KPMG
cutting through complexity

MEDIA AND ENTERTAINMENT BAROMETER

Breakthrough for online streaming

Defining the future of media

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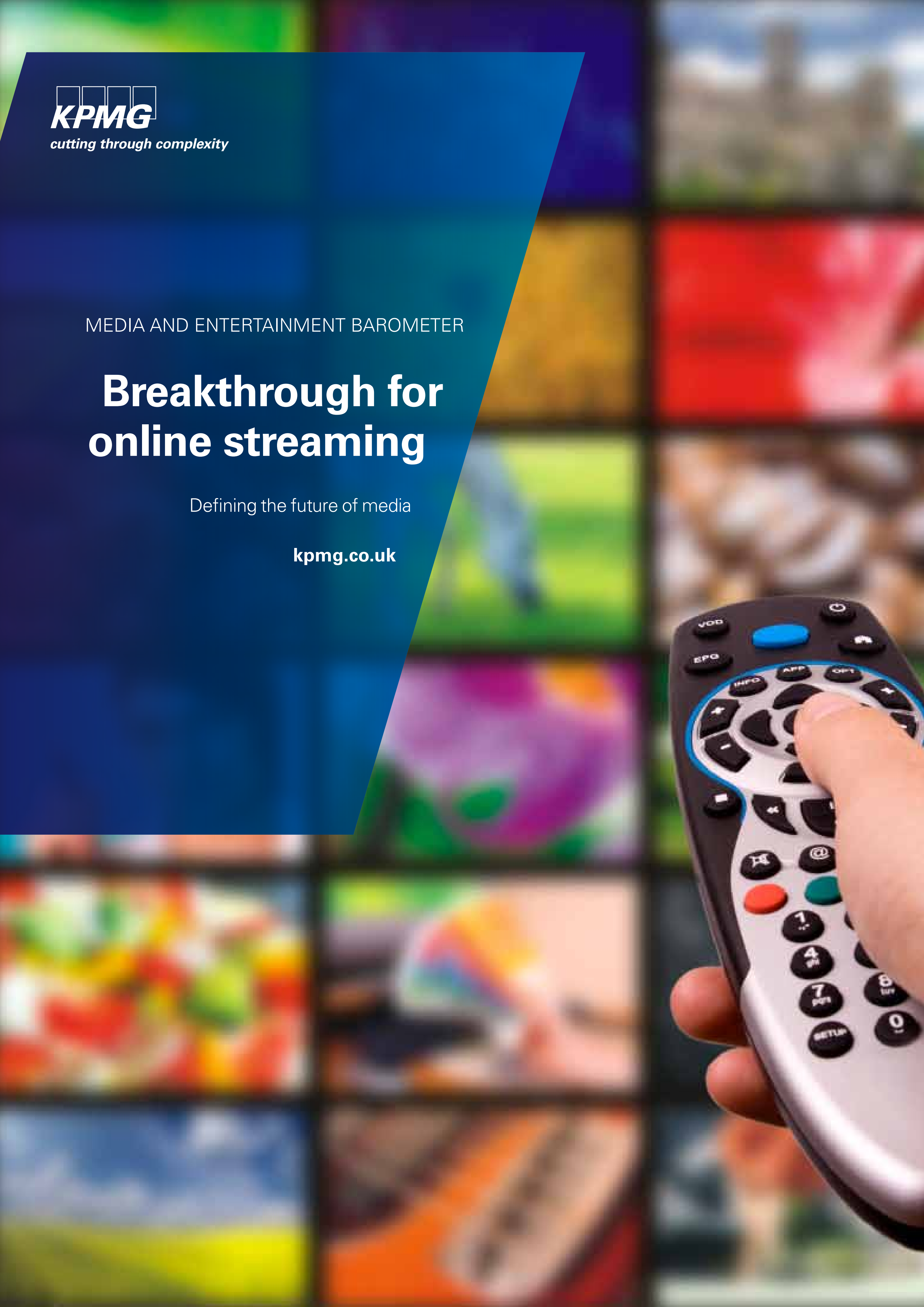

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Introduction

Awareness and appetite for online streaming continues to rise. Consumers are increasingly prepared to pay for content when they want it. But how will media companies capitalise on this receptive market?

Since September 2009, KPMG has conducted six-monthly research into consumer appetites for new and traditional media. We find out where they are spending their money and where they are not; we identify emerging trends and gauge receptiveness for innovative products and services. By determining the sentiments of the market on a regular basis, our data helps media companies to set their agendas and strategies for future growth.

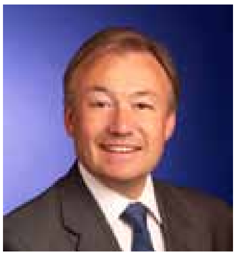
The most significant statistic in this, our fifth analysis, is the surging appetite for online streaming services, such as the BBC iPlayer, ITV Player and 4oD. Awareness remains consistently high and usage is up on the previous six months. Consumers, especially the younger generation, are growing increasingly accustomed to catching-up with previously screened content online. Currently, many streamed services are available free of charge. Importantly, however, in our survey respondents indicate that they would be willing to pay to access film, music and TV content on demand.

This growing awareness, usage and inclination to pay for content coincides with the arrival of Netflix and the anticipated arrival of YouView, two new streaming services set to launch in the UK in 2012. Both will make their services available on demand, on TV, in an attempt to dismantle criticisms levied at current streaming services.

Other trends coming out of the survey are, we believe, largely consistent with market expectations. We continue to see the development of mobile media as a means to monetise content, given the continuing rise in the uptake of smartphones, tablets and eReaders. Indeed, tablet usage has more than doubled since first launched on the market in July 2010.

Furthermore, there is a growing propensity to pay for media on these devices. Average spend has increased in successive waves of our research, with eBooks taking up the largest share. Smartphone apps now consume at least £1 more than they did in wave 4 of our research, up from £5.65 to £6.97 in the month to 21 October 2011. Spend on tablet apps has increased too, now £10.78 from £8.87 in wave 4.

Consumers still enjoy the tangibility of traditional media, citing a preference for the page-turning experience that new media struggles to replicate. TV, meanwhile, continues to be the most popular form of all entertainment. That said, the availability of content online appears to be driving the ongoing decline in newspaper and magazine readership.



