Interactive TV: growth in services and perspectives through 2010

IDATE's Media Department is pleased to present the second edition of its report, "Interactive TV services" enhanced by contributions from IDP and NPTV, two reputed service providers in the field of interactive TV. This report offers **an overview of worldwide growth in the iTV market,** an **understanding of the strategies adopted by the sector's major players** along with **answers to key questions** about the market itself.

- **Recent developments in the sector**
  A complete inventory of digital TV platforms, technologies and the services they offer in the world's main economic zones;
- **Economic models for different types of service**
  In-depth analysis of current business models, as well as management principles, operating conditions and the profitability of iTV services
- **Players and services: what are the strategic paths of choice?**
  An evaluation of the sector's leading players, based on a study of 10 companies and their services
- **iTV services market outlook through 2010**
  Forecast figures on potential user bases, iTV-based revenues and the major players' turnover, coupled with an analysis of the techno-economic challenges involved.

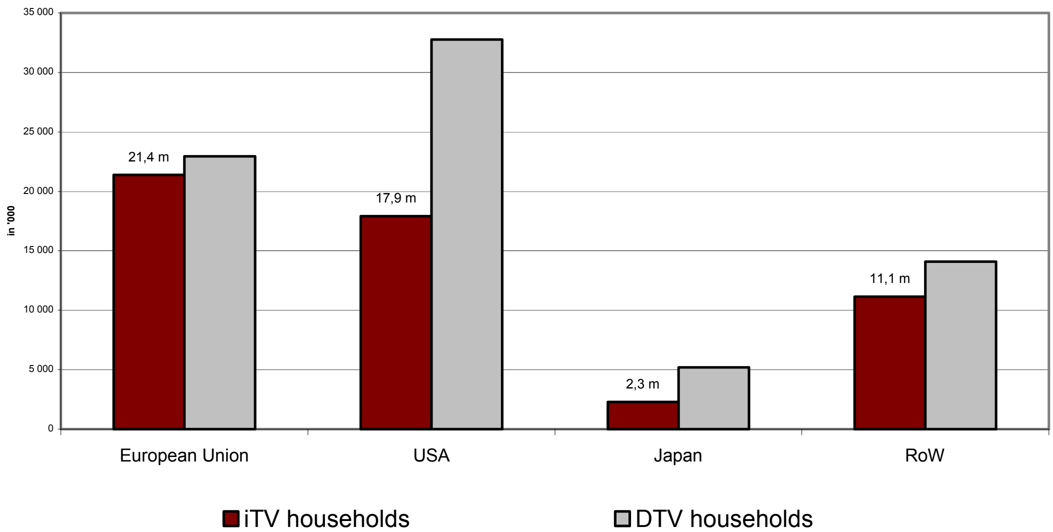
Interactive TV is a worldwide reality

Although expectations have been partly disappointed, interactive television has nevertheless become a worldwide reality over the past three years.

In fact, interactive TV is now present in most countries in the world with a sufficiently large subscriber base to digital TV.

In 2002 the threshold of **100 million individuals worldwide** (or 52.7 million TV households) was finally crossed, with subscribers **using iTV services** (either by consulting an EPG, subscribing to PPV services, using VOD, connecting to an independent iTV service, taking part in an enhanced TV programme or accessing the Internet via their TV).

Number of households with digital TV and users of iTV services worldwide
at the beginning of 2002



Source: IDATE

Games, information and relational services prove popular with public

A key service: EPGs

Both its nature and usefulness make EPG the most commonly broadcast interactive television service worldwide. It is also without a doubt the most commonly used interactive TV service.

The increasingly user-friendly interface, the multiplication and the segmentation of the TV services on offer (thematic TV channels, interactive services etc.) have all favoured the regular consultation of this type of service.

In France, for example, 51.5% of TPS subscribers consult an EPG 6 times a month on average. Similarly, over 2 million CanalSatellite subscribers a week consult Mosaïque in France, while, SkyDigital's EPG, Sky Guide, records over 5 million daily visits in Great Britain. In the USA a study carried out by the Yankee Group and SBCA in August 2001, highlights the fact that EPGs are the leading source of information on TV programmes for 41% of the individuals with access to this service.

