Media Industry

Market Threats and Opportunities

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Confluence of market changes is creating a significant threat and opportunity for media companies

- Technology changes
  - Ubiquitous broadband is providing media distribution platform for all, enabling new entrants
  - New consumer devices are creating demand for multiple media formats and change in behavior
  - New production platforms are changing economics, creating additional competition
- Consumer habits
  - Media consumption time is shifting
  - Multitasking
  - Increasing migrant population looking for foreign content

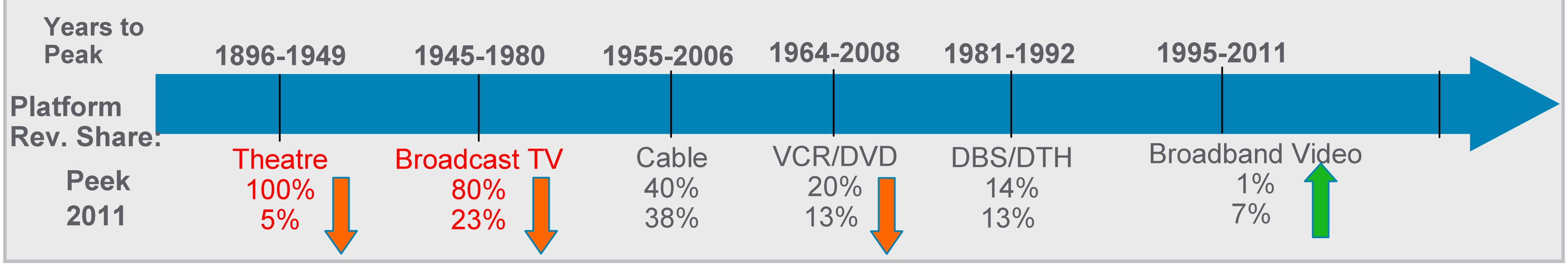
- Market changes
  - New competition for consumer time and money
  - New distribution methods/channels
  - New business models
  - Changing advertising models

- Pursue new markets – geography and distribution channels
- Using multiple models – retail and wholesale

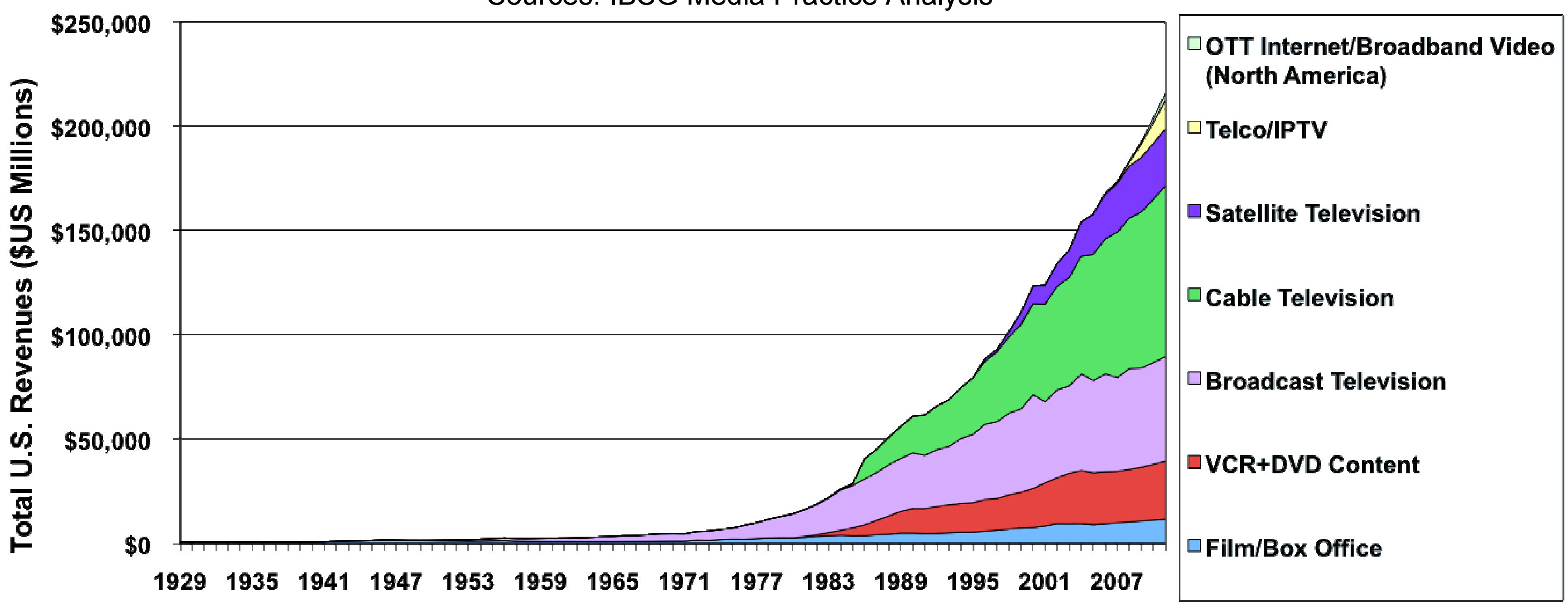
Technology

Broadband, like many other technology platforms before is driving industry change

Introduction of Major Technology Platforms for Film/Video Entertainment (US)