David Elms
Head of Media

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About this survey

All figures, unless stated otherwise, are from YouGov Plc. Research was conducted at six-monthly intervals:

Wave 1 – 11 to 14 September 2009

Wave 2 – 15 to 18 March 2010

Wave 3 – 14 to 21 September 2010

Wave 4 – 31 March to 5 April 2011

Wave 5 – 21 to 25 October 2011

The surveys sampled people aged 16 and over in the UK. The number of respondents to YouGov's online panel varies in each wave of research:

Wave 1 – 1,037

Wave 2 – 1,034

Wave 3 – 2,241

Wave 4 – 2,103

Wave 5 – 2,177

YouGov asks participants about their preferences and consumption habits across all types of media, including publishing, broadcast, music and gaming in the prior month. Their responses inform our analysis.

Streaming: to pay or not to pay?

Streamed TV is becoming more mainstream. It might be nice to have, but will consumers pay for the benefits it brings?

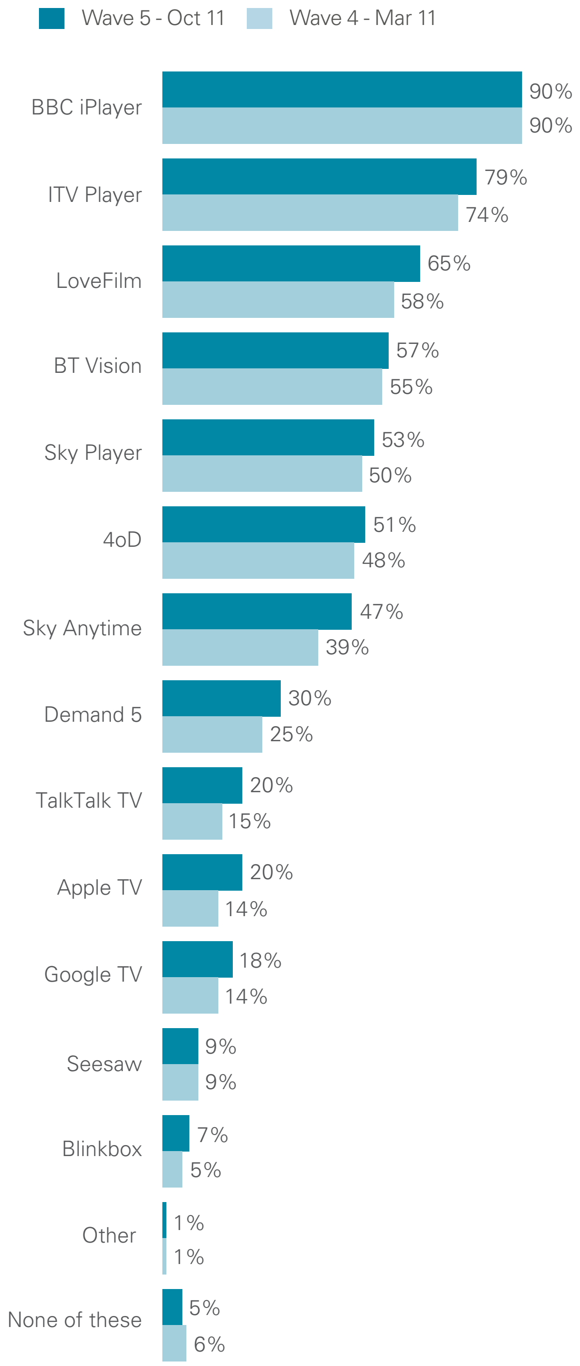
In March 2011, we tested respondents' awareness of streamed TV services for the first time. Six months on, the seven major providers remain consistent with the the last wave.

Streaming services that are heavily cross-promoted by terrestrial channels – like the BBC and ITV – are most well known. Interestingly, however, Channel 4 is the sixth most-recognised streaming service, with its 4oD offering falling below paid services from BT Vision and SkyPlayer.

Awareness does not always translate into usage. Cost is clearly an issue. Take, for instance, the free-of-charge BBC iPlayer, where two-thirds of those who have heard of it actually use it. Compare it with paid services from Sky Player and BT Vision, which enjoy awareness rates of 53 and 57 percent respectively, yet convert fewer than one in ten into users.

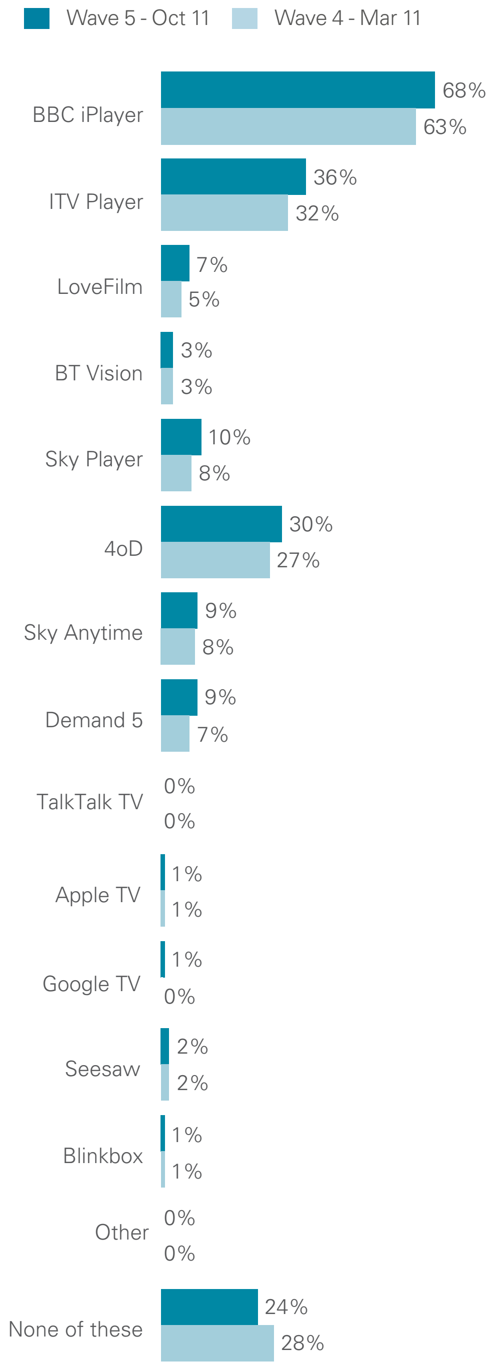
Awareness

Which, if any, of the following online streaming services have you heard of?



