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Television's Got Talent  
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Sector 2009



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**Deloitte.**



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## About the research

Deloitte\* undertook three phases of primary research for this report. Research themes were determined via consultation between the MediaGuardian Edinburgh International Television Festival and Deloitte. Deloitte undertook two quantitative surveys, one with the public (2,123 respondents, 7-10 July 2009) and the other with the television industry (185 respondents, 10-21 July 2009) with the sample being drawn from the on-line mailing list for the MediaGuardian Edinburgh International Television Festival. The surveys were administered by YouGov and are referred to as 'the poll(s)' throughout this report. Deloitte also undertook 32 depth discussions between May and July 2009, the majority of which were with members of the MediaGuardian Edinburgh International Television Festival executive and advisory committees. Views expressed by third parties providing input for this report are not necessarily those of Deloitte.

\*Throughout this report Deloitte refers to one or more of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTT and its member firms. Deloitte LLP is the United Kingdom member firm of DTT.

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# Foreword

Television's had a rough year.

It's been accused of a multitude of crimes: it's dumb<sup>1</sup> and rude<sup>2</sup>; it's ageist<sup>3</sup> and fosters materialism<sup>4</sup>; it makes us put on weight<sup>5</sup> and is profligate, particularly when it comes to expenses<sup>6</sup>. Oh yes, and it's over-paid<sup>7</sup>.

But more worryingly television is allegedly financially challenged, particularly in the area of advertising. Cyclical and structural factors have combined destructively such that advertising revenues could fall 17 percent year-on-year<sup>8</sup>. Hitherto unthinkable combinations of erstwhile competitors are being proposed<sup>9</sup>.

Yet amid the doom and gloom, television has been showing some distinctly green shoots. Viewing, on average, is firmly up<sup>10</sup>. The biggest audience in five years has been achieved<sup>11</sup>. Households' television budget is firmly barricaded, with only books, broadband and mobile phones taking precedence over spend on television<sup>12</sup>. Growth in subscription television has remained vigorous<sup>13</sup>. The television advert still has the highest impact of all media<sup>14</sup>. And the combination of increases in subscription revenues, television's share of the licence fee and exports might largely balance out advertising's fall.

In this report, Deloitte's third "state-of-the-industry" commentary based on industry views and a poll of the UK public, we review three of the sector's key issues: "Television in a Recession: bitter-sweet"; "Advertising: down, not out" and "Internet television: steady, not stellar".

Television's had a difficult year. But so has most of the economy. Television's borne the brunt of much criticism. But so might any medium that captures 25 hours of our lives, week in, week out.

And we should not forget television's numerous triumphs over the past year that reaffirm its unique position in UK society, among them television's £11.2 billion contribution to the UK's economy<sup>15</sup>.

Television does indeed have talent.

On behalf of Deloitte, enjoy Edinburgh.



Jolyon Barker  
Global Industry Leader  
Technology, Media and  
Telecommunications



Ed Shedd  
Head of Media



## Television in a recession: bitter-sweet

Unemployment's still rising. Britain's aggregate value has fallen for the first time since 1992<sup>16</sup>. And year-on-year, house prices are still falling<sup>17</sup>. The recession, alas, is still with us<sup>18</sup>.

In any downturn, no matter how severe, there are always winners and losers.

For television, the recession has been bitter-sweet. It has perhaps been harshest on advertising revenue, which has fallen steadily from a 2005 peak of £3.85 billion<sup>19</sup>. The decline for 2009 may be as much as 17 percent year-on-year<sup>20</sup>, which would imply a fall of over half a billion pounds<sup>21</sup>. The consequences of falling advertising revenues include: caps on pay across the entire workforce<sup>22</sup>; an increased focus on lower-cost genres, such as factual entertainment<sup>23</sup>; more repeats; and inevitably, redundancies<sup>24</sup>.

The industry is duly concerned: a poll of the television sector conducted for this report found that 69 percent of television professionals expect the recession to have a "major impact" on their sector; almost a fifth fear for its viability<sup>25</sup>.

While the recession has been unpleasant to the television industry, several executives interviewed for this report regarded the recession as a catalyst for uncomfortable but long overdue modernisation<sup>26</sup>. Changes prompted or accelerated in response to the downturn could put the television industry on a sounder financial footing for the next few years.

***... one of television's triumphs during the recession has been its ratings ...***

The recession was, according to executives, likely to spur the industry to banish some of its wasteful practices, ranging from the selection of a post-production house on the basis of better quality catering, rather than lower cost, to a chronic lack of cooperation between creative and commercial departments, to an obsession with packing the schedule with first-run programming<sup>27</sup>.

### ***Executives viewed that the downturn has engendered more efficient approaches to commissioning.***

Differences in companies' financial discipline were resulting in some massive disparities (up to 50 percent), in cost per episode for near-identical genres of programme garnering near-equivalent audiences. Some companies in the sector, were simply poorly run, but had been able to defer their inevitable collapse for so long thanks to a formerly benign economy.

