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facing the music

Can EMI move into the digital age?

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P2P video
Niklas Zennström
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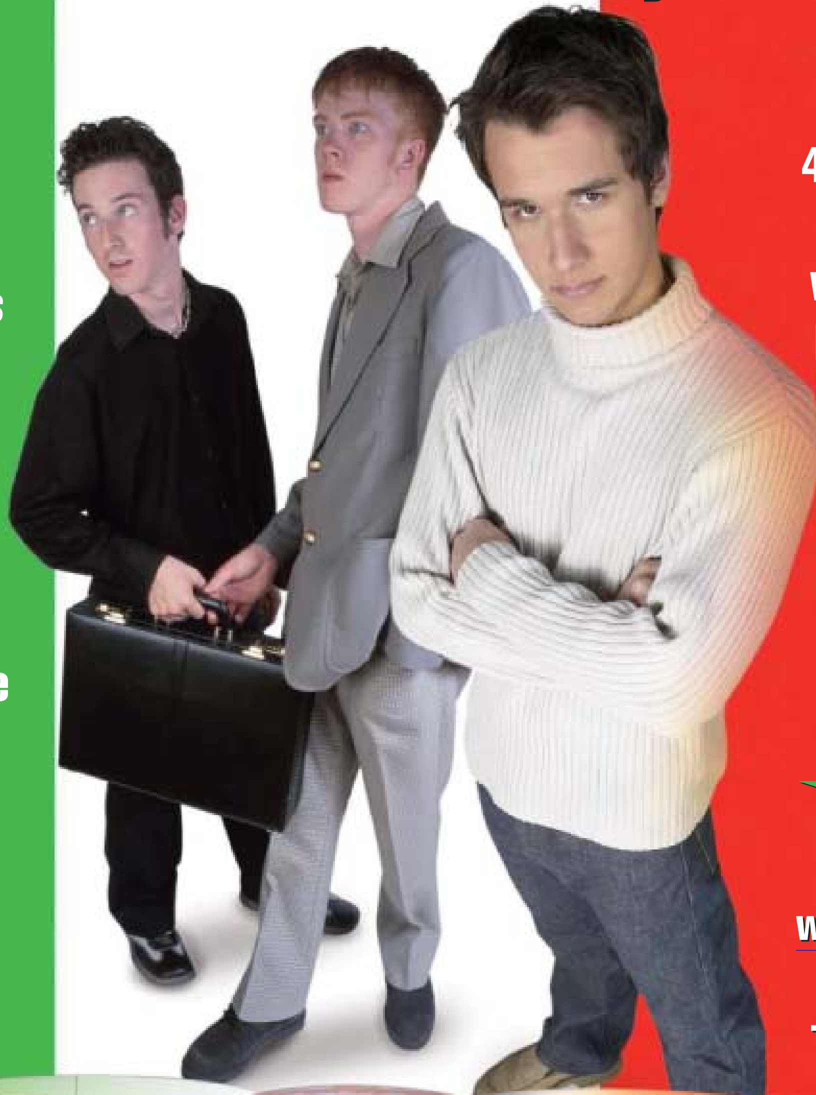

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New channels

The computer screen is gradually overtaking other media like television, print, cinema, and even stereo speakers as the central place for entertainment consumption. For some desk-chained folks like teenagers and office workers, this may already have happened.

The companies with Internet in their DNA are naturals in this space. In Hitwise's recent rankings of the most popular sites in the US, the top 10 is dominated by MySpace, Yahoo! and Google. Hitwise also points out that in February, YouTube had more traffic than all of the Web sites from 56 of the most popular TV and cable channels combined. Internet portals are proving to be the winners in the eyeball stakes.

But TV, film and music companies are trying to do their own thing too, even as they strike more deals for their content to reside legitimately on these portals (and importantly get paid for it).

Music companies haven't done brilliantly on the Internet, at least as far as making money is concerned. J.F. Cecillon, the CEO of EMI Music International, says that some $10 billion has been lost to illicit activity over the past two years. While some of that is down to counterfeit CDs, digital piracy has also been a huge issue. Indeed, what the Internet has done is create a huge appetite for consuming digital music.

Music companies now hope that in newer delivery areas, like mobile, they will have a better chance of getting a piece of the action. Of course, that's provided operators manage to make mobile music services attractive to use. The 300-pound gorilla called Apple has yet to launch its iPhone. With its built-in WiFi and preloaded links to iTunes (another portal), Apple's little device could end up putting a nail in the coffin for mobile music services.

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NEWS MAKERS

MP3 users in discord

Microsoft has been fined a whopping $1.52 billion for infringing on Alcatel-Lucent patents involving MP3 audio code technology in its Windows Media format.

But Microsoft clawed back a small victory against the vendor after one of the patent claims against it was dismissed a week later. The judge ruled that Microsoft does not infringe a patent for speech-recognition technology.

MP3 is a format developed jointly by Bell Labs (now part of Alcatel-Lucent) and the Fraunhofer Institute in Germany. Microsoft claims it licensed the technology from the Fraunhofer Institute for $16 million.

Microsoft is appealing against the ruling and has been spurred on by its latest victory. However, the outcome of the appeal could take another few years with the next trial scheduled for May.

The outcome will also determine whether Alcatel-Lucent brings cases against companies such as Apple, Macromedia and Yahoo! It could potentially bar companies from using the MP3 format, affecting devices like the Zune, but that is unlikely because the music device was developed after the first claim began in 2003.

The MP3 litigation bug seems to be catching. Texas MP3 Technologies has launched a separate case against SanDisk, Apple and Samsung Electronics relating to MP3 players.

Cisco gets more social

Cisco Systems is jazzing up its portfolio with the acquisition of some of the assets of Utah Street Networks, the company behind trendy social networking site tribe.net.

But the purchase of the start-up is strictly about acquiring expertise, according to the US network vendor, and does not include the online community or Web site that grew out of the San Francisco Bay Area.

The new deal highlights Cisco's push into the social networking space, hoping to attract enterprises looking to build their own internal and external social networking sites.

In February, Cisco announced it is buying Five Across, which provides software to enable user generated content on Web sites. The acquisitions are set to be integrated into Cisco's newly formed media solutions group, which already provides services behind the social networking features of the US National Hockey League's Web site.

The financial details of the acquisitions were not disclosed.

"The underlying economics of the newspaper world are crumbling"

Warren Buffett
Berkshire Hathaway
annual investors' letter

Pearson's rosy results

Pearson's FT Group in the UK reported advertising revenue rising to £11 million in 2006, up from £9 million the previous year. Advertising sales were up 9% and have shown double-digit increases so far in 2007; automotive, luxury goods and corporate advertising were singled out.

The results might silence critics who believe Pearson should divest itself of the iconic pink daily newspaper, Financial Times, after it failed to turn a profit in 2005.

Overall, Pearson reported group net profit up 15% in 2006 on the previous year, reaching £592 million.

Branson vs Murdoch, Ch.2

BSkyB and Virgin Media, fresh from their high-profile battle over a stake in broadcaster ITV, locked horns last month over channel distribution on their respective pay-TV networks.

Cable operator Virgin Media is threatening to take satellite broadcaster BSkyB to the High Court for abuse of its dominant position after the two companies came head-to-head over a Sky content deal.

Only weeks after the rebranding of NTL-Telewest, talks between Virgin Media and BSkyB broke down after BSkyB reportedly doubled its prices for the right to broadcast certain Sky channels, an allegation refuted by BSkyB.

The loss of Sky channels to Virgin Media's pay-TV services is a big blow. It has invested heavily in a high-profile advertising campaign and has unveiled new services like video on demand.

But Virgin Media's huffing and puffing might be helping it win another battle.

BSkyB is now under regulatory scrutiny over its acquisition of a 17.9% stake in ITV—a deal that Virgin Media alleges was done to keep the cable network operator from acquiring ITV. Now that Ofcom is getting involved, Richard Branson's frosty relationship with the Murdoch family could continue for some time.

APPOINTMENTS

NEW SONY/ATV BOSS

Martin Bandier is the new CEO of music publisher Sony/ATV. He defected from the publishing arm of EMI in a widely expected move that was first made public last autumn. Bandier had been at EMI since 1989. He takes up his new post this month.

GOOGLE DEFECTION

The heads of the radio advertising software specialist, dMarc, are leaving the company they founded only a year after it was sold to Google. Brothers Chad and Ryan Steelberg sold out to Google for $102m, but the service has yet to bear fruit for the search company.

XBOX EXPECTS

Former Electronic Arts executive Don Mattrick has been hired as a consultant by Microsoft to advise on its Xbox strategy, which has suffered in competition with Nintendo's Wii. Mattrick was instrumental to EA's growth in the 1990s, but left in 2005.

ITALY RESHUFFLE

Broadcaster Telecom Italia Media has promoted its former CEO, Enrico Parazzini, to the role of chairman following the resignation of Riccardo Perissich. The general manager, Campo Dall'Orto, will now step up to the role of chief executive of the media unit.

DISNEY INTERNET

Cindy Rose will replace Attila Gazdag, the recently departed head of Disney's Internet group, in EMEA. Rose, the former MD of Disney's operations in the UK and Ireland, will be involved in bringing Disney's new revamped portal in the US to the European market.

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NEWS MAKERS

EU media mix

The European Commission has been busy signing off mergers over the past month. Firstly, it gave the thumbs up to the private equity takeover of ProSiebenSat1, which will be combined with SBS to challenge rival TV group RTL in Germany.

The Commission also approved Liberty Global Europe to take a controlling stake in Belgium's largest cable operator, Telenet.

But reopening old wounds, the Commission has decided to launch an in-depth investigation into the Sony-BMG merger after the European court said errors had been made in the initial probe. The results could have an impact on future music mergers.

Away from regulation, the EU has said it will spend up to €755m on Europe's film industry over the next seven years, in a bid to create more hits such as *Amelie* and *Billy Elliot*. The investment—which previously stood at €500m—is aimed at improving worldwide market share of European films.

"American Idol has defined the market for how mobile can commercialise a TV business"

Lucy Hood, chief executive of mobile entertainment company Jamba, on the popularity of TV show text voting. The last series of the show generated 100 million texts

Radio waves

Regulators are facing merger headaches in the US after radio companies Sirius Satellite Radio and XM Satellite Radio Holdings announced plans to merge in a US$13 billion deal.