Usage

Which, if any, of the following do you ever use to watch film/programmes/video clips?



New streaming services to launch in the UK

Two new services could well convert awareness into usage by offering paid streaming over conventional TV sets rather than broadband-enabled devices.

In this, the fifth wave of research, we asked users how they view their streamed paid content. While less than one in five (18 percent) download content to their smartphones, almost half (48 percent) view catch-up TV on their laptops and 39 percent on their desktop computers.

A consortium of seven media companies – BBC, ITV, Channel 4, Channel 5, BT, TalkTalk and Arqiva – are expected to launch YouView in the UK in February 2012. YouView will enable users to watch whatever content they want, whenever they want, on their TV sets. It is anticipated that existing streamed services, which are free and enable catch-up over the past 14 days, will be maintained.

Meanwhile, US-owned NetFlix launched its rival on-demand internet streaming media service in the UK in January of 2012.

Judging by our survey, it seems that both new entrants have got their timing right. Not only is awareness and usage of streaming high, but willingness to pay for content has increased too. In March 2011, among those that said they are likely to become a subscriber to paid content in the next 12 months, 60 percent of respondents said they would pay for films online, six months on, that has risen to 64 percent.

“We have two new services, one backed by known British names, the other courtesy of a successful US provider of paid online streamed content. The results of our survey highlight that the foundations appear to be set for these to be successful. There are, however, barriers, not least the likely cost of set top boxes. What is more, by the end of 2012, everyone in the UK will have digital terrestrial TV, with the choice of between 20 and 30 channels. That’s a lot of free TV. It is possible that the majority of TV households don’t actually need anything more.”

David Elms
Head of Media

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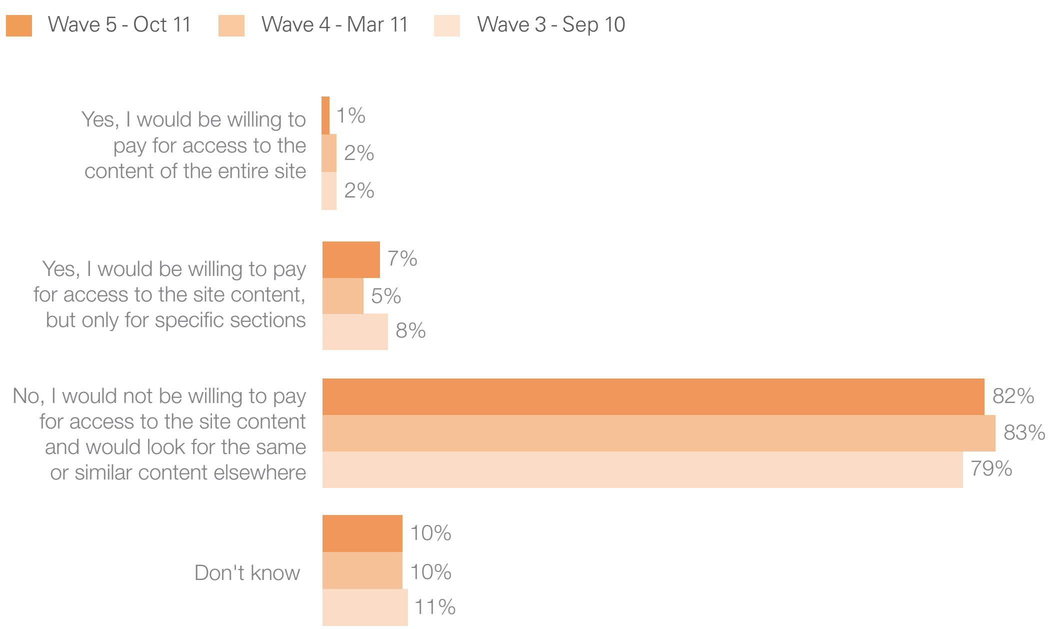
Can paywalls ever pay off?

Why pay for content when you can get it free elsewhere? For the past year, consumers have showed strong resistance to paywall.

It is not just a matter of price but of principle. If consumers have to pay to view content, they will instead look for content that is free on other sites. An overwhelming 82 percent say that they are not willing to pay to access content that is free on other sites, while just 1 percent is prepared to pay for unrestricted access to a website that they currently use. Interestingly, 7 percent would pay to access specific sections or content of websites they frequently visit.

Introducing a paywall?

If a website or mobile content site you frequently visit began charging for access to content, would you be willing to pay to gain access to the content?



These figures indicate that most websites do not have a big enough loyalty draw and that the ability to flit from one site to the next means that there is almost always another source of similar content for free.

In essence, news is widely and freely available. Whilst The Times Online has moved behind a paywall, subscription figures are yet to reveal the success (or otherwise). It seems, according to KPMG's Head of Media, David Elms, "that paywalls only work well when applied to niche published information. To differentiate themselves, newspapers groups like The Guardian, are taking a more strategic approach. They are delivering deeper analysis and opinion, rather than straight reporting of what is going on in the world."

On the move with smartphones and tablets

Growing consumer demand for content on the move is proven by the rising popularity of smartphones and tablets.

Smartphone ownership continues to grow strongly. The past 12 months have seen ownership rise from 27 percent in September 2010 to 44 percent by October 2011. While smartphones appeal predominantly to a younger audience, males (47 percent) are more likely to own a smartphone than females (41 percent). A Londoner is most likely to own a smartphone (52 percent) and a Scot is least likely (32 percent).

More than three-quarters (78 percent) of respondents use their smartphone to browse the internet, while two-thirds (67 percent) use it for social networking. Nearly one-fifth (18 percent) use the device to read a newspaper.