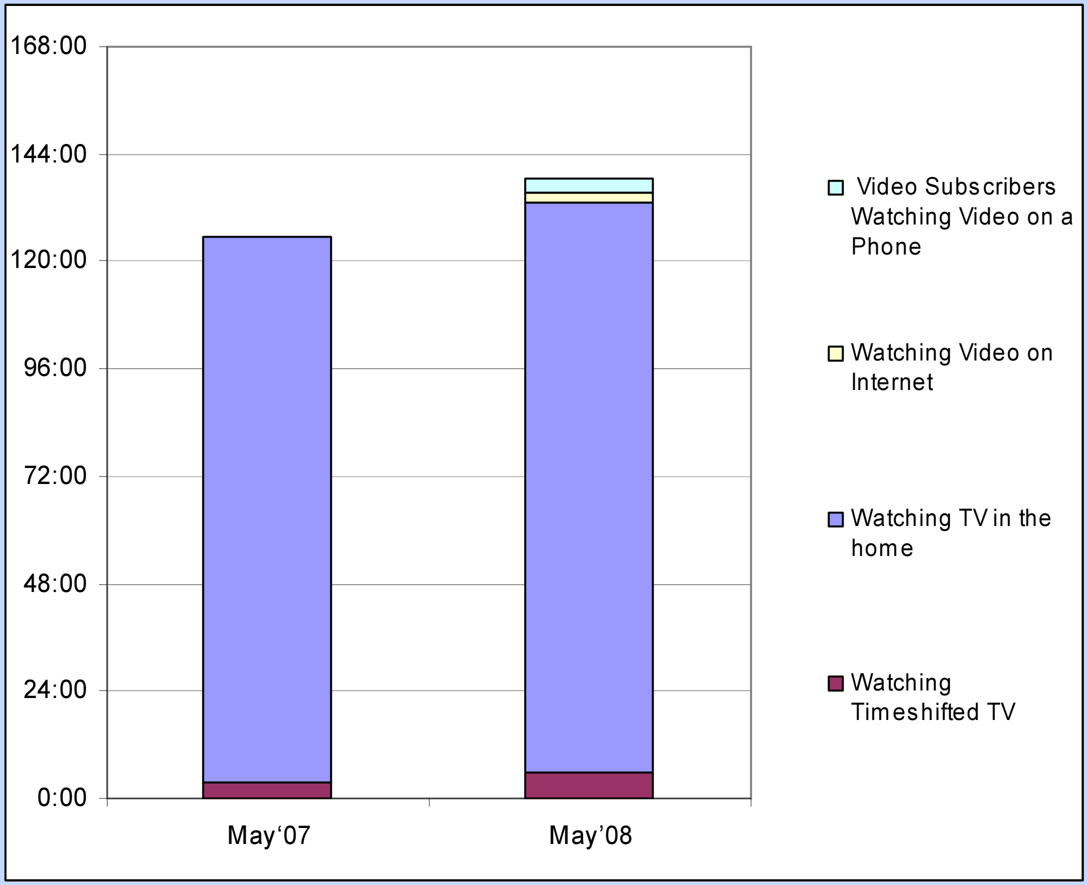
Sources: IBSG Media Practice Analysis



New consumer devices create demand for new media formats

DVRs impact on TV is mixed – helps in dominance of video viewing but moving consumption to timeshifted

Time Spent Per User Per Month
(in hh:mm)

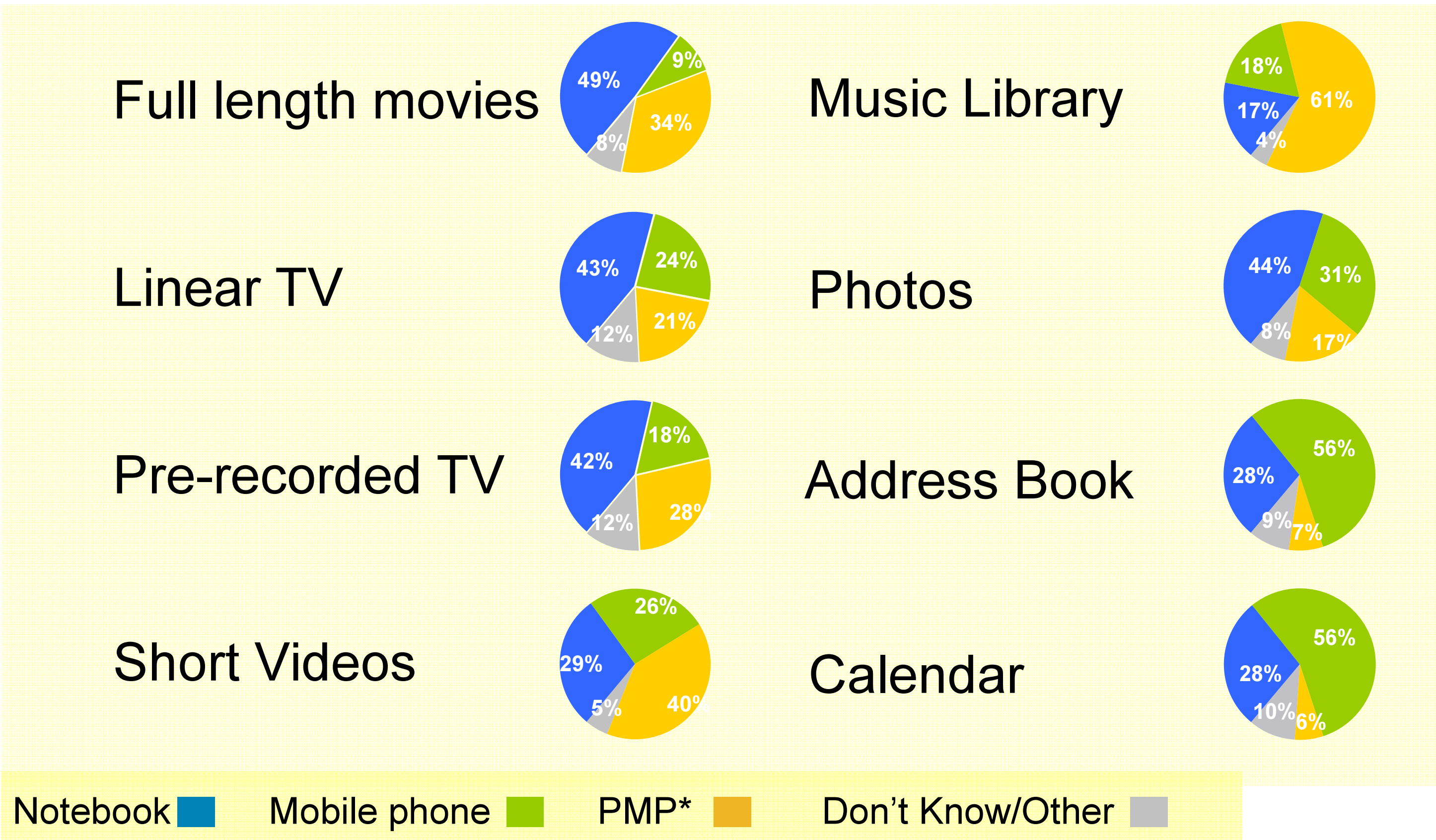


Viewing Type	Increase (May'07 – May'08)
TV in Home	4%
Timeshifted TV	56%
Video on Internet	9%

.May 2008 "Three Screen Report", Nielsen

Different devices are preferred for different content – but all are used for any content

Q: Which device would you most prefer to use to access the following content while away from home or work?
Asked only of respondents who indicated the used the following content on the go



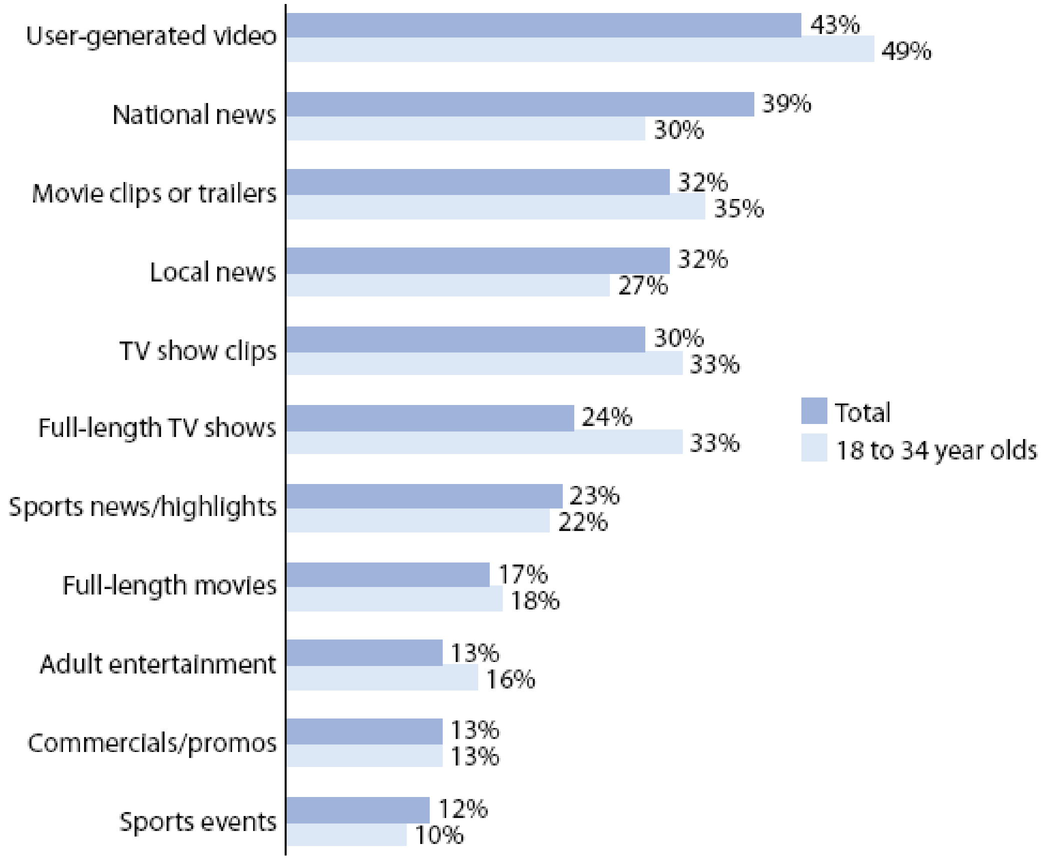
Mobile phones are still viewed as a productivity tool not an entertainment device

