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Plenary session 1

"Is there still a future for Free-to-View TV?

Free to air content provision in Europe, perspectives and business models"

Introductory Paper[1]

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Introduction

The EPRA annual Work Programme for 2016 has chosen for this year to enhance the debate on future-oriented topics, dedicating the yearly plenary theme to the future of Free-to-view Television (FTA).

This first yearly session in Barcelona placed particular emphasis on the re-allocation of broadcasting spectrum and its implications for audiences and service providers in the light of the outcomes of the World Radiocommunication Conference 2015 (WRC-15) which took place in November 2015 and of the draft Decision of the EU Commission of 2 February 2016 on the long-term use of the UHF band whose aim is to repurpose the 700MHz band under harmonised technical conditions.
While the spring meeting was intended to raise awareness on spectrum issues and their significant impact on users and service providers, the autumn session in Yerevan aims at highlighting the challenges for DTT and, more generally, the importance and sustainability of free-to-air (FTA) television in the internet era and the role possibly played by the regulators.

The aim of this paper is to provide a brief introduction to these topics, alongside the objectives and structure of the session and possible themes of discussion.

Gilles Fontaine (European Audiovisual Observatory) will be setting the scene examining the trends and figures, the market dynamics and the future perspectives.

Ross Biggam (Discovery) will give the point of view of an operator competing on the market.

The following discussion with the audience will develop the ideas presented by the speakers with reference to specific cases, taking into account the evolution in TV viewing, the market trends and dynamics, the changes in the distribution, the adaptation to the on-demand world and address regulatory challenges.

[1] **Disclaimer: this background document has been produced for an internal meeting by EPRA, an informal network of 52 regulatory authorities in the field of audiovisual media services. It is not a fully comprehensive overview of the issues, nor does it represent the views, nor the official position of EPRA or of any member within the EPRA network.**

Free-to-air TV in the internet era: decline or rebirth?

In a rapidly changing broadcasting and media environment, questions have been raised about the long-term future of free-to-air television.

Fundamental technological changes have occurred in the television industry in the last decades. Preceded by the introduction of new technologies alternatives to terrestrial TV, e. g. cable and satellite TV, the most recent - and impressively fast proceeding - technological transformation is represented by the internet.

In such a context, it is necessary to reflect on which (if any) **role can be played by national regulatory authorities (NRAs)**, particularly considering the historical moment and the ongoing legislative process for the adoption of the revised AVMS Directive.

The recent technological innovations have contributed to put traditional free-to-air, linear broadcasters in direct competition not only with pay-tv broadcasters but also with the so called over-the-top operators (OTTs), operators using the internet to supply the service/content, not having their own infrastructure to rely on to. The competition developing in the market sector has impacted not only on the strategies put in place by the operators, but also directly on the way viewers draw on the content. To cope, **business strategies** have to be adapted. In response to this new trend, a common answer is that traditional broadcasters have extended their offer on terrestrial, satellite and Internet platforms; also pay-tv platforms have proposed offers including live streaming so that viewers can watch the programmes via an Internet connection on their smartphones or tablets. Some operators have also embraced a hybrid model, launching for instance OTT service or light-pay offer, aimed at those who have not already subscribed to their service, or even expanding their position to new platforms or models.

Another impacting factor is the reported general decline in terms of advertising revenues, though this negative trend did not concern all media: Internet is reported to have recorded a positive change in advertising revenues in the period 2010-2014. The digital offer of audiovisual services has captured the attention of advertisers. Digital platforms happen to attract a growing number of users, allowing a larger slice of demand to be captured. Also, the digital offer being typically thematic, commercial communications can be tailor-made for the profiled user. Another aspect to take into consideration is that, under the current European regulatory framework, video sharing platforms, which are able to attract a large amount of viewers, are falling outside of the scope of the Audiovisual Media Services Directive, and are consequently free from any obligations to invest in original content, thus not contributing to the virtuous circle feeding the audiovisual ecosystem.

As DTT is still one of the most popular TV platforms among Europe and the main one for some countries, being highly significant for example in Italy, Spain, Greece, the UK and also important in France, it is in current use considered in many countries as a synonym of FTA TV. We do have of course to keep in mind that FTA content is not limited to the DTT but is also delivered via other platforms.