The success of relational services and some enhanced TV programmes

Relational services (voting, quizzes, competitions, customer satisfaction surveys etc.) are by far the services that put in the most respectable performances. All you have to do is look at a few figures. The “Watch on your week” service offered by the Nikleodeon channel on Sky Digital in 2001 recorded 293,000 votes via its iTV service by inviting television viewers to choose between three types of programmes at the end of each programme between 8 a.m. and 8 p.m. In Great Britain, the interactive channel E4 Big Brother 2 – also pulled in 30% of all votes recorded for the Big Brother programme broadcast on Channel Four. The interactive service set up by MTV during the MTV Europe Award on Sky received 710,000 votes in 3.5 days. Lastly, since March 2001, over 2 million calls have been registered by the service set up by Sky News Active enabling television viewers to express their points of view on the day’s news.

Games and weather services: a profitable business

Interactive games (arcade and games for money) are popular with the public. In France 7% of households that subscribe to CanalSatellite use PMU’s betting service on a regular basis and 27% use the CanaSat Games service every week (1.9 million visitors per month). In Great Britain the games channel PlayJam recorded 1.8 million visitors per week at the beginning of 2002 playing 4 games of 30 minutes on average. 4% of subscribers to TWO Way TV use their services for 89 minutes per week on average and 27% of them use the service every week.

Home betting service has been highly successful. As a result, at the end of 2001 PMU in France had 58,200 accounts opened on CanalSatellite and 2,500 ON TPS. Its turnover for the year 2001 reached EUR 105.5 million and accounted for 50% of interactivity-related revenues posted by CanalSatellite and 40% of those posted by TPS, the two platforms from which the service is available.

VOD and T-commerce: real mid-term potential

T-commerce services developed to-date primarily cover the economic sectors of finance and banking, tourism, entertainment (games/betting) and large-scale distribution.

T-commerce services have not yet fulfilled the expectations of their producers. However, in the mid to long term and based on advertising both synchronised with the programming of channels and linked to certain services that generate traffic (especially games), t-commerce services should really take off as of 2003 when the base of households with access to iTV services should turn the iTV market into a mass market. Similarly, thanks to the set up of more sophisticated relational marketing campaigns and the use of personalisation systems, improvements should be seen in the performance of this type of service.

VOD services by cable and on DSL also show real potential, especially given that this type of service, in principle, appeals strongly to consumers (over 60% of U.S. television viewers have declared their interest in this type of service), especially when a large catalogue is offered and viewers have full freedom of use (with no time restrictions). This type of service would be even more attractive if its users also enjoyed access to EPG functions (access to the service and search functions).

VOD services, by cable and on DSL should nevertheless begin to truly compete with NVOD services by 2007/2008. Until then NVOD services via satellite, also based at times on the use of PVR and cable, should see steady growth.

Advertising and one-to-one marketing campaigns: the future of TV financing

With interactivity television is now capable of meeting communication and marketing objectives similar to those on the web. Despite interactivity, television continues to play its role as a traditional media and iTV can also be used to raise a channel's profile and improve its image. However, like the web, it seems particularly well-suited to gathering data from clients and prospects for advertisers, boosting brand recognition, promoting products and to the direct sale of products.

In fact, interactivity enables the useful exploitation of client data bases compiled by operators of access platforms to iTV services, with television now forming an effective one-to-one marketing tool capable of:

- promoting the image of a brand or a specific product
- offering consumers-television viewers personalised communication
- helping advertisers to better satisfy their clients and/or define an offer tailored to satisfy their needs
- helping to create lasting customer loyalty to a brand
- helping to identify and privilege the most profitable customers
- giving an immediate boost to sales in some cases, thanks to the possibility of purchasing via the remote control.

Moreover, iTV enjoys an importance independent of the Internet: not only does it provide references and anchor points, but the "backing" provided by the access platform operator plays a key role (selection of services and quality label).

