

Freeview's Moment Of Truth

Mark Holmes senior editor

The Freeview service, launched in the UK on Oct. 30 with over 30 free radio and TV channels and backed by an aggressive marketing campaign, will attempt to persuade the millions of people who don't want pay-TV that there is now a legitimate and compelling alternative. If it works, it could represent a pivotal point in the fortunes of DTT, and a possible model for DTT services elsewhere.

While the channel line-up offers an interesting blend of mainly entertainment-focused services, it will certainly not give pay-TV operators any sleepless nights. But, it does offer an intriguing proposition.

Peter Davies, director of distribution and strategy at the BBC, believes the market opportunity is considerable. He told *Inside Digital TV* in an exclusive interview: "The research we have done shows that there are about 10 million households who don't want pay-TV services. So, 10 million out of 25 million is a huge number of people. We think it is going to be really big."

The launch of Freeview raises a number of intriguing questions. One of them concerns

integrated digital TV sets (IDTVs), which combine a widescreen monitor with a digital TV set-top box. The failed ITV Digital pay-based service whose frequencies Freeview has inherited made much of the potential of IDTVs to boost its subscriber numbers. The idea was that consumers would trade in their existing analogue receivers for IDTVs when they came to upgrade. However, the devices were expensive, and sales of IDTVs in the UK have thus far proved disappointing. As reported in *Inside Digital TV* (Volume 5, No. 2), only 120,000 of these sets were sold in 2001.

Will the launch of Freeview (which has been based thus far on the availability of cheap plug-in adapters) do anything to boost IDTV take-up? On the face of it, it seems unlikely: The majority of adapters available at retail range in price from £85 to £130 (133.5 euros to 204.2 euros), a far cheaper way of accessing Freeview than buying an expensive IDTV which start at around £400 (628.3 euros) and rise to several thousand pounds. Despite these harsh economics, Davies believes IDTVs will have a significant role to play in DTT take-up in the UK. He said: "Once we get over

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TVcompass Ditches £29 STB

Barry Flynn Editor

TVcompass, which was planning to bring a free-to-air adapter to the UK DTT market for just £29 (45.5 euros) in Spring 2003, has now abandoned the idea, following CEO Stephen Voller's poaching by a rival DTT technology outfit.

Voller was the brains behind the unusual project, which involved an innovative combination of set-top box and mobile-enabled remote control. Voller's idea (see *Inside Digital TV Vol.5 No.16*) was to heavily sub-

sidise the set-top box, but recoup the subsidy from shopping, travel, gambling and advertising revenues. These would derive from transactional services accessed via the 'wireless'-enabled remote control.

When the notion was revealed, *Inside Digital TV* was sceptical about the implied level of transactional revenues, but thought there were lots of good reasons for adding mobile phone capability to a remote control device, particularly in a DTT environment lacking a return-path.

Both the company, which

has a staff of around 23 personnel, and its "convergent" remote appear to have survived Voller's departure. John Roberts, TVcompass' chief software architect, told *Inside Digital TV*: "TVcompass is looking for a replacement CEO at the moment. (While) we are not planning to develop the set-top box and the remote control together, we are working on a standalone remote control device." He added that it looked as if the company had now secured "significant funding." Asked for the identity of the new investor, he said he could not

reveal it yet, but he expected to have them on board "certainly before Christmas."

From what Roberts says, TVcompass's abandonment of the 29-pound set-top box strategy (which was greeted with a certain amount of derision by the industry) has proved key to its financial survival. "We were unable to get funding based on that business plan," conceded Roberts, describing it as "basically Stephen's baby". But "we always had a business plan in place for just the remote control." While he

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TVcompass Ditches £29 STB

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recognized that the set-top box strategy represented one possible way of getting the remote into homes, "of course the costs are much higher – and also the subsidy model of selling it for 29 pounds actually is riskier than the alternative."

Roberts was unwilling to be drawn on a precise date for the launch of the mobile-enabled remote control. "It's very unlikely to be ready by Spring (2003)," he said. "I mean we don't actually have a date set, but it won't be then."

As for the likely price of the remote (it sports a colour display and is Bluetooth-enabled), Roberts was equally vague:

"Obviously that would have to depend on how it's sold, whether or not it is subsidised by ourselves or by anybody else, which retail channel it goes through and then of course the cost of materials at that point. So there's no indication of what it would be."

