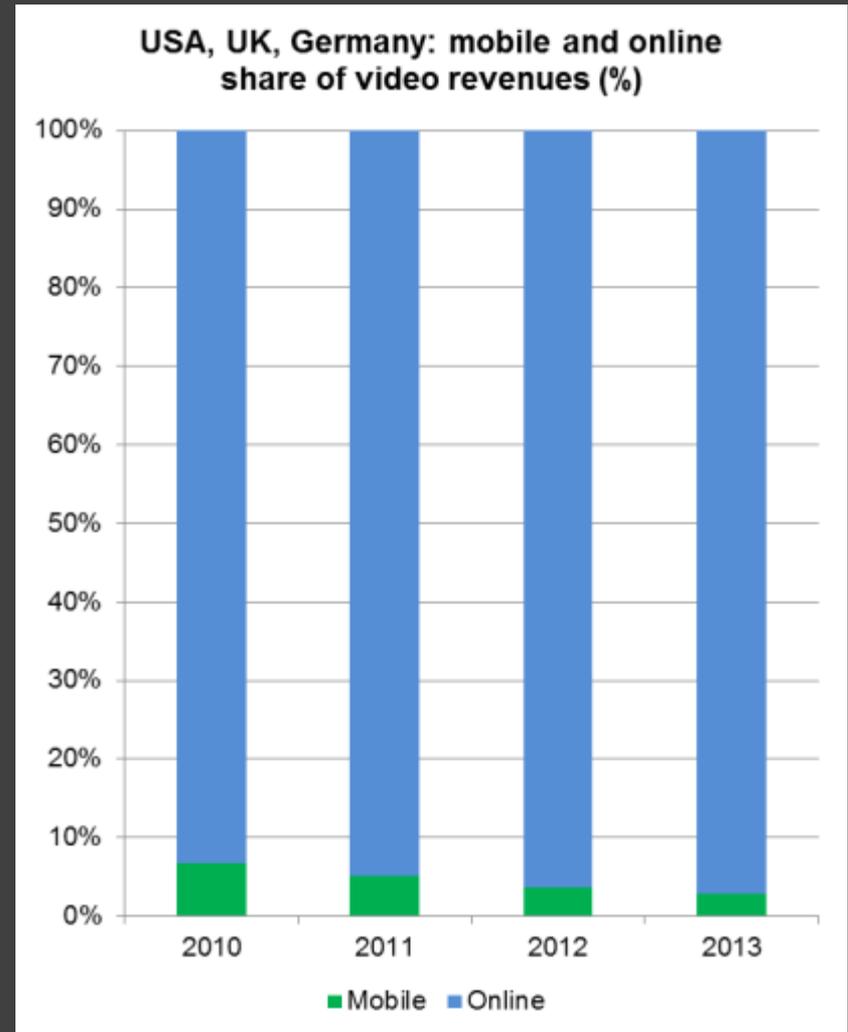
In most markets, operators have used the enhanced mobile video experience as a core part of their marketing campaigns around the roll out of 4G networks.

Many operators that charge a premium for 4G (on top of the standard 3G data plan) have also opted to offer “free” bundled video content as part of their 4G plans. Notable offers include:

- **Vodafone UK** gives subscribers a free Sky Sports Mobile TV option (or a Spotify Premium music subscription).
- **Orange France** offers *Ligue Un* (live football) coverage free as part of its premium tier 4G data plans.

In North American markets operators generally don't charge a premium for 4G, and so video services are used to drive users on to higher value plans that offer more data. Many operators in the US and Canada also provide their own pay-TV services and so still provide operator-branded mobile video services, though most users do not take standalone subscriptions.

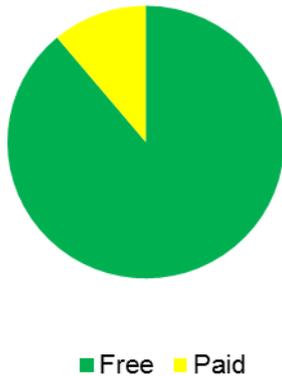
IHS research shows that mobile-specific video services account for only a small proportion of the total mobile and online video revenues (less than 3%) in leading Western markets. As cross platform subscriptions that don't charge separately for mobile access (e.g. Netflix) or those offered as part of pay-TV bundled plans (e.g. Sky Go) take the lead.