Opponents say the merger would create a government-sanctioned monopoly because the two companies are the only licensed satellite radio firms. When the FCC granted satellite radio licences 10 years ago, conditions were laid down specifying that the two companies could not merge in the future. But company executives argue that since then the market has changed dramatically.

Mel Karmazin, the CEO of Sirius, has vowed that prices will not be raised for services and says consumers will benefit from getting the best programming from both companies.

Commissioner Robert McDowell says the deal—which must be approved by a majority of the five commissioners at the FCC—will affect US media consolidation.

Crowded house

Amazon and TiVo have joined the increasingly busy market for online video services. US based TiVo's 1.5 million subscribers can rent or buy content from 30 networks and studios, after the companies announced they had signed further content partnership deals with Sony Pictures and Metro-Goldwyn-Mayer Studios.

The deal builds on a joint project, Amazon Unbox, launched a month previously. TV episodes will sell for $1.99 and films for $9.99–$14.99. Movies will be available to rent for $1.99 and upwards.

BitTorrent, too, has launched a legal online video distribution service, featured in *Total Content + Media* last month. The company has signed deals with major content providers and is targeting young males.

TV episodes are $1.99 to download to own, and a new film is $3.99 to rent. But BitTorrent said it will not sell films immediately because the prices demanded by studios are too high.

TAXI

MySpace, AOL ad boost

News Corp. is aiming to bolster advertising revenue on MySpace with the acquisition of Strategic Data Corp. The technology helps companies place and target ads for specific audiences. Currently, ads on MySpace user-created profile pages sell for well below the prices fetched by other Web sites, with big-name advertisers preferring to build their own pages or advertise on the front pages of the social networking site.

The deal is valued at $150m, but shareholders may earn up to $100m more if performance targets are met.

AOL is also looking more closely at advert-supported business models, and is in "advanced" talks to buy Third Screen Media to develop mobile phone advertising.

But it's far from a done deal. Talks fell through between the US start-up, valued at $80 million, and Microsoft last year. Third Screen posts small adverts on mobile phones and works with brands such as Ford, Bank of America and Walt Disney's ESPN.

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CONTENT STRATEGIES

Facing the music

Music publishers face hard times as they transition to new media, and that is forcing EMI to consider radical moves

MUSIC GIANT EMI is not alone in struggling to find a winning strategy in the era of digital media, but it is suffering more than most.

The world's third largest music company by revenues has been forced to make some bold moves, offering music for free in China and looking to remove digital rights management software on all its music sold over the Internet.

And for the second time in six months, it has become the target of takeover speculation, with rivals and private equity houses circling around the troubled company.

These days EMI generates more headlines over poor CD sales, multiple profit warnings and high-level management reshuffles—most recently, the CEO of its music publishing division, Martin Bandier, defected to rival Sony BMG in February.

Speaking with *Total Content + Media* at the 3GSM mobile conference in Barcelona in February, J.F. Cecillon, the CEO and chairman of EMI Music International, summed up the basic problem for EMI today.

"EMI is doing great as long as our music is doing great," he said. Unfortunately for EMI, skyrocketing sales of Norah Jones' latest album haven't been repeated for other artists.

EMI has restructured its business to put a greater focus on digital music services. But ongoing disagreements over revenue sharing with distribution partners indicate that it may be a while yet before new channels can make up for the shortfall in EMI's traditional business. In its last results statement EMI said "the fight against piracy remains a key priority."

"The music industry was worth $40 billion two years ago. Because of piracy, it's now worth $30 billion," says Cecillon. "That $30 billion is up for grabs."

In fact, a recent agreement between EMI and Chinese portal Baidu demonstrates how traditional media companies hold few of the trump cards in the face of new media services.

At the end of January, EMI and other major labels lost a long-standing dispute on copyright infringement with Baidu (see p.19). Instead, EMI struck a deal for all of its Chinese music catalogue to now be available on Baidu for free in a new "EMI Music Zone" service. EMI, which is the largest label in China, hopes it can now make money from advertising alongside the tracks, although revenue splits have not been made public.

"Music companies have little leverage," writes WR Hambrecht analyst James Lee in a research note. "Facing serious piracy issues in China, music labels have to compromise to Internet companies in order to receive revenues from their copyrighted content."

One company that has already committed advertising to the service is China Mobile.

Cecillon told *Total Content + Media* that he doesn't think the free music model will be replicated elsewhere, at least for now. "We have put the system in place in China specifically because of the piracy issue. You have to do this to get into the Chinese market at some point. But we don't have plans to extend the model outside of China," he said. "Of course, time will tell if that will change."

Less successfully so far, EMI is also looking at other ways to circumvent the problem of digital music distribution.

In the past month, the label has been trying to reach an agreement to remove digital rights management (DRM) on music sold over the Internet. That could help drive sales of legitimate music if the file formats being distributed are not proprietary to particular music distributors, such as iTunes and Microsoft's Zune.

But so far discussions have faltered over the subject of upfront payments to these distributors. The ongoing legal case between Microsoft and Alcatel-Lucent over the use of the MP3 format could also have repercussions as to how digital music gets distributed.

The presence of EMI, Warner Music and other music companies at 3GSM underscored how the recording industry is in a mad scramble to get a cut of the next generation of music services. But equally, those companies are acutely aware of the problems digital media brings.

Cecillon, in a speech at 3GSM, said the music industry has lost US$10 billion to piracy over the past two years. But even new services look like they will struggle to make up for such shortfalls just yet.

Edgar Bronfman Jr, the CEO of Warner Music, estimates mobile music will generate revenues of US$9 billion in 2007. It is an optimistic figure, and would make mobile music the biggest mobile entertainment revenue generator this year. But it still does not fully offset the growing threat of piracy.

In February, EMI said it expects revenues from its recorded music unit to decline by around 15% for the year. For the six months ending September 2006, EMI Music reported first-half revenues of £667.1 million, a decline of 5.2% over the previous year. Digital revenues at EMI Music increased to £62.4m, representing 9.4% of divisional revenue compared to 5.6% in the financial year to 31 March 2006.

"In particular, we have seen strong growth in revenue from mobile music products in North America," said the company. "Revenue from the sale of music videos has also grown strongly, albeit off a small base, with particularly strong growth being seen in Japan where revenue was generated from mobile services including KDDI and DoCoMo. We have also been working closely with Napster who recently launched the first paid subscription service in Japan."

EMI is in some cases seeing small advances in its

STONE

piracy battles. Its Russian subsidiary Gala has won a suit against a pair of Russian Internet sites, www.delit.ru and www.delit.net, which were selling EMI songs for 15 cents per track, without authorisation.

Distributors say record labels are not giving a good enough reason for distributors to sell music in more innovative ways.

"In the past, labels used to ask for 50-60% of the total revenue from a digital track sale, but now they're asking for 75%," says John Giamatteo, president of international operations of Real Networks. "That is too high."

He also points out that labels have not yet taken enough steps to make their back catalogues available. The four major record labels—EMI, Warner Music, Sony BMG and Universal—have around 9 million albums in their archive, says Giamatteo. Given an average 10 tracks on each album, that would mean 90 million tracks, but even the bigger music downloading sites, such as Real's Rhapsody, only have around 3 million tracks on offer, he says.

EMI, having failed to find a buyer for the right price in 2006, is once again the subject of takeover speculation. As *Total Content + Media* went to press, Warner Music made a bid of about £2.1 billion (260 pence a share), which EMI rejected as too low. Others rumoured to be interested in the company include a clutch of private equity companies. M ***Ingrid Lunden***

ON-DEMAND SERVICES

Testing times

The BBC has the brand and the content, but will it be allowed to move full tilt into VOD services?

Testing times for the BBC

THE HEATED debate around plans by the BBC to provide an on-demand content service shows just how tricky it is for broadcasters to move to converged media strategies.

Broadband on-demand services could signal the end to TV services as we know them, enabling people to pick where and when they watch their favourite programmes or listen to radio stations.

But the sensitivity around how the publicly-funded UK media giant plans to approach this service, and how it could stand to profit from it, underscores questions about the implications of on-demand services on traditional businesses. It also throws into question the role of a publicly-funded company in the world of converged media.

"This will be a tough culture shift for an organisation used to the certainties of the broadcast world," said the BBC's Director General, Mark Thompson, in a statement given to *Total Content + Media*.

The BBC's iPlayer service has only got as far as a trial, and must wait for regulatory approval. But Adam Daum, research VP at Gartner, says results of the trial have been disappointing. "Not many people in the trial used it," he says. "Per week, on average each person in the trial moved only 30 minutes of viewing to iPlayer, amounting to about 5% of their total weekly viewing time. That's a very embarrassing result for the BBC."

That could persuade it to pursue other channels to market.

In March, the BBC signed a deal with Google-owned YouTube, for an undisclosed sum, to make several BBC-branded channels available on the file sharing site. One of the entertainment channels, BBC Worldwide, and a news channel will carry limited advertising, but adverts linked to news programmes will only be seen outside the UK. The companies say advertisers won't be able to buy sponsored links to specific BBC programmes.

Nevertheless, that is likely to spark further complaints from rivals that the publicly-funded BBC is moving increasingly into commercial services.

Thompson says the BBC is still working out the shape of its public service offering on the Web.

"This will involve partnership with commercial companies and with our audience, achieving a balance between the need for some central control and co-ordination and 'letting go'," said Thompson.

Its strategy could be influenced by a trial that took place in March last year. Then, 9.5 million people interacted with BBC content syndicated to third-party sites such as AOL and MSN, but 23% of those users did not visit the Corporation's home page, bbc.co.uk, at all in the same period.

"We should implement a more systematic approach to linking the bbc.co.uk to external sites," said Thompson. "But we also believe our audiences want more as well. They need to find our content—and TV programmes—where they want it, whether within their favourite portal like MSN, [or] their community like YouTube. However, we don't want to become a [user-generated content-sharing site like] MySpace or Flickr; we want to work with these players, to partner our relevant offerings with theirs."

Media regulator Ofcom estimates that so-called linear TV could be reduced by up to 30% over the next five years and that on-demand services could "have a negative effect" on traditional channels as the two go head-to-head competing for viewers' time.

The regulator says although the BBC's involvement would encourage public interest in the service, it also risks reducing the amount of commercial investment in competing services in all the sectors where the BBC offers services, from television entertainment to news and music.

