Parameters for Business Models[1]

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1. More than 150 Services Operational in Europe

In May 2007, the European Audiovisual Observatory and the *Direction du développement des médias* of the French government published a report on the development of VoD in Europe. The scope of the report is limited to services providing content chosen by the providers of services and excludes services providing User Generated Content.[2] At the end of 2006, 142 pay services (excluding services devoted exclusively to music and services comprising solely programmes for adults) were operational in the 24 countries studied. If one adds to this the number of free access services, those which were set up at the beginning of 2007, and those which exist in countries not covered by the study, the number of services currently operational in Europe may reach more than 150. France, the Netherlands and the United Kingdom stand out as leaders in terms of the number of services on offer. Most of the services in Europe (94) can be accessed via the Internet and can therefore be viewed on a computer screen. Transmission using the broadband network, usually as part of an offer for the distribution of television channels in IPTV mode, constitutes the second most frequently used mode of distribution (47 services). In this case the programmes can be viewed on a television screen. As digital broadcasting by satellite and by terrestrial network does not permit a return path, offers of video-on-demand are possible by storing the programmes on the user's digital recorder (PVR). The number of services of this type is still limited in Europe, but they are offered by two of the main digital television content aggregators (BSkyB's Sky Anytime service in the United Kingdom and Ireland, and Premiere's Direkt Premiere + in Germany and Austria).

1) This paper is based on the report "Video on Demand in Europe", edited by NPA Conseil for the European Audiovisual Observatory and the Direction du développement des médias (France). The study was published by the Observatory in May 2007. The study analyses the various technical methods used for video on demand, the various economic models applied, the debate on regulation, and the place of video on demand in the cinematographic and audiovisual industry. A detailed analysis of about 150 services operational in 24 countries is provided. For further information, see http://www.obs.coe.int/oea_publ/market/vod.html

2) The concept of "User Generated Content" would warrant further discussion. On the one hand, it seems absurd to exclude such services from the commercial sphere only because users provide the content. One may consider that operators of these services are exactly in the same market as publishers of other media financed by advertising: their real product is audience, a product that they can sell to advertisers or marketers. The originality of user generated content lies in the (low) costs for generating audience: the costs are mainly covered by the users and not by the service providers. But, on the other hand, as the case brought by Viacom against YouTube has indicated, the concept of user generated content may also be misleading because in a large number of cases, users just publish material of which they are neither the authors nor the copyright owners.

Table: Number of services per country and breakdown by broadcasting networks (end of 2006)
(Not including free services, video clip services or services for adults.)

		Total number of services [3]	Internet	IPTV	Cable	Satellite	Terrestrial digital television
>10 services	**France**	20	15	8			
	Netherlands	19	17	2			
	United Kingdom	13	6	3	3	1	1
	Germany	12	9	3		2	
5-10 services	**Belgium**	10	3	5	5		
	Sweden	8	6	5			
	Italy	8	5	3			
	Norway	7	6	2			
	Spain	6	2	3	1		
	Ireland	5	5			1	
	Denmark	7	4	2	1		
	Austria	5	3	1		1	
1-4 services	**Finland**	4	6	1			
	Switzerland	3	2	1			
	Poland	3	1	1		1	
	Hungary	4	2	2			
	Portugal	2		1	1		
	Estonia	2	1	1			
	Cyprus	2		2			
	Slovakia	1	1				
	Iceland	1	0	1			
No service	**Turkey**	0					
	Slovenia	0					
	G.D. Luxembourg	0					
Total [4]		**142**	**94**	**47**	**11**	**6**	**1**

Source: NPA Conseil / European Audiovisual Observatory

3) A service may be available of a number of different networks, but is only counted once in the total.
4) A service may be available in a number of different countries; in this case, it is counted more than once in the total.

2. The Respective Advantages and Disadvantages of the Platforms

Each of the different platforms has advantages and disadvantages for the launching of VoD services. Delivery through Internet has the clear advantage of allowing B to C models. This means that small players have the possibility of offering their programmes, at a minor cost, to the general public while avoiding any dependence on distributors. Internet also allows the service provider to enrich the VoD service with editorial complements and the possibilities of customized marketing following the model of the websites of retailers of cultural products (such as the classical "if you like this film, you will also like…"). If the provider holds international rights, distribution over the Internet makes it also possible to offer worldwide services or, at least, services accessible in various countries.

The great weakness of VoD through Internet, however, remains the fact that it is still more convenient and user friendly to watch films or audiovisual programmes on a TV set than on a PC screen. Of course, small sections of the public (in particular young people) are already familiar with using the PC as a TV screen. They might even be able to transfer the moving picture from the PC to the TV set, but the majority of the public will continue to favour the TV screen for a long time. Delivery through IPTV, cable, satellite or digital television have, in this regard, a clear advantage. However, satellite and digital terrestrial television do not allow the provision of large catalogues because the absence of a return path makes it necessary to store the programmes on the PVR.

Therefore IPTV and cable appear as the probable winners in the process of implementing VoD but they have their own problem of capacity: they risk saturation of the network capacity for IPTV and relatively high costs of digitization for the existing cable networks. Both IPTV and cable VoD services will provide an advantage to important distributors or packagers of thematic channels, to the detriment of providers of smaller catalogues.