Executives viewed that the downturn has engendered more efficient approaches to commissioning. Some broadcasters were trading a lower cost per programme for commitments to longer series and lengthier multi-year runs<sup>28</sup>. The benefit to broadcasters and producers from longer runs is in enabling greater up-front investment in talent and sets, increasing the likelihood of a hit. The approach also creates more opportunities for ancillary revenues, for example from merchandising. One broadcaster's approach to reducing commissioning costs, at the same time as increasing appeal, was to source more local content<sup>29</sup>. The production process is also becoming more efficient, for example by minimising studio time<sup>30</sup> or by filming in smaller studios<sup>31</sup>.

The weak economy was expected to trigger consolidation in the sector, with scale becoming increasingly important<sup>32</sup>. Greater market concentration is normally commensurate with improved profitability. Among producers, one executive's view was that only larger players have sufficient cash flow to be able to, for example, create a pilot in multiple-languages, and hence enable a global hit, rather than just a national one. Scale also justifies an in-house contract negotiation team, experienced in selling on value, and able to resist strong pricing pressure from broadcasters. Only bigger companies would be able to sustain the financial impact of a failed series. Among broadcasters, the general view among interviewees was that some form of consolidation was inevitable and would likely be sufficient to address projected revenue shortfalls.

The recession was catalysing revisions to existing business models, such as increasing export's contributions or by more sophisticated approaches to deficit funding. Exports by independent producers reached £391 million in 2008, an 80 percent increase in the previous year<sup>33</sup>. Producers' deficit funding was worth £190 million in 2008<sup>34</sup>. The sharing of back-office functions, such as finance and HR but possibly also including sales, was also being considered<sup>35</sup>.

New sources of revenue, for example via micro-payments<sup>36</sup>, to increased sharing of costs, e.g. via joint productions, were also increasingly being considered<sup>37</sup>. Some of these ideas and approaches had been mooted for some time, but had formerly been overlooked, largely as formerly traditional sources of revenue had sufficed.

### ***Differences in companies' financial discipline were resulting in some massive disparities.***

The state of the economy was also expected to help progress the agenda on some currently restricted business models, such as the use of product placement<sup>38</sup>. While the enablement of product placement would not address the entire fall in advertising, it could certainly help stem the shortfall, by, according to one estimate, over £70 million<sup>39</sup>.

Where costs had been cut, this has had little impact on outputs. For example, one executive remarked that a major change in employment practice – hiring staff on a project rather than full-time basis, with contracts limited to production runs – had made negligible difference to quality<sup>40</sup>. One channel noted that a 25 percent cut in budget had not triggered a collapse in ratings<sup>41</sup>. And modest budgets could still deliver prize-winning content, as shown by this year's BAFTAs<sup>42</sup>.

Indeed overall one of television's triumphs during the recession has been its ratings, which have, for the past 18 months, risen steadily. In 2008, average weekly viewing increased by 48 minutes to 26 hours and 18 minutes<sup>43</sup>.

### ***... the year to June 2009, more advertisements were shown than ever before ...***

This trend seems to have been maintained over the first half of 2009, according to a survey undertaken for this report<sup>44</sup>. In the 12 months to July viewing volume increased for over a quarter of those polled, with 18 percent of the full sample now watching over an hour's more television per week. Only 12 percent of respondents were watching less<sup>45</sup>.

As well as a rise in viewing hours, television has also delivered significant audiences. Television is on track to deliver over 100 audiences in excess of 10 million in 2009. As of mid-July, television had shown 65 programmes that had generated audiences in excess of 10 million, including the final of Britain's Got Talent, whose peak audience was, at 19.2 million, a five-year record.

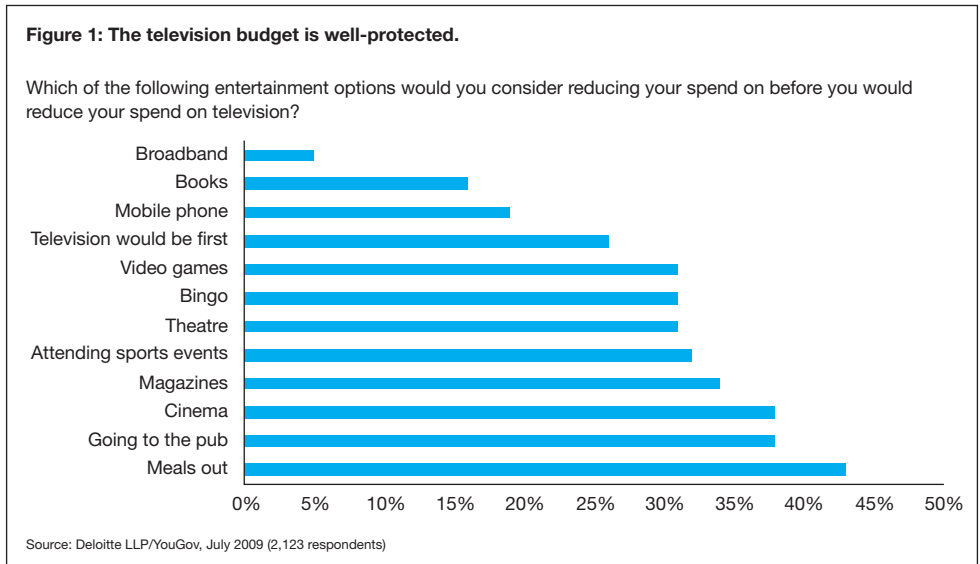
Viewing has increased across commercial and publicly funded channels. This has resulted in an overall increase in the volume of commercial impacts (the number of adverts seen), even though the aggregate value of advertising has fallen. In the year to June 2009, more advertisements were shown than ever before with approaching 900 billion commercial impacts<sup>46</sup>.