But not everyone believes on-demand services will have an immediate impact.

"[On-demand] services are delivered to a PC, and people don't want to watch TV on a PC. VOD as a download is a fascinating phase of development of the media industry, but we're not there yet," says Daum at Gartner. "With technology today you can connect your PC to the TV, but most people couldn't cope with that."

But in terms of content, the BBC at least is trying to do something different with its iPlayer service.

On-demand TV is most commonly associated with pay-per-view films or a video-capture-and-replay system like Sky+, not>>

for library-like access. No archived content will be made available via the BBC's proposed on-demand service; programmes will only be available for seven days to prevent simulcasts. Furthermore, any downloaded content kept for 30 days will self-corrupt.

The programmes will be available through the iPlayer, subject to a Public Value Test in May and a two-month consultation with licence fee payers. The iPlayer will be publicly funded out of the licence fee because it will be an extension of the current free-to-air programmes.

But some TV insiders believe the move could be a bid to curtail licence spending by offering niche programming only through on-demand services. Through on-demand TV and/or Internet distribution, the BBC could continue producing niche-interest shows, such as those focusing on education, while amplifying ratings competition against commercial networks by using TV channels for its most popular programmes.

Channel 4 has made its entire programme output available over the Internet since last December for broadband users on a chargeable basis, but it plans to make downloads free if it can secure enough advertising for different programmes (see p.22).

The difference with the BBC's plans is that the programmes will have already aired, while with Channel 4 you can get them before they are broadcast.

The BBC expects to make around 70% of its network TV schedules available, increasing to 80% by 2010.

ITV is expected to follow with a similar on-demand launch later this year. M

Kerry Sheehan

USER GENERATED CONTENT

Getting personal

Social networking services have proved something of a phenomenon online. Now mobile operators hope to cash in

MOBILE OPERATORS are hoping that this will be the year that user-generated content from the likes of YouTube and MySpace helps them boost traffic on their under-used data networks.

Moving UGC to mobile looks like a snug fit, as well as a way to tap into the lucrative youth market. New data from Forrester Research suggests one third of Internet users aged 12–24 in Europe have used social networking sites.

But mobile needs to match the fixed Internet experience. A new survey of MySpace Mobile users in the US found they were impressed with the convenience and "usability", but "most agreed that network performance would have to improve before they would subscribe to either service," says Kevin Nolan, director of user experience research at Strategy Analytics.

Mobile carrier 3 is ramping up its activity in the UGC space with a new service based on its existing SeeMeTV and Kink Kommunity offerings. It will not give details, but Peter Northing, director of content products at 3, says the new service will have more interactivity and will be launched between June and September.

SeeMeTV, a mobile video sharing service, has had 16 million downloads to date among 3's user base of 3.75 million mobile subscribers in the UK, and has a growth rate of one million downloads per month. Launched in October 2005, SeeMeTV lets subscribers share user-generated video clips, and users get 1p for each of their clips watched.

The service was developed by YoSpace Technologies, which was bought in February by media group EMAP for £8.7m. YoSpace also developed Look At Me, a mobile video sharing service launched by O2 in the UK last July.

But the services have faced some criticism. In a report from BKI Media, *Setting Communities on Fire*, analysts write that the purpose of SeeMeTV seems to be about "profit or showing off, not interactivity with community". They add: "The lack of interactivity remains a bar to creating mobile communities."

Rival operators Vodafone and Orange are also getting in on the social media act, and many are favouring a partner approach. KPN and T-Mobile signed deals with Dutch mobile networking site Hyves in January, to alert users by SMS when a new posting has been left on their profile.

CORBIS

Orange recently launched photo-sharing site Pikeo. Gerard Grech, director of strategy and business development at Orange's content division, says user-generated content and social networking are important ways to drive traffic. But he remains cautious on the business model, because even most PC-based social networking sites are only now starting to explore how to generate revenue from their services.

"It will be interesting to see what people are prepared to pay for [on mobile devices]," he says.

Vodafone in February signed a deal in the UK for its users to access and post content on the MySpace site, following a similar agreement with Cingular in the US. A spokesman for MySpace says "uptake has been fantastic" since the services launched on the AT&T network in the US in mid-December. "It is already developing as a good revenue stream," he says. "[Customers] are telling us they want access anytime, anywhere."

Niek van Veen, associate analyst at Forrester Research, highlights the importance of scale. "There are so many people launching, it is not necessarily the most creative [that succeed]. Assets are users, users value a lot of other people," he says.

3 says its biggest task is to enable its service across different mobile networks. "It's a volume game…even with higher-priced clips," says Northing. "Revenue is important, but the bigger picture is [customers] being on our network."

3 currently charges a flat-rate tariff for its products, with the Kink mobile community service costing £1.49 per month or 20p per day for unlimited usage. MMS charges are extra. The site has 60,000 unique users at present, says 3.

Mobile UGC services also taking off in Asia. In South Korea, 90% of those aged 20–29 are registered with social networking site Cyworld. Close to 20% of Cyworld's user base—a total of 3 million people—use SK Telecom's mobile version of the service. M

Lorraine Turner

CONVERGENCE

Staking a claim

Swedish vendor Ericsson wants to be a key player in the media industry and is betting on the rise of convergence

A small step for convergence

CORBIS

OPERATORS AND content producers have hogged the limelight when it comes to convergence: Think Verizon or BT moving into television distribution, or Google and Disney into mobile.

Now Swedish vendor Ericsson is making some key acquisitions and deals to stake its claim as a primary supplier to this converged media industry.

But there are hurdles ahead. For one thing, takeup of IPTV is still in its infancy. More concerning, Internet-based services could throw the operator-based business model into a tailspin. P2P video sites like BitTorrent, Joost and Babelgum are all launching, and in the latest venture, big brands Amazon and TiVo are launching a joint on-demand service to bring Web downloads of movies and television shows to TV sets through TiVo digital video recorders.

In February, Ericsson made an offer of 106 Norwegian Kroner (€13) in cash for each share of Tandberg Television, which would value the vendor at around €1.22 billion. As *Total Content + Media* went to press, Tandberg had recommended to its shareholders to accept Ericsson's offer.

Ericsson's customer base has traditionally been telcos. It is buying Tandberg—a supplier of video compression and other digital TV technologies—to sell to pay-TV providers moving into triple- and quad-play services.

"We realised that we have to focus not just on telecoms but also cable and satellite," says Anders Bergtoft, director of content and media at Ericsson. "Everything is about convergence."

In January, Ericsson realigned its business units into three areas, one of which now focuses on multimedia. Another sector that Ericsson has been focusing on is mobile content. In February, it announced a deal with Time Warner's Turner Broadcasting to take over content repurposing for channels like CNN and create a high-end, interactive experience.

"Content companies don't have the time and money to tailor their content for all operators and all phones," says Per Nordlöf, director of strategy and product management for Ericsson.

Ericsson will stop short of becoming a content owner. "If we made a lot of money out of content, then content owners wouldn't like that," says Bergtoft. "That's not where the money is. We want to make money on services and system integration."

But Ericsson, and the companies it targets, will have a good race for that money. Since launching IPTV in 2004, US telco Verizon has amassed just 687,000 users; Europe's leader, France Telecom, has 429,000. The US's largest cable operator, Comcast, has 24.2 million customers.

Yet upstarts like Babelgum are thinking much bigger. "We will be able to target 300 million people when we officially launch later this year," says CEO Silvio Scaglia. "And that number will only grow." M

Ingrid Lunden

US BROADCAST NETWORKS

Pocket change

US broadcasters plan to use the Internet to supplement other revenue streams, but so far the contribution is minimal

ANNE SWEENEY, co-chair of Disney Media Networks, speaking at a recent investor conference, said ABC.com sold all the video advertising slots for its streamed TV shows in Q4 2006 and Q1 2007. That is a sign that US networks are starting to embrace the Internet as a new revenue opportunity.

But the painful truth for broadcasters is that revenues from new media are still small relative to other business.

"We still believe that TV is the superior form of advertising," Mike Shaw, president of advertising for Disney-owned network ABC, told an audience of media executives in London in November. "With $3.5 billion of ad sales annually, TV is still our core business."

Revenues are starting to come in. The networks' first profitable Internet venture was through Apple's iTunes Store, which has now sold over 50 million episodes of 350 TV shows from 57 networks. Although all parties involved refuse to provide data on how this breaks down, Forrester Research estimates Apple gets only 10 cents out of the $1.99 charged per show; that means $89.5 million has gone to the networks and production companies since the venture began.

Compared with broadcast television, this is pocket change: the average $260,000 earned over 18 months by each series typically wouldn't even cover the production of a single episode. Shaw points out that an episode of a highly produced show, like Lost, can cost between $4.5m and $5m per show.

Broadcast networks are used to being the traditional gatekeepers of content, so it's no surprise that they've tried to take back control. All four main networks as well as many of the smaller networks now offer streaming services from their own sites. Viewers are typically able to watch episodes of shows up to a week after they've aired for free.

"Our research has shown that the main reason people are viewing online is because they missed an episode on-air or forgot to record it," says Karen Hobson, vice president of digital >>

media and corporate communications at ABC. "It is expanding the audience beyond what we would be able to reach with just the linear network."

At first glance, this strategy would appear to be paying off. For ads running alongside primetime shows streamed from their sites, the networks are able to command rates of $40 CPM (cost per thousand impressions), compared with roughly $26 during broadcasts. In part, this is due to the more targeted demographics online services can produce. Since NBC launched its Rewind service in October 2006, 6.9 million unique users have streamed nearly 42 million full-episode videos, according to research company Insight Express, with audiences skewed towards younger, higher educated males compared with average television and Internet audiences.

Shaw at ABC says the average viewing age for its Internet TV service is 29, compared to 46 for traditional TV.

As the Insight Express figures show, ratings for the service remain low compared to NBC's broadcast programming. The networks' own sites, including pages that contain no video streams, are similarly low-rated compared to their programming. ComScore's Media Metrix shows that CBS's site was the most popular of the networks online in January, with 22.5 million visitors in total, including both regular site pages and those containing video streams. This figure is still small compared with AOL, Yahoo! and MSN's TV services, and comparable to just a single episode of one of the network's highest rated programmes in the same period—Nielsen ratings for 'CSI' in January were approximately 21 million viewers.