While *Inside Digital TV* is aware of the identity of the company, which Voller has moved to, that information has been embargoed until after this edition goes to press. It will therefore be announced in the next issue.

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Cable Players Cry Foul In Austria

Mark Holmes senior editor

Cable operators in Austria believe the government is poised to use public TV licence fees to implement DTT there. While nothing has been decided, they believe such a plan would be inherently unfair.

René Tritscher, deputy managing director, Association of Telecoms and Broadcasting Companies in Austria told *Inside Digital TV*: "The problem is that the cable operators have to pay their own money to build up their own infrastructure and now a second infrastructure will be built, which will be financed by the government. We think this isn't fair, as cable players have to had to build infrastructure with their own money."

However, in an exclusive interview, Alfred Grinschl, managing director of the Rundfunk & Telekom Regulierung (RTR), the Austrian Broadcasting Authority, told *Inside Digital TV* that he believed using licence fees was a valid approach. He said: "We have suggested setting up a digitization fund supported by Austrian state broadcasting fees. I feel that using those funds for this purpose is justified, as a large part (33 per cent) of the fees collected have not been used for broadcasting purposes in the past, but rather for general federal and provincial budgets. Using the fees in this way would not reduce the programming fees allocated to the Austrian Broadcasting Corporation (ORF), and for the first time our citizens would receive a broadcasting-related service in return for paying the fees (in addition to

ORF programming)."

Despite objections by Austrian cable players, the RTR is determined to make DTT a success in Austria. It is preparing a pilot project in Graz, Austria's second largest city, which is located in the south, for launch in 2003. This project will go a long way to determining the main technical issues surrounding the implementation of DTT in Austria.

The results are likely to be known by the end of next year, said Grinschl, adding: "This project in Graz will be the first to be open to private households. In the past, we have had only technical projects. Five hundred households will be selected for the project. We want to find how interested consumers are in digital TV, and different applications such as interactivity. The digital TV project will also be open to other households in Graz. Other people will have the opportunity to buy a STB and to be part of this project."

In terms of the transition from analogue to digital in Austria, Grinschl admits he can't give a definitive time on how long it will take, although he is optimistic it could be done within five years. He says: "We can assume that DVB-T coverage will reach 70 per cent of Austrian viewers five years after the start of the project, in 2008. The greatest challenge is that the resources (frequencies) available for digital broadcasting are highly limited. This will be especially true of the simulcast phase, in which analogue and digital broadcasting will be carried out in parallel. The costs of

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the initial hurdle of getting people used to digital, I think it will become the natural thing to do ... When you replace your TV, you buy an IDTV."

Although the BBC's initial marketing campaign will not focus on IDTVs, this is likely to change early next year. Davies adds: "We are thinking for our next wave of marketing in the first quarter next year to incorporate IDTVs. Certainly, the BBC digital guide will also include a reference to IDTVs as well. I think the prices for IDTVs will come down. I think once the (IDTV) manufacturers see there is a market for the Freeview adapters, they will increasingly be competing for that market and it will force the price down."

How many users?

But the biggest question facing Freeview will be how many users it will be able to attract. If Davies is to be believed, there are 10 million households that could potentially use Freeview, excluding coverage issues. A figure of 50,000 new users a month might seem conservative in view of the numbers of adapters being sold so far. Certainly, a figure less than that would have to be considered disappointing. While not offering any projections, Davies said: "Our job is to make sure the services are out there and people can get them. The levels of take-up are as much down to the manufacturers and retailers. We think it is going to be big. We know they have been selling at around 30,000 a month since launch at Easter, and that is with no marketing. Once our marketing campaign starts, we don't know whether it will be double that or five times that. We really don't have any clue at the moment."

Some analysts certainly believe that Freeview could add well over 600,000 subscribers in 2003. James Healey, a media equity analyst at Dresdner Kleinwort Wasserstein, said in a research note: "Our forecasts call for Freeview to add 770,000 new subscribers during 2003 and 841,000 in 2004. We believe our forecasts to be conservative." These figures would be equivalent to Freeview adding around 64,000 new households a month in 2003.

Freeview also hopes to learn from the ITV Digital experience. While a large part

of ITV's Digital's demise can be put down to poor decisions (such as paying excessively for Nationwide Football League rights), it was also plagued by reception issues as well as low coverage levels. Davies believes Freeview won't suffer from such problems. He said: "We are doing something known as a mode change. We basically changed from 64-QAM, to 16-QAM. What it does is eliminate all of the interference problems that ITV Digital had."