Television advertising has had a difficult year, but there are grounds to expect a more positive outlook over the medium-term. There is still no other advertising format that blends television's reach and visual impact.

Subscription television has had a positive recession so far. Contrary to some commentators' expectations a year ago<sup>47</sup>, demand for paid-for television has remained strong, rising by almost 600,000 in the year to Q2 2009<sup>48</sup>. BSkyB's net annual additions were its highest in five years<sup>49</sup>.

### ***If the economy recovers, television advertising should benefit, assuming that some of the revenue declines are cyclical rather than structural.***

The resilience of paid-for television's share of the household entertainment budget in a recessionary climate was borne out by our poll. When asked "which of the following entertainment options would you consider reducing your spend on before you would reduce your spend on television?", only books, mobile telephony and broadband fared better than television (see Figure 1).



Television's share in the rise in the licence fee<sup>50</sup> has also added to the industry's revenues<sup>51</sup>.

Thus recession has delivered mixed outcomes for television so far. The sourest note has been the fall in advertising sales, but this has been balanced, to some extent, by increases in subscription revenues, the statutory rise in the licence fee and an increase in exports<sup>52</sup>.

Television's other responses to the recession are arguably sweeter. The industry's reaction to the downturn has included a raft of productivity enhancements that could put the industry on a more solid financial footing for years to come. As the sector emerges from the recession, those remaining are likely to be both efficiently-run as well as highly creative<sup>53</sup>. From the perspective of demand, viewing has been strongly counter-cyclical. And television remains a unique advertising medium.

The outlook for television in the next phase of the recession depends on several factors, principal among them being next steps for the economy. If the economy recovers, television advertising should benefit, assuming that some of the revenue declines are cyclical rather than structural. If the economy remains weak, television could still fare well: the foundations are in place for growing interest in what television has to offer. Households acquiring new television technology tend to increase their consumption of television: penetration of PVRs and high definition service<sup>54</sup> are both rising. And, as from 2010, viewers will have the delights of 3D to keep them engaged<sup>55</sup>.



## Television and advertising: down, not out

Television advertising has had a rough year, despite a record volume of commercials shown, the influence of TV adverts on Web behaviour and the lack of any direct competitor.

In 2005, TV advertising revenues peaked for the decade at £3.8 billion<sup>56</sup>. The outturn for television advertising revenues in 2009 may be as much as 17% lower than in 2008. If this happens, this would imply a fall of over a billion pounds relative to the mid-decade peak<sup>57</sup>.

The implications daunt: plummeting advertising receipts may trigger a vicious cycle of lower revenues, forcing a squeeze on programming budgets, leading to poorer quality programmes and, as a consequence, smaller audiences. The UK has long enjoyed its ranking of having the highest per-viewer spend on television content in Europe. But this year the UK faces the possible ignominy of dropping to the European average<sup>58</sup>.

Broadcasters reliant on advertising for the majority of their revenues are particularly threatened. Belt tightening measures alone are unlikely to make up the shortfall. The industry is duly concerned: a poll of the television sector conducted for this report found that 69 percent of television professionals expect the recession to have a “major impact” on their sector – almost a fifth fear for its viability<sup>59</sup>.

Advertising revenues have been hit by two major trends: structural decline and a cyclical downturn. Television’s concern is that it is structural factors that are most at play. Purchasers of advertising may be abandoning the small screen in favour of digital formats, such as search engine and banner adverts, as well as below-the-line initiatives, such as events or enhancing their website.

Indeed, online’s ascent is often contrasted with television’s decline<sup>60</sup>. A year ago, television’s advertising revenues were constant year-on-year – a predicament most broadcasters would be delighted with today – but online revenues were growing at a double-digit pace.

One year on,<sup>61</sup> and online's advertising revenue growth has slowed markedly. But even modest growth trumps TV's double-digit decline.

Television's outlook for 2010 does not look too rosy either. Media agencies have forecast a further five percent decline in 2010<sup>62</sup>.