The networks remain cagey about how much money they're making from their online presence. According to Forrester Research analyst, James McQuivey, the reason is simple. "The number of streams is still small," he says. "It's only a fraction of the audience."

Perhaps one reason broadcasters are not putting more investment into VOD is because advertisers are not embracing interactive opportunities. "Among the 10 advertisers we had for the first iteration of our online PVR, only one of them had an interactive advert," said Shaw at ABC. "As an industry, we haven't had an interactive model that we can base this on."

The Holy Grail for the networks is to have their own versions of iTunes, offering video-on-demand access to every single programme ever aired. "I would love to be an aggregator," said Shaw. "We wouldn't have to produce more content, but it would give us a new place to sell ads." M

Rob Buckley

MEDIA ADVERTISING

Over the line

Broadcast networks and online companies want to automate buying of advertising space, but that is causing conflicts

THE IMAGE BANK

A shotgun approach to ad buying

EARLY MARCH saw the launch of eBay's Media Marketplace, an online exchange enabling US TV networks and advertisers to propose and negotiate sales. Lexus, Microsoft and Hewlett Packard are among the buyers involved in the beta test, which aims to enable more precise targeting and fairer pricing of TV advertising time. But even as the site goes live, one vital ingredient is still missing: the sellers. None of the cable networks the service was built with in mind has signed up.

That is indicative of the tempestuous relationship that has developed between the broadcast networks and online companies. February saw the collapse of talks between Viacom and YouTube on how much should be paid for the broadcaster's TV content users had posted online. YouTube is now in the process of stripping its site of the 100,000 copyright-infringing videos.

One analyst said Google is prepared to pay somewhere between $70 million to $140 million as compensation for YouTube violations, but media companies think the figure is too low. Wall Street is waiting for such an agreement to be made so it can ascribe value to TV content migrated online.

As *Total Content +Media* went to press, YouTube struck a surprise deal with NBC that includes policing of content, uploading of promotional clips and publicising the site on TV shows. No financial details were released.

It hasn't been smooth sailing of late for Google's new advertising ventures. Like eBay, Google is also trying to grab a slice of the $65 billion US TV advertising market. But February saw long-running negotiations cave in between Google and CBS to sell radio advertising, with neither party able to agree to the length of the deal.

This was the highest profile deal of its kind being discussed. It would have led to Google's algorithms for targeting and value metrics that underpin its own paid search being applied to CBS's entire radio inventory. The founders of dMarc Broadcasting, the radio scheduling software company bought by Google for $102 million, promptly left the company.

Anton Denissov, an analyst at the Yankee Group, thinks the relationship between Internet giants and TV companies has a way to go yet.

"TV ad buying is still in the dark ages relative to online, with orders being faxed or agreed over the phone," he says. "It is a shotgun approach and is in need of modernisation and automation. On the other hand, the Web is just getting started. User profiling is great in theory, but the user base information needed to do the targeting is still being collected."

Google has already hired two senior executives from NBC, Michael Steib and Jordan Hoffner, to focus on TV auctions and content partnerships.

Initially, auction-based sales tools will probably lower the price of "scatter", the portion of TV inventory not sold as part of the huge upfront deals. The price of scatter rises and falls in

relation to how much is available every quarter. An auction site would change that.

TV executives want to avoid such a development leading to the commoditisation of their product, but Google thinks that instead of lowering the value of the market it will raise it. They believe new online customers will advertise offline once they are properly convinced of the value proposition.

The American Association of Advertising Agencies has just launched its own auction platform running on technology from Arbinet, which has the same functionality as eBay's Media Marketplace. The TV Bureau of Advertising is also setting up its own system at a cost of only $5 million, although unlike the other platforms it will not include the ability to negotiate.

Yahoo! recently held a conference ahead of the annual 'upfront' presentations the networks put on for advertisers every spring. "Online should no longer be the tail of how one puts together a campaign," said Terry Semel, Yahoo! chief executive, at the conference.

"Today, US consumers spend 17% of their media consumption time on the Net. But only 6% of media dollars are spent online," Yahoo! chief sales officer, Wendy Harris Millard, pointed out. Online advertising spend in the US is estimated to grow 19% to $19.5 billion this year, representing 6.6% of the total, according to Internet analysis firm eMarketer.

Conflicts over issues such as how to value upfront TV advertising—with its focus on creativity and wide exposure, compared with user targeting, keyword matching and auction tools developed for interactive—are to be expected. One result of the negotiations is that advertisers now have a better understanding of the choice of revenue models they can pick off the shelf.

Both interactive TV and IPTV are growing apace, and this year will see the launch of Apple and Microsoft's home media hubs, as well as PC video player Joost. With all this in the pipeline, expect the wrangling to continue. M *James Bloom*

MOBILE TV SERVICES

A hard sell

Analysts predict good growth in mobile TV services, but it might not be as easy to get subscribers to part with cash

Buy some TV time, won't you?
PHOTONICA

MOBILE giant Verizon Wireless gave mobile television a big endorsement when it started broadcast services in 20 US markets in March. The news capped off what was a good month for the fledgling mobile TV industry: MobiTV said some 2 million people are using its service worldwide, including customers of Sprint, AT&T and Alltel in the US, and 3 and Orange in the UK.

But several new reports give a less clear picture of the business potential for mobile TV longer-term.

Only 1% or 2.5 million mobile phone subscribers in the US currently access video content on their mobile phones, according to new research from mobile analysts M:Metrics. However, another 23% people, equating to 4.8 million users, said they would possibly view video or mobile TV content on their handsets in the next 12 months.

The response percentages were applied to a total mobile TV and video market size ("universe") of 194,000,000 people.

M:Metrics questioned 11,100 US mobile phone subscribers aged 13 years and over, and senior decision makers at 40 brand advertisers, agencies and media companies, on mobile TV use and willingness to accept advertising on the medium. The survey, on behalf of the Mobile Marketing Association (MMA), found that 146.7 million mobile phone subscribers in the TV-hungry US market have no intention of watching TV on handhelds over the next 12 months.

Yet Gartner expects all TV services over cellular worldwide to have generated just over $100 million in revenues in 2006, growing to $15 billion by the end of 2010. Revenues from broadcast TV services will grow from $200 million to $10.8 billion in the same period.

Advertising will be the key to making money on mobile, the M:Metrics research found. Over 41% of current and prospective viewers of mobile TV and video are keen on the idea of advertising-subsidised viewing. Over 43% of current and possible viewers (19 million subscribers) said they would watch advertisements on mobile TV in return for free content. And 20% (9 million subscribers) of the same group said they would watch ads to see TV at a reduced cost.

But another survey from Jupiter Research claims that even reduced fees could be a charge too far. "Less than 10% of the mobile users we spoke to in Europe…said they would be willing to pay to watch live TV," says Thomas Hussan, an analyst at Jupiter Research. "We do not buy the common argument that people are willing to pay €5 to €10 a month for mobile TV."

Carolina Milanesi, principal analyst for mobile devices and consumer services at Gartner, believes mobile TV will become a mainstream service in most developed markets by 2010. She predicts close to half a billion subscribers, with the majority watching broadcast services over mobile operators' networks. TV broadcasting services will reach 132.7 million subscribers by 2010, with Japan leading the way followed by Western Europe, while TV services over cellular networks will grow from almost 38 million users in 2006 to 356 million.

But mobile operators, not television companies, will have the upper hand in mobile TV. "That's huge growth, but of those users around 89% will be subscribing to bundles that include mobile TV," says Milanesi.

Packaged mobile TV services will mean that TV will come in a basic bundle as a default service, making it appear "free" to users. This will have a knock-on effect for advertisers. "You need to ensure people are watching TV, not just getting TV as part of a bundle of services and not watching it," says Milanesi. "That is no good for advertisers. Active users are really key. As a result of carrier bundling, questionable early demand for premium services, and advertising-funded free broadcast TV services, revenues will be depressed."

Of the agencies, advertisers and operators surveyed by the MMA, 54% said the ability to target advertising was extremely >>

important for the growth of mobile TV as a target media.

Yet the MMA's research shows that fewer than 10% of all mobile subscribers are willing to share personal information about themselves in order to get targeted adverts.

Gartner's Milanesi says personalisation is what might make mobile adverts interesting for users. "Advertising needs to be personal to raise tolerance to it," she says. "Mobile operators tend to know a lot about users, and there are technologies like GPS inside devices, so there are a lot of clever things operators can do with that information."

In the meantime, network operators and developers are starting to choose technologies and grab frequency space in the first round of dedicated mobile TV network building. In Europe, 3 and Telefonica are running mobile TV over DVB-H, the dominant standard on the continent; Orange is using MobiTV for its services in France and the UK. In addition to Verizon Wireless, other mobile operators expected to decamp with MediaFLO include AT&T; and Vodafone is currently running a trial of the Qualcomm technology in the UK.

Yet Windsor Holden, senior analyst at Analysys, does not believe that any market will be big enough to handle more than one network, in the US or in Europe.

"Are two competing networks going to be financially viable, even in the US? In a medium to large European country, it will cost around €400 million to roll out a DVB-H network. Crown Castle in the US has already invested that at this early stage, and some calculations as to what the customer base may be mean it will take over four years to cover the cost of the network alone."

Holden adds: "Two networks per country is insane. One of the operators is going to fold." M *Heather McLean*

BROADCASTING SPECTRUM

High jinks

TV companies are worried that HDTV services will not take off in the UK if regulators follow through with plans

TAXI

Which side are you on?

BROADCASTERS say the UK is in danger of creating a digital TV divide if regulator Ofcom proceeds with plans to auction spectrum under its Digital Dividend Review.

Broadcasters clashed with Ofcom representatives and government ministers in two meetings in March. The TV companies say the future of high-definition television (HDTV) in the UK is under threat if Ofcom does not change its stance.

Their views are underscored by findings from a report by Informa, which predicts that by 2011 there will be 150 million HDTV homes worldwide, but only 8.8 million of those will be in the UK.

Magnus Brooke, controller of regulatory affairs at ITV, told delegates at a Westminster eForum in London that his company is "very concerned" about the Ofcom plan to allow market forces determine how spectrum released from the digital switchover in the UK will be allocated.

"There may well be no HD on [digital terrestrial television] for a generation," said Brooke, unless extra spectrum is assigned for HDTV services. Viewers would have the choice of watching standard definition TV on DTT, or subscribing to satellite or cable services to get the higher quality channels.