He added: "A lot of the interference problems have gone because we have doubled the power at the biggest 30 transmitters. That combined with the mode change means, in effect, we have increased the power by four times. It means the signal is a lot more robust. We have got rid of the interference in most cases. It means it works a lot better with existing aerials, and it has boosted the number of people that can get it."

Kite-marking Scheme

An effective kite-marking scheme is not yet implemented, despite it being stipulated by the ITC (Independent Television Commission) when awarding the NNC/Crown Consortium the multiplexes to run the Freeview service. The theory behind the scheme is that new subscribers buying a digital adapter or an IDTV would be guaranteed some minimum level of functionality, or perhaps just that the set does indeed do what it says it does. Such a scheme is not currently in place. The association of multiplex operators, TDN (The Digital Network) has been given the responsibility for running this kite-marking scheme by the ITC. On this issue, Davies says: "That is a decision for TDN to make. What we want to do as Freeview is licence the Freeview logo to be included on at least the packaging, if not a kite-mark on the box. But we want to work with manufacturers to put a logo on their cardboard boxes saying that the receiver will pick up all the Freeview channels. It should be fairly soon. I would hope by early in the new year, it would all be sorted."

Service Improvements

Once the service is up and running, the challenge will be to keep improving

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the quality of service. A lot of these improvements depend on reaching a critical mass of the UK population. If this happens, then Freeview becomes an attractive proposition to channel providers as a reach of millions increases the opportunities for advertising revenue. Davies says: "You have got to wait until the number of people accessing Freeview is sufficiently high for it to make economic sense to go FTA (Free-to-Air). What a lot of these channels are doing is buying shelf-space for the future. There are big companies behind the channels. I think in time I wouldn't be surprised if Sky Travel turned into Sky One, for example. We are probably talking about 3-5 years away."

Improving the EPG and generating and developing PVR capabilities are also priorities next year. Davies says: "The EPG is fairly basic. We hope to improve that next year. Now, we only do 'now-and-next' data, but I think longer-term we want to do seven-day data if we can. I think the other thing we will see happen is PVRs being combined with Freeview receivers as well. I think that is going to be quite a big market."

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Singer: Speed Is Essential For UK Cable

In his first interview since leaving Telewest this summer, ex-CEO Adam Singer talks exclusively to Barry Flynn on the challenges facing the UK cable industry.

Inside Digital TV: The UK cable industry seems to be in a state of ongoing crisis. What are your views on its future prospects?

Singer: The great thing that UK cable has got is a terrific state-of-the-art network. That's the good news. The problems are that so much money has gone into building the network and has gone into transitioning the network from analogue to digital that it's probably left insufficient capital in the UK cable industry for really being able to provide the levels of service to customers that they ought to be able to provide. How do you find the capital to make sure you can have the appropriate state-of-the-art call centres, the appropriate conditions for your employees, and the appropriate marketing? So that (a) the world knows the product's there and (b) when they do get through on the phone they get the service that they want? Because if you're selling yourself on newness and technical capability, then you have to provide a service commensurate with that, and the industry's always found that hard. And it is a capital issue.

The next problem the industry faces as a totality is, because the cost of the network has been high, no single product makes money. So therefore you have to sell as a bundle, and that's quite a tough proposition.

Another issue — which we should have addressed, but because of the nature of funding that the two protagonists need, it's been hard to do this — is that it's very hard for two regional businesses, which is what the UK cable industry is, to compete against a series of national businesses. All their competitors — BT, Vodafone, Orange, Sky — are national competitors. And if you're a national competitor, you have tremendous efficiency in terms of getting your message across to the consumer. And that's one of the issues that cable certainly lacks.

Finally, the other issue, of course, is that the really savvy consumer is going to get his multichannel television from Sky, because Sky probably provides you with the best choice of multichannel TV at probably the best price. They're going to get their broadband high-speed connection from whoever's going to give them the most speed at the best price. And at the moment, cable wins that, no question. And then telephone will be with whomever is most convenient ... More and more the voice telephony market is moving towards the mobile.

The issue cable faces is it can be an OK business, but it's going to be very tough to be a great business, especially while it's split and especially given the nature of the competition.