Base: Western European Broadband Subscribers who access the specified content on the go

* PMP includes MP3 players, portable DVD Player and gaming device.

Inexpensive production platforms enabled new competition

The types of online video people watch in a typical month
(North America online consumers who watch online video)



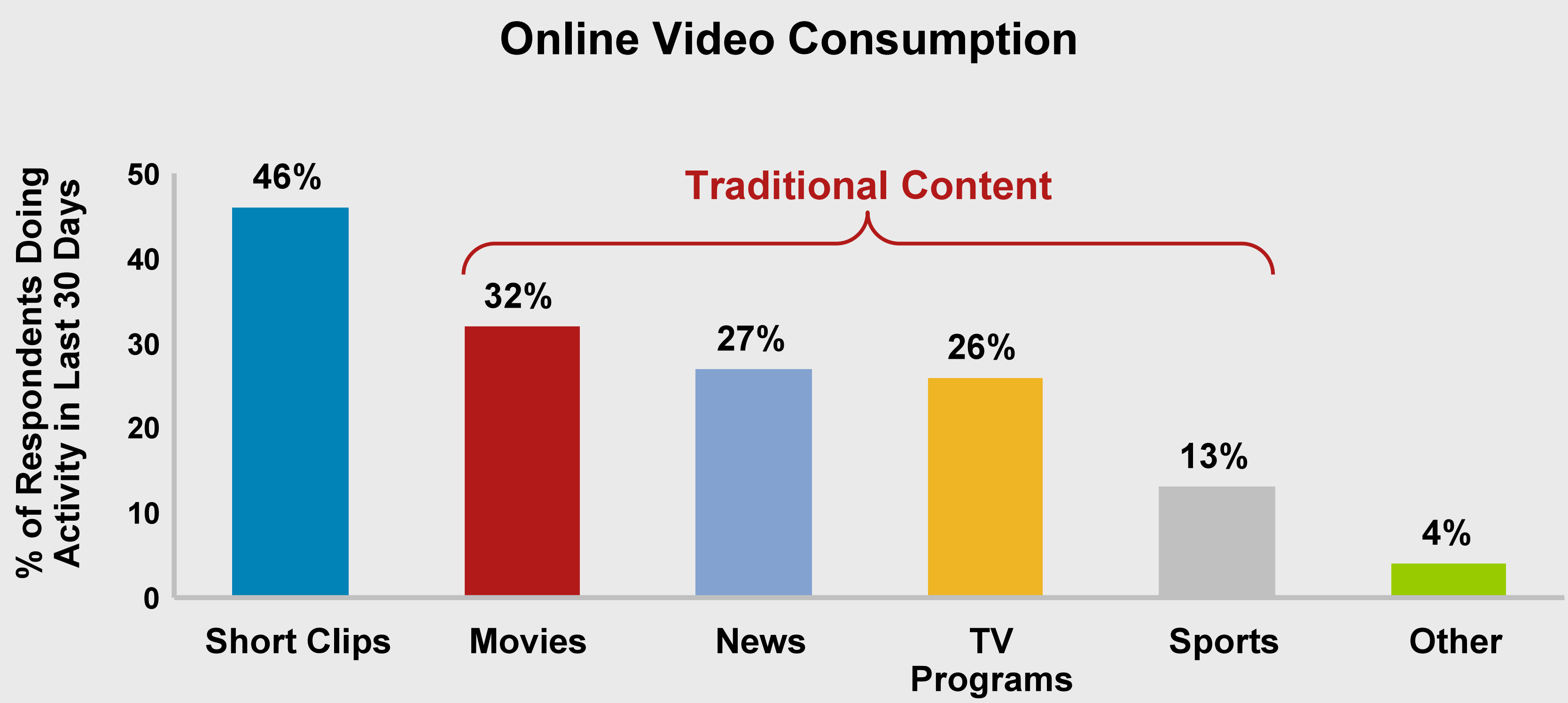
- **News**
  - **51% of online video viewers watch news online in a typical month**
- **TV shows**
  - **Nearly a third of all online video viewers watch TV show clips online**
  - **24% of all online video viewers watch full-length TV shows online**
  - **33% of 18- to 34-yearold online video viewers seek out full-length episodes**
- **Increase in penetration**
  - **Higher penetration within younger generation will lead to a continued increase in overall penetration**

Source: Forrester, May 2008;