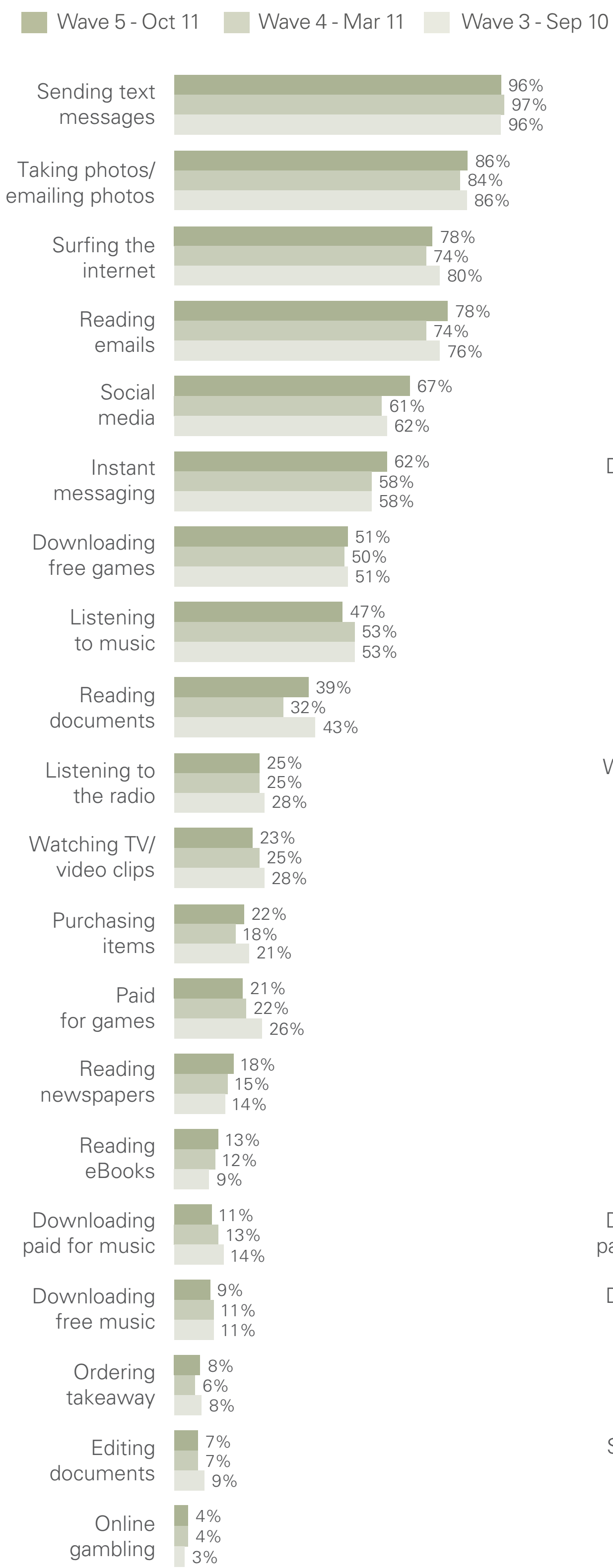
Brand-wise, Apple continues to be the smartphone of choice at 28 percent. BlackBerry has slipped into third place, at 18 percent, as HTC increases its share from 10 percent in September 2010 to 19 percent in October 2011. Samsung is also beginning to show its ascendancy, up from 11 percent in March 2011 to 14 percent in October 2011. However, Nokia continues to slide, down from 16 percent in September 2010, to 13 percent in March 2011 to a 10 percent market share by wave 5 of the research.

Tablet usage is also up, having more than doubled since September 2010 from 2% to 7%. Apple's iPad dominates the market, up another nine percentage points between March and October 2011. Other manufacturers' market share has remained relatively stable, although the release of Amazon's Kindle Fire could see its share rise. Tablet owners use their device for a range of activities, with nearly 90 percent surfing the net in October 2011, compared with fewer than half (48 percent) a year earlier.

Users are now more inclined to purchase goods on the tablet, up 27 percent from September 2010 to 46 percent in October 2011.