Furthermore, it offers the huge advantage of advertising on air by coupling advertising slots on TV, programmes and "mini-sites" on the same terminal. "Demonstration" and the search for background information are seamless, which can be a strong incentive to shop. The Internet is less effective in this respect.

Given the strategic importance of the relation between advertising-promotion-sale on one medium for advertisers, commerce and relational marketing via TV sets should represent huge financial stakes in the mid- to long-term.

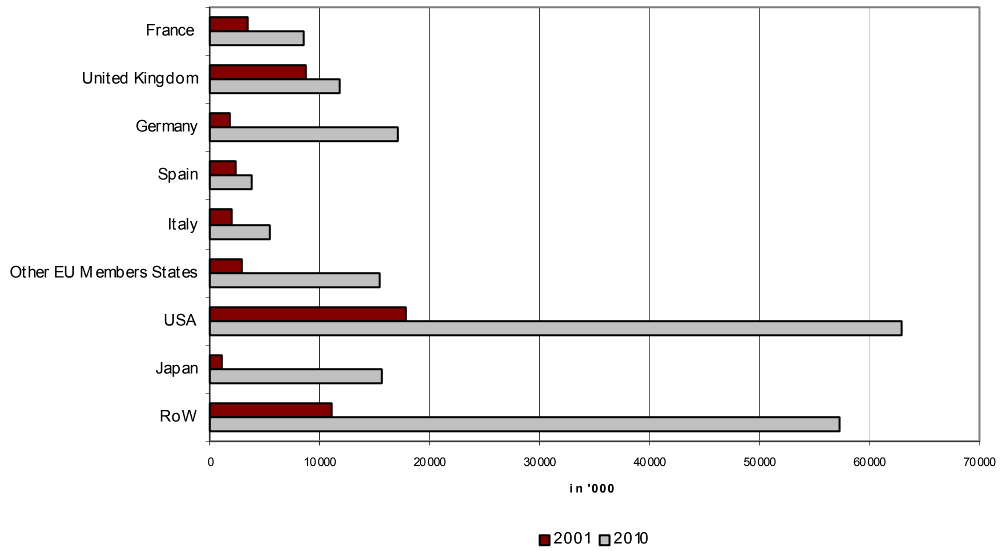
ITV market should see steady growth in mid-to long-term

By 2010 almost 200 million TV households will be equipped with a terminal to receive iTV services

Over the 2001-2010 period, the number of households with access to iTV services should consequently increase at an annual rate of 16%.

Europe should continue to spearhead growth until 2005.

Number of households with access to iTV services



Source : IDATE

The iTV service production sector should see an average growth rate of 27% between 2001 and 2010.

Investments in relational marketing campaigns and the broadcast of interactive advertising campaigns should approach the EUR 30 billion mark.

Due to significant growth in the base of households with access to iTV services, the 2001-2010 period should see the **real take-off of interactive advertising and one-to-one marketing campaigns** on TV, as investments increase from EUR 226 million in 2001 to almost **EUR 30 billion in 2010.**

In terms of this evolution iTV should be a profitable business model for all players

In the mid- to long-term over half of global revenues from interactive television should flow to producers of iTV service and TV channels.

Payments to telecoms operators should increase from EUR 1.5 billion to over EUR 36 billion, showing an average annual growth rate of 46%. Telecommunications operators would consequently appear to be the big "winners" as far as interactivity is concerned.

Interactivity should also be largely profitable to platform operators since interactivity-related turnover for these players should increase from EUR 1.3 billion in 2001 to EUR 14.3 billion.

Growth is governed by a certain number of short-term factors

In the short term, several factors nevertheless govern the "take-off" of the global iTV market including:

- an end to the restructuring seen in the pay-TV via satellite market worldwide, in other words a reduction in the number of players in this market and the resulting standardisation of iTV technologies used
- the take-off of iTV via cable, especially in Europe
- the emergence of "real" competition between cable and satellite in the field of iTV, especially in the United States
- growth in the base of subscribers with access to iTV services and the heightened public awareness of the use of iTV services resulting from this growth.

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