Consumer

Consumer Technology Investments Are Causing Behavior Changes

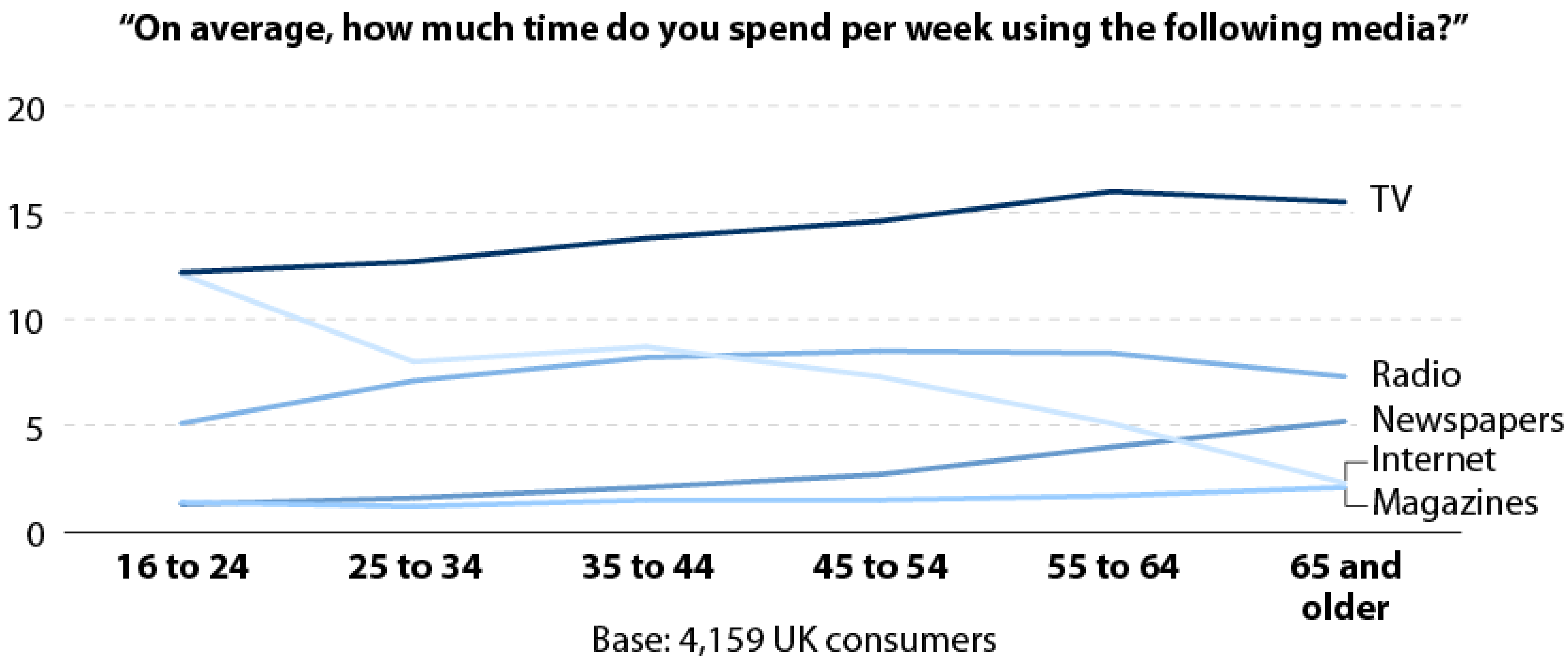
69% of Western European Broadband Consumers Watched or Downloaded Video from Internet in Past 30 Days



Base: Western European broadband subscribers

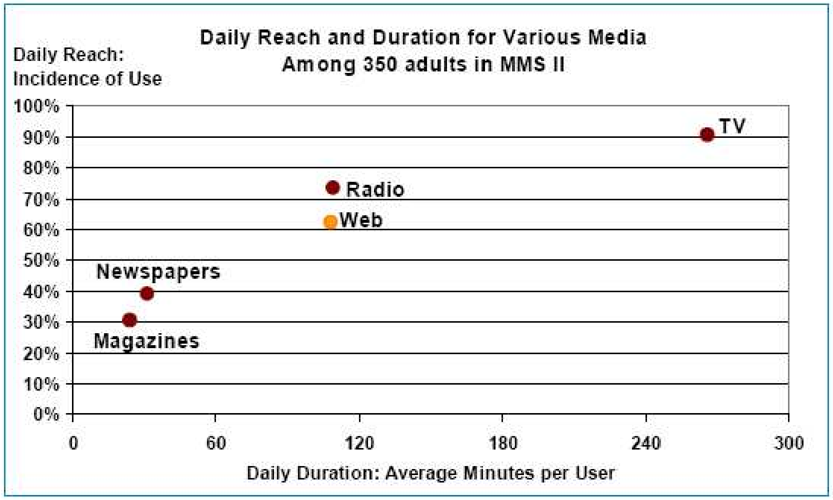
Source: Cisco IBSG, 2008

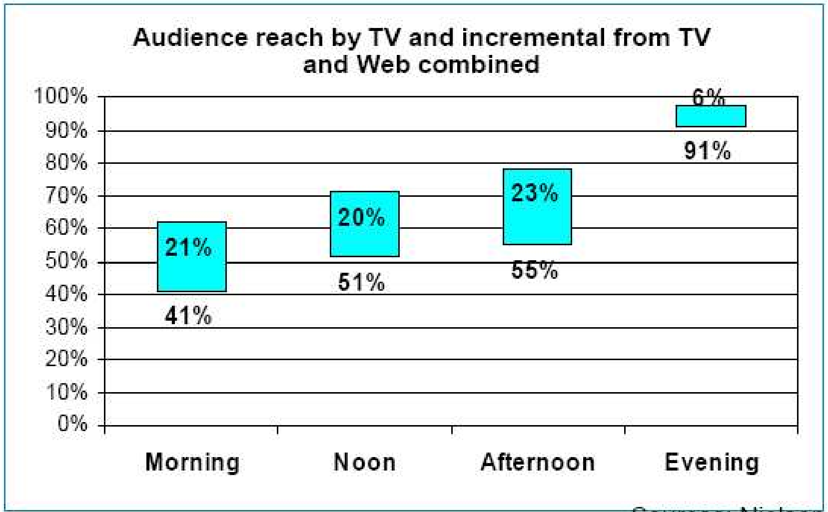
Younger UK consumers spend as much time on TV as on the Internet complicating segmentation