The bleak perspectives for advertising are partly driven by healthy expectations for the installed base of personal video recorders (PVR), now present in a third of UK households<sup>63</sup>. The majority of pre-recorded adverts tend to be fast-forwarded through. Our poll of the public found that, of PVR owning respondents, 82 percent "always" fast-forwarded through advertisements<sup>64</sup>. The worry is that a growing base of PVR owners consume a rising proportion of their television pre-recorded.

And to top it all, the majority of the UK public thinks that there is too much advertising already<sup>65</sup>.

It may appear that the advertising-funded model is in a downward spiral. But there are also grounds for dismissing expectations of television advertising's imminent expiry as overblown.

Recession has hurt television advertising: there is no arguing with the numbers. And television is highly unlikely to repeat its 2005 peak<sup>66</sup>. Arguably, revenues of £3.8 billion may have been possible only in an economy running unsustainably. The advertising-friendly combination of consumer-led boom, rising house prices, a bullish FTSE and an election year are unlikely to be repeated any time soon.

But, assuming that at least some of the decline in receipts is due to cyclical factors, television should be reasonably placed for a rebound. An uptick in consumer confidence could unleash a surge in demand for major purchases, such as cars and holidays, that have been on hold for the past year. Such purchases are best influenced by television advertising, even if subsequent transactions are handled via a call centre or a website.

The sustained business case for television advertising has been demonstrated by a growth in "commercial impacts": the aggregate of the number of advertisements viewed. In the first half of 2009, commercial impacts rose two percent relative to 2008. Yet 2008 was itself a record year for commercial impacts, with an average of 2.4 billion adverts viewed per day, equivalent to 42 adverts per person<sup>67</sup>. Commercial impacts have been able to rise while revenues have fallen because the cost of advertising has fallen faster than revenues. Advertising revenues for 2009 are forecast to decline at between 12 percent and 17 percent<sup>68</sup>. But, thanks to a 20 percent fall in rates, television advertising is now at its cheapest since 1992<sup>69</sup>.

Growing volume of television advertising has been driven by two main factors. Some advertisers, such as Domino's Pizza, have maintained spend, but increased volume<sup>70</sup>. Smaller brands have started television advertising for the first time, attracted by its value for money relative to other media<sup>71</sup>. A few brands, such as home improvement company Everest, have returned to television after a lengthy hiatus.

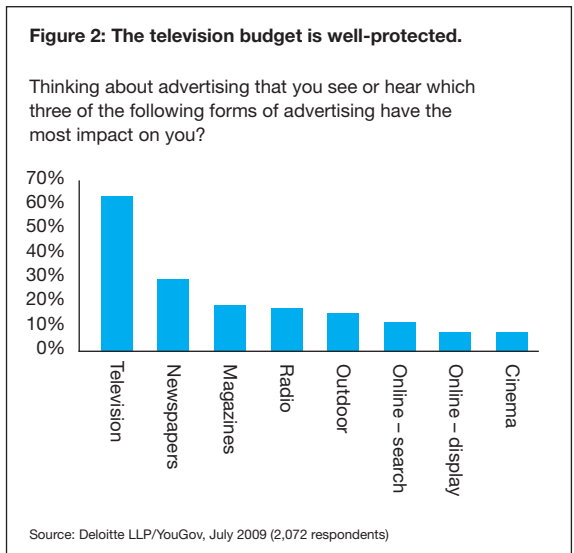
Television advertising is likely to continue to appeal as long as it has no direct competitor. Presently no other medium offers the same combination of reach, volume and production values. It remains the most-consumed medium. UK citizens aged 4+ consume average 25 hours' consumption of television every week<sup>72</sup> – equivalent to 54 percent of all media consumption<sup>73</sup>. ITV alone reaches 80 percent of the UK population in any given week<sup>74</sup>. Television is on track to deliver over 100 audiences in excess of 10 million in 2009.

As of mid-July, the tally was 65, of which over 90 percent were for advertising-supported programmes<sup>75</sup>. And one of television's critical differentiators remains its production values: 30 seconds of well-scripted, highly produced video communicates in a way in which few other mass media can manage.

Television advertising's strength relative to other media was highlighted by our poll of the UK public. 64 percent of respondents ranked TV commercials as one of the three advertising formats with most impact<sup>76</sup>. 18-24 year olds, an age group normally regarded as spending the least time with television, were the strongest advocates of TV advertising: three quarters of this age group ranked television advertising as having most impact<sup>77</sup>.

By contrast online was regarded as relatively low impact. Search advertising and banner advertising were ranked in the top 3 by just 12 percent and 8 percent of the base respectively (see Figure 2). Online's poor showing, relative to television, may surprise given that the former has often been portrayed as the latter's nemesis.

Yet online and television appear to have little overlap. Television does best – display and brand-building – at what online struggles with. Online currently does best – search – at what newspapers, particularly for classified, had hitherto excelled at. Where online has tried to deliver display, most frequently via banner adverts, the format has struggled such that the banner is now undergoing reinvention<sup>78</sup>. Online has also competed more directly with television via video advertisements. But while there is an abundant range of content, much of this, particularly user-generated video, has proved challenging to monetise<sup>79</sup>. The minority of online content viewed that has carried advertising has been highly-produced content that is optimised for television, not the PC or smart phone<sup>80</sup>.