*—Adam Singer
Former CEO, Telewest*

Inside Digital TV: What you say suggests that out of those three areas, cable can only beat the others on the broadband Internet front.

Singer: Yes, the battle gets fought on the broadband product. You're seeing virtually no growth in cable take-up, in subscription take-up. But you are seeing growth in those taking more services, or those who are taking broadband services. And here cable can win because cable can actually provide more speed at a better price. Cable can provide a 1Mbit/s service. Cable could provide higher speeds to domestic customers if the market wanted, and BT would find it very hard to compete in that area. And that's the advantage.

But the disadvantage for them is just the sheer size of BT's marketing campaign. Now cable gets a collateral benefit from that because it makes the market aware. And, of course, once the market becomes aware of broadband, they start

to say, "Well, what choices do we have?" So, cable certainly gets a benefit from BT's marketing.

But it's a little like owning one of the utilities on a Monopoly board: You know that you can never get that wonderful situation when you own all four of them. The issue cable faces is it can be an OK business, but it's going to be very tough to be a great business, especially while it's split and especially given the nature of the competition. It's become a very mature market very fast.

Inside Digital TV: Given those difficulties, what can the UK cable industry do to turn the current situation around?

Singer: First, it needs a range of relatively new and sexy products, so that people actually understand that buying cable is buying a hi-tech product. It needs the capital for that. Second, it really needs to significantly improve its service level, which is one of the things it's easy to say but very hard to do, because it really does need a significant amount of money. And then the thing it really needs is a single national cohesive message so everybody in the country knows that cable is a national choice. And then it needs to become totally digital, because it's hard to compete on television against Sky while a large hunk of your bandwidth is still analogue.

But on the other hand, the margins you're making on your analogue customers are much better than the margins you're making on your digital ones. That really puts you in a conundrum, especially at the moment. You know you've got to go digital, but it's hard to let go of today's banana for tomorrow's banana harvest.

But once cable can totally transition across to digital, it ought to be able to offer a programming line-up as good as Sky's, which it currently can't do. And then it really needs to offer a basic Internet service, which NTL is doing at 128 Kbps, which eradicates 56 Kbps, and then it should eradicate 512 Kbps and offer 1 Megabit — just to really get across the message that cable can do all of this stuff much faster than BT can.

The problem with me saying these things is that everyone will say why didn't you do it ... That is exactly what it is we were trying to do.

Inside Digital TV: Do you think the things that are actually happening in the cable market, in terms of restructuring, debt for equity swaps, etc., are sufficient to deliver that promise?

Singer: I can't really comment on that because I'm not *au fait* with the latest details of either Telewest's or NTL's position on that. But I can say that to be an effective business, you need a number of things. UK cable could be a highly effective business if it can transition to digital quickly, if it can offer more speed, if it can offer better customer service. And to do that, it needs two things: It needs to be a single national business, and it needs significantly more capital.

Inside Digital TV: You haven't mentioned the interactive TV dimension of digital cable.

Singer: That can make a huge difference, too. If cable could use the box as a basis for a domestic wireless hub, if cable could offer a range of significant interactive programmes like "Living Health" [the NHS-funded NHS Direct interactive

TV pilot Telewest ran in its Birmingham franchise], or the stuff that David Docherty and his team are developing.

The problem that cable faces is really quite simple. It is becoming the telephone equivalent of a water utility. And it's only things like interactive television which will carbonate that water and make it sparkle.

Inside Digital TV: So it's not just broadband cable can use to differentiate itself with; it's also because it can mount the most sophisticated interactive TV offer.

Singer: Yes, and there needs to be a TV offer that takes one outside of conventional linear TV. Health is highly relevant because you can pull down the health information you want at the time that you want it. You can provide direct connections to paramedics whereby you can see them on the screen. They can't see you, but you can absolutely relate to them. You can do that for medicine. You can do that for education. You could do that for further education. You could do that for vets, pets. You could do it for citizen's advice, and so on. And then you start to be able to get these new broadband services into all homes, not just privileged multi-PC homes. So, on that level, it starts to become a default distri-

bution system.

But that is a game that BT will at some point start to get into with Sky. It's not quite as elegant as cable's single pipe, but it will happen.

So, cable's running out of time. If you cannot get that single powerful cohesive national message out there relatively soon, too much of the market will already have gone. The problem cable really faces is how does it get itself out of the current position quickly enough so that there is still enough of a market left by the time they turn up again to be exciting. If they don't move quickly, a large chunk of the market that they need, will have gone to BT.