The switch-off process has deeply modified the existing business models and enhanced the possibilities: allowing the reception of multiple channels using the same space previously necessary to broadcast only one analogue channel has considerably increased the offer of content, making possible a boost in innovation, quality and variety of the programmes.

The main value of the DTT derives from its high capacity of data transmission. Such feature allows offering new TV channels, higher quality image and interactive services. The launch of the DTT platform has consequently increased the competition in the television market: not only could viewers choose between an unprecedented number of channels, but also between FTA and pay television services. The increase in competition between different platforms and service providers has allowed the audience to benefit from appealing content and lower prices, leading to viewing fragmentation and mass proliferation of (niche) channels. The DTT platform combines qualities difficult to match: a very extended coverage, the flexibility of use, the ability to reach a high percentage of population (in many countries superior to 90% and such a coverage is mandatory by law).

The role of the terrestrial platform is changing in conjunction with the evolving technology and the needs of the market and the viewers, enhancing choice and offering viewing options beyond broadcast television. The questions addressed during the session will explore the impact that the developments in the TV sector could mean for the future of FTA content provision. In particular, the changing media landscape, the growing popularity of other delivery platforms and the unstoppable rise of internet, which is emerging also as a delivery platform itself, are all challenges to which the traditional FTA-TV model needs to adapt.

This change has inevitably impacted on the business models of the free-to-air broadcasters, which have had to adapt to a world in which the fragmentation of viewing that led to a decline in audience share numbers, alongside the increasing challenges to linear TV viewing.

It seems possible to predict that in the next future the expansion of on-demand services will continue to increase, although possibly more slowly than over recent years. Although it has been raised by some voices that the more inclined to get a subscription to SVOD are the consumers already having a pay-TV contract, potentially constituting less of a risk to free-to-air providers.

Likewise, the diffusion of devices such as smartphones and tablets will continue to increase, but at a reducing rate as their penetration seems to be approaching to maturity and this may therefore limit their future impact on TV viewing. Moreover, developments in the consumer equipment industry – such as improvements in picture quality and internet connectivity – are expected to take place and impact on the viewing experience.

Themes for discussion:

- What will be the predictable developments driven by technology and the multiplying in viewing methods?
- What are the alternative delivery options that would support investment in the European TV content market?

- Should the rise of subscription video-on-demand (SVoD) providers be considered as competition or complement?

- Is there any difference between the ways in which the country-of-origin principle and the Digital Single Market Strategy are impacting on small markets and big EU national audiovisual markets? If so, which ones?

Sports events

Between 2013 and 2015, the value of premium sports rights has experienced a huge increase[2]. **Premium live sport events** typically bring a large audience share and their presence in the offer acts like a catalyser for advertising, commercial breaks and, for pay offer, subscriptions. The development of pay TV in particular has changed the shape of the broadcasting of premium sports events: higher quality standards, extra content, interviews, actions seen by different camera angles, instant replay; premium rights owners face a continual challenge to ensure cutting edge broadcast quality, for example by evaluating the viability of coverage in ultra-high definition (UHD a.k.a. 4K). To secure this crucial content, huge sums are invested. Along with substantial growth in rights fees, there continues to be further investment in the quality of broadcast production for sports.

On the other hand, there is the public interest, recognised also by the AVMS Directive, to protect the national audience from the risk of viewing events of particular relevance only on a premium subscription. For this purpose, Article 14 of the AVMS Directive gives Member States the possibility to draw up **a list of events of major importance to society**, which shall not be broadcast exclusively in such a way that a substantial proportion of the public would be deprived of the possibility of following them free to air. Events of major importance for society should meet certain criteria, being "*outstanding events which are of interest to the general public in the Union or in a given Member State or in an important component part of a given Member State*[3]". As clarified by recitals no. 48 and 49 of the AMVSD, the acquisition of the rights of an event included in the list is, of course, not forbidden; nonetheless, this has to be reconciled with the need for promoting pluralism and right to information of the users, as codified in Article 11 of the Charter of fundamental rights of the EU. In this view, it is necessary for the States "*to take measures to protect the right to information and to ensure wide access by the public to television coverage*" of events of major importance for society. On the other side we have the interests of the market players, competing to acquire the rights of particularly appealing events in order to gain more subscribers and investments, since it has to be recognised that inserting these events in the national lists has also an impact on commercial strategies.