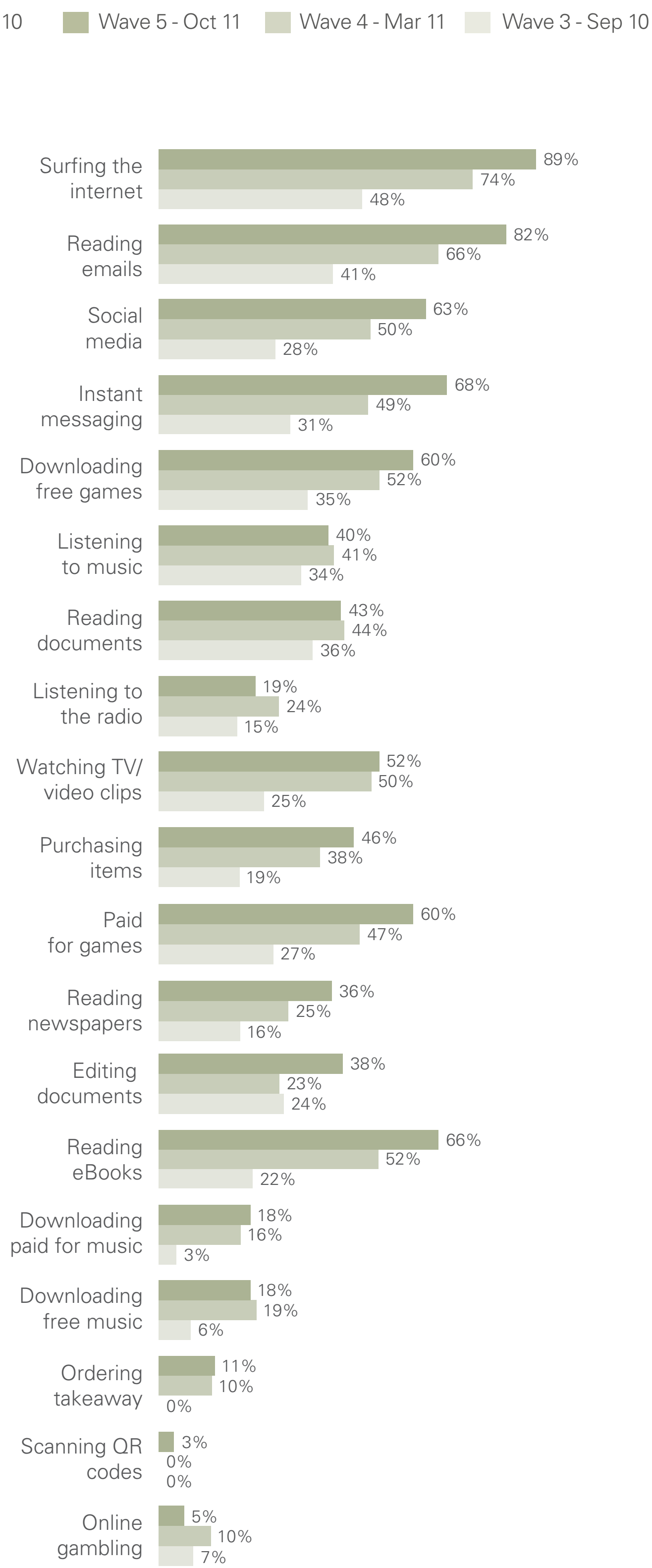
Smartphone

For which, if any, of the following activities have you used your smartphone?



Tablet

For which, if any, of the following activities have you used your tablet?



Paying for content and apps

Spend is still small, but consumers are increasingly inclined to pay to view content over their smart devices.

Currently, one-quarter of smartphone owners pay to access content on their device. When they do, they are most likely to pay for games and music.

And while four in every five smartphone users download apps to their phones, fewer than one-third (31 percent) download paid apps as well as free apps.

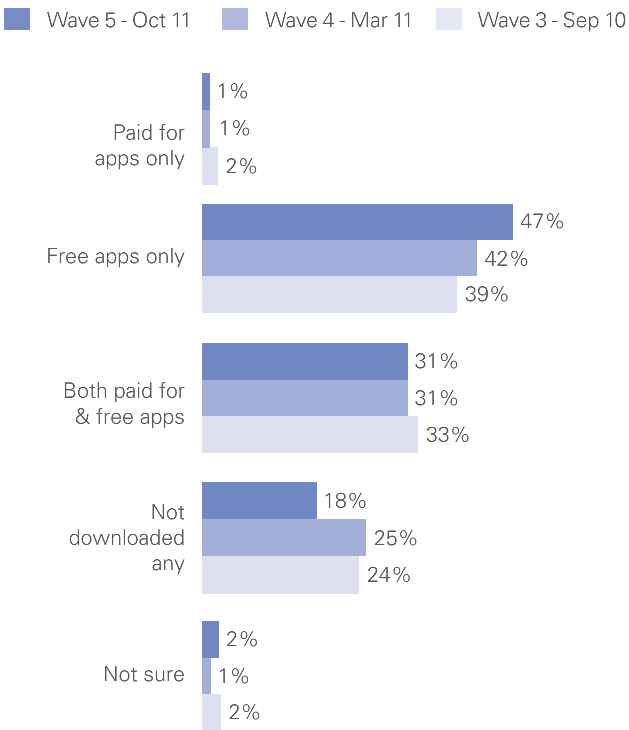
However, where paid apps are downloaded spend is up. In October 2011 spending on average was £6.97 which is more than £1 up on the previous wave of research, where average monthly spend was £5.65.

Tablet owners are also spending more on apps with an average monthly spend of £10.78 compared with £8.87 in wave 4 of our research.

Apple continues to be the favoured store for paid apps, attracting 68 percent of smartphone users and 88 percent of tablet users. However, the Google App store is gaining popularity due to the increased availability of Android phones, such as those manufactured by HTC and Samsung, and has risen from 7 percent in wave 4 to 14 percent in wave 5.

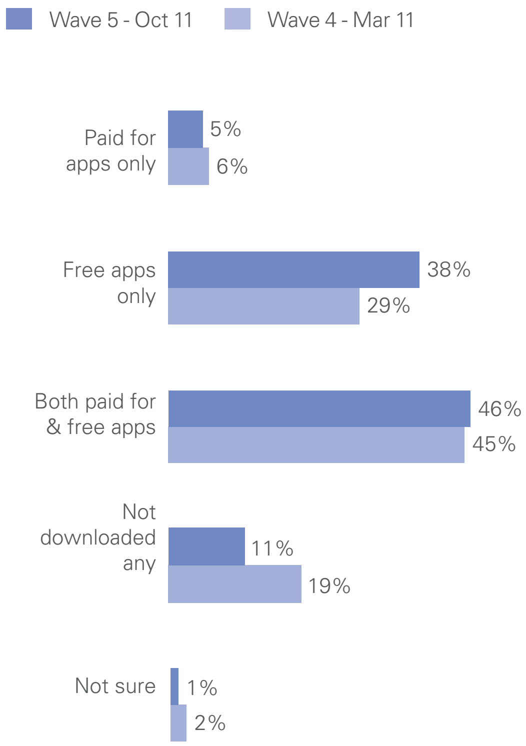
Smartphone

Have you downloaded any "apps" to your smartphone over the past 12 months?



Tablet

Have you downloaded any "apps" to your tablet over the past 12 months?



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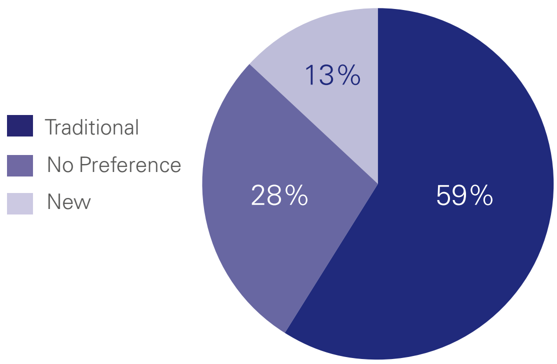
The highs and lows of traditional and new media

Traditional and new media comfortably coexist. Some traditional activities, like print newspapers and CDs, are beginning to ebb away and are being replaced by new-tech alternatives, but TV remains a solid favourite with consumers.

According to our survey, 59 percent of respondents continue to prefer traditional media. They like the feel and physical action of turning the pages of a book or magazine and prefer watching programmes on a TV set rather than on a computer screen. Just 13 percent rate new media as their medium of choice.

On the whole, would you say you prefer to use 'traditional' or 'new' media?