As a piece of technology, it's still the best. But being the best technology – Concord, the Channel Tunnel or Betamax being good examples – is not the best position necessarily. The question is can they move quickly enough to sort out the financial side?

The UK cable industry needs time and money: Both are in short supply. If they don't move quickly, BT will have their lunch. And to move quickly and succeed requires more capital than the current assorted financial conversation and restructurings envisage. The danger cable faces is that it is on the cusp of being the best communications infrastructure the UK never had.

TF1 Sees Advertising Revenues Increase

Mark Holmes senior editor

French broadcasting giant TF1 saw a small increase in advertising revenues in the third quarter to 270.9 million euros, an increase of 5.6 million euros from the third quarter in 2001. The results confirm a flat trend in the advertising sector. The company's net advertising revenues for the first nine months of this year were down 0.9 per cent. TF1 expects little growth for 2002 as a whole.

In its results, announced on Nov. 6, TF1 said its overall revenues had increased to 540.2 million euros in the nine months to Sept. 31, a 25.1 per cent increase from the same period last year. This increase was mainly fuelled by the consolidation of its stake in digital satellite platform TPS. TF1 now has a 66 per

cent stake in the pay-TV satellite player. In the first nine months of this year, TPS contributed 206 million euros in revenues to TF1. TPS had 1.385 million subscribers at the end of June 2002. These results were largely in line with most analysts' expectations.

The performance of TPS is critical for TF1. Both TPS and its pay-TV satellite rival, Canal Satellite, have aggressive price promotions in the market during period before Christmas. The launch of Sport+ by Vivendi Universal (VU) is also likely to put the pressure on TPS. Sport+ is a new premium sports channel with a variety of popular sports (football, basketball, golf) etc. The channel represents a major attempt by VU to try and gain a competitive advantage in terms of sports broadcasting and give Canal Satellite the

edge on TPS.

Football rights are also at the top of the agenda at the moment. Operators had until Nov. 12 to bid for the rights to first and second division championship matches in France between 2004-2007, as well as league cup matches between 2003 and 2006. Currently, TPS and Canal Satellite own the rights to screen matches live. There has been some talk that TF1 and M6 (a 34 per cent shareholder in TPS) may look to bid for all of the rights, and thus leave Canal+ out in the cold, although due to the high costs involved, this would seem a very risky strategy. But, it cannot be ruled out as the French Professional League (LFP) has structured the tender in a way that will make it difficult for TPS and Canal+ to team up to try and keep the costs for the rights down.

VOD Strategies Will Prove Far From Easy

Video-on-demand (VOD) is the holy grail of digital broadcasters, allowing them to generate higher average revenues per user (ARPU) and reduce customer churn in a competitive pay-TV environment. However, according to Datamonitor's report "Return on Investment for Video-on-Demand: Cable and ADSL VOD in Europe," ADSL VOD providers in Europe will struggle to make VOD profitable accumulating negative returns of \$2.5 billion (2.4 billion euros) by 2006. By the end of 2002, costs to deploy VOD will have reached \$44 million (43.6 million euros) and this will run into \$3.6 billion (3.57 billion euros) in 2006. ADSL VOD in Europe faces a prohibitive cost base resulting from decreasing, but still significant, network access charges and from higher technology costs, relating to bandwidth utilization and load balancing over IP networks. The Nordics will be the only region where ADSL VOD will be profitable.

VOD on ADSL will experience strong revenue growth, but will not make it into profitability by 2006. It is mainly the excessive operational expenses that push up costs on the ADSL side. Satellite and standalone providers will have to pay network operators access charges for the leased ADSL lines that they use. Even as local loop unbundling slowly progresses in Europe and regulation forces further decreases in pricing and these costs reduce in significance, they still continue to represent an important extra burden for non-incumbent ADSL VOD providers in competition with cable.

Bandwidth utilization and load bal-

ancing over IP networks affect ADSL VOD cost-base negatively. More importantly, however, operational costs will be high due to the disadvantage ADSL has over cable in terms of bandwidth use and distribution of content. It is not only that the high data rate of ADSL is only deliverable to subscribers within a maximum of 5.5km of the exchange, meaning that there will be an issue with distributing centralized content to a base of geographically dispersed subscribers. Additionally, load balancing over IP networks is still at an immature stage and therefore expensive bandwidth cannot be used in an optimal way.