Viewers' preference for television on a TV set was reflected by UK citizens' antipathy to watching adverts online. Only 18 percent of respondents had been online to see an advertisement they had first seen on television; 61 percent simply were not interested. The most popular advertisements online, such as Cadbury's Gorilla adverts, attract at most a few million views<sup>81</sup>; the most displayed commercials on TV deliver several hundred million commercial impacts in just one month<sup>82</sup>.

Searching for a product or service does not happen in a vacuum: a trigger is required and that catalyst is often television. 44 percent of UK citizens polled noted that they had researched a company, product or service online in response to a TV advert<sup>83</sup>. 21 percent of respondents had purchased online, and 31 percent had purchased in a store, in response to a TV commercial.

The relationship between television and Web advertising appears more symbiotic than directly competitive<sup>84</sup>. Television viewing is increasingly accompanied by simultaneous surfing – over half of respondents polled combined television and browsing at some time<sup>85</sup>. When consumption of TV and the Internet was concurrent<sup>86</sup>, the application most “likely to be used” was e-mail, but for 37 percent of those multitasking, e-commerce was “likely to be used”.

Thus the lack of cross-platform campaigns that include both media remains a frustration for the industry<sup>87</sup>. Over time, however, the quantity and quality of integrated campaigns should increase, benefiting both television and Web companies.

As for the PVR, while these are likely to find their way into more and more UK homes, the majority of viewing in PVR households may still be broadcast. Two thirds of PVR households polled “always” or “generally” check to see what is on broadcast first, before watching pre-recorded content<sup>88</sup>. This behaviour suggests that PVR households still default to broadcast, and thus adverts are displayed in real time: the PVR is only used as a fall-back<sup>89</sup>.

Television advertising is facing competition from highly analogue forms of advertising, such as event-based marketing. Nike, Flora and Innocent are just a few of the brands that year after year use events to raise their brand’s profile<sup>90</sup>. But this does not compete head-on with the television budget: it has tended to replace distribution of product samples at high footfall venues, such as stations<sup>91</sup>. But more importantly, the capacity to stage such events is quite finite. The number of venues and times of the year in which to hold such events is limited. Events tend to be resource-intensive, have limited geographic reach and can require extensive planning cycles, particularly relative to a TV advertising campaign. Thus most brands run a limited number of events every year.

As well as television advertising holding its own relative to other marketing formats, its revenues may receive a fillip from changes to regulation. Product placement is expected to be allowed in the near-term<sup>92</sup>; Contract Rights Renewal is due for review (CRR)<sup>93</sup>. The majority of industry executives we spoke to favoured product placement<sup>94</sup>. They expected UK viewers would have little difficulty in realising when products were being placed for commercial gain in UK produced television. While audiences readily criticised films which they considered overweight with product placement<sup>95</sup>, the same reflex would provide a check and balance for UK television.

Television advertising could also benefit if regulation across all media becomes more symmetrical. For example, there is no ASA-type, advertiser-funded regulation of online advertising<sup>96</sup>. This is despite a 25 percent year-on-year growth in the number of complaints<sup>97</sup>. There is little age-rating of online video content, nor are there restrictions on product placement.

It has been a rough year for television advertising. It has suffered for a multitude of reasons, from the recession to competition from other advertising media. Television advertising is not the easiest sale to make right now<sup>98</sup>. Online is often a more fruitful conversation – few companies dare lack a digital marketing presence.

But of the advertisers who have dabbled with digital some are returning to television: social media is not for everyone, every occasion or every message<sup>99</sup>. Barack Obama’s campaign, often lauded as a case study in social media<sup>100</sup>, was in reality a multi-platform campaign, blending websites, social networks, text messages and traditional media. And when it came to persuading and also paying, it was television which delivered the 30 minute advertisement<sup>101</sup> and that received the most of the campaign’s budget<sup>102</sup>.



## Internet television: steady not stellar

A few years back, an expectation common among many UK television industry executives was that TV should, by 2009, have passed a key tipping point: the moment at which more viewing would be searched-for than scheduled<sup>103</sup>.

In tandem, audience sizes would continue their steady contraction; a growing number of viewers, would, per the Blue Peter maxim, be watching programmes that they'd made earlier; and television's erstwhile titans, particularly the broadcasters, would be inexorably usurped by a brace of dynamic, new media start-ups<sup>104</sup>.

Fast forward to the present and the picture is less clear cut. While audiences continue to fragment, people still flock in their millions to the most successful mass audience broadcast shows. While catch-up and time-shifting of content is growing rapidly, the schedule remains highly relevant. And major broadcasters and producers have not been sidelined by online video-pure-plays.

Yet many of the expectations from back then remain expectations today, even if the timetable has now become a little more vague.