[2] See for instance http://www2.deloitte.com/content/dam/Deloitte/uk/Documents/sports-business-group/deloitte-uk-annual-review-of-football-finance-2016.pdf and http://www.bbc.com/news/business-31379128

[3] Recital no. 52 of the AVMS Directive.

Themes for discussion:

- Can the wide availability of a low-cost multi-channel option for viewers who are unable to or choose not to subscribe to pay platforms still be secured and how?
- How will content investment in a changing competitive landscape be affected? Is the 4K / ultra-HD development for the live broadcast of sports events the way to go?
- Is the list of major events still necessary in a technologically neutral environment, in which internet could be considered a qualified platform for transmitting such events?

The consumers' behaviour and the social value of FTA TV

Whilst media consumption is changing significantly, with a perceivable increase in internet content consumption linked to OTT viewing, and a slight, long-expected, decline in television viewing, there are no signs that video content viewing is likely to decline significantly. Untethering TV from a linear schedule has both invigorated and disrupted the TV industry. Watching on your own schedule has made TV a more compelling entertainment option for consumers, in general, and it has also made back catalogues more accessible, and thus more valuable. However, shifting has put tremendous pressure on how the TV business has traditionally made money: TV shows watched live, with ads.

The shift from "mass public" to a fragmented audience is not only due to the increase in the offer and to the second screen experience, but also to the attention span being lessened.

Many studies have been conducted on the **trends and new habits of viewers**[4], showing the constant increase of time-shifting habits and binge-watching, particularly among millennials, which are reported to claim that less than 40% of their weekly TV consumption is live. More than half of all consumers, and three quarters of Millennials, are now watching movies and TV shows via streaming on at least a monthly basis

From the perspective of consumers' costs, the only cost to be paid for the consumption of free-to-air TV is the fee for the financial contribution of public service broadcaster, while also many private national broadcaster are free-to-air. Consumers consistently cite costs – both set-up and ongoing – as the most important factors in their platform choices. For consumers that are constrained by costs, DTT is essential in providing an alternative to free satellite. Also, by providing a near universal free-to-air platform, the relevance of maintaining a quality offer available to all users not able to afford or simply not intending to subscribe to a pay service has to be stressed.

Apart from a merely economic point of view, the digital terrestrial platform also demonstrates significant value in social terms. Firstly, a main asset of the platform is its historical and technical link to public service broadcasting. DTT's ability to reach an average percentage of 95% or even

[4] Out of many, see for instance https://www.thinkwithgoogle.com/infographics/video-trends-where-audience-watching.html or https://www.ebu.ch/files/live/sites/ebu/files/Publications/EBU-MIS%20-%20TV%20Audience%20Trends%202016%20(Public).pdf

more of the population is playing a crucial role in providing the general public with information, entertainment and education.

For the same reasons, it is the chosen delivery platform of PSB transmissions. We might extend this to affirm that PSB is dependent on a universally available FTA platform, and*, a contrario*, to affirm that making PSB content available only on the basis of a subscription would undermine its value and purposes, and therefore weaken the universality of the service.

Also regional and local media depend almost entirely from DTT in many jurisdictions such as Italy, France and the UK, and the relevance of the local media in valorising and spreading regional and local culture, in the framework of political and cultural unity, must be kept in mind.

Another asset that deserves to be mentioned is the "competition for quality content". The appeal of the content offered is crucial for attracting and maintaining viewers: the competition between free and pay platforms has therefore directly stimulated more content investment leading to a virtuous circle for the production industry.

The simple presence of a strong free-to-air offer encourages rival platforms to invest in original content and innovative services. Without free-to-air, we might say that there would be a risk of a more concentrated market with higher prices and less innovation.

Themes for discussion:

- What is the economic and social value of DTT?
- What is the impact of the most significant trends and changes in audience behaviour? Are these changes in audience expectations and consumption habits responding to the development of new services or is the rise of new ways of consumption of the content altering the viewers' habits?
- Is there a role that media regulators can play to secure access to free-to-air content? If so, which one?