With the exception of only Germany, European cable VOD operators, on the other hand, will benefit from two-way digitized cable networks and will be able to position VOD as part of their high-speed Internet, telephony, and TV triple-play strategy, targeting an existing user base. Datamonitor therefore expects European cable operators to achieve a slight positive ROI of \$176 million (174.4 million euros), after the 3rd year of service launch.

There is a polarization between cable and ADSL VOD countries. Current cable strongholds such as Benelux and Germany will develop sizeable cable VOD revenues by 2006. However, in Germany's case, due to the slow two-way digitization upgrade of cable networks and the complicated structure of Level 3 and 4 operators, ADSL will also gain considerable ground, mainly driven by incumbent and standalone VOD.

The Nordic's ADSL VOD will be strong due to deployments from all parties:

satellite, incumbent and standalone operators. Government subsidization will give a boost to VOD deployments by making it economically feasible to gain ROI in the medium term through fast network upgrade and low pricing. Italy will generate relatively high VOD revenues considering the low penetration of VOD-enabled households. Whereas large parts of the pan-European cable user base are forecast to be VOD-enabled Datamonitor expects only a minority of them to become VOD subscribers who actively use the service, as cable VOD will be an add-on functionality, much like PPV today which pay-TV users may or may not activate. However, on the ADSL side VOD-enabled households are likely to be active users due to VOD's positioning as a differentiated service, which will also be heavily marketed to the user base.

As ADSL VOD operators do not benefit from the incremental pay-TV revenues of cable operators they will charge a subscription fee in addition to the PPV charge or SVOD subscription. Therefore, they need to focus initially on building their content portfolios fast by negotiating premium content with pay-TV content providers. ADSL VOD will be to a large degree reliant on movie and also music content rather than the provision of 'broadcast television-like' series or sitcom packages. Considering this, ADSL VOD providers need other ways of differentiating their service, for example by innovatively packaging themed movie content and focusing on promotional offers.

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Cable Players Cry Foul In Austria

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introducing DVB-T in Austria will be calculated in the coming year."

Tritscher is not so optimistic about this timeframe. He says: "I think a national rollout can be achieved by 2010. I think this is realistic."

The need for a compelling DTT alternative in Austria is seen as vital due to limits on cable penetration. Grinschgl argues: "Alternatives to terrestrial broadcasting in Austria are not feasible, as less than 40 per cent of all households are equipped for cable TV. This mainly applies to urban

areas, and no large expansion plans have been announced at the moment. The only alternative would be satellite TV."

The RTR has a target of having 12-16 channels on DTT. In terms of the channel line-up, Grinschgl says: "The digitally broadcast channels will largely be free TV channels. It will also be necessary to broadcast more than that which the Austrian channels offer (ORF and private television), as 80 per cent of Austrian households also view German channels."

Despite the potential dispute between

the RTR and the cable players, Tritscher is optimistic the situation can be resolved. He said: "We think there should be a co-operation between the new and cable operators concerning digital TV. We think we can find some common ground between all parties."

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BBCi Looks North

The BBC has launched two new interactive services on Kingston Communications' Hull-based ADSL network. Barry Flynn has been talking to the key executives involved.

The obligation to serve local audiences is part of the public service remit of both the BBC and its commercial rival, the ITV network, and it's always been a thorny issue in the UK. The problem, in general, has been that it's economically much less efficient to make programmes for small regional audiences than for large national ones – particularly when it comes to expensive genres such as drama.

The other issue is the perceived southern, metropolitan bias of the BBC's output, which means, confesses Emma Scott, project leader of what the BBC has dubbed "Project Hull," that "we're not reaching the Northern audiences that well."

This indicates that perhaps the most interesting aspect of the BBC's new interactive TV initiatives in Hull and East Yorkshire (which bring together the BBC's New Media, Nations & Regions, News and Drama & Entertainment divisions as well as Kingston interactive Television (KIT)), is that they're less about testing the technology and the audience's reaction to it than they are to do with experimenting with new forms of local television. As Scott says, "we really want to test how local people want their content."

There are certainly innovative aspects to the way in which viewers are expected to access Thunder Road, the BBC's first interactive drama. First, although it will eventually be transmitted on the BBC's national network as a linear 90-minute drama, it is in fact composed of discrete 3-5 minute chunks, each of which is accessible to its local, Hull-based ADSL customers on a 'true' on-demand basis.