"We could see the creation of a 'new digital divide'," said Brooke. "DTT should be a universally accessible platform; that's not what's going to really happen if we can't have HD."

In addition, broadcasters believe the Ofcom timetable for digital switchover and the allocation of freed-up spectrum needs to be speeded up to ensure that the necessary engineering work on multiplexers can be carried out in time.

Ofcom gave a robust response, saying its approach is the right one and that the process could not have been any faster because of external factors.

"We could not have started the process any earlier," said Philip Rutnam, partner for spectrum policy at Ofcom. Rutnam noted that the UK regulator had to wait for the outcome of the Regional Radiocommunications Conference (RRC) in June 2006, which set out the European framework for the spectrum.

The BBC, ITV, and broadcast infrastructure provider Arqiva all say they believe the 112 MHz of UHF spectrum set to be released when the UK moves over to the DTT platform for digital television is "best suited" for broadcast.

But Rutnam said there are many different ways in which the freed-up spectrum could be allocated, including mobile broadband and mobile communications services.

"It's really important we don't do a bodged job," Rutnam stressed.

Margaret Hodge, the Minister of State for Industry and Regions, sought to cool down the increasingly heated debate over HDTV spectrum charging at the Digital TV Group's Annual Summit in London in March.

BBC, Channel Four, Sony UK and retail giant DSGi rallied against Ofcom's possible plans to auction off spectrum released from the digital switchover in 2010. Their questions and remarks were described as "an ambush" by Peter Bury, head of strategic resources at Ofcom.

"Our job is to look after citizens and make most efficient use of radio spectrum," said Bury.

"This spectrum is not about maximising revenue for the treasury," added Hodge. "We and Ofcom are clear about that."

She added that if an auction were to take place, it would "ensure innovation" and protect public interest. But she warned that the government will need to take a back seat.

"We are not sure that Parliament or the executive committee is the best place to make the decision about consumer priorities. We need to reflect on that," she said.

If the consultation results in an auction, UK citizens could be denied free HDTV terrestrial services in the future.

Andy Duncan, CEO of Channel Four, said the "debate is being closed down too early", and called for an immediate "reframing" of discussions.

The government is being asked to set aside a third of the UHF spectrum for public HDTV.

John Clare, chief executive of DSGi international—owner of

consumer electronics retailers such as Dixons and PC World—said that 65% of Freeview customers expect to receive HD services on Freeview.

Four million customers are expected to purchase HD-ready televisions in 2007, up from 2.4 million last year, he added.

According to statistics company GFK, the US will lead with HDTV services, with penetration of some 70% of households by 2010. But Clare warned that the UK won't even get into striking distance if charging for digital terrestrial television HD spectrum is approved. "We are in grave danger of creating a second class marketplace, with [DTT] becoming a second class competitor in [the] multi-platform market," he said.

If an auction were to take place, public service broadcasters like Channel Four might not be able to bid for spectrum because it could not make enough money from services to justify the cost.

"We can't make enough from [HD]," said Duncan at Channel 4. "We will be bidding huge amounts of money against people who are going to use it for other purposes; it's not possible." M

Anne Morris and Lorraine Turner

DIGITAL STRATEGIES

Partner or perish

Collaboration between traditional and new media companies can lead to a greater share for everyone, say executives

More pie for everyone

TAXI

SO IT'S quite clear: success in the digital space is all about partnering. That was the overriding message from the FT Digital Media and Broadcasting conference in London, where media executives also said new offerings in the online space are not necessarily cannibalising traditional TV revenue streams.

New media services are "additive" to traditional TV revenue sources, said Andy Bird, president of Walt Disney International at the conference in March.

"People are more likely to tune into the TV" after watching a programme on a broadcaster's online portal, said Bird. "If you make content available, the size of the pie increases."

Content producers, too, see the value of taking the same route, but still show signs of caution. "We need to figure out how to partner better," said Chris Ahearn, president of Reuters Media. "There needs to be opportunities to make money. People who make content should be paid."

But as content becomes available over different media, governments and regulators are becoming more concerned about how, and by whom, it is consumed.

In March, UK Chancellor Gordon Brown unveiled a new labelling system for "text-based" digital content in the country.

At the TV Over Net conference last month, Tim Suter, partner, content and standards at Ofcom, said the shift from terrestrial TV schedulers being responsible for protecting audiences to a model that is "empowering consumers" meant there is a need for equally robust regulation. Other than labelling, regulators can push for greater information about content, or electronic tagging. "The system needs to be based on [there] being enough information to the consumer," he said.

From an EU perspective, there is likely to be regulation in place within two to three years, said Suter. At the same time, different regulation will need to be implemented for different platforms. "Regulation needs to match the content. We cannot apply the same approach," he added.

The AVMS (Audiovisual Media Services) directive has set a clear direction for Europe that television content will be regulated as "TV-like" content, said Suter (see p.26).

But concerns over regulation are not stopping businesses from forging ahead with their cross-media strategies.

The positive take on online TV by Bird at Disney was reiterated by social networking company MySpace. Jamie Kantrowitz, SVP marketing and content, said MySpace is looking to "offer opportunities for content producers to monetise spin-off opportunities" from their existing TV brands. But online digital services alone will not replace declining revenues from traditional services. Kantrowitz admitted that there is "no company that is gloriously monetising video content".

Rona Fairhead, CEO of the Financial Times Group, told *Total Content + Media* that the publisher's online content is complementary to its newspaper, but the two services have very different audiences. Like other newspaper publishers, the FT is being forced to look further afield for new revenue sources, said Fairhead.

"A year ago we were worried that the [online] investments were just to make up what has been lost," said Fairhead. She added that 70% of the group's revenue is derived from advertising. "Online advertising revenues have not matched print," she said.

But online offers advantages to companies such as targeting customer segments with specific premium services, said Fairhead. "It is a challenging situation, but there are ways we can recover by finding more premium ideas and diversification," she said. The FT Group wants more business in areas such as events, training and online services—any areas in which "advertisers prepared to pay", she added.

'If you put content online, the size of the pie increases'

Meanwhile, companies such as Disney are trying to tap into the youth market by focusing on the gaming space. "We are investing a lot," moving from a licensing model to a more vertically integrated one, said Bird. Disney is also focusing on making multiple revenue streams from its intellectual property, citing the example of Pirates of the Caribbean, with theme parks, consumer products, games as well as traditional DVDs.

Disney's revenues from more traditional channels, such as DVD sales, are also increasing, said Bird. In February, Disney said first-quarter revenue grew to $9.7 billion, with DVD sales of Pirates of the Caribbean: Dead Man's Chest and Cars among the strongest drivers. M

Lorraine Turner

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The next step

Search giant Google is still trying to find its feet in the content aggregation business.
By ANTONIO TOZZI

You know a brand means business when it wins an entry into the Oxford English Dictionary. People don't use vacuum cleaners, they use Hoovers. And we don't tell people to do an Internet search, we tell them to "Google it", regardless of which search engine they employ.

So is Google in an unassailable position, or are there Internet equivalents of James Dyson ready to challenge the supremacy of the market leader?

Six in every 10 Internet searches are conducted via Google, and there is little to suggest that the likes of Yahoo! and MSN will be able to claw back its lead. But for Google to thrive as a corporate entity it needs to be more than a search engine. That is why it has embarked on a series of acquisitions, including the US$1.65 billion purchase of YouTube last October.

It is also developing software products to help it maximise brand strength and create fresh revenue streams. It has introduced local search facilities, and it aims to build an online library by scanning millions of texts not yet on the Internet.

In so doing, Google hopes to persuade advertisers to spend money to get to millions of surfers who are doing a lot more than using the search facility. It wants to translate the strength of its brand into commercial success.

There are obstacles in its path, however. MySpace, owned by Rupert Murdoch's News Corp., has almost double the number of registered users (140 million) than YouTube (72 million), and they tend to spend more time on-site. And there are other rivals—Xanga, Bebo, Classmates and the rest—which all want the top slot.

Then there is the issue of content ownership. A hefty proportion of the material available via YouTube is owned by publishers and artists, yet they receive no payment for its use—although Google is working to legitimise the use of copyrighted content.

It can be tough to police. Reports suggest that NBC Universal asks YouTube to remove specific items over 1,000 times every month, and the numbers are likely to be similar for other media firms.

All the big names are now negotiating licensing deals with YouTube in an attempt to earn revenue for the use of their material. They would also like to see the deployment of monitoring systems that enable YouTube to identify protected content when it is uploaded.

> **NBC asks YouTube to remove 1,000 items per month**

Certainly, the media industry should look for a constructive dialogue with Google and its peers. If publishers want to reach the youth market, they need the Internet, but they should not assume Google will always be in the top slot.

MySpace has announced a deal with independent music labels enabling users to buy tracks via the site. How long before the big guys sign similar deals?

And there are rumours that if negotiations with Google over licensing come to nothing, the publishing industry might try to build its own site, retaining control of what is shown and when. But this reveals another tension: Internet users have grown used to controlling what they watch, and they are not used to paying for access, at least in any explicit sense.

Which brings us back to advertising. Google is revenue-hungry. It knows it must reach an accommodation with copyright-owners if it is to cement its position in the mainstream business community.

But the more crowded the market, the more choosy advertisers can be. We could soon see video-sharing and search portals listed as just two more options on a roster of advertising outlets.

Making predictions in this area is fraught with problems. Who foresaw the popularity of user-generated content?

The only certainty is that, a year from now, the use of online services will look very different to today. The only option for the media community is to protect its interests when possible, identify opportunities as they emerge, and to keep an eye on the latest edition of the dictionaries. M

Antonio Tozzi is part of the media finance practice at the Bank of Ireland

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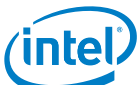

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Market report of the month

BAIDU

Searching for growth

LORRAINE TURNER

The golden child of China's lucrative Internet market, Baidu.com Inc., disappointed the financial community by issuing a flat quarterly outlook and triggered warning bells about the previously booming paid-for search market.

The Chinese-language Internet search provider expects revenues of Rmb265 million to Rmb275 million (US$34m–US$36m) in the first quarter ending 31 March 2007, below the Rmb307 million forecast by some analysts. At best, that represents a small rise over newly-announced revenues of Rmb271.3 million ($34.8m) in the fourth quarter, a major disappointment after doubling the levels of a year earlier.