Even *Digital Britain*, the government's June 2009 review of the UK's technology, media and telecommunications sectors, assumes near-term crossover to non-linear, with consumption via search and on-demand happening at a "non-distant point"<sup>105</sup>.

***The biggest vote of confidence in broadcast is being cast by the viewers: consumption of broadcast remains significantly greater than all forms of online television.***

The industry executives interviewed for this report have varying views on when and how such a transition would take place. Some postulated that the first major manifestation of non-linear would be as a replacement for off-peak. Viewers would imminently be offered a menu of Internet-delivered, on-demand options in place of the current schedule of quiz, chat and soaps.

Others were more cautious, and distinctly more so than even last year's interviewees. They still anticipated crossover, but timed this at five years' hence, if not beyond.

But the boldest views in this year's interviews were proclaiming the continuation, not the collapse, of broadcast television.

Indeed, for many, the pendulum of doubt appears to have swung away from broadcast towards non-linear.

The biggest vote of confidence in broadcast is being cast by the viewers: consumption of broadcast remains significantly greater than all forms of online television. For the week to 12 July 2009, the average UK viewer consumed 25 hours of broadcast television<sup>106</sup>. In April 2009, average online viewing was 61 minutes per week, equivalent to 4 percent of broadcast's total<sup>107</sup>.

Indeed, the gulf between broadcast and online viewing remains such that a minor increment in linear readily out-paces a leap in non-linear. In the year to April 2009, online viewing grew by 47 percent, equivalent to just under 20 minutes. In the year to 12 July 2009, the number of broadcast minutes increased by 5 percent, equivalent to 50 minutes.

Other indicators posit an even greater gap.

A poll commissioned for this report found that 44 percent of the UK public had not watched a clip and 61 percent had not watched a programme online in the prior week<sup>108</sup>. This was despite one third of the public rating the ability to watch television via the Internet as "important" or "very important", an 18 percentage point increase on 2008's results<sup>109</sup>.

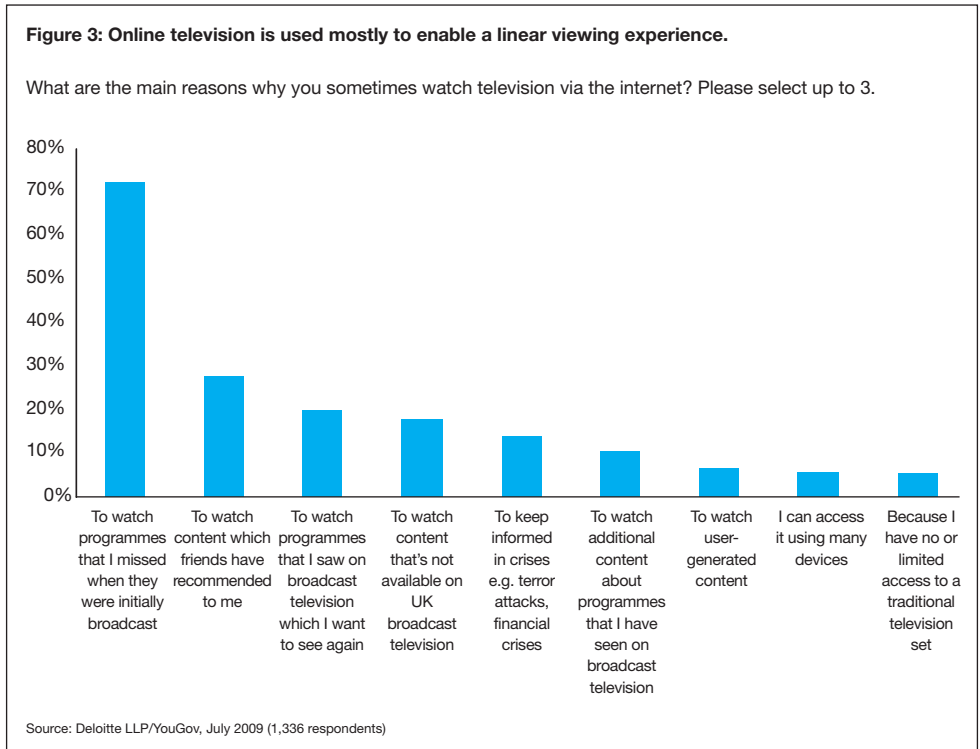
This gap between linear and non-linear viewing is also apparent in other markets, such as the US. A recent study of US households, based on observations of household behaviour, found that of an average 5 hours and 26 minutes of daily TV viewing, 95 percent was live, 4 percent pre-recorded and less than 1 percent was via the Internet<sup>110</sup>.

Broadcast has also continued to deliver stand-out audiences. As of mid-July, 65 programmes broadcast this year had attracted audiences in excess of 10 million<sup>111</sup>, among them the final of 2009's Britain's Got Talent which garnered 19.2 million viewers<sup>112</sup> – the highest numbers since the English football team's departure from Euro 2004.

Britain's Got Talent's impressive ratings were undoubtedly helped by the buzz created by worldwide demand for clips of the programme on the Internet. Indeed online's net impact appears to be to complement, not compete with, broadcast.