June 2008 **"The Impact Of The Internet On UK Consumers' Media Behavior"**

Complex behavioral changes complicate broadcasters' business models



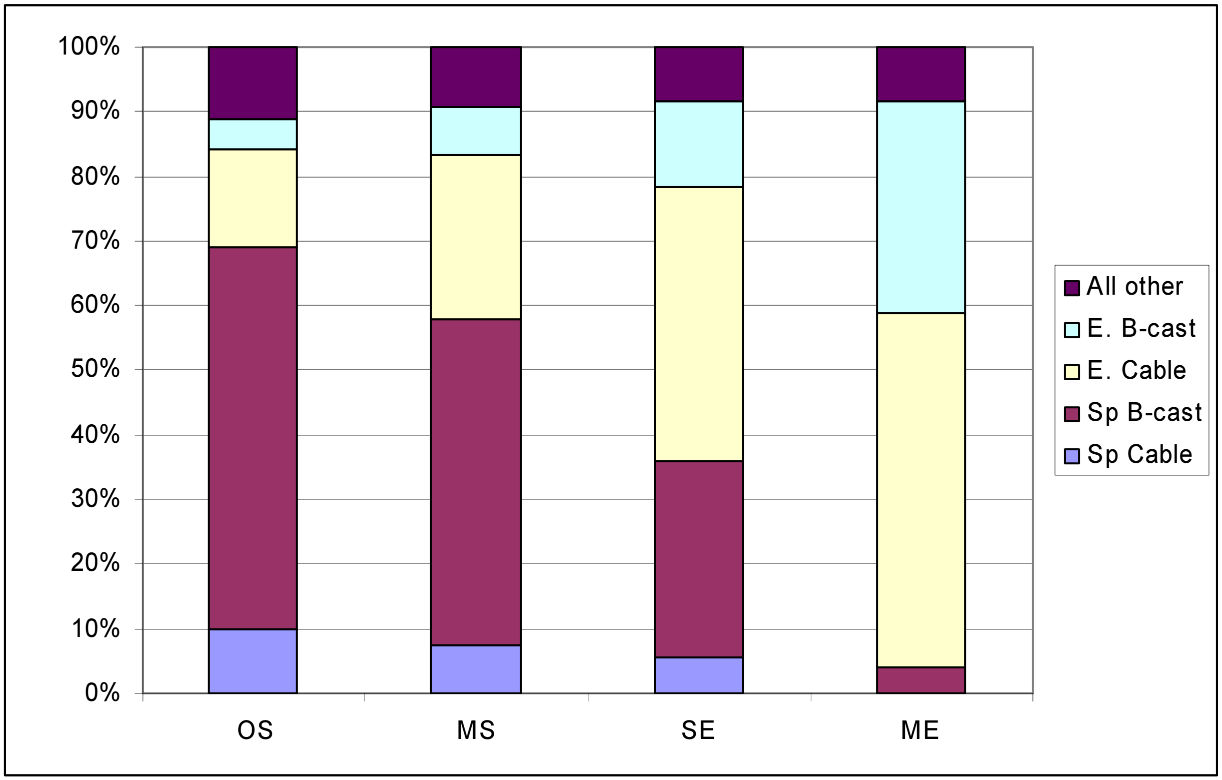


Sources: Nielsen, OPA

- **Internet reach is 62% vs. 91% of TV**
  - Many brands and agencies are still focused on reach in their branding campaigns
  - Industry doesn't have a lot of experience in using precise targeting in branding campaigns
- **Significant variations in day vs. evening behavior combined with increasing fragmentation of audience requires precise targeting and campaign management**
  - Only Internet companies have developed tools for dynamic audience integration (ad networks) and behavioral targeting

Increasingly mobile population creates demand for foreign language content

TV Viewing By Hispanic HHs in the U.S.