Second, rather than interpreting interactive drama in the conventional way as a genre which allows the audience to opt for alternative endings, in this case local viewers are offered the choice of amplifying each of these 'chunks' with background information. Some of this takes the form of what Helen Thomas, executive editor of BBC Humberside, whose team created and manages the BBCi Hull

portal, calls video "mockumentaries." These, she says, enable viewers to "go behind the scenes, and see how the different characters feel about the events in the drama." Viewers are even able to post questions to the characters, receiving their "replies" via the TV screen. Thomas describes this process as one, which allows the audience to "find their own path through the drama."

However, what's probably just as significant as these technical innovations is the fact that Thunder Road has been made by the distinguished local playwright John Godber, using local people as actors, and it's been made *cheaply*.

One reason for this is the avoidance of a multiple-ending format, which would have involved shooting expensive extra footage. But another reason, notes Thomas, is that the TV drama was shot using high-definition techniques but on low-cost cameras. "So it's not using big 35-mm cameras, but has a network production quality to it. So the cost of production is less", even though additional footage did have to be shot for the 'mockumentaries.'

The other interactive TV initiative is perhaps more straightforward. BBCi Hull viewers can now access BBC News in on-demand mode, too. As well as the usual live news service, they can call up any one of six headline stories in VOD mode, as well as news, sports and weather round-ups. This means that by using the arrow keys on their remote controls, viewers are able not only to choose the order of the stories they want to watch, but can also re-play the story, pause during a bulletin or fast forward and rewind.

According to Richard Deverell, head of BBC News Interactive, "The BBC News video-on-demand service recognises that people are leading busy lives and not everyone has an opportunity to sit down and watch news at the same time. It gives viewers the chance to select the stories they want to watch at a time that is convenient to them, using technology that is potentially the most advanced of its kind in the country."

It's too early to say how the local audience will react to these new initiatives, but six months of providing a broadband band TV service in Hull have provided some generic lessons for the BBC. According to Scott, "We originally thought putting up a lot of online content, a lot of web-on-TV content, would be a great way of putting things up quickly and people would love it. In fact, what we discovered is that people do not like looking at text in a sort of Web-on-TV visually presented format. They like lots and lots of video and they like lots and lots of local content. The over-riding winner on the site is the local weather, the local news and the local sport."

Another finding is to do with the way the audience prefers to navigate around the various choices available in an interactive TV environment. "We've discovered that, certainly, the audience in Hull likes very, very clear navigation and don't like a lot of hierarchy and depth in it."

Finally, they've discovered that user-generated content is very popular. Thomas' unit has given local people cameras to make films about their life in Hull, and so far, she says, they've accumulated an archive of over 300 video diaries which are available on-demand to viewers.

What this has meant, according to Scott, is that "reach on the trial service (in Hull) is greater than our interactive services on D-SAT and DTT. We're up around 26 per cent weekly reach, which means that 60 per cent of the audience on the KIT service access the BBCi Hull service, and that actually shows a greater level of engagement with the content than we have with other platforms. Bearing in mind this is a more down-market C2DE audience who are not traditional BBC heartland, we see that as quite an achievement. We're clearly offering something that they're interested in and that they go back to."

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■UK digital satellite operator BSkyB says it added 217,000 subscribers in the quarter ended Sept. 30, 2002, bringing the total to 6,318,000 DTH subscribers across the UK and Ireland. The press release detailing these figures claimed this performance broke two records: First, in that it represented “record first quarter growth” since the launch of Sky Digital in October 1998; second, in that it represented the “highest first quarter DTH subscriber growth for nine years.” Both claims are correct if one interprets BSkyB’s claims to relate to overall DTH growth – that is, by combining analogue and digital subs, since Sky added 290,000 subscribers in the three months to Sept. 30, 1993, the quarter during which it launched its analogue BSkyB Multichannel package). However, it is relevant to note that the latest quarter’s performance is by no means BSkyB’s best Q1 performance in terms of *digital* subs, which is arguably a more relevant measure in this context. Sky Digital added about 530,000 digital subs in Q1 1999 and 500,000 in Q1 2000. Each of those previous Q1 numbers more than double Sky Digital’s Q1 2002 posting. In fact, the Q1 2002 is Sky Digital’s *second-worst* Q1 performance in terms of digital subscriber additions since the digital service launched in autumn 1998. Indeed, if one looks at the rate of digital subscriber growth quarter-on-quarter, BSkyB is back to where it was a year ago. In the equivalent quarter in 2001, growth was 3.58 per cent, against 3.56 per cent today. If BSkyB can maintain this level of growth (and it has been oscillating above and below that figure for the past year), it stands a chance of making its 7 million by 2003. But if the next pre-Christmas quarter falls short, it may narrowly miss its target.