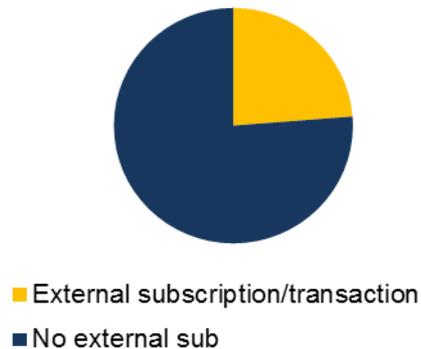
## TV companies embrace free apps

Preferring to tie customers to cross-platform subscriptions

USA, UK, Germany: TV company apps



USA, UK, Germany: TV apps which require external subscriptions/payment



USA, UK, Germany: TV company apps with in-app purchase (%)



IHS has tracked the deployment of more than 500 Android and iOS apps from leading TV and Video companies in the USA, UK, and Germany. Apps include those from pay-TV providers, major national channels and broadcasters, mobile operator video and TV services, and leading OTT video providers.

The vast majority of these apps (89%) are offered as free downloads with TV companies either choosing not to directly monetise their mobile audience, or tying their apps to wider subscriptions. A quarter of these apps required users to either have a wider subscription or make transactions to view content outside the application stores. Most of these external payments were for subscription video content, for which mobile access comes as part of the standard offer and is not charged at a premium.

Most apps however, did not require any subscriptions, paid downloads, or in-app transactions and instead provide free content and services. Some apps offer in-app advertising, but even for those that do, direct monetisation remains low. To make the most of their apps, TV and Video companies must understand how to tie their apps to their wider content strategy.

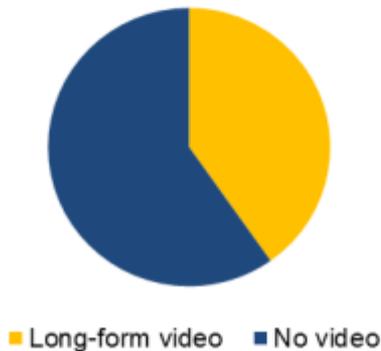
# The majority of Video company apps don't have long-form video

Only 40% of the 500+ TV US, UK and German TV company apps tracked by IHS featured long-form video content (excluding clips).

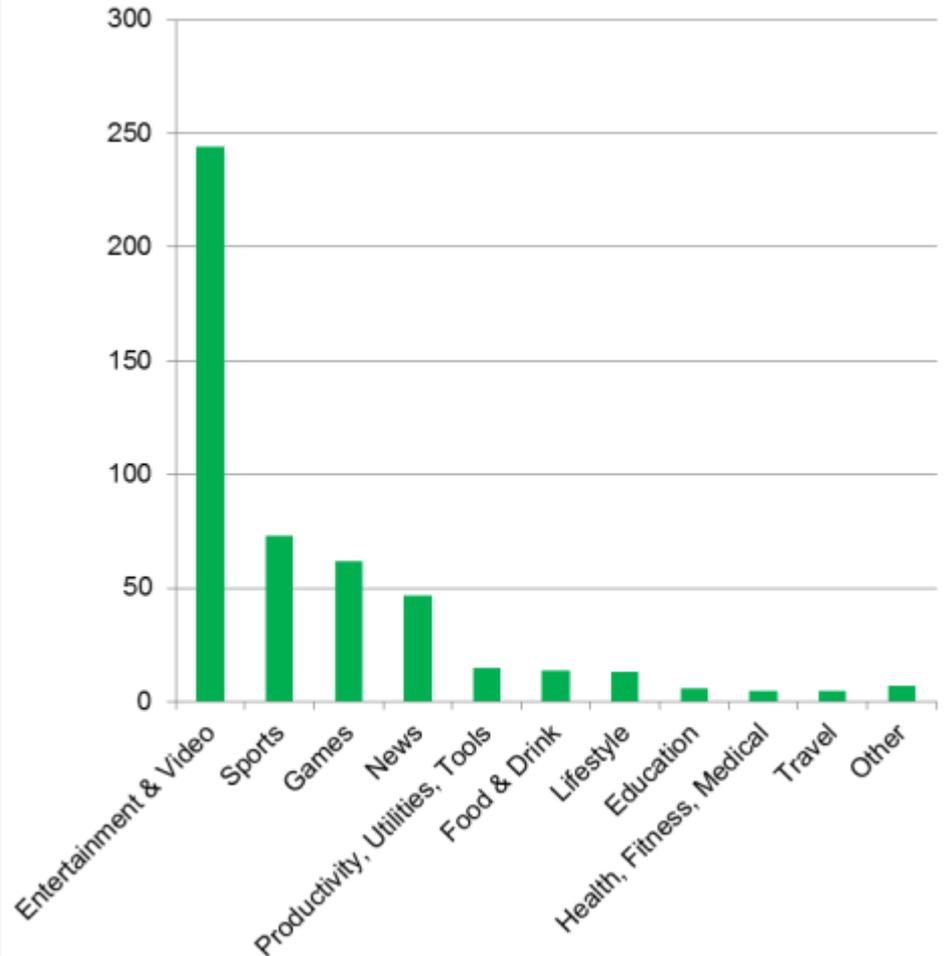
Unsurprisingly, Entertainment & Video apps are the leading category for TV and Video apps, with Sports, Games and News accounting for the other most popular categories.