Legend

OS = Spanish Only Household

MS = Mostly Spanish

SE = Spanish English equally

ME = Mostly English

E. B-cast = English Broadcast

E. Cable = English Cable

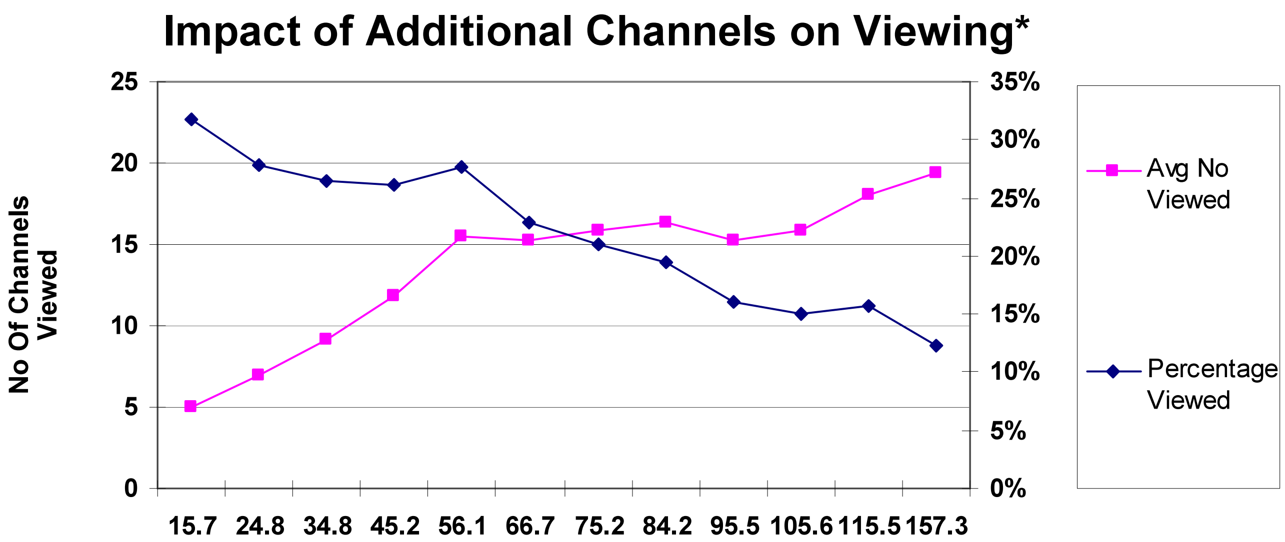
Sp. B-cast = Spanish Broadcast

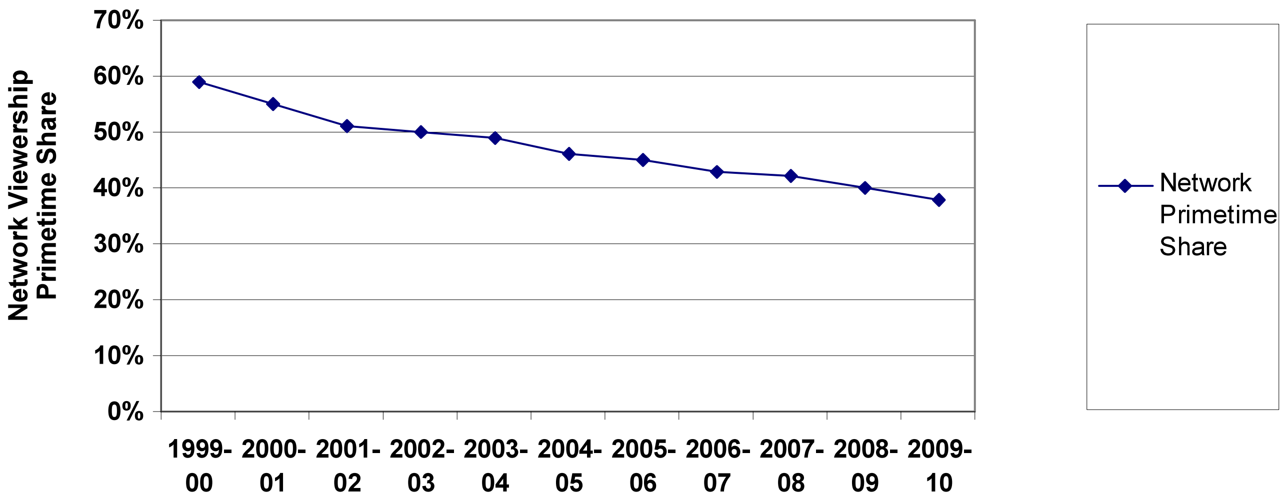
SP. Cable = Spanish Cable

Source: Nielsen

Market Changes

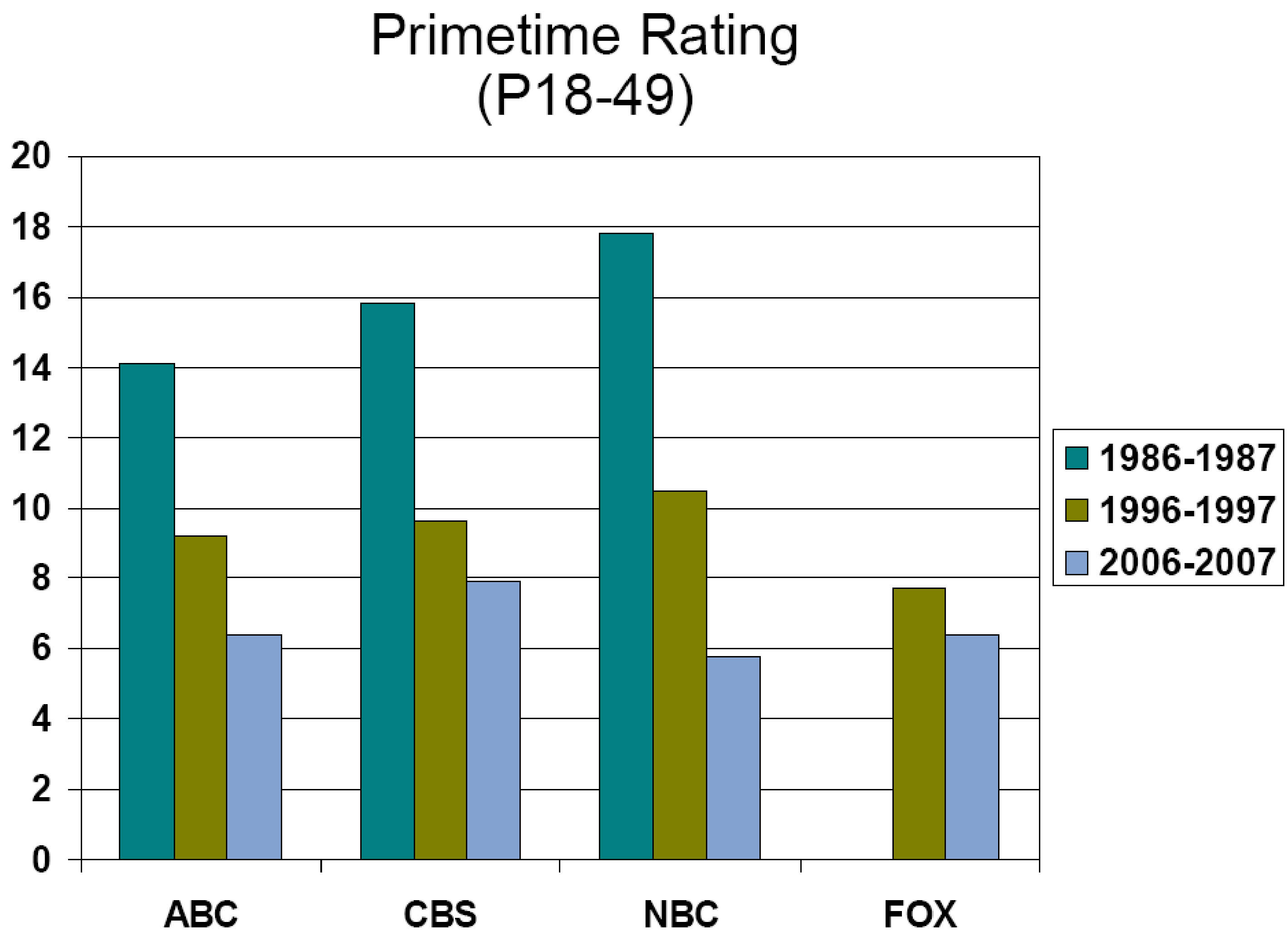
TV audience fragmentation is increasing





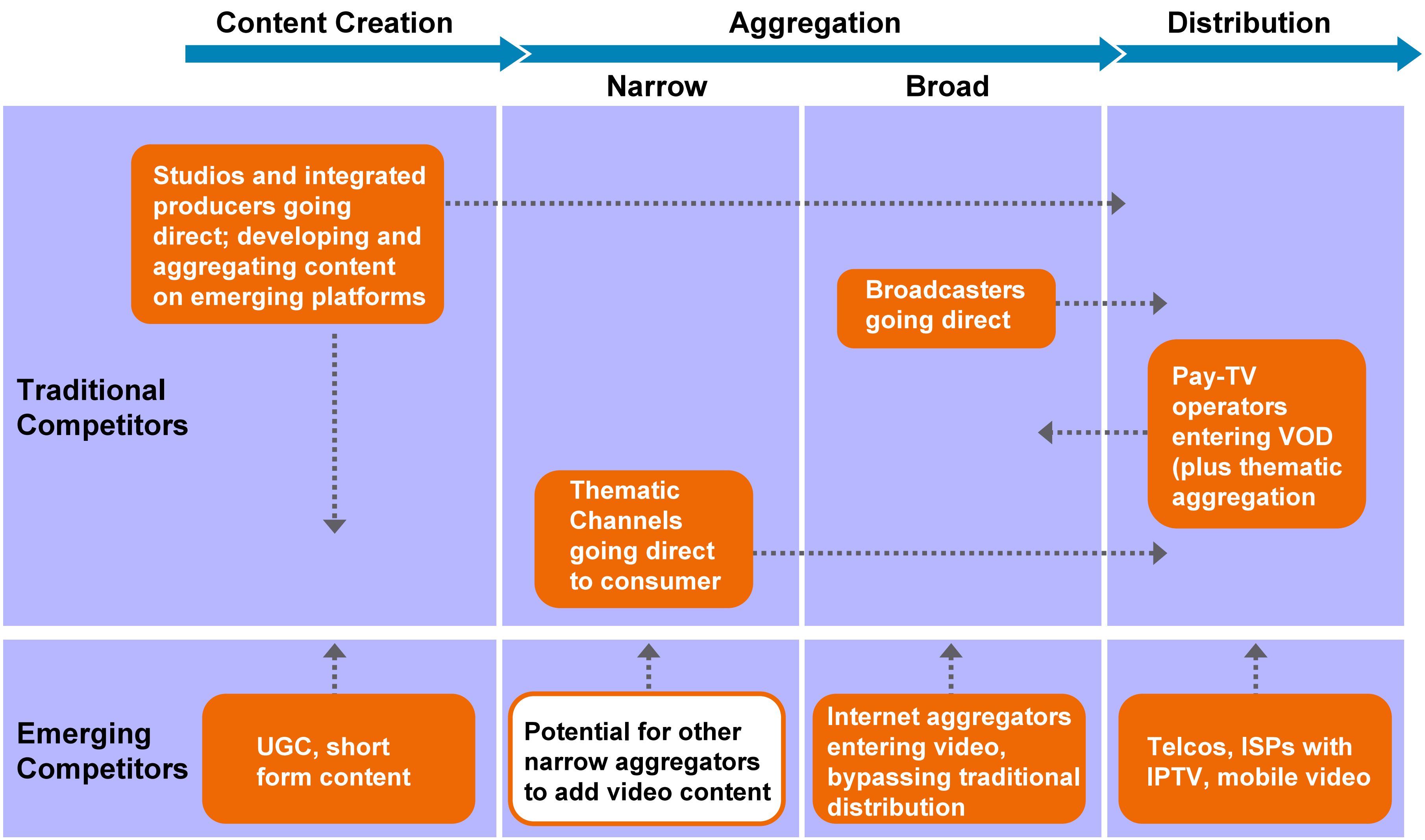
VSS, PQ Media, Nielsen Media Research, TBA, IBSG