■The German mobile telephony company T-Mobile, a division of Deutsche Telekom, has struck a deal with Sony Pictures Entertainment which will allow its customers to download film-clips to their handsets. The agreement, which is not exclusive, also covers Sony content in the form of screen-savers, MMS pictures, ring-tones and Java games. The service will begin in December in Europe and the US, 9where T-Mobile owns and operates cellular networks) but will initially not include the bandwidth-heavy

video content. This will follow in the first half of 2003. The “richest” content will be priced around the 1.50 euro to 3 euro range, with more than half the proceeds going to Sony.

■UK telco BT’s latest results show that it now has in excess of 450,000 broadband ADSL end-users. With 235,000 cable modem subscribers from Telewest (see below) and 380,000-plus from NTL, the UK now has a total 1,065,000 broadband subscribers. BT also announced a 55 per cent increase in profit before tax in its second quarter compared with the same period last year, with turnover up 2 per cent to £4,661 million (7,314 million euros). However, CEO Ben Verwaayen conceded that the three-year revenue target of 6-8 per cent compound annual growth for BT was unlikely to be achieved in the present market conditions.

■Korea passed the 10-million broadband subscriber mark during October, equivalent to achieving a household penetration rate of around 70 per cent, the highest in the world. Korea only launched high-speed Internet four years ago, June 1998, when Korea Thrunet, a broadband carrier, launched a cable-based service. ADSL service was introduced in April 1999 by Hanaro Telecom, the country’s second largest telco, with the incumbent, Korea Telecom (KT) only entering the market two months later. KT is now the dominant broadband provider, with 4.58 million subscribers. Hanaro has 2.86 million users and Thrunet around 1.3 million. The Korean telecoms ministry says it will invest 13.3 trillion won [10.9 billion euros] in broadband over the next four years with a view to increasing the average broadband speed from 3Mbps to 20Mbps.

■New research unveiled by UK TV regulator the ITC has recommended that a more user-centred design approach is required for digital TV products in order to ensure that everyone is able to participate in and benefit from the digital television revolution. The ‘Easy TV 2002’ research (conducted for the Consumers’ Association and ITC at the ITS Research and Training Centre and at i2 media research ltd.) said that while the functionality of digital TV equipment was

increasing dramatically, user abilities were not. The greatest impact of this trend, the report suggest, would be on the ageing population, the group most likely to face the biggest usability barriers. Consumers interviewed for the research fell into three distinct clusters regarding digital TV, the research noted. Forty-two per cent felt they could not deal with it if there’s content they wanted; 33 per cent felt it’s too complicated for them; and 25 per cent felt it’s too slow and clunky.

■BT has become one of US software giant Microsoft’s key European telecoms partners after signing a new strategic alliance that will see the two companies collaborating on bringing new broadband applications to the market for residential and business customers. The agreement moves Microsoft’s relationship with BT onto the same footing as its other alliances in the global telecom sector – Korea Telecom in Asia and Verizon in the US. Microsoft and BT say they will now focus their joint efforts on five key programmes, developing applications for multi-media home computing; increasing the productivity and flexibility of large organisations; the new generation of mobile computing, and .Internet and web services portals. Around 30 separate projects are included within the five programmes, the latest of which involves discussions with Microsoft about becoming the software and digital content partner for BT Home Computing, the one-stop service which aims to “take the hassle out of going online.”

■UK cable MSO Telewest’s latest quarterly financials show EBITDA up by 25 per cent to £281 million (441 million euros) year-on-year and capital expenditure down by 30 per cent over the same period. Charles Burdick, managing director of Telewest Communications, said that with 235,000 high-speed Internet subscribers he believed the company now had “over 80 per cent of the broadband market in our addressable areas.” Burdick conceded, however, that the company was continuing to lose subscribers while it concentrated on cash, cost controls and reducing its overhead. Meanwhile, the company’s balance sheet restructuring was “progressing well,” he said.