Most TV companies choose to focus their video content on a few key apps that provide access to a broad range of channels or programmes. Other apps are used to drive engagement with particular shows, provide further monetisation through games, or provide tools for account management and device access etc.

**USA, UK, Germany: TV company apps with video content**



**USA, UK, Germany: TV company apps by category**



## TV companies still favour iOS devices

But the gap is closing for apps with Video content

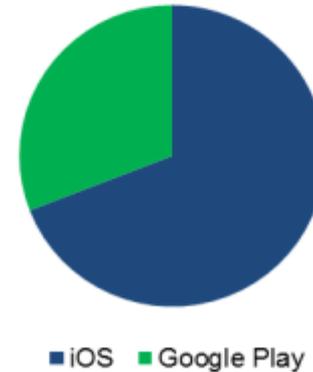
Almost 70% of the apps provided by TV and Video companies were available for iOS devices, with only 30% available for Google Play.

There are various reasons for this, including the iPhone's strong US market share (the leading iOS market), the relatively simple and secure iOS development environment (although Android is catching up), and the premium nature of iOS devices — meaning media companies see that audience as potentially more valuable.

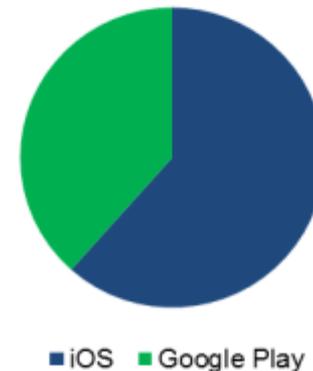
However, when it comes to apps that provide long form video content the gap is much smaller — with around 40% of video apps launched for Google Play, compared with 60% for iOS. In the early years of application stores many TV companies also experimented more with iPhone apps, often launching novelty or very simple apps that provided little to engage the user and were met with a muted audience response. Since then, companies have been more focused on providing fewer, yet higher quality apps that drive engagement across a broader range of content.

To make the most of their video and other apps, TV companies must understand what content is popular in local markets, how or whether to monetise that audience, and on which platforms.

**USA, UK, Germany: All TV company apps by platform (%)**



**USA, UK, Germany: Video apps by platform**



Smartphones and tablets are driving growth in the number of connected media devices, and with it the amount of content consumed on mobile devices — but monetisation of mobile video content is not simple.

The rollout of fast 4G networks, accompanied by larger-screen smartphones, will enhance the mobile video experience and provide operators new opportunities to engage users with mobile video services.

Nevertheless, most operators will not see a direct revenue benefit from mobile video and should instead look to partner video service providers to differentiate their premium 4G plans or not charge a 4G premium to show the benefits of existing third-party video services.

Games lead mobile app store revenues, with freemium business models dominating. Other app providers can learn from games' success and must choose the right business models for their content, taking into account the nature of different devices, stores, and regions.

TV and video companies provide a vast array of apps, but most apps don't offer long form video content. Instead, apps are used to drive engagement across a range of different types of content, provide access and account management tools, and some incremental monetisation.

*All data in this report is taken from IHS Mobile and Broadband Media and Technology services. For more information visit [www.screendigest.com](http://www.screendigest.com) and [www.ih.com](http://www.ih.com)*

## About the Author

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Jack leads IHS's coverage of mobile media with a focus on mobile applications, games, music and social networks. He joined Screen Digest in 2008 and launched its coverage of the mobile applications business in 2009. Jack has written a number of industry reports investigating how smartphone applications and social networks are changing the mobile media landscape and is the author of IHS's quarterly Mobile Games and Applications Stores Tracker reports.

Jack has led a number of consultancy projects on subjects ranging from the market for children's mobile entertainment to the potential of the applications business for media companies in the Middle East. His research and analysis includes studies of media companies' mobile strategies, how content providers can best monetise mobile media, and an investigation of mobile network operators' response to the booming smartphone and tablet apps business.

A regular speaker at industry conferences, Jack is widely quoted in coverage of mobile media by leading news organisations including the BBC, Wall Street Journal, Bloomberg, The Guardian, and Reuters.

*All data in this report is taken from **IHS Mobile and Broadband Media and Technology** services. For more information visit: [www.screendigest.com](http://www.screendigest.com) and [www.ihs.com](http://www.ihs.com).*

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