Table: Overview of advantages and disadvantages

	PLUS	MINUS
Internet	- B to C model - Editorial possibilities, search functions - Customized marketing - Allows niche strategies - Allows international strategies - Allows larger catalogues	- Viewing on PC screen - Breaks in the quality of service - Slow to download - Risks of piracy - Services not accessible on MAC
IPTV	- Viewing on TV set - Existing basis of subscribers (differs according to country)	- Capacity limits of telephone networks (leading to the long-term necessity of building fibre-to-the-home networks [FTTH]) - EPG rather slow and not user friendly - Access more difficult for independent producers and with regard to niche programmes - Smaller catalogues than for Internet based services
Cable	- Viewing on TV set - Existing base of subscribers (differs according to country)	- Cost of digitization of networks - Access more difficult for independent producers and with regard to niche programmes - Reduced catalogues
Satellite and DTT	- Viewing on TV set - Existing base of subscribers (different according to countries)	- No return path - Needs storage on PVR - Access more difficult for independent producers and with regard to niche programmes - Reduced catalogues

3. The Players

Three types of players are particularly active in the video-on-demand market:

- *The editors of television channels* generally supply catch-up TV services, which make it possible to watch a programme after it has been broadcast on television. Many broadcasters, however, take advantage of their position in the rights market and offer films also.
- *Content aggregators* are companies that have the ability to constitute catalogues of rights for works likely to be distributed via VoD. This category may also include video editors, societies for the collective management of copyright (such as the SGAE and the EGEDA in Spain), bodies or companies that manage archives (the Institut national de l'audiovisuel in France, the Norwegian Film Institute, British Pathe, etc.) and commercial retail companies (chains such as FNAC and Virgin, companies specialising in DVD rental such as Lovefilm, Glowria, etc). Some companies have been set up specifically with the aim of becoming content aggregators. In the Netherlands, no fewer than nine services are organised on the basis of the catalogue put together by the aggregator ODMedia.
- *Telecom operators* (incumbent operators, Internet access providers, cable operators) are newcomers on the market for the distribution of content. They are the most active of the players, and are innovative in terms of diversity of offer (particularly by using cross-media partnerships).

Less importantly, a number of production companies or associations of producers also edit services. The main cinematographic groups in Europe have not yet announced their own services, in contrast to the situation in the United States where the Hollywood majors are at the origin of the Movielink service. One should nevertheless note the involvement of the Svensk Filmindustri group in the SF-Anytime service which can be accessed in the various Scandinavian countries. In Europe, the American majors are collaborating with the main national VoD services, mainly on the basis of non-exclusive agreements, although Warner has joined forces with Arveto (Bertelsmann group) to launch the Film2Home service in German-speaking countries.

Table: Comparison of the advantages and disadvantages of the various market positions

	PLUS	MINUS
Telcos, ISPs, Cable	- Financial capacities - Technological expertise - Triple play offers - Management of subscriptions and tracking of demand	- No great experience in the field of rights - Necessity of accessing leading catalogues - Necessity of working with aggregators
Broadcasters	- Financial capacities - Good position on the rights market - Experience in audience measurement, pay-TV, DVD market - Brand - Catch-up formulas, archives	- Lesser financial capacities than telcos - Dependent on distributors (delivery) - Negotiations with producers - Competition rules
Retailers	- Knowledge of consumers' practices - Brand	- Lesser financial capacities than telcos - Difficult access to IPTV delivery - Competition with their own "brick and mortar" services [5]
Aggregators	- Experience in rights management - Possible pan-European strategies - Niche catalogues	- Lesser financial capacities than telcos - Difficult access to IPTV delivery

5) A "brick and mortar service"[Here the quotation marks include the word "service"; in the main text they do not, Either version is fine, but it would be better to be consistent] is a traditional "street-side" business that deals with its customers face to face in an office or store that the business owns or rents. Web-based businesses usually have lower costs and greater flexibility than brick-and-mortar operations See *http://www.investopedia.com/terms/b/brickandmortar.asp*

4. Three Types of Economic Models Emerge

4.1. Rental

There are several arrangements for rental:
- payment for each individual programme separately (the rental charge is paid, at prices that, in general, range from EUR 1.50 to EUR 6.00 for each item), The programme rented can, in most cases, be viewed for a limited period of time ranging between 24 and 48 hours.
- the payment by pack for a group of programmes (for example various episodes of a TV series)
- the payment of a pass, allowing an unlimited number of viewings of the programmes included in the offer (a formula adapted in particular for children's programmes)
- the subscription formula, allowing the user to view a certain number of programmes during the subscription period (often called SVoD - Subscription VoD). In this case, the payment is valid for a set of programmes that are available for unlimited viewing during a given period of time.

4.2. Purchase

Payment here is also made for each item separately, at a price that is generally fixed between EUR 5 and EUR 15. The programme can be viewed and stored on a PC; it cannot usually be transferred to a DVD player connected to a television set (because of the types of encryption used). A "purchase to burn" option that allows the downloaded programme to be burned onto a DVD (sometimes in a limited number of copies) may also be available, in which case prices range between EUR 15 and EUR 20.

4.3. VoD free of charge (also called FoD - "free on demand")

FoD is most frequently used for viewing audiovisual programmes as catch-up TV (i.e. programmes offered by VoD services for a limited amount of time after broadcasting by the television channel).

There are two types of FoD – programmes without any charge that are financed by advertising (mostly television series and fiction), and programmes shared for free. The latter type is used either for promotional purposes, or for testing the potential of a free model in order to have a better basis for subsequent negotiations with advertisers.

Although, historically, separate payment for each individual item has been the main method for making content available on demand, there are now several marketing schemes available in order to keep up with current developments – the constitution of packs, subscription offers (SVoD – "Subscription VoD"), passes giving entitlement to unlimited viewing of all or part of an available catalogue, and third-party financing (whether cross-subsidies between different products offered by one operator or contributions from advertising).