Dominant players are loosing market share



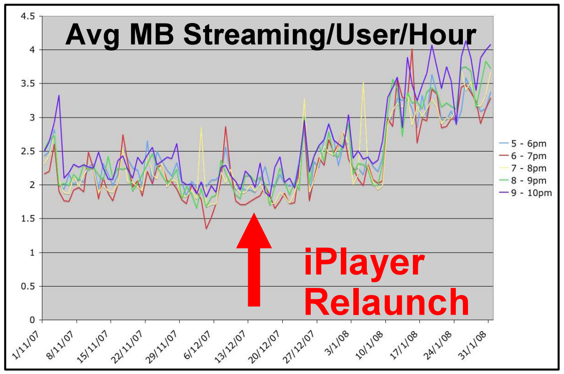
Sources: Nielsen Media Research 2006/2007, The Bridge, IBSG 2008

Media market structure is changing



Source: Bain—The Digital Video Consumer, September 2007

Many media companies are going direct to consumer
Example: BBC iPlayer



Source: Cisco IBSG, Plusnet

- **BBC iPlayer: Catch-up TV**
  - Access to seven day TV catch-up
    - - P2P Download - Kontiki (Jul07)
    - - Flash Streaming (Dec07)
  - iPhone/iPod touch, Wii (Mar08)
  - HD, Live, International, Archives... (Planned)
- **Internet Traffic Considerations**
  - **3.5m programmes** in first 3 weeks of relaunch
    - - 2 Million users in 3 months of relaunch
      - 560K Videos/day (Mar08)
      - 1 hour show = 0.4GB
  - Huge traffic surge (from 1% of total internet traffic in Dec07 to 5% in Mar08)
    - Streaming vs Download = 8:1
    - => 3PB/month by Dec08 (BBC)
  - ISPs & BBC disagree on traffic costs. OFcom: 3GB/user/month, £800m in capex by 2011

NBC's Beijing Olympics "…the IP games"

More than 1100 years of Video Streamed in 17 Days

- **Video Streams: 75.5 Million**
  10.8M for Athens & Torino Games combined (+601%)
- **Unique Users: 51.9 Million**
  25.2M for Athens and Torino Games combined (+106%)
- **Page Views: 1.24 Billion**
  561.1M for Athens and Torino Games combined (+122%)

Media companies are creating complex syndication models in addition to traditional windows

TV	Online			Mobile
	CBS.com	Joost	Other	
• Late Show with David Letterman • Weekday nights at 11:30 PM	• A separate channel: "Dave TV" on CBS.com	• Customizable Internet TV services • Includes CBS programming	• Brightcove • Veoh • MSN Video • Bebo • AOL • Comcast • Sling	• Best outtakes of the most recent show • Monthly subscription: $4.95 • Also MediaFLO
• Standard broadcast arrangements with stations • Carriage fees with multichannel distributors	• All advertising revenue goes to CBS	• CBS receives 80% - 90% of revenue from Joost • Joost model based on advertising • Minimum guarantees?	• Different deal structures based on advertising revenue share (80% - 90%) • Minimum guarantees?	• Subscription direct with CBSmobile • MediaFLO includes advertising and carriage