***Fast forward to the present and the picture is less clear cut.***

As well as raising awareness of the schedule, counter to expectation, non-linear is being used to enable a linear viewing experience. The most popular reason for watching television over the Internet, common to 71 percent of respondents, is to watch programmes that were missed when first broadcast (see Figure 3).



Internet television's greatest hits have mirrored – albeit on a smaller scale – broadcast's biggest audiences. 2008's most watched broadcast programme, Wallace and Gromit's Christmas special (14.3 million viewers)<sup>113</sup>, was also the most watched programme (8 million requests) of any broadcaster's Internet television service<sup>114</sup>.

Online television's association with linear is now so strong that awareness of broadcasters' on-demand websites (83 percent) exceeds that for YouTube (76 percent), iTunes (64 percent) and illegal download sites (34 percent)<sup>115</sup>. Usage is marginally more weighted to broadcasters' sites, being used by 81 percent of respondents, compared to 67 percent for YouTube, 15 percent for iTunes and 8 percent for illegal sites.

***The challenges faced by online video, as well as equivalent predicaments for online publishers and online music distribution, have prompted a chorus of doubt over the viability of Internet only distribution models.***

Traditional television also appears to be faring fine from a financial perspective, relative to online counterparts. Declining advertising revenues have to some extent been balanced by increase in subscription revenues, exports and television's share of the licence fee. By contrast Joost and Veoh, formerly regarded as principal challengers to the broadcasting model<sup>116</sup>, have pared back operations, closed retail services and replaced their CEOs in 2009<sup>117</sup>.

Disney's Stage 91<sup>118</sup>, Turner's SuperDeluxe<sup>119</sup>, Microsoft's Soapbox<sup>120</sup>, NBC's DotComedy<sup>121</sup>, Yahoo's YLive<sup>122</sup>, Maven<sup>123</sup> and Jumpcut<sup>124</sup> have all closed in the last year.

One of the commonly cited barriers for the growth of online television has been the infrastructure. The better the network, the greater demand will be. At present, the UK's Internet infrastructure is good, but not leading-edge, relative to other countries. Over 40 percent of Japan and Korea's broadband connected homes are fibre-based, offering speeds well in excess of 100 Mbit/s, sufficient to deliver several high definition television streams. By contrast, aside from a trial in a new-build in Ebbsfleet, the UK has no fibre to the home connections<sup>125</sup>.

But according to our poll, better infrastructure would not necessarily make a difference. Only 28 percent of the UK public would watch more video clips and programmes online if Internet connections were faster and more reliable<sup>126</sup>. And while 33 percent would watch more online clips and programmes if their household's main television was connected to the Internet, 39 percent would not.

The challenges faced by online video, as well as equivalent predicaments for online publishers and online music distribution, have prompted a chorus of doubt over the viability of Internet only distribution models<sup>127</sup>. However, while the outlook for Internet television may not appear as rosy as had been expected five years previous, it should continue making steady progress.

One reason is that the UK is growing into online television. There is a marked difference in attitude and consumption of television via the Internet by age group. 38 percent of 18-24 year olds ranked Internet television as one of the 3 innovations that had had the most impact on the way they watched television in the last five years; the equivalent figure for the 55+ category was 12 percent<sup>128</sup>. 24 percent of 18-24 year olds were watching "significantly more" online television than a year previous; the equivalent figure for the 55+ group was a mere 9 percent. And 21 percent of the youngest respondents watched 4 or more online clips per week. By contrast, of 55+ respondents 51 percent had consumed no clips online, and 69 percent had consumed no programmes via the Internet over the previous week.

Further, while many online video pure-plays may have shut down, plenty of others are taking their place. Microsoft may have shut Soapbox; but it has recently launched MSN Video, offering 300 hours of programming at launch<sup>129</sup>. Hulu, which streams some of television's best known shows, is expected to launch service in the UK later in the year<sup>130</sup>. In the US, Hulu now ranks as the third largest online video site, serving 370 million video streams to 40 million users in April this year<sup>131</sup>.

***... in an ironic twist to earlier expectations, some of the strongest advocates for online television may well be the traditional television companies themselves.***

One of the most significant online video projects is Project Canvas, whose objective is to make on-demand television services accessible via a set-top box based on a standard, open platform. It should thus make professionally-produced online video readily viewable via a television set<sup>132</sup>. Canvas is planned for launch in the first half of 2010<sup>133</sup>. Our respondents appeared a little unenthusiastic about this combination: only a third said they would watch more online clips and programmes if their household's main television was connected to the Internet<sup>134</sup>. However, Virgin Media's customers, whose on-demand content via its set-top box includes iPlayer, itv.com and 4OD libraries, watched an average of 17 videos-on-demand per month<sup>135</sup>.

Indeed, in an ironic twist to earlier expectations, some of the strongest advocates for online television may well be the traditional television companies themselves.