Worryingly for investors, Baidu's revenue slowdown may highlight a much bigger problem in the overall paid-for search market in China.

"We believe that Baidu has likely already broadly penetrated the 'early adopters' of online search advertising and thus additional customer growth could prove increasingly difficult," said Anthony Noto, an analyst at Goldman Sachs, in a research note. "We are incrementally more concerned with industry growth." The market will continue to slow "until e-commerce or other structural development accelerates" in order to drive search adoption.

Baidu has twice as many Chinese users as all its search rivals combined. Its market share reaches 62%, far outpacing Google's 25% and Yahoo! China's 5%.

And according to research from Morgan Stanley, Baidu's advertising/paid search-related revenues will jump ahead of China's online brand leader Sina this year (see charts below).

In the fourth quarter, Baidu posted gross sales of US$34.8 million, with paid customers rising 6%. Quarterly ARPU was up 7% to US$320, and up 41% on the year, while full-year revenues doubled to $107.4 million compared to the previous year.

But Baidu's phenomenal growth is no longer so stellar. It is suffering from structural issues related to a reshuffle of its sales force, and a change in monetisation of its platforms. In particular, a new system requires multiple entries from paid listing customers to bid for their preferred keywords, as opposed to a single entry. This may cause short-term problems as paid search customers such as SMEs could take longer to adapt, say analysts.

Furthermore, Baidu is having trouble maintaining rapid expansion of its advertiser base, and subscriber growth is slowing. Baidu added 600,000 new subscribers in the fourth quarter, compared to 1,200,000 in the third quarter.

New advertisers dropped by 39% in 2006 compared to 2005, with the company adding 6,000 customers in the fourth quarter, half the number it added in the third quarter. Baidu now has 108,000 advertisers.

Nevertheless, investment banks including Morgan Stanley remain bullish on the outlook for China's search industry, forecasting a sales revenue CAGR of 60% over the next three years.

The investment bank is also confident that Baidu will maintain its leadership position in the market.

Baidu has signed partnerships with EMI and MTV, highlighting its efforts to legitimise its MP3 search service—accounting for 13% of total traffic—after lawsuits from leading music companies. And in a bid to further widen its services, it has been granted a news publication licence by the government, which is likely to bring with it premium advertising customers.

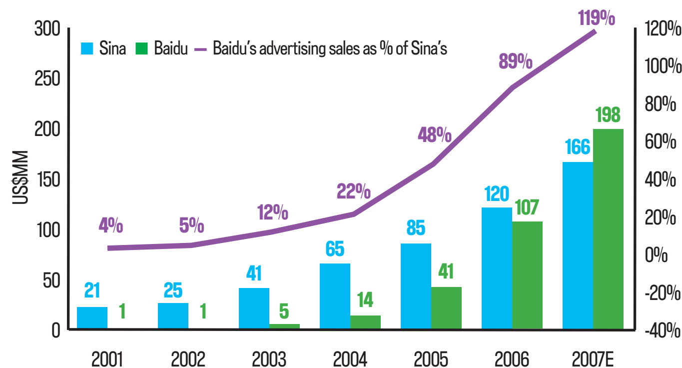
Now Baidu hopes to replicate its successful model in Japan, where it has invested US$15 million, or 8% of its total revenues.

But over two-thirds of the Japanese population is already online, compared to 10.5% in China. "Japan is an expensive country," said the analysts at Morgan Stanley. "Costs associated with marketing, human capital and bandwidth may be markedly higher than those in China."

Baidu must also up the ante in its customer services to reflect the ultra-polite Japanese culture.

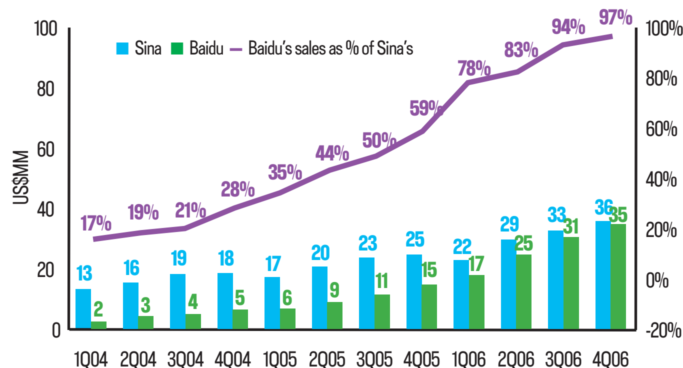
"We note the potential challenges of driving a return on spending, given the Japanese market has several strong companies with leading positions," added Goldman Sachs. M

ANNUAL ONLINE ADVERTISING SALES



Source: Morgan Stanley Research

QUARTERLY ONLINE ADVERTISING SALES



Source: Morgan Stanley Research

PEOPLE

Squeezing the tube

Peer-to-peer TV venture Joost is racking up content deals ahead of an official launch. BARRY MANSFIELD talks to founder Niklas Zennström about finding the right media niche—and coaching from the sidelines

Niklas Zennström forced the telecoms industry to rethink established business models, bringing free Internet telephony to over a hundred million people worldwide before selling Skype to eBay for US$2.6 billion in October 2005. But that, and his earlier venture co-founding one of the first free content-sharing Web sites, Kazaa, left him vilified in many corners.

Now Zennström is back on the free peer-to-peer trail with long-time partner, Janus Friis. And with their newest venture, Joost, their aim is to combine the interactivity of the Internet with the most ubiquitous medium of them all—television.

> 'Watching a show whenever you want hands the power back'

Zennström says convenience will be the key to Joost's success.

"You can watch a show whenever you want. So that hands the power back to the consumer," says Zennström. "On top, we are trying to add community services. If people are sitting in front of the football or a film, they don't want to just watch it, they want to be instant messaging each other to discuss the action."

Joost, still in trial stages with a launch expected around June, is a peer-to-peer streaming service that will deliver television content. All content originates from the company's server farm in Luxembourg, with packets cached on computers after being viewed—like cached Web content from a Web browser—and passed on to other users when they want to watch it.

Joost confirms that Zennström's love affair with disruptive technology is far from over, although he is sensitive to the use of the term when applied to his new project, which he views simply as a new delivery mechanism for TV production companies.

According to Zennström, TV has been too slow to embrace the possibilities of the Internet. "Joost is taking the best things from TV and the best things from the Internet and putting them together," he says. "People really love the television but there hasn't been that much innovation in the way that the content is distributed and consumed. On the Internet, of course, there has been so much innovation. The time is now right to deliver TV over the Internet."

If it comes off, the first "free" global TV distribution platform aims to unite advertisers, content owners and viewers in an interactive service that is piracy-free—somewhat ironic given Zennström's history (see box right). Key to revenue generation, the company hopes, will be intelligently targeted advertising.

Wunderloop, a startup funded through Zennström's new investment group Atomico, has developed software that analyses Web users' habits and compares these in real time with advertisers' market research data. It then displays only relevant adverts and ensures the viewer remains anonymous to the advertiser.

Wunderloop claims this new targeting method can improve the revenue generated by adverts by as much as 10 or 15 times. Advertisers said to have agreed deals with Joost include T-Mobile and L'Oreal.

Fitting with the "consumer empowerment" philosophy of Zennström and Friis—that was the name of the holding company which set up Kazaa and Skype—visitors to the Joost Web site are asked to sign up and test the new service, and report problems ahead of the official launch.

Significantly, Joost has already attracted content providers such as Warner Music, TV production company Endemol (producer of Big Brother) and US-based Indy Racing League. And over a few weeks in late February and early March, Joost signed deals for an undisclosed sum with Viacom—it owns MTV Networks, BET Networks and Paramount Pictures—and Jump TV, which buys the rights to shows from TV networks in 70 countries and broadcasts the material over its own Internet video network.

The Viacom deal was announced at the same time as the media giant was in

PHOTOGRAPHER'S CHOICE

the middle of a protracted spat with the hugely popular YouTube video-sharing site to remove 100,000 unauthorised clips.

While Zennström says his new service will be "piracy free", one consultant advising a major US pay TV channel approached by Joost says it does not have "a real revenue focus" yet. "Joost is approaching TV producers for content deals but cannot offer any minimum guarantees on advertisers or subscribers," he says.

Zennström says the integration of television and Internet is a natural progression whose time has come. "People have better connections. Just look at how similar the PC monitor and the TV display have become, and the fact that you can now watch films on your monitor. Also younger consumers, the MySpace generation, are spending much more time on the Internet, and they have a big demand for TV that is more engaging."

The number of households using Internet protocol television services (IPTV) worldwide will grow to more than 80 million in 2011, from just 6 million at the end of 2006, according to a report from research group Strategy Analytics.

But Alexander Cameron, managing director of consultancy Digital TX, says the founders' past success with P2P services is no guarantee that Joost will meet its high expectations.

"Joost will bring the Internet Service Providers' war directly to the content owning community's door," he says. The significant volume of traffic involved in delivering a full-blown IPTV service will not work with service providers' capacity-based charging approach or ISPs' practice of download capping, where users of home broadband are limited in how much bandwidth they can consume every month.

For example, users with a 1GB monthly download cap could use half their broadband limit to download a Hollywood film—if the stream comes in reliably in the first place, says Cameron.

"The problem is that a battle between the two sides has been brewing over time and got worse with the advent of bandwidth that allows us to easily download video," he says. "Someone has to pay the bill for it, and in a market that is continually driving down prices to compete, and suffering higher costs, something eventually has to give."

Joost, if successful, could force ISPs to restructure tariffs in order to handle the extra demand more effectively.

Zennström is unperturbed by the bandwidth issue. He expects Joost to drive broadband usage, but says networks are constantly being upgraded and that the new era of ADSL2+—offering speeds up to 24 Mbps—is close.

"If you look back at the history of the Internet, there has always been a steadily intensifying demand for more and more bandwidth. So nothing's changing. I expect Joost to drive broadband penetration to somewhere near the same levels as those of telephony."

Zennstrom and Friis say their new service will respect copyright ownership. For a long time the pair were reluctant to set foot on US soil due to legal action taken by music content owners over P2P file-sharing site Kazaa. But last summer new Kazaa owner, Sharman Networks, reached a settlement by paying more than US$100 million to global record labels EMI Group, Sony BMG Music Entertainment, Universal Music and Warner Music. The out-of-court settlement finally put an end to the legal proceedings brought by the record companies against Kazaa in Australia and the US.

