

3. Connected Main Screens

Our view:

- Project Canvas currently appears to be the focal point for debate about the future of TV – amongst both established television businesses and potential new entrants to the TV market from other media.
- A key dependency for the success of "over the top" TV services is consumer demand for on-demand TV.
- Many executives remain convinced that linear consumption will remain the default behaviour for the mass market and, for millions of consumers, increased choice and control over TV viewing is in any event already delivered through a PVR.
- As the upgrade cycle for consumer electronics devices shortens, "connected televisions" which are not dependent on a separate device for the delivery of online content may prove to be game changing.

OLSWANG



3. Connected Main Screens



Choice, control and Canvas

"The big breakthrough, I think, will be when the long-form comes into the TV because it is just a natural viewing environment. A PC is a very unnatural sort of environment to sit and watch content for 30 minutes."

Broadcaster

Our 2008 Consumer Convergence Report had, as a main theme, the increasing exercise by consumers of choice and control over what they watched and when. As one of our 2008 focus group participants stated:

"I...watch a lot of 'on-demand' programmes...It means I can be a lot more relaxed in the way I plan my life and don't think 'did I set the recorder properly'".¹⁶

The 2008 data also suggested that there was significant appetite among consumers for a device/network solution that could deliver to the main screen in the house the sort of audiovisual offering then being delivered by BBC iPlayer, ITV Player, 4OD and the like to a PC - and to a technical standard consistent with it being watched on a large screen with surround-sound.

Whilst we have not yet seen a true mass-market take up of such propositions, a significant minority of UK homes now have access to such services via various technical solutions. Virgin Media's latest results revealed that 1.9 million customers are using their VOD service each month, averaging 32 views per user per month, and we set out recent BBC iPlayer viewing statistics in Chapter 2. Other solutions (such as those delivered by BT Vision, Apple TV and Fetch TV) are also in smaller numbers of homes.

How this market will evolve became a key topic of conversation among those we have spoken to in the course of this project. There appear to be three key variables: (i) to what extent will people's viewing habits migrate from linear to on-demand viewing; (ii) to what extent will the demand for VOD be satisfied by solutions that require something short of a fully connected networked device; and (iii) can the imagination of the viewing public be captured in order to persuade them to invest in such a solution? If you conclude that there is a huge opportunity awaiting, in particular, the BBC-led Project Canvas (which, at the time of writing, remains subject to BBC Trust approval), there are still questions as to the business models which might be compatible with this platform and the extent to which money might be made out of them.

Migration to non-linear viewing

Those who are bearish on the future of on-demand TV - and we have spoken to a surprising number - point to the consistently poor results of VOD services all over the world, going back to the earliest trials in

¹⁶ Converging Media: Olswang Convergence Consumer Survey 2008, p.17.

the early and mid-1990s. They point out that despite the high absolute numbers for (say) the Virgin on-demand service, measured across all of Virgin's subscribers, the figures equate to 4 "views" per home per week (the average length of a view is not disclosed) which is still immaterial compared with an average of 3 hours 45 minutes of TV watching per person per day in 2008 (of which a little over 4% amounted to time-shifted viewing).¹⁷ TV remains, as has been pointed out to us, an essentially passive experience, especially among the older demographic groups. This was echoed by a range of people – from publishers to broadcasters to film studios – who all believe that linear consumption will remain the default behaviour for the foreseeable future.

This is one potential explanation for the apparent lower future demand for VOD-to-TV as compared to VOD-to-PC that we discussed in Chapter 2. There may be a hard core of our survey base which is simply not interested in on-demand TV as a concept, preferring to watch linear TV in the conventional way. Whilst some of this hard core may already use PC-VOD services, they may perceive these services as offering a discrete opportunity to catch-up on the occasional missed episode, where the viewing environment is not ideal but viewing on a small screen is preferable to missing the episode altogether. This base may not yet identify the **on-demand** nature of their occasional, PC-based catch-up as a functionality they would like to see transferred to their main viewing screens.

The alternative argument is that those who have recently been exposed to on-demand-to-TV services have taken them up with vigour and that both the Virgin Media statistics and those related to "big screen" iPlayer usage are to be seen as a great opportunity. Some have also suggested a chicken-and-egg effect, in that we will not see a real shift of behaviour from linear to on-demand viewing until there is a solution which unlocks this market (just as the iPod offered an easy user experience and thus unlocked - and then captured - the MP3 market).

One executive we spoke to was convinced that the tipping point for the mass adoption of on-demand TV services will arrive much more quickly than many commentators (and our own respondents) anticipate, arguing that many current growth predictions have been extracted from the experiences of linear TV adoption and that these cannot be translated into the much more dynamic world of online content distribution.

True VOD vs. PVRs and other solutions

A TV connected to the internet, either as an integrated device or by means of a separate set top box, is of course not the only solution to deliver to consumers the opportunity to take control of their viewing, to watch what they want when they want it.

Some consumers may already feel that the choice and control they require over their main TV screen viewing is already delivered through other functionality. In our survey this year, some 43% of Adults and 41% of Kids stated that they already owned a personal video recorder such as Sky+, V+ or a DTT PVR.¹⁸ With the exception of those devices which are used to provide a "push VOD" service (where content is automatically pre-recorded on the PVR by the platform operator for later viewing), PVRs must, of course, be configured in advance to record the shows that an end-user wishes to view. However, this means that,

¹⁷ Source: BARB.