Broadcasters may increasingly use online television to support their core, traditional objective of maximising broadcast audience size and quality. Online clips, distributed via their own websites as well as third party platforms, are likely to be used to spark interest in their shows. Online catch-up can enable viewers who missed a broadcast episode to keep up with a storyline and remain interested in a series.

For producers, online's ability to transcend first transmission also represents an attractive means of keeping content alive and monetising the full lifetime value of their intellectual property and brands.

But for now, the likelihood of online delivering the *majority* of Britain's television viewing appears low. A principal determinant of online television's long term role is likely to be need. Delivering television via the Internet has one key advantage over broadcast – the ability to deliver programmes on-demand, selected from a potentially limitless range of content.

However, thus far, the mass market seems disinclined towards searching out the majority its TV content, beyond, that is, flicking through channels, or perusing the electronic programme guide (EPG). While choice is good, choosing, it would appear, is a chore. A minority of viewers may prefer to consume an entire series of a show in one go. But the majority seem to prefer a pause between each serving, much as few diners would want to consume a dozen breakfasts in one sitting.

***Steady growth for Internet television over the next five years may disappoint some. Yet that “non-distant point” should ultimately arrive. And it would be a mistake to miss this point.***

Technology is also likely to constrain demand for online delivery. Even if the UK's broadband infrastructure is able to deliver, growing penetration of the PVR is likely to act as a cap on demand for online television. The PVR and online address a similar viewer need that is enabling viewers to watch their favourite programmes if they were not around when first broadcast. The PVR is currently installed in a third of UK households and adoption is being catalysed by generous offers<sup>136</sup>. The greater the penetration of PVRs, the harder it may become for viewers to miss programmes, and thus the lesser the need to catch up.

This growing appreciation of how new and old work together may be behind what has tempered initial exuberance about online television. Indeed, projections that online will deliver the majority of Britain's television viewing in the next 3-5 years are now scarce, and contrast with the continuing strengths of well-scheduled, high-quality broadcast television.

Steady growth for Internet television over the next five years may disappoint some. Yet that “non-distant point” should ultimately arrive. And it would be a mistake to miss this point.

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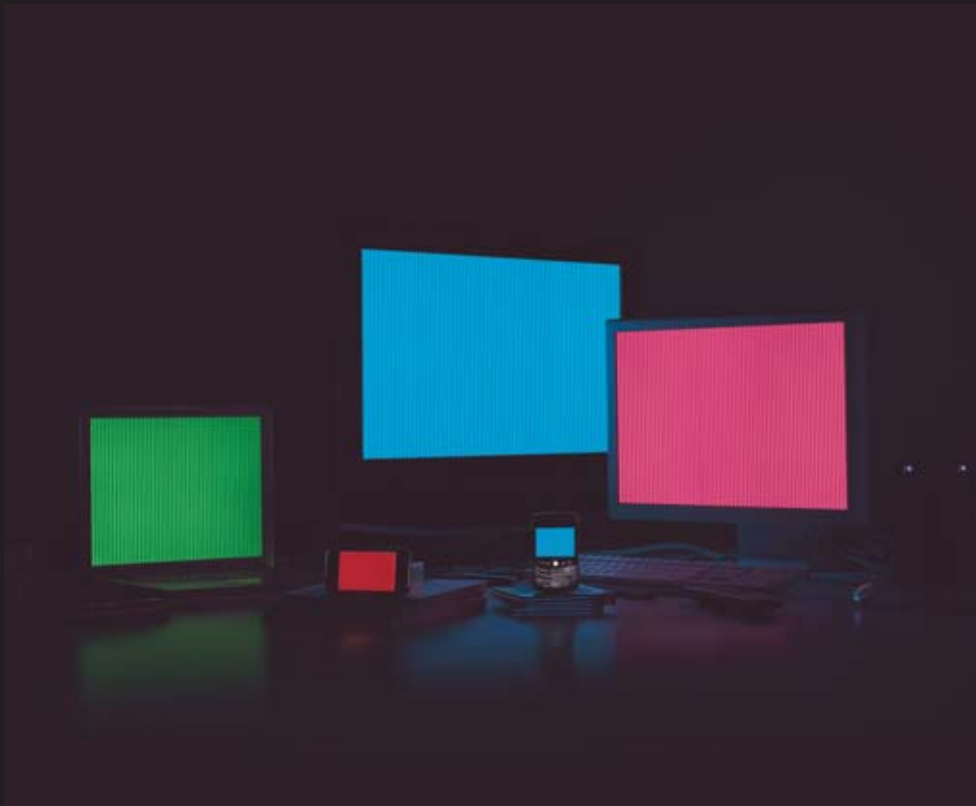
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Television's had a difficult year. But so has most of the economy. Television's borne the brunt of much criticism. But so might any medium that captures 25 hours of our lives, week in, week out.

And we should not forget television's numerous triumphs over the past year that reaffirm its unique position in UK society, among them television's £11.2 billion contribution to the UK's economy.

**Television does indeed have talent.**