Are you ready for the European on-demand entertainment mega market?

Strategic marketing consultant Haim Oren, CEO of Oren Web Marketing - Israeli representative of the international analyst company Jupiter Research – examines the rapidly emerging on-demand digital European consumer.

Haim Oren

We are presently witnessing a major trend – the emergence of the on-demand digital European consumer. Consider these developments:

- Broadband penetration in Europe is forecast to grow from 28 percent or 33.5 million households in 2005 to 48 percent or 80.6 million households in 2010.[1]
- Internet penetration will continue to rise in Europe, in parallel with the growth of broadband. Internet households will grow from 77 million in 2004 to 109 million in 2010 when broadband will comprise 74 percent of all online households.[1]

These trends signify the emergence of an on-demand digital European consumer who

- is more interconnected and communicative
- spends more time online
- has ever-faster broadband that is always on and available
- seeks to time-shift or control the times he/she views media content

Let's examine key trends in the European digital space in 2005 and 2006 according to recent Jupiter Research European market trend analyses.[2]

European platforms and access

2005. Broadband reached critical mass in 2005. As such, the European broadband audience became mainstream, impacting every company offering Internet-based products or services. This development was accompanied by double-play success in many markets with the emergence of successful voice and broadband bundles. Triple-play bundles – voice, broadband and TV – had comparatively modest results.

2006. As broadband speeds rise, the effect on consumers and providers will be dramatic as broadband could be considered the highway to the emergence of the digital home. New content and communication services, requiring the latest high-speed broadband, will launch. Speeds will also determine how consumer online activities evolve. At the entry level, Internet service providers (ISPs) will continue to experiment with metered services to appeal to late adopters. For VoIP to build upon its success in 2006, it must leverage value-added services, rather than remain yet another mechanism to deliver cheap telephony.

European content and programming

2005. Illegal file sharing remained largely unchanged, despite high-profile legal action taken by content owners against individuals. At the same time, paid content adoption remained a niche area. Although music performed better than other sectors of paid content, Apple's European iTunes Music Store – the market leader – took 12 months to sell 50-million tracks, approximately the US store's monthly sales. Games showed solid growth, with European ISPs and portals widely deploying play-before-you-pay pricing models and experiencing strong adoption among non-traditional gaming audiences.

2006. Paid content will show steady growth in 2006, and the music sector will become increasingly competitive following the launch of high-profile music services from major retailers such as HMV and possibly Yahoo! Music. Movie download services will remain a niche, with content owners reluctant to license compelling content within meaningful release windows. Games will continue to experience strong growth, with the gaming demographic expanding. However, the largest revenues will continue to come from services such as online security and dating.

European digital home

2005. Spurred by the successful introduction of Apple's iPod shuffle, MP3 players raced toward critical mass, reaching 18 percent of European households near the end of 2005. Meanwhile, portable video players failed to gain any traction. The year also brought several challenges and opportunities to the digital TV space. Although IPTV subscriber numbers remained low, telecom incumbents in France, Spain, Denmark, and Belgium, along with competitive ISPs throughout Europe, launched or significantly expanded IPTV offerings. Digital terrestrial TV grew beyond five million subscribers in the UK, and started brightly in France and elsewhere.

2006. The battle for on-demand consumers will greatly intensify, with TV operators and electronics manufacturers aggressively offering new products and services (e.g., video on-demand, digital video recorders, DVD recorders, portable media players) that allow Europeans to time-shift their media contents – i.e watch TV whenever and wherever they like.

Internet protocol TV (IPTV), currently available in a handful of countries and set to spread throughout Europe during the next year, is

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growing in popularity. However, most IPTV providers have yet to find widespread adoption of their services. Marketing the benefits of IPTV to consumers will become a key success factor as consumers are driven by clearly communicated tangible benefits and not necessarily technology features.

Key finding

Approximately 500,000 European households subscribe to IPTV, primarily in France and Italy. France offers the best opportunity for IPTV services, followed by Sweden and Spain. Target customers for IPTV are wealthy, but they prefer the convenience and value of multiplay packages to advanced features such as video on-demand (VoD) and digital video recorders (DVRs).

