

## **Viewing behaviour shifts as IPTV continues to gain traction**

### **– Traditional broadcast services are under pressure from multiple angles**

**Reading, UK – Friday, 23 May 2008**

**For immediate release**

New research from analyst firm Canalys indicates that, while the IPTV market will continue to gather momentum over the next four years, competition from other video delivery platforms will make it increasingly difficult for service providers to convince consumers to invest in services. Established cable, satellite and terrestrial digital TV offerings will continue to develop, and online video services will increasingly compete for viewer attention, making it essential that IPTV providers (and indeed pay-TV operators in general) continue to develop their services in a bid to differentiate them from the competition.

“IPTV growth was strong in 2007, albeit from a relatively small base,” said Adrian Drozd, senior analyst covering the digital entertainment market at Canalys. “The number of worldwide IPTV subscribers increased from under 4 million at the end of 2006 to over 10 million at the end of last year, with annualised subscription revenue closing in on the €2 billion mark,” Drozd continued. “Solid progress is expected to continue over the next four years. By the end of 2011, Canalys expects the number of IPTV subscribers to have reached 67 million – more than a six-fold increase over 2007 levels.”

EMEA remains the leading region in terms of consumer uptake, accounting for 54% of the worldwide subscriber total at the end of last year. “France is still the driving force in the Western European IPTV market,” explained Drozd, “With France Telecom having passed the 1 million subscriber mark and both Free Telecom and Neuf Cegetel continuing to expand.”

But rapid growth in the French market has been facilitated by service providers’ desire to promote low-cost triple-play bundles, where IPTV is part of the service mix, but not a huge revenue generator in its own right. “While the growth of IPTV in France has dwarfed the progress of most other European countries, it has arguably come at the expense of revenue generation,” Drozd added. “IPTV has helped to attract and retain subscribers, but the emphasis must now shift to revenue generation to justify the significant investments being made in video delivery.”

Outside Europe, progress has also been strong. “Seven IPTV services had more than half a million subscribers each by the end of 2007,” said Drozd. “Verizon has since exceeded the 1 million mark in the US and PCCW (Hong Kong) is closing in on that milestone.”

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But despite early promise, major hurdles remain for the IPTV market. Canalys believes that usurping the role of established cable and satellite digital TV platforms will be a tougher challenge than many in the IPTV industry expect. Convincing consumers to switch pay-TV provider will be both difficult and expensive, unless services are either highly price-competitive or offer considerable benefits over the competition.

“Offering the same content and services as the competition will not provide the necessary returns, but delivering a compelling mix of on-demand and high-definition programming alongside a range of advanced interactive services just might,” Drozd commented.

IPTV providers will not just have to compete with pay-TV providers in their bid to gain consumer attention. Consumer viewing behaviour is shifting, with more flexible access to content via multiple platforms increasingly being sought. Time-shifted TV services have been around for several years, with DVRs (digital video recorders) becoming widespread and video-on-demand (VOD) services becoming more common across Europe. While both types of service are more established in the US, European broadcasters are pushing ahead with online, PC-based catch-up services, essentially cutting out the pay-TV operator middleman. Recent Canalys end-user research conducted among 4,000 respondents in four major Western European markets suggests that 46% of consumers are interested in the concept of watching TV content on a PC after the time of broadcast. With many of the services on offer available for free, pay-TV providers will need to consider their own VOD strategies carefully. The same Canalys survey highlighted that only around a third of pay-TV subscribers had recently paid for a specific event (pay-per-view or VOD-based), indicating that it may be a difficult task to convince European consumers to pay for on-demand content.

To maintain momentum, IPTV providers must invest to boost the quality of their services in terms of both content and service availability. “But that investment needs to happen now,” Drozd concluded. “Competing video delivery services continue to develop rapidly in terms of functionality, availability and consumer awareness, making it essential that IPTV offerings evolve and expand to maximise the potential of the two-way interactive platform on which they are based.”

### **About the IPTV Analysis service**

IPTV Analysis Worldwide is a continuous advisory service focusing on worldwide IPTV markets. Through regular reports and direct analyst contact, Canalys examines and advises on the issues facing service providers, vendors, and software, content and services companies active in the IPTV sector. It looks at the key market trends, service provider business models and opportunities for hardware and software vendors.

## About Canalys

Canalys specialises in delivering high-quality market data, analysis and advice to the world's leading technology vendors. It is recognised as a key provider of continuous advisory services and confidential custom projects for marketing managers and strategists within blue-chip IT, telecoms, navigation and consumer electronics companies. It has unrivalled expertise in routes to market for all kinds of high technology products and services in the consumer, SMB and large enterprise segments, and provides worldwide market data and trends analysis.

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