

## **Digital entertainment market is in transition**

### **– Report reveals how connectivity will shape market evolution**

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**For immediate release**

Consumer Internet usage is having a huge impact on the way the TV, gaming, music and PC industries function. The dynamics of these markets, and the vendors that lead in them, vary considerably, but digital connectivity is the common theme shaping the future direction of them all. A new report released by leading industry analyst firm Canalys considers how this is happening in EMEA (Europe, the Middle East and Africa), and provides market sizing and analysis of the key industry trends.

### **TV times – changing faster than you can switch channels**

Established service providers, including cable and satellite operators and terrestrial broadcasters, are busy migrating subscribers to digital and rolling out advanced services, such as video on demand (VoD) and high-definition (HD) programming, but their once dominant position is being challenged. “IPTV is gaining traction across Europe, while online services are also making their presence felt,” said Canalys senior analyst Adrian Drozd. “Meanwhile, the mobile industry is betting on the success of mobile TV to boost ARPU in the face of falling voice revenues, offering new distribution opportunities for content providers.”

With many consumers already spending considerable amounts on pay-TV services at home, it is understandable that many balk at the prospect of investing significantly more for the largely limited amount of time they would spend viewing content on the move. Operators should also note that Canalys research indicates price sensitivity varies considerably by country. “While 35% of UK respondents think that €15 (£10) per month would be a reasonable price to pay for a compelling mobile TV service, only 15% of French and German consumers would agree,” Drozd added.

### **The music industry must change its tune**

Piracy continues to ravage the music sector, hitting sales of physical media hard. New business models, such as advertising-supported services, need to be considered, but these are not yet proven revenue generators. This year saw the first serious steps to remove DRM on legally downloadable music, which could provide a sales boost and will allow rival providers to compete on a more even footing with Apple’s iTunes.

Drozd continued, “In device terms, the iPod will increasingly come under pressure from converged mobile devices. Apple has launched the iPhone in response to this, and it does face a number of challenges, especially in Europe, but recent end-user research indicates that the iPhone will find favour among European consumers, especially within its own user base. Existing iPod owners are more than twice as likely as non-

owners to consider Apple for their next mobile phone. Within this group, this rating puts Apple on a par with leading handset vendors such as Samsung and Motorola.”

### **The console battle reaches the next level**

Now that Microsoft, Sony and Nintendo have all launched their latest consoles in EMEA, the race is on to drive uptake. Microsoft took an early lead thanks to its 12-month head start, but the innovative Nintendo Wii is rapidly making headway. Sony hopes its historical dominance will translate into strong sales this time around, but high prices and a limited exclusive games portfolio have restricted it so far. Canalys expects sales of the current generation to peak in 2009. “Price and feature revisions are becoming common in this console generation,” Drozd commented. “In their tactical moves, vendors must be careful to avoid alienating or confusing consumers, especially as they attempt to broaden their scope beyond gaming and the focus of the industry shifts to developing more comprehensive online services and positioning consoles as pivotal devices in the digital home.”

### **Lifestyles of the digital consumer**

The PC is already at the centre of many consumers’ digital lifestyles, and will increasingly become a conduit for entertainment content – music and video downloads and web TV are all on the rise. “The concept of the ‘living room PC’ has failed to meet market expectations, but PC/TV connectivity will become increasingly important,” said Drozd. “This will allow consumers to view multimedia content on the most appropriate devices and will help increase overall adoption. Content will continue to reside on a broad range of devices in the home, depending on consumer preference. Vendors must focus on connectivity to enable easy content sharing rather than continue to fight for total control. Online video download services are unlikely to hit the mainstream until this becomes widespread.”

Developments across the digital entertainment market will be driven by a combination of established companies reacting to changing consumer demand and new players seeking to upset the status quo. Vendors involved in the creation, aggregation, distribution or storage of digital content will find this report essential reading.

In addition to analysis of market trends, the report looks at the companies Canalys believes could lead in shaping European market development over the next three years, including Amazon, Apple, Cisco, Google, HP, Microsoft, Nintendo, Sky, Sony and Yahoo! A broad range of market estimates and forecasts are also provided, including: Western European digital TV households and forecasts by platform; EMEA digital video recorder (DVR) shipment forecasts; EMEA portable music player market shares; worldwide games console shipment forecasts by region; EMEA consumer PC shipments and market shares; and Western European broadband households by country.

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For more information e-mail [press@canalys.com](mailto:press@canalys.com)

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The report “The evolving EMEA digital entertainment market” is available now for €1,295 direct from the Canalys web site. For more information please visit [www.canalys.com/reports](http://www.canalys.com/reports)

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**Canalys HQ**  
**Diddenham Court**  
**Lambwood Hill**  
**Grazeley**  
**Reading, UK**  
**RG7 1JS**

**T: +44 118 984 0520**

**E-mail: [press@canalys.com](mailto:press@canalys.com)**  
**Web: <http://www.canalys.com>**

**Canalys Singapore**  
**Republic Plaza 2**  
**#18 – 27**  
**9 Raffles Place**  
**Singapore 048619**

**T: +65 6823 6828**