Key definition

IPTV. These multichannel TV or VoD services are delivered over broadband IP connections and displayed on TV sets.

France, Italy lead Europe in IPTV offerings and adoption

According to a Jupiter Research analysis conducted in 2005, approximately 500,000 European households subscribe to IPTV. Current primary offerings and estimated numbers of subscribers are as follows:

FastWeb (Italy, 160,000). Introduced in 2001 when FastWeb offered only fiber broadband, TV di FastWeb is now primarily delivered over digital subscriber line (DSL).

Free (France, 130,000). More than one-half million customers can access 70 IPTV channels at no cost. Premium packages, including satellite channels, are also available.

France Telecom (France, 120,000). Broadband households can subscribe to satellite channels or order VoD through Maligne TV. France Telecom plans to extend IPTV services to the UK, Spain, the Netherlands and Poland by 2006.

Telefonica (Spain, 40,000). The Imagenio service offers 40 channels plus VoD. With recent regulatory approval to offer multiplay bundles, Telefonica expects continued strong growth.

Neuf Telecom (France, <25,000). An inexpensive basic package and extensive premium offerings allow Neuf's service to compete with France Telecom and Free. However, Neuf has a comparatively smaller DSL subscriber base to leverage.

HomeChoice (UK, <25,000). Despite broad VoD and channel offerings as well as aggressive discounting, HomeChoice has made little headway in a fiercely competitive market. Limited footprint is a problem. In January 2005, the company's network reached just five percent of UK households.

Viasat (Sweden, <25,000). Since December 2004, Viasat has offered IPTV to fiber clients of Internet service provider B2. In 2005, service will extend to B2's DSL customers and other ISPs.

TDC (Denmark, <5,000). Launched in May 2005, TDC TV offers 18 channels in regional Danish cities with limited cable network coverage.

Other launches. Belgacom launched IPTV in August 2005. Dutch telco KPN has targeted an autumn 2005 rollout, while British Telecommunications and Swisscom plan to introduce offerings in 2006. Telecom Italia and Spanish cable operator Auna are also developing IPTV services. [3]

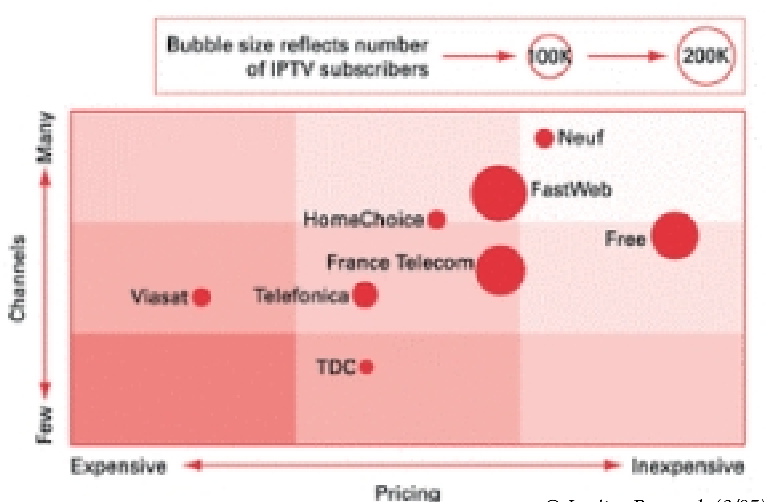
A battle is now unfolding in Europe over the control of the on-demand entertainment mega market. This offers exciting opportunities for Israeli companies seeking to develop and market innovative technology products, applications and services to satisfy the needs of this mega-market.

(1) Jupiter Research: European Broadband Access Forecast 2005 to 2010. Volume 1, 2005

(2) Jupiter Research: European Digital Directions - Key Themes for 2005 & 2006

(3) Jupiter Research: IPTV in Europe-Finding Opportunity in a Fragmented Landscape, August 2, 2005

European IPTV Offerings



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Haim Oren is CEO of Oren Web Marketing (www.orenweb-marketing.com), a Tel Aviv-based Web strategic marketing consultancy, recently appointed as the Jupiter Research representative for the Israeli market. Jupiter Research, a division of NASDAQ-traded Jupiter Media Corporation, helps companies develop business strategies across online and emerging digital channels.