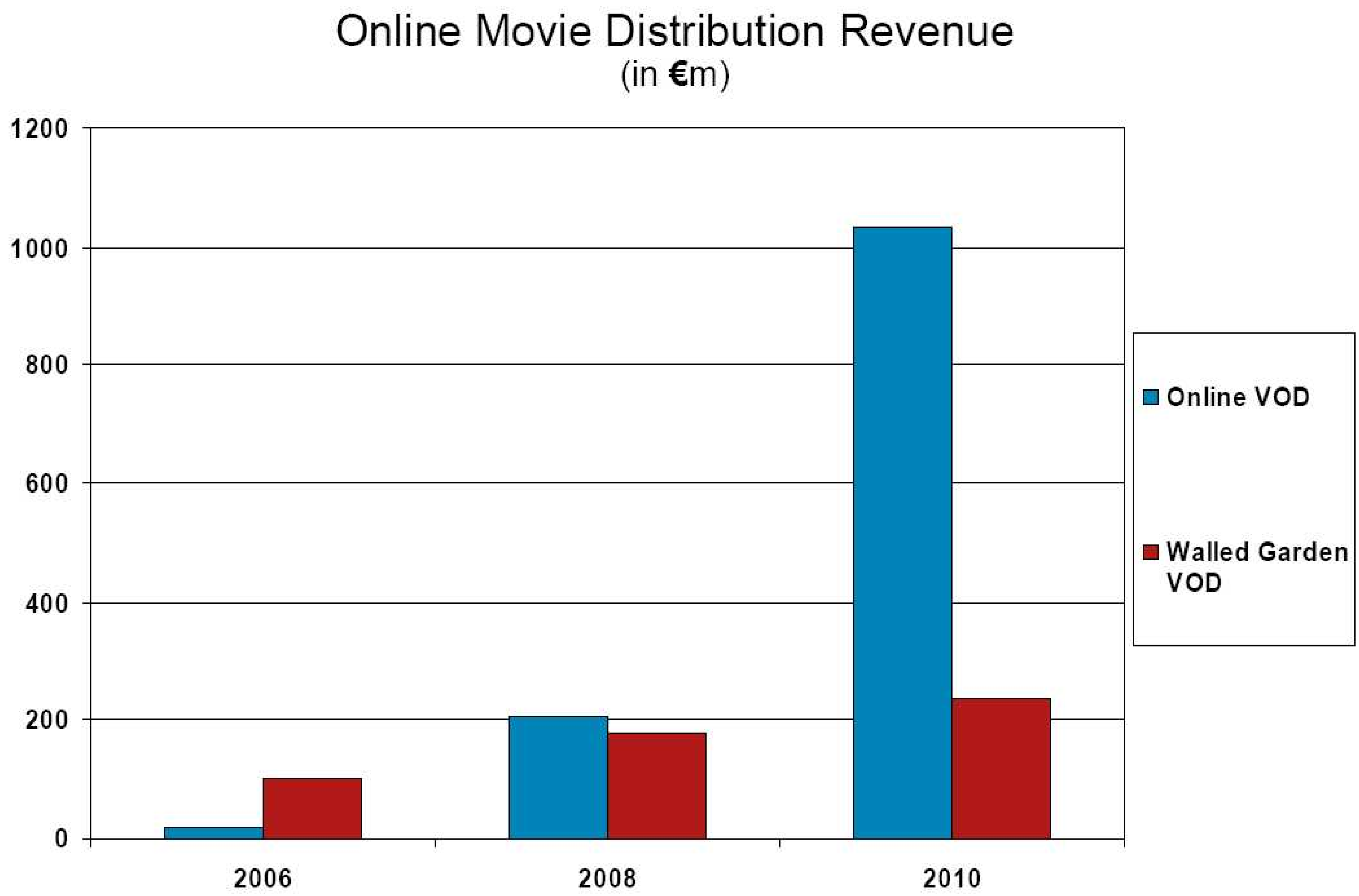
Sources: ProSiebenSat1, IBSG, WSJ

Implications

Key elements of strategy

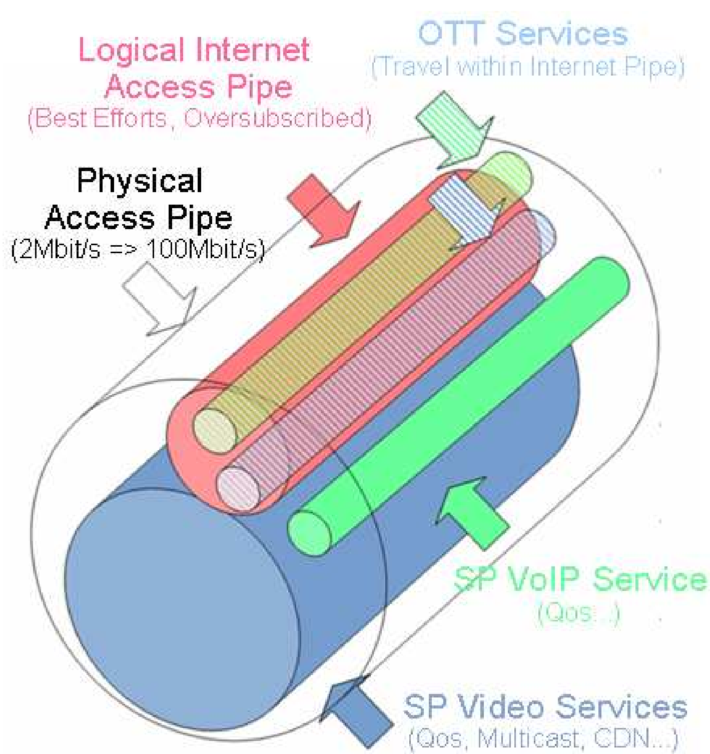
Distribution Channels	Explore new distribution channels to maximize reach and to compete for consumer time
Business Models	Use multiple business models – one size doesn't fit all
New Markets	With new competition and audience fragmentation grow the market by taking advantage of new distribution options
Advertising Revenues	Develop new capabilities to grow advertising revenue

In EU online VOD is expected to exceed walled garden VOD in 2008



Source: EU Commission, Screen Digest 2007

Online TV (“Over The Top”) vs. IP TV (SP “Walled Garden”)



U-verse Bandwidth Requirements — AT&T

Service Scenario	Today	Future
HD Streams	1	4
SD Streams	3	0
Overheads (Mbps)	2.3	4
High Speed Internet (Mbps)	6	10
CVoIP (Lines)	2	2
Throughput Required	**21.4**	**36.4**

SPs treat traffic differently

SPs fractionalise the Last & Middle Mile when they upgrade the network.

Internet Access only gets a fraction of the available bandwidth.

Why

Guarantee QoE of SP Walled Garden Services (IPTV, VoD, VoIP...)

All OTT Svcs, incl TV/Video, have to share a best-efforts, oversubscribed, logical access pipe.

Opportunity to Monetise Partner Services that want access to more bandwidth.

Variations

Challengers will typically allow IA to take all Lastmile BW when Walled Garden Services are inactive.

Considerations

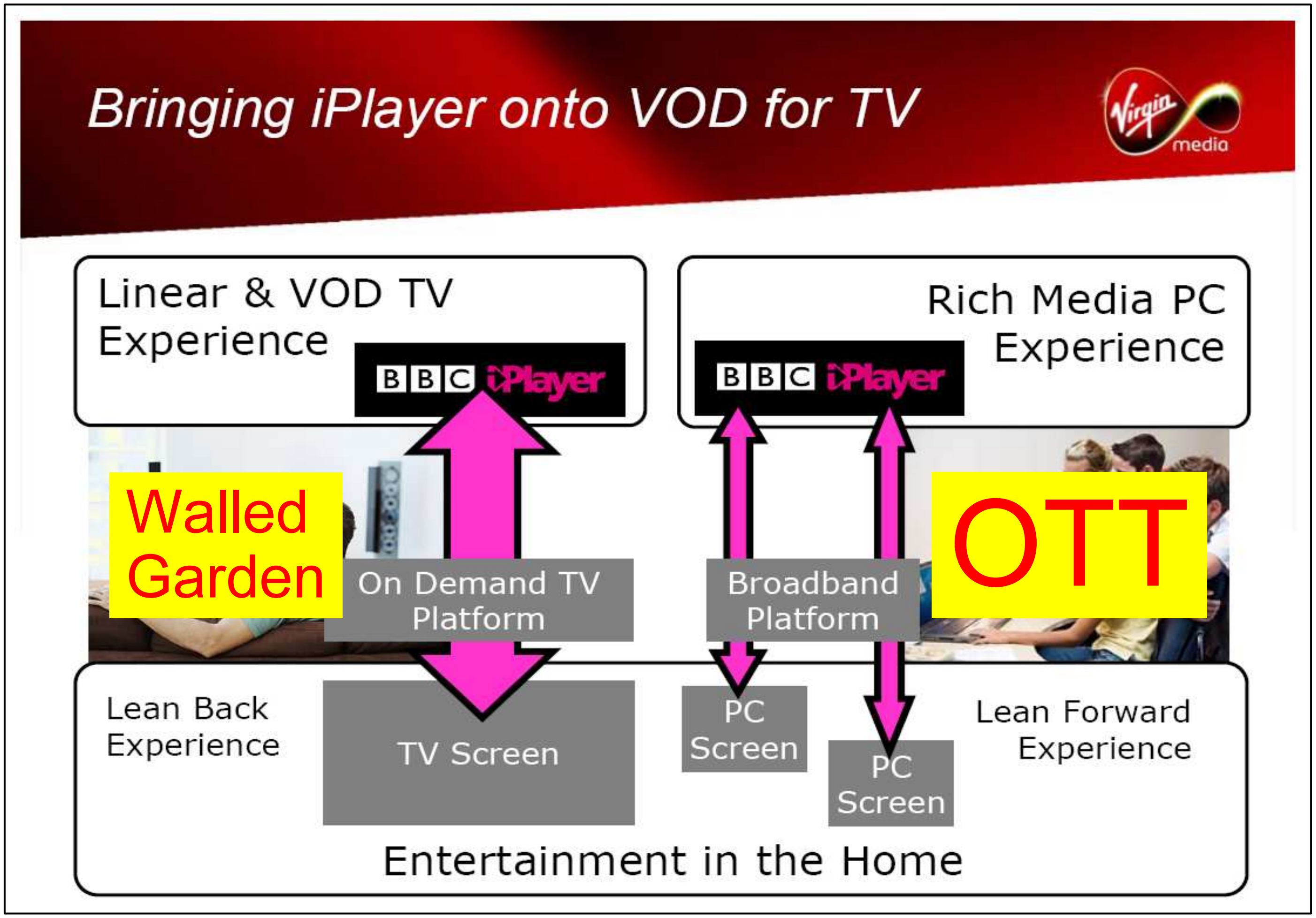
Will regulators continue to allow SPs to treat IPTV/VoD traffic in a very different way from Internet traffic?

Collaboration & Platform shifting: Walled-garden iPlayer complements & offloads Internet iPlayer.

Network Collaboration

Service Collaboration

Commercial Collaboration



TV Networks changing Business Models & moving their positions in the Value Chain

- **<u>From</u>** TV production and distribution: “the Channel”
  <u>To</u> content creator and “the Brand”

Technology & Organizational Implications

- The demand for content is growing but the value is declining
  - TV production cost needs to go down
- TV is delivered <u>through</u> and <u>to</u> many platforms
  - Flexible multi format distribution is key!
- Business Agility is required to adapt to disruptive market trantitions
  - Transition from Silos to Horizontal Organizations