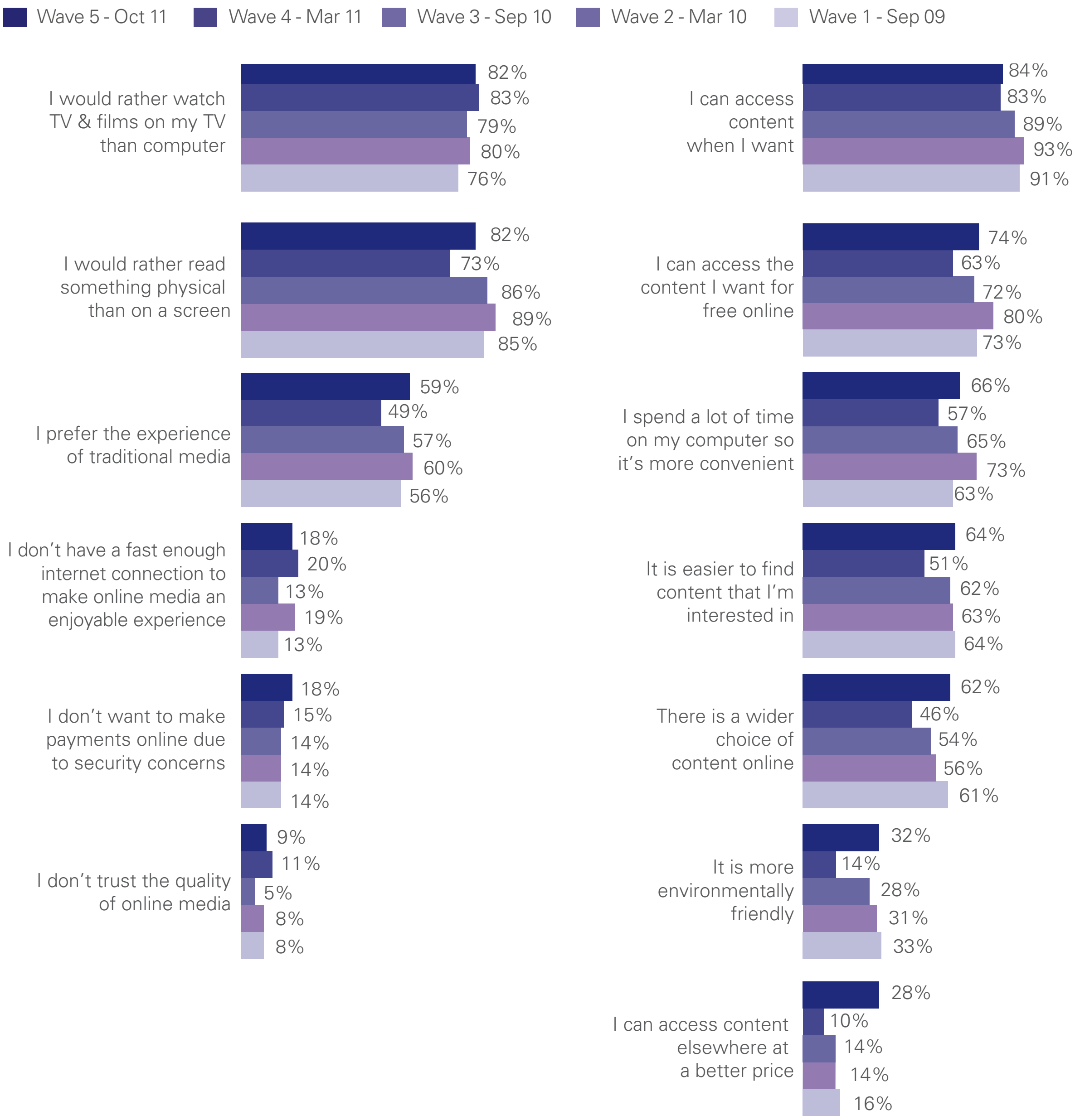
The highs and lows of traditional and new media

Traditional

You said that you prefer to consume ***Traditional*** media. Which, if any, of the reasons below apply?

New

You said that you prefer to consume ***New*** media. Which, if any, of the reasons below apply?



Nonetheless, since our survey began in March 2010, there has been a wave-on-wave decline in the popularity of traditional media, with the exception of watching TV. Fewer people are reading print newspapers and magazines, and are turning to online alternatives.

This is clearly driven by the emergence of tablets and eReaders. There has also been a consistent fall in the proportion of people listening to CDs and the radio, indicating that online music streaming services are capturing this audience.

Unsurprisingly, the over 55s are most likely to indulge in traditional media activities, such as reading books, newspapers or magazines, while the 18s to 34s are more likely to play on a games console or watch a DVD.

Where traditional activities are beginning to lose fans, there is a corresponding increase in new media activities. Reading newspaper websites, online magazines and digital books have all increased between March and October 2011.

Most consumers (84 percent) say they like new media for its on-demand convenience and availability, while nearly two-thirds (62 percent) favour it for the wider choice it offers.

Social networking is the second most popular online activity, enjoyed by just over half (51 percent) of respondents, predominantly women. Men prefer to download and stream music. Age does have a bearing on chosen activities, with 25 to 34 year-olds most likely to stream or download music and use social networking sites.

The average spend per month on traditional and new media has remained relatively stable across all waves of our research. However, traditional media takes up the largest proportion of our disposable income. Respondents will spend most on attending sporting and music events than any other traditional media pastimes. In new media, eBooks (£5 per month) and music downloads (£4 per month) remain the most expensive activities.

With each passing wave of our research, traditional media, with the exception of TV, is losing ground against its newer, more technologically advanced rivals.

Interesting times lie ahead. We have seen, for instance, that smartphone ownership has risen consistently since 2010 and we anticipate that the current appetite to pay for content could translate into a greater choice of monetised offerings from media companies.