¹⁸ See Annex, Figure 1(a).

by definition, the available choice of recorded content is entirely tailored to the viewing habits of the individual(s) in the home who have selected the programming to be recorded.

PVRs must now be seen as a mainstream product, with nearly six million Sky+ and Sky+HD boxes, over 650,000 V+ boxes in Virgin homes and, according to Ofcom estimates, 2.9 million DTT PVR boxes sold by 30 June 2009.¹⁹ According to Sky's published results, the average Sky+ household watches, on average, more than three programmes per day other than on a live basis.

There is little published evidence at present as to the inter-relationship between usage of a PVR and usage of a "true" on-demand service, where both facilities are available to the viewer on the same screen. Among many we spoke to, the default consumer hierarchy of choice is assumed to be: (i) look at your favourite linear TV channels for something you want to watch (especially "event television" such as a football match or the *X Factor* live results show); (ii) failing this, look at the menu of recorded programming on your PVR to see if there is something there you would like to watch; and (iii) only then will you explore the wider reaches of the EPG, both in terms of linear channels which you do not have a regular interaction with or an affinity to, but also in terms of on-demand content. However, it is likely that this hierarchy is more complex. As a broadcaster explained to us:

"...trying to work out what the cannibalisation is between [PVRs and VOD] when you have got both available like that...there's just so many different factors involved, and everything from the type of content it is, how much of it is catch-up versus archive, or whether they're trying to catch up on two episodes in the last week versus one...it doesn't seem to be a one answer fits all...people intuitively understand what a PVR is a lot more than they really understand exactly how VOD works".

Other factors are likely to come into play, business model being the most obvious one - free sources and those pre-purchased on subscription often taking preference over those that require additional payment at the point of use.

Who will buy a large screen connection "solution"?

"We need easy-to-use direct internet connections to the TV to get critical mass but the danger is that we will never get the critical mass - and it doesn't take many bad experiences for people to give up on the concept altogether."

Representative of a Hollywood studio

The bears (and a surprising number of those with whom we spoke were bearish, especially in connection with Project Canvas) fear that we will never reach critical mass. "Box fatigue" is seen as likely to play into the hands of the existing platform operators (especially Virgin and Sky) and there is a fear that the availability of so many different solutions will result in none of them being able to gain momentum.

¹⁹ Source: Ofcom; company published reports.

Today, there is a huge fragmentation of solutions to deliver internet content to the big screen. Some are integrated by platform operators (Virgin, Sky) whilst others (BT Vision, Fetch TV) piggy back on the UK DTT platform; some are offered by major CE manufacturers (Sony, Toshiba, Samsung, LG) and some also are designed to integrate with existing media collections stored on home computers (Apple TV and iTunes). Microsoft offers several different "big screen" solutions around its Xbox 360 device; using Windows Media Extender, the Xbox can play content stored on a PC through Windows Media Center; while the Xbox also contains a movie download store and now additionally gives Sky subscribers the ability to access (via an "over the top" internet connection) certain Sky linear and on-demand content.

The goal for many is a simple, elegant, easy-to-use solution, a goal held by the Project Canvas consortium. Some bears we have spoken to suggest that Canvas is a solution aimed at a non-existent market. Those who watch a lot of TV or are sports fans will, they argue, already have subscription relationships with Sky and/or Virgin and are unlikely to trade down to Canvas, other than through economic necessity or if (following Ofcom's current review of the pay-TV market) Sky's sports channels become available on the platform. Conversely, they claim that the homes that currently only have Freeview and whose watching beyond the traditional terrestrial channels is limited are highly unlikely to be incentivised to spend a large sum (mooted to be in excess of £150) on a technology to allow them to watch more TV.

The response to this is that Canvas take-up may be slow in the early years, but will ultimately take off, even if through sheer inertia. People will trade up to a new TV that already incorporates Canvas technology such that a separate set top box is not even needed (or, when those in existing pay-TV homes buy a new TV and move a high quality flat-screen to a bedroom or study, they will feel that they can justify an additional set top box to accompany it).

It is important to remember that Canvas evangelists can be found beyond the ranks of established broadcasters and TV/movie rightsholders. We were reminded in our discussions that print publishers, in particular, are increasingly developing TV production capabilities and building their own libraries of audio-visual content as they enrich their online (to PC) services. Although it might be a stretch to suppose that Canvas will lead these publishers to reinvent themselves overnight as the "new broadcasters", the potential opportunities for this sector of open internet-to-TV platforms should not be overlooked.

Business models

The other key question is what business models will be supported by these new connected devices. In the recent demonstration which we described in Chapter 2, the BBC made it clear that they believe Canvas needs to offer an e-commerce solution from inception, so that, even while the Corporation will not charge for content, third parties would be able to do so.²⁰ This will no doubt be welcome to the ISP partners of Canvas as, without a payment solution, it is hard to see what incentive they might have to subsidise the roll-out of Canvas devices.

However, one analyst expressed the view that those who are likely to end up considering Canvas devices are those least likely to pay for content. The entry price point for pay-TV through Sky or Virgin is low enough that those who might be willing to pay for content under any circumstances are already likely to be doing so, the analyst suggested.

²⁰ See, again, http://www.bbc.co.uk/blogs/bbcinternet/2009/11/erik_huggers_at_c21_this_is_no.html.

We consider payment for content further in Chapter 7. We also explore, in Chapter 8, another business issue which many of our interviewees consider to be of crucial importance in the forthcoming on-demand large screen environment – the role of search and recommendation engines in helping consumers to find and select content to view.