



## How will IPTV services fare in the recession?

**London 29th January 2009:** The latest research from media analyst firm Screen Digest ([www.screendigest.com](http://www.screendigest.com)) looks at how IPTV services in Europe are likely to fare in the credit crunch. With the entertainment and media sector a prime target for both consumer and advertiser cost-cutting, the revenue flow for media firms could start to dry up. What are the key factors likely to ensure the survival of IPTV in today's tough economic climate?

**The backing of a major telco is essential...** Across Europe IPTV services are typically priced at low levels, in many cases free with broadband. As a result, few will break-even in the short to mid-term. Without the financial security that having an incumbent telco as a parent brings, there is little chance that such services would have survived – at least not in their current form. Those services belonging to companies like BT, France Telecom, Deutsche Telekom, Telefonica are in an enviable financial position compared to the many smaller, privately owned IPTV firms currently operating across Europe.

**...in most cases** On the other hand, the backing of a major telco isn't always a benefit. The recent closure of Tiscali's IPTV service in Italy was likely the result of essential cost-cutting measures the company enacted to improve the look of the profit/loss sheet to potential lenders and also to reduce short-term costs. Screen Digest Senior Analyst Richard Broughton comments "Particularly in light of the failure to sell its UK operations, halting a newly launched TV service in order to improve the bottom line may well have been an unwelcome necessity for Tiscali."

**A strong customer base** Most IPTV services are in a strong position with regards to customer relationships. Services such as the UK's BT Vision, France's Orange TV, Italy's Alice TV and others are bundled free with broadband services. With broadband access seen as an essential commodity by many Europeans, cutting back doesn't mean dropping

broadband access. Screen Digest forecasts that European IPTV households will grow by 26% in 2009, and while this is a decline on 2008's 45%, IPTV remains the pay-TV platform with the fastest growth rate in the region.

**Go for Video on Demand** In past recessions we've seen home entertainment remain a consumer staple. For instance, in the 2000-2002 economic downturn, BSkyB quarterly subscriber growth dropped from 32 to 12 per cent before recovering; but there was no loss in real terms, simply a slowdown in growth. Evidence from the DVD rental sector has indicated that this may well be the case for VoD. Screen Digest data on UK video rentals showed that spending actually increased in 2002 at the height of the last downturn. The evidence provides some indication that the same trend may well be the case for VoD. Broughton says "Renting a film via DVD or video-on-demand remains a cheap way for a family to spend an evening, with VoD likely to join DVD rental in being a resilient area during times of economic uncertainty. So while few companies actually benefit from a recession, there are those which emerge stronger – IPTV operations could well be amongst these."

Broughton concludes "Whilst to date the transactional television model hasn't worked for consumers who are deterred by the transparent nature of the costs, IPTV could well offer a cheaper alternative to other home entertainment options in the credit crunch. If the IPTV services get it right, they could emerge from 2009 in a very strong position. If they can afford to maintain their customer relationships through low TV package pricing, they'll be in a prime position to up-sell additional pay packages when consumer confidence returns."

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**About this research**

The data in this release is taken from Screen Digest's TV Intelligence service. Data, research and analysis from Screen Digest's team of analysts is available on an ongoing basis for TV Intelligence subscribers.

## **About Screen Digest**

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