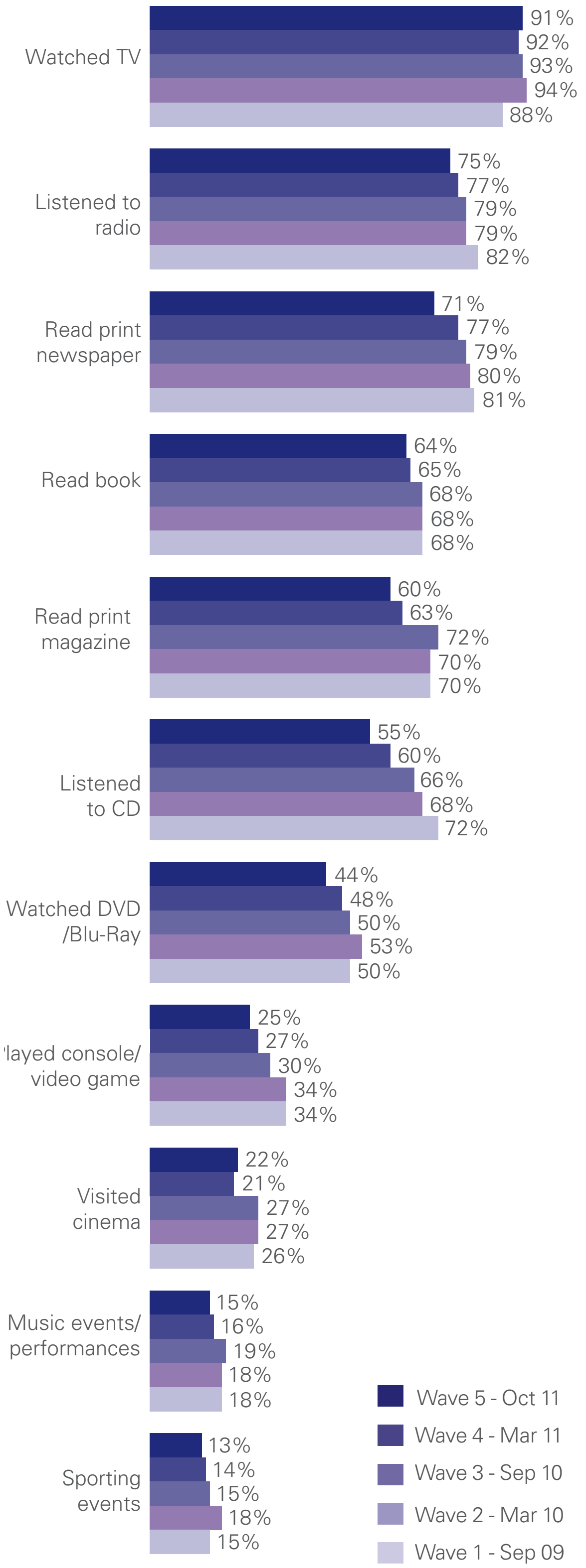
The industry's players will observe the market mood closely in order to match their revenue-generation products and services to consumer demand.

Of course, all of this is set against a fairly gloomy economic outlook for the UK. Our next wave of research, in Spring 2012, will provide further clues to the UK consumer's appetite for and tolerance of paid models.

The highs and lows of traditional and new media

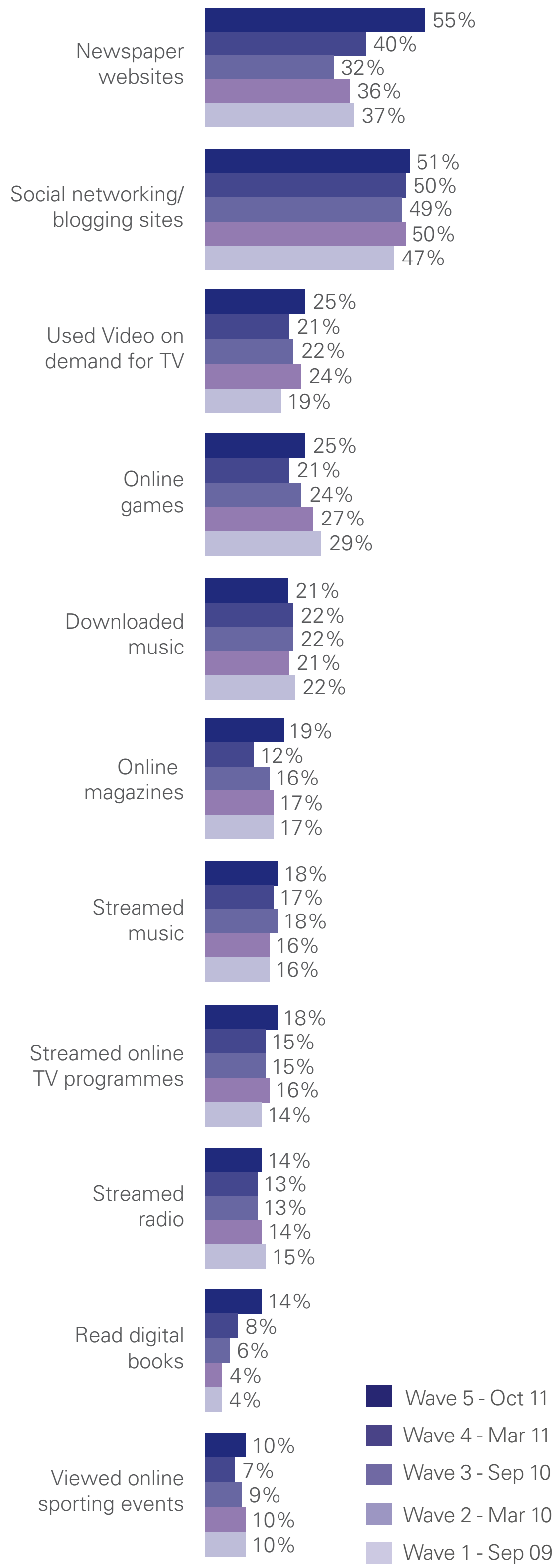
Traditional

Please indicate which if any of the following activities you have done in the past month