Skype claims 171 million registered users, with a further 200,000 new users signing up every day. Skype's net revenues topped US$66 million during the last three months of 2006 alone. Such figures, from a former Zennström company, are helping Joost to gain momentum.

Friis and Zennström are continuing their day jobs at Skype and eBay while the daily management of Joost is handled by chief executive Fredrik de Wahl. As Zennström puts it, with Skype he was "the player out there on the court playing basketball trying to score goals, but with Joost it's now my turn to sit on the bench as team coach". M

TIMELINE: THE ROAD TO LEGITIMACY

After Niklas Zennström and Janus Friis sold their Internet telephony upstart to eBay for $2.6 billion in 2005, they were feted as Internet entrepreneurs of the highest order. This clout has helped them clinch some major partnerships with media companies for their newest venture Joost—even before the service has officially launched, let alone made any money. But it wasn't always this way. The two men were also behind Kazaa, one of the biggest peer-to-peer piracy sites the entertainment industry has ever seen. Launched when broadband networks were slower and less ubiquitous, it made its name mainly for music distribution. Here's a rundown of what came before Joost:

Mar 2000	Kazaa launches a P2P service
Nov 2001	Kazaa sold to offshore company Sharman Networks
2002	Kazaa sued by record labels in US for copyright infringement
Aug 2003	Skype beta version launched
Oct 2005	Skype sold to eBay
2006	Work on Joost begins under code name The Venice Project
Jul 2006	Kazaa case settled out of court; reportedly $100m paid to record labels in compensation
Jan 2007	Joost beta launch with content from Warner Music and Endemol
Feb 2007	Deals signed with Viacom and online TV distributor JumpTV

Emergency procedures

Channel 4 hopes its video on demand service will pump life into falling ad revenues. By HEATHER MCLEAN

It is a risky proposition being the first channel in a country to launch a video-on-demand service. After all, it's a costly investment and there are few examples of services making money.

But ask broadcasters like Channel 4—which launched its 4oD on-demand service in January—and they will say there is little choice but to jump into the unknown as they face cutbacks in advertising budgets.

"4oD is losing money in the short-term, but we can't afford not to be there," said Andy Duncan, CEO of Channel Four, speaking at Digital TV Group Annual Summit in London in March.

But research on VOD in the US suggests Channel 4 has a tall order ahead.

Jupiter Research estimates that in the US, where VOD has been offered since 2002, the combined revenue for transactions for all services in 2007 will total just US$1.7 billion. Advertising revenues for VOD in the US total less than $100 million, and could even be as low as $50 million, says Todd Chanko, analyst for the research firm. As a point of comparison, broadcast and cable TV companies collectively reported around $71.3 billion in advertising revenues in 2006 ($44.1 billion and £27.3 billion, respectively).

Chanko says Channel 4 is unlikely to find much success purely from Internet downloads. "Only 2% of online consumers in the US said that last year they downloaded a movie or programme for viewing on their PC…I can't understand why Channel 4 thinks it's going to make a major go on downloaded programmes. You have to convert traditional viewers from a living room experience to a PC environment, and advertisers to online."

He says broadcasters still have to work out advertising models, too. "While online advertising is growing at a faster rate than traditional TV advertising, as a percentage it is still quite small. And embedding ads into programmes downloaded to the PC is a little bit of wishful thinking; viewers can just fast-forward."

'We're thinking about ripping up the advertising rule books on this'

But it's not all bad news just yet. According to a new survey from Jupiter of consumers in major European markets, entitled *On-Demand Video Advertising*, advert skipping might not be as high as broadcasters feared. "Only one-third of on-demand users say they usually skip ads in recorded TV," say the analysts. As a result, Jupiter estimates that less than 3% of all European TV hours in 2006 were "ad-skipped". But data from the more mature on-demand market in the US suggests that could change (see box right).

Comcast, the most active VOD player in the US according to Jupiter, says of its 12 million digital-only subscribers, 75% are using its VOD service in any given 90-day period.

"Many [US broadcasters] are embracing VOD, even though they have not yet figured out what the eventual business model will be," says Anne Elliot, vice president of communications at media research company Nielsen. "I think many would agree that VOD has not grown as quickly as some had expected. It seems to be on the brink of some growth, but that's been said before."

In markets in Europe where VOD services have been launched, the picture is not much brighter. In Germany, the dominant pay TV company Premier "makes no more than 5% of its revenues from video on demand", according to Peter Kerckhoff, the senior vice president overseeing content partnerships for Deutsche Telekom's IPTV service, speaking at the Next Gen TV conference in London.

Sarah Rose, head of video on demand for Channel 4, claims 4oD has already started to see repeat usage just one month after the service launch. After trying free content, users are coming back to hire either a film for £1.99 or a TV programme that has previously aired on linear TV for

TAXI

ON-DEMAND ADVERTISING: OPPORTUNITIES AND THREATS

On-demand services are still in their infancy: just 11% of European online users surveyed say they regularly watch online video content, while 30% say they watch at least one hour of recorded TV each week. But as on-demand services grow, broadcasters will face problems with the way people consume content, such as their ability to skip adverts.

A new survey from Jupiter, On-Demand Video Advertising, shows the impact new technologies like VOD could have on commercial broadcasting.

"Not only will Europeans have greatly increased access to DVRs over the next five years, but each individual European DVR user will also become increasingly likely to skip ads during that time," say the Jupiter analysts.

That is backed up by data from more mature DVR markets, such as the US. Jupiter research shows about half of all DVR owners in the US skip ads most of the time when using their DVR, and 10% occasionally. And 29% of US DVR owners say they time-shift TV programmes specifically for the purpose of skipping advertisements.

But there is an upside: these same people can represent an opportunity. "Ad skippers represent a key target audience for advertisers…[because] their behaviours make them a potentially valuable consumer segment." For example, they are more likely to buy "big-ticket consumer electronics items" such as HDTVs and portable media players.

That means broadcasters and advertisers must evolve the way they approach consumers. "While intrusive online video advertisements (e.g. in-stream ads) can help serve as a direct replacement for the opportunities advertisers are missing through ad skipping, other forms of online video—such as videos posted on advertisers' own sites or on video sharing sites—more directly appeal to the interactivity and control that lead consumers to on-demand video and ad skipping behaviour in the first place," says Jupiter.

The research was based on a face-to-face weekly survey by Ipsos of at least 1,000 adults in major European markets.

99p over a 48-hour period. The broadcaster will not say how many people are actually using the service, or how many programmes have been purchased.

Channel 4 has experienced steady growth in advertising and sponsorship revenue over the past five years: from £619 million in 2001 to £729.3 million in 2005. But there is a need to accelerate the increase to take into account the broadcaster's growing number of channels.

Rose points out that VOD advertising has the potential to be much more targeted, and therefore more interesting to would-be programme sponsors. Channel 4 has the added benefit of targeting the 16 to 34 year-old demographic, a hot market for advertisers.

"We're thinking about ripping up the rule books on this," says Rose. "We've got lots of real information on who's watching what, when and how. The potential here is huge."

She says one idea might be to offer sponsored programming over VOD.

But Chanko at Jupiter says from his experience of the US VOD market, advertising is not a strong point.

"From the ad agency point of view, there are many areas of concern with VOD. Ads can be fast forwarded, and VOD is used by a small audience, both of which mean there are lower advertising rates. VOD advertising revenues in the US are practically a statistical error."

Currently, there are no adverts on 4oD, but Channel 4 plans to start them from April with free content.

Channel 4 is collaborating with Virgin Media through a content supply arrangement, with joint branding, packaging and marketing of the 4oD brand. Currently, more users watch 4oD on digital TV than on the Web site, but Rose says this is simply because Virgin Media has an established consumer base through its ntl: Telewest cable assets.

Other broadcasters in the UK are also launching video and broadband on demand services. The BBC is in trials for its iPlayer service, and ITV will offer an online streaming service, as well as certain programmes on-demand.

"The BBC will give us a run for our money because of its resources. Its iPlayer, with seven day catch-up, could include thousands of archived programmes to put on VOD," says Rose. "The BBC will encourage people to access what they want, when they want. We see the BBC as our biggest competition, but it helps grow the market," she says.

Eventually Channel 4 hopes to run most of its content over 4oD, except some programmes with a short shelf-life such as news. New content will include short films submitted by viewers to 4Docs, and comedy from 4Laughs, which will also be based around user-generated content. Rose says 4oD also hopes to act as an aggregator and offer programmes and content from other broadcasters.

Analysts say VOD will not have a major impact on linear TV viewing in the short term. But long term the impact could be enormous, with channels having to rethink the 24-hour scheduling model and reinvent television as a completely on-demand service, says Chanko at Jupiter.

"It's still too soon to say what the impact [of VOD] will be on linear television," says Elliot at Nielsen. "Some of the models will include the same commercials that linear airing has, and some models even make it impossible to fast-forward."

And Adam Daum, a research VP at Gartner, says: "VOD will definitely impact linear TV. The important question is the speed at which consumers' media consumption will shift from scheduled TV channels to move to a totally on-demand experience. I don't think people will switch completely to on-demand, but I think a high proportion will shift. This will be a significant change for broadcasters also."

Looking ahead, Channel 4 also wants to offer its on-demand programmes on portable media players. But viewers eager to download the latest instalment of Hollyoaks onto their video iPod might have to wait: because of digital rights management conflicts, currently the 4oD service doesn't work with Apple products. M

High on life

Online virtual world Second Life has achieved cult status, but will it cement the commercial side of its business to really make it fly? By JAMES BLOOM

When Second Life first launched in the summer of 2003, there was no indication it would become the vibrant community of virtual entrepreneurs and celebrity avatars it is today. Nothing had been built and you could count yourself lucky if you happened to log in when someone else was there. All you would see was a big, open horizon. The CEO of Linden Lab, the company behind Second Life, had decided to leave the world empty and let the users build it themselves.

After five months there were only 1,000 regular visitors and Linden Lab was fast running out of money. The investors were considering pulling out. "We decided then to be a platform and not a game," says Jed Smith, an early investor on Linden's board. That way they would not incur the kinds of costs of massively multiplayer online games like World of Warcraft, and would be dependent on their users to generate their content.

