

Watershed year for digital TV

LONDON: 2006 should be a watershed year for new services such as high-definition TV, IPTV (Internet Protocol TV) and mobile TV, according to a report just published by independent market analyst Datamonitor. The report, "The Evolving Broadcast Sector", expects the European digital TV market to overtake that of the US in absolute terms by the end of 2006.

At this point, Datamonitor estimates 65 million households across the region will have made the transition to digital TV services. Digital penetration will, however, remain higher in the US until the end of 2009, when an estimated 63% of households in both regions will be receiving digital TV services.

Datamonitor's report provides an overview of current and future developments across the European and US digital TV market, including the potential of IPTV services, uptake of PVRs (personal video recorders), high definition TV and mobile TV.

"Competition across the digital TV sector is now greater than ever before, prompting operators to develop their offerings in order to attract and retain subscribers", says Adrian Drozd, senior media and broadcasting analyst and author of the study. "The emergence of IPTV will act to boost levels of competition and add new impetus to the plans of established operators."

Development to continue to vary

Thus far, more than 100 million households across Europe and the US have made the transition from analogue services, although penetration between individual countries continues to vary significantly.

The UK remains the only country in Europe with over 50% of households having digital television services. Datamonitor estimates that by 2010, 95% will have made the transition to digital TV and the UK will remain the most penetrated digital market in the region.

The continuing success of BSkyB's satellite platform and expected strong uptake of the Freeview DTT (digital terrestrial television) service will drive uptake. Datamonitor expects Freeview to become the largest digital platform in the UK by 2008. The recent merger of cable operators NTL and Telewest will also act to provide greater impetus to digital cable development.

In contrast, Germany will continue to lag behind other major European markets, with only around half of TV households digital by the end of 2010.

Unlikely to meet hype

Despite strong support from European service providers, Datamonitor believes IPTV will remain a relatively niche

proposition across much of Europe, with the platform facing stiff competition from existing cable and satellite services and, increasingly, DTT. Datamonitor expects there to be 9.5 million IPTV subscribers across the region by the end of 2010, with fewer than 9% of digital households connecting via this means.

France will retain a strong position with regard to IPTV deployment in Europe, accounting for around 28% of households subscribing to the services across the region by the end of 2010. The market conditions in France make it an attractive market for IPTV provision, with cable penetration relatively low and strict conditions surrounding the installation of satellite dishes on buildings.

In the US, the IPTV market is starting to gather momentum and is now starting to develop beyond the rural telephone companies who have been delivering TV content over DSL infrastructure for several years.

However, Datamonitor expects the US to be a more challenging market than Europe for IPTV, with high levels of pay-TV penetration and expected strong price competition from established cable and satellite providers combining to limit uptake to around 6 million households by the end of the decade.

"IPTV is primarily a defensive move by the major service providers rolling out services. While they have the potential to generate additional revenues for operators, the key driver of deployment in the short term at least will be improving customer loyalty and adding greater depth to the services provided to consumers over ADSL networks", says Drozd. "In some cases, IPTV may prove to be a financial loss leader, albeit an essential one if telcos are to retain a significant position with regard to provision of consumer communication and entertainment services."

Focus on pay-TV sector

The rollout of PVR services is central to pay-TV operators' strategy of increasing ARPU (average revenue per user) and driving subscriber loyalty. However, outside of the US (and to an extent, the UK), uptake has been disappointing to date. Penetration has only reached significant levels in the US, with 18% of households having a PVR by the end of 2006.

In contrast, the European market has yet to gain any real momentum; fewer than 2% of households will have a PVR by the end of the year, with BSkyB accounting for a significant proportion of these. As such, the true impact of PVRs may not be felt for some time, although broadcasters and advertisers must begin to consider how to evolve their strategies to meet the challenges created by a mass-market move to time-shifted viewing.

HD starting to make mark

The 2006 football World Cup has acted as a catalyst for the first meaningful stage of HD (high definition) development in Europe. Datamonitor expects steady adoption over the next two years, with only early adopters willing to invest in the devices and subscriptions needed to receive HD content.

In the US, sales of HD TV sets are around three years ahead of the European market, with almost 20% of US households owning an HD-capable TV by the end of 2005. 87% of US households are already passed by at least one cable operator offering HD services. In contrast, there were only around 2 million 'HD ready' (i.e. with an HD-capable TV) households in Europe at the end of 2005, although the vast majority of these sets are not connected to HD programming due to very limited rollout of service.

This coupled with the fact that the difference in quality between standard definition and HD programming is not as noticeable in Europe as it is in the US due to differences between the standard definition broadcast technologies used, is likely to result in a continued gap between developments in the two regions.

In addition, the fact that average screen sizes are larger in the US means that demand for HD services are likely to be greater, with picture quality improvements more noticeable on bigger screens.

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