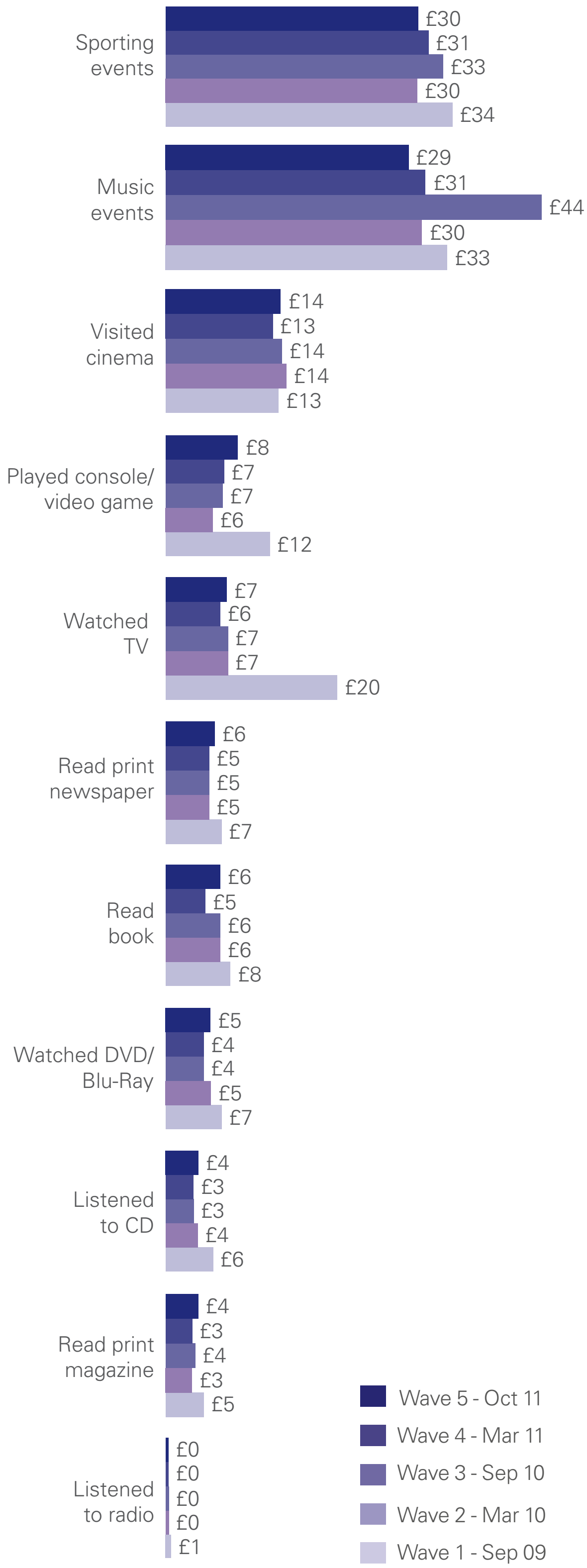
New

You said that you prefer to consume new media. Which, if any, of the reasons below apply?



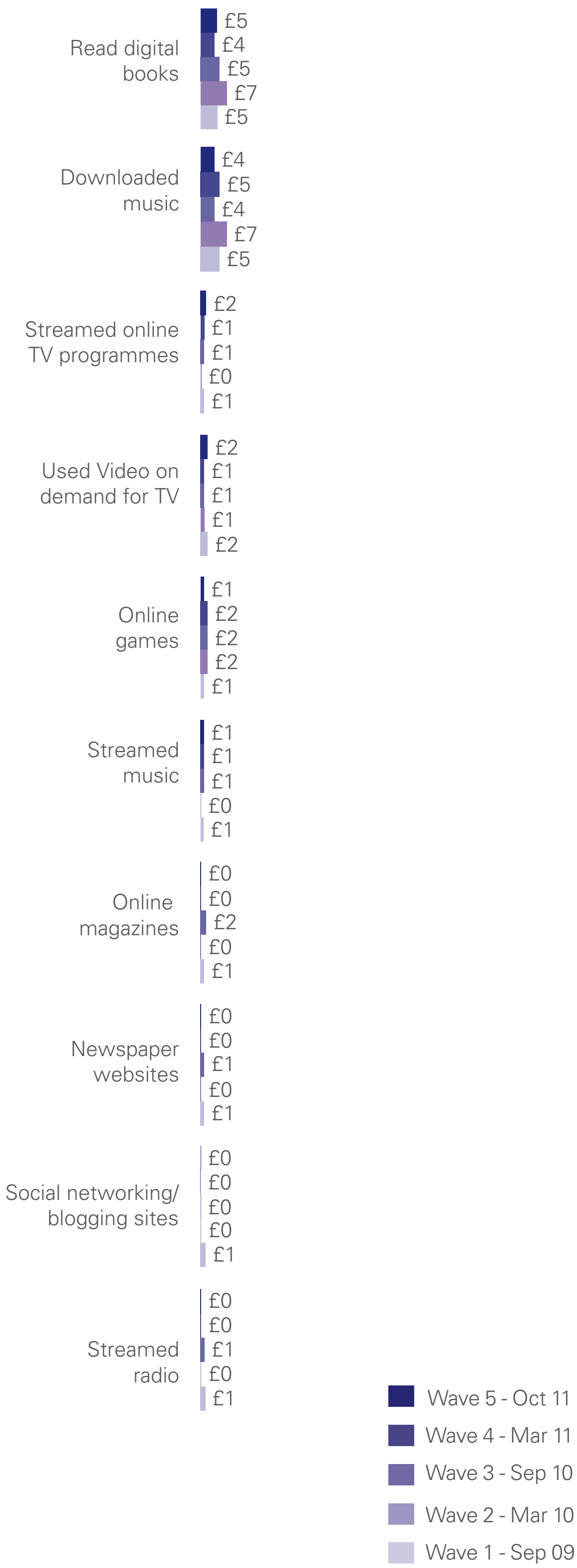
Traditional media —average spend

Please estimate the total amount of money you spent on each of these activities over the past month.



New media —average spend

Please estimate the total amount of money you spent on each of these activities over the past month.



About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services.

We have 138,000 outstanding professionals working together to deliver value in 150 countries worldwide.

KPMG has a long-standing relationship with clients across the media sector. Working with clients, from major international entertainment companies to broadcast companies, publishing houses and marketing services firms, we have developed the unique insight and expertise that is necessary to address the challenges facing this industry today.

Many media companies are still operating from business plans and models that have their roots in the analogue past, not the digital future. They are grappling with the changes that now need to be embraced. KPMG understands the dynamics facing the media sector and works with clients to respond to these challenges.

Whatever business challenges you face, our media specialists can work with you to maximise your business models, identify strategies to enhance revenues, drive operational costs out of your business and help ensure that you make the most of the opportunities you encounter.

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