Then the users stole the show. In January 2004 Second Life relaunched, showcasing a huge array of virtual cities, games, jungles, nightclubs and avatars its users had dreamt up and were inhabiting. They also made an original alteration to their user agreement: users would keep the intellectual property rights to anything they built. In addition, the virtual currency used to purchase land and everything to put on it, Linden Dollars, could now be exchanged for real money.

In February, Second Life passed the 4 million user mark. What's more, user transactions for buying and selling virtual real estate, new bodies and other services generate upwards of US$1 million per day.

Major record labels, Hollywood studios and a long list of brands are buying up space and hosting events. This land grab has seen media coverage of Second Life reach fever pitch over the past few months.

> 'Second Life is a very niche site with an audience that fluctuates greatly'

Could Second Life or another 3-D world make the jump from stand-alone product to an actual platform like YouTube or MySpace?

"Although Second Life is the most popular of the 3-D communities, it is a long way off from MySpace," says Alex Burmaster, European Internet analyst at Nielsen/NetRatings. "It is still a very niche site with an audience that fluctuates greatly from month to month."

Bill Gurley, a venture capitalist with Benchmark Capital and a Linden board member, takes a different view. "I invested in Second Life because it's like Microsoft or e-Bay—a venue in which thousands of other businesses can sprout."

At present, Linden Lab makes its money from selling virtual real estate. To log on to the game is free, but if you want your own pad you pay a premium subscription, priced at US$9.95 a month. You can then build. Islands cost $1,675 to purchase and $295 a month to maintain, and provide 16 acres of virtual land. So far Linden has sold 4,400 private islands.

Since Linden revamped its business to focus on real estate, users and revenue have grown at 10% a month. The annual GDP of the Second Life world was US$220 million last year. Even so, Linden Lab's revenue for 2006 was only US$11 million.

Now the big commercial companies are moving into the world to try to attract customers and grow their own brands.

One of the biggest land owners on Second Life is IBM, with 24 islands under its banner. Other big names include Sony BMG, Nike and Toyota. Some sell or give away virtual merchandise for avatars; a few move real-world products. NBC Universal hosted a virtual Christmas tree lighting ceremony at a simulated ice-skating rink. Warner Bros' Sire Records threw a listening party for artist Regina Spektor in a hip digital loft apartment. ABN Amro recently set up a virtual office that offers information on its products. You can also talk to people there about job opportunities at the bank.

Some users are upset about the breakneck expansion of what was once a relatively exclusive community. Others decry it being overrun by corporations. But the effects on the core community have been positive too. Linden Lab counts 65 new companies that have sprung up inside Second Life to serve real-world business

SECOND LIFE

customers. CTO Cory Ondrejka says about 350 people work full-time for such companies accounting for US$10 million worth of projects currently underway.

According to figures from Linden, of the 4.3 million registered users of Second Life, 1.5 million have logged in during the past two months and just 465,000 over the past seven days. Of the total number of inhabitants, 25,000 have a positive cash flow, and only 600 are making more than US$1,000 per month from Second Life commerce. Just over 100 are making over $5,000.

Last year avatar Anche Chung claimed to become the first real-world millionaire by developing Second Life property. She employs 30 developers in China to improve the land she buys for resale. But China in March said it would forbid trading virtual currencies into legal tender for a profit.

Companies like IBM are approaching Second Life as a brand new marketing medium, one which is a lot more social than the 2-D Internet and which offers a new level of involvement and interaction. As of January this year, 3,000 IBM employees were registered users and 300 were regularly logging in for inter-continental conferences and technology presentations.

Philip Rosedale, CEO of Linden Lab, hopes other virtual worlds will interoperate with Second Life. "Say IBM uses our code to build its own intranet version that's slightly different to Second Life," he says. "A user may say 'Wow. This virtual thing IBM has built is pretty cool. Now I want to go to the mainland'. And [that way] we have another customer."

Now competitors are nipping at the heels of Second Life, building communities and interactivity into games and other "traditional" media.

In February, Sony Pictures announced it will launch a new multi-platform series, Afterworld, enabling users to create their own story around a set of central protagonists. The service will be available for PCs and mobile phones. Paramount Pictures said it will launch a similar service.

Disney also sees 3-D as a powerful marketing tool. Its Virtual Magic Kingdom, and the soon to be released 'Pirates of the Caribbean' online game, testify to this. And CBS earlier this year said it would work with sites and technologies including Second Life, YouTube and SlingBox to enable interactive versions of its content.

A more direct competitor, perhaps, There.com is another 3-D community that allows users to buy virtual clothes and buildings. It has 700,000 registered users. MTV's Virtual Laguna Beach runs on There.com's engine, and has picked up 360,000 users only three months after launch. Input from its younger demographic does not include setting up stores, but budding designers can take part in virtual fashion design competitions. There.com claims it also has the advantage of a simpler user interface; Second Life's is notoriously complicated.

The games industry is another obvious competitor. Electronic Arts has just purchased Singshot, whose online karaoke community allows users to post their own performances and review other recordings online. Electronic Arts plans to run the product alongside its popular SIMS brand and other games in an integrated community framework, although there is little detail as yet on the plan.

Other, related areas are hotting up too. In February, Google bought Adscape, a company that specialises in delivering adverts live into online multiplayer games, for US$26 million.

Linden Lab is backed by some of the richest and most successful investors in the industry. Mitch Kapor, creator of Lotus 1-2-3, eBay founder Pierre Omidyar, Amazon CEO Jeff Bezos, and Microsoft chief technology architect Ray Ozzie, are all on the Linden board.

They will be hoping that users will be able to drive the transformation of their business again, just as voice capabilities are about to be launched on the service.

At the moment, a maximum of 35,000 people can visit Second Life simultaneously, but when they do the servers start to lag, the action on-screen grinds to a halt and there are regular crashes. Linden has just released the code to its client software as open source to speed up improvements and bug fixes. Within the year, we could see new virtual communities popping up on the Internet running on software compatible with Second Life. M

USERS WITH POSITIVE MONTHLY LINDEN DOLLAR FLOW (PMLF)

USD Equivalent PMLF	September 06	October 06	November 06	December 06	January 07	February 07
< $10 USD	5,180	6,285	7,098	9,000	11,396	13,490
$10 to $50 USD	2,770	3,402	3,592	4,535	5,671	6,625
$50 to $100 USD	760	866	1,010	1,239	1,489	1,690
$100 to $200 USD	566	692	797	921	1,119	1,289
$200 to $500 USD	524	563	671	823	1,018	1,165
$500 to $1,000 USD	228	263	289	350	386	496
$1,000 to $2,000 USD	125	160	179	229	263	283
$2,000 to $5,000 USD	77	92	94	140	188	211
> $5,000 USD	37	41	58	90	97	116
Total Unique Users with PMLF	10,267	12,364	13,788	17,327	21,627	25,365

Source: Linden Research Inc.

The legal Web

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The Internet has traditionally been exempt from the kind of regulation that has been part and parcel of the broadcasting world. But now, as broadcasters move further into offering Internet-based programming, and upstarts like YouTube push online video popularity even further, European regulation will start to encroach on certain Internet-based services.

From its earliest days in the 1920s, broadcast programming content has been subject to government regulation. Originally, the rationale was that broadcasters used scarce spectrum but, with the development of cable and satellite, governments soon pointed to other things including the power and influence of the medium.

More than newspapers and periodicals, broadcasting was thought to have an intimacy that gave it much greater influence over the population.

The rise of the Internet changed all this. Early on, governments recognised as a matter of policy that it would be impractical to seek to regulate the Internet.

In the meantime, those who ventured onto the Internet were left to fend for themselves, although it was expected that watchdog organisations would offer means to avoid the worst excesses of the new medium.

That this was deliberate policy is illustrated by the fact that the re-regulation of broadcasting in the UK, under the Communications Act 2003, went out of its way to put the Internet largely beyond the reach of the new, all-powerful regulator, Ofcom.

The new Act carved out an area that was to be beyond Ofcom's remit so far as content was concerned. There was no exclusion for the Internet as such—that would have been anathema in the new world where technological neutrality was the touchstone. Instead, the carve-out was of services with particular characteristics defined in somewhat arcane terms.

The gist of it was that services would not be subject to content regulation if they were made available on demand (or "non-linear" in the new jargon).

Anything that was scheduled in a linear fashion was subject to all the rigours of content regulation, but anything that was genuinely transmitted in response to a request by a user and at the time requested by that user, was outside the scope of regulation.

As it happened, the dividing line had a European justification. In 1989, the Television Without Frontiers Directive sought to harmonise the regulation of television broadcasting across the Community.

What was meant by television broadcasting was brought into sharper focus more recently with the adoption of the E-Commerce Directive and the harmonisation of rules for information society services in Europe.

And then last year, the European Court upheld this dividing line so that it was clear across Europe that regulation did not extend to true on-demand services.

What seemed to be settled was almost immediately disrupted by the European Commission. Applying principles more familiar to the regulation of the telecoms sector than broadcasting, it took the position that the playing field in the audio-visual sector was tilted in favour of the providers of on-demand or non-linear services and put forward proposals to bring non-linear services into the content regulation net.

Initially, these proposals were well received in almost all Member States in the European Community, and the UK fought an almost solitary campaign to resist the indiscriminate application of content regulation to the burgeoning Internet sector.

> **Those who ventured onto the Internet were left to fend for themselves**

The UK did so on a number of grounds, not least the impracticality of regulating services on the Internet. But it also fought on the grounds that it would undermine Europe's international competitiveness.

The upshot was that, in December 2006, a compromise was reached and the risk of content regulation extending even to Internet blogs was removed.

Instead, the scope of the Directive would be extended only to services which were similar to conventional television broadcast channels. Again, the precise details of the boundary are complex, but essentially that meant including services consisting of "programmes".

In substance, it can probably best be summarised as video-on-demand (VOD). It will mean that TV-like services such as VOD will be assimilated into the content regulatory regime. All other forms of non-linear audio-visual services will remain beyond the required reach of European regulators.

VOD operators in the UK, for example, can expect to have to seek an Ofcom licence on implementation of the final Directive, which is likely to take place a few years from now.

Innovative services on the Internet have therefore been left in peace for the time being, so long as they do not stray into providing television programmes, whether scheduled or on-demand. M

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