

The rise of online video

by Michael Lantz, CEO, Accedo Broadband

The consumption of online video is exploding. Today, online video sites such as YouTube, DailyMotion and Netflix are driving usage of video on the PC. New Internet-connected devices will stream video directly to the TV set, and drive a new era of video growth. TV will change from a from a linear broadcast experience to an on-demand experience, but broadcasters able to create dedicated services and on-demand programming for the TV, PC and mobile screens should be winners in the new market.



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Installed device growth

The last ten years has seen the emergence of a number of new devices, which can access online video directly on a TV. Apple launched the Apple TV several years ago; the game console manufacturers have introduced connectivity to their console platforms; and we have seen a number of emerging players like Roku and TiVO attempting to bring online video to the TV.

The technology and the consumer, however, weren't yet quite ready for this, and even though the usage has increased,

it hasn't been the runaway success that online video on the PC has been. However, the past 12 to 18 months has been truly exciting, as the technology has finally caught up with the promises. All major Consumer Electronics (CE) companies have launched TVs and separate devices which can access online video and apps. These platforms are aggressively being pushed into consumer homes by the CE companies, and it's not unrealistic to think that it will be as natural to have an Internet-enabled TV in a couple of years as it is to have an Internet-enabled PC or mobile phone today. We expect the installed base of Internet-enabled TVs will

grow from about 15 million at the end of 2010 to about 300 million at the end of 2015 - a 20-fold increase in five years!

Internet-enabled TV to drive online video via the PC is still growing quickly, but the growth rate shows signs of declining. Still, we see a rapid increase in bandwidth usage as consumers move to higher definition transmissions, but this growth is likely to flatten in a year or two, at least in countries where broadband penetration is stable. Instead, the growth of online video will come from new devices, where tablets and connected TV are the big drivers. The main difference between

these two platforms will be regarding time spent. The tablet is an excellent way to deliver bite-sized pieces of content to the consumer, as well as the occasional long-form content, however it is unlikely to be the main video consumption device for most consumers. Instead, the TV will remain the dominant device used for video consumption. Nevertheless, the proliferation of devices will lead media companies to move parts of their services onto the new platforms. In five years, many consumers will have moved a significant part of their weekly TV video consumption to online sources via new TV devices. The benefits for consumers are apparent. By using Internet-distributed video to an online TV device, they can enjoy a wider selection of content in more consumer-friendly packaging and with more features and functions.

Broadcaster-centric applications

All industry experts agree that there will be a gradual transformation of the TV experience from a linear broadcast experience to an on-demand experience. The broadcaster will remain important as a 'packager' of content and as a shaper of the on-demand experience with catch-up services and dedicated on-demand programming. Broadcasters will be winners in the new online video world, where they can for the first time create a direct relationship with the consumer via advanced TV apps. The broadcaster will have to fight to keep the viewers loyal by using clever packaging, cross-sales and by offering a mix of video apps, TV, PC and mobile experiences. Consumers are likely to appreciate the packaged content and attractive user experience, which only broadcasters can give them, and competition between broadcasters will be fierce. Online video will be the natural outlet for broadcasters that create back-end solutions for online video delivery to multiple platforms. It seems likely that more than 80 per cent of online video consumption on TVs will be from broadcaster-centric services, rather than from Internet services such as YouTube and DailyMotion.

A new TV value chain

Historically, online video has been driven by Internet services - by user generated content, such as YouTube, where much of the content is smaller, low-resolution clips from premium content that consumers

have found and home videos. Currently, however, premium video tends to drive the online video business. For example, the movie service Netflix has more than 16 million subscribers and reportedly generates some 20 per cent of the Internet traffic in the USA during the peak viewing time between 8pm and 10pm. We expect this trend will continue and premium online video will generate more than 50 per cent of the peak time Internet traffic within the next 12 to 18 months; in five years premium online video is likely to completely dominate evening Internet traffic. In the long run, this trend will lead to some very interesting changes in the TV value chain.

At the moment, pay TV and free-to-air operators distribute the vast majority of premium video. These companies have developed their business models over 20 to 25 years and it's been a very stable and profitable industry for the past 10 years. In many countries, the lack of competition in the distribution sector has made it difficult for media companies to reach consumers via TV and led to poor content-offering for consumers. Now that content providers can provide online video content direct to the TV, operators that don't adapt will lose their hold on the market. While this will not happen overnight, the trend is clear. Media companies and broadcasters will move up the TV value chain and claim a bigger piece of the pie. Competition amongst operators will increase and they will need to invest more in innovation to keep both consumers and broadcasters happy.

Long-term trends

So, will traditional TV disappear? No, of course not. Broadcasting technology is still, and will be for at least 10 to 15 years, the most reliable and cost-effective way to distribute content to a great many people. Nonetheless, the business case for online distribution of niche channels and niche content is clear and most will gradually move online. Moreover, additional online content and extended offerings will increasingly complement mainstream, mass market, TV content. The rise of apps and the emergence of cost-efficient development technologies for launching new features on connected TV devices, will lead to broadcasters creating loyalty enhancing and revenue-generating tools to keep consumers engaged with their brand and their content. And finally, we will see

a tremendous amount of experimentation with multi-screen video experiences. Consumers will expect to use services from their favourite video provider on their phone, their table and their TV, and only the service providers with a thorough understanding of how to cost-effectively manage content on a full variety of screens will be able to compete effectively.

We will soon start to see a rapid shift to the consumption of prime time video content via online video. We will still, for the most part, view the content on a TV, but we will access content from a variety of content and service providers via new Internet-enabled TV devices. Analysts expect a 20-fold increase in installed devices over the next five years; this coupled with the change in consumer behaviour, will cause one of the most profound changes ever in the TV industry.



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