

# **IMMA STUDENT DAYS**

## **TELEVISION ECONOMICS AND BUSINESS MODELS**

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# TELEVISION CONSUMPTION

The variety of television consumptions, and the linked diversification of the offer, does not seem to have any influence on time dedicated to television, that appears similar in countries with different television development

## AVARAGE DAILY TV CONSUMPTION

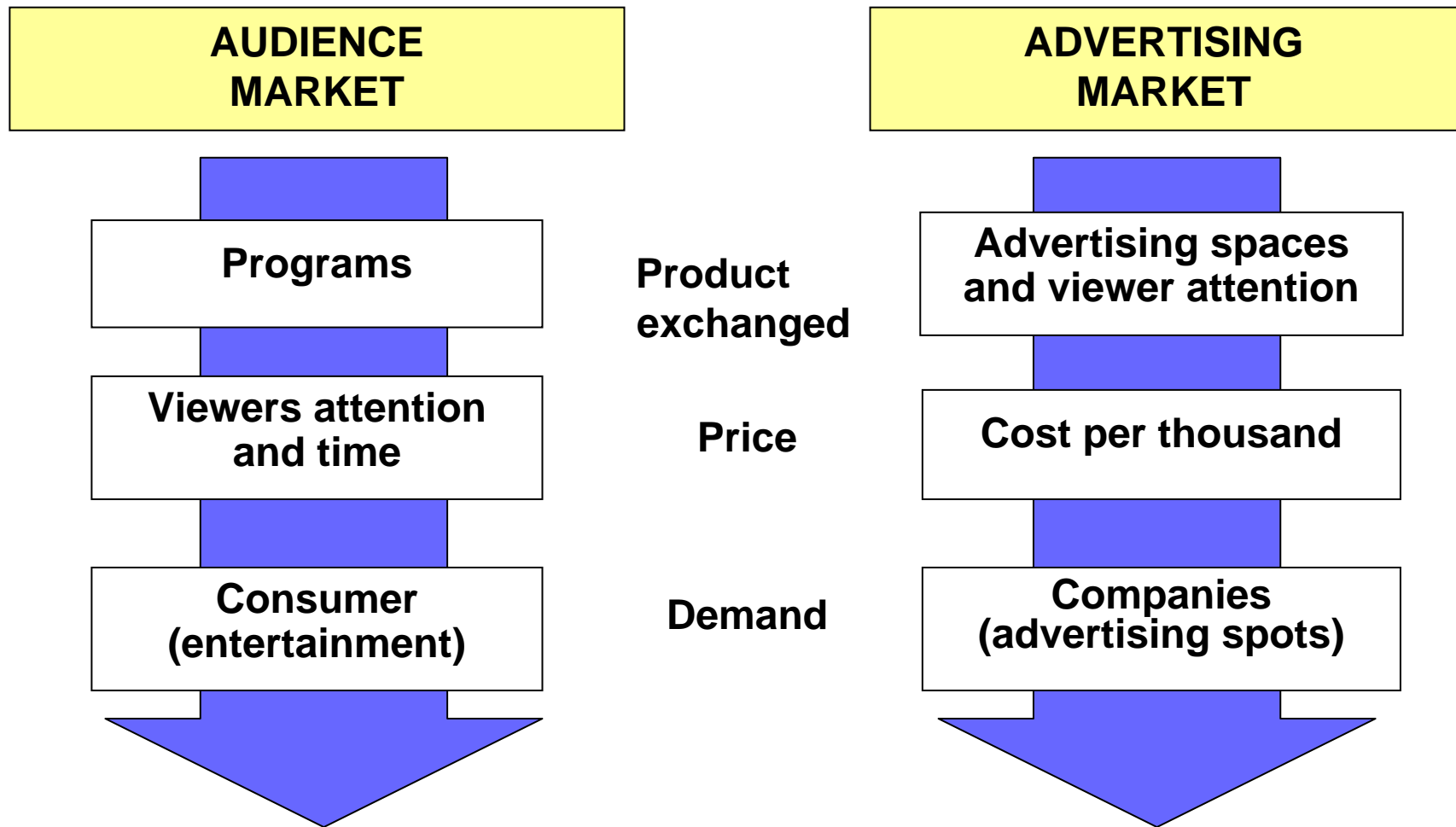
> 4 HOURS		3 - 4 HOURS		2 - 3 HOURS	
POLAND	4,5	TURKEY	3,7	GERMANY	2,9
JAPAN	4,3	UK	3,6	BELGIUM	2,8
HUNGARY	4,3	ITALY	3,6	MALESIA	2,5
USA	4,0	ARGENTINA	3,5	INDIA	2,5
PERÙ	4,0	IRELAND	3,1	SWITZERLAND	2,4
		FRANCE	3,0	NORWAY	2,4
		BRAZIL	3,0	AUSTRIA	2,4
				SINGAPORE	2,1
				THAILAND	2,0

SOURCE: RAI-KPMG

# TELEVISION PLATFORMS IN ITALY (END 2005)

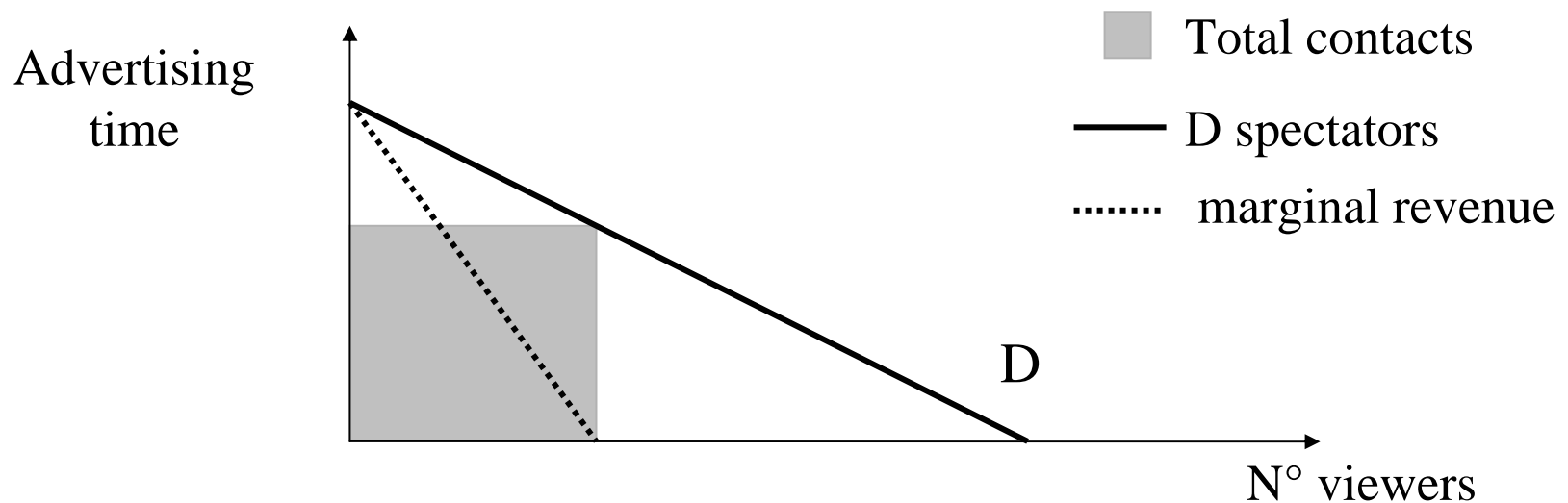
	<b>MN FAMILIES AND PENETRATION (%)</b>	<b>PECULIARITIES</b>
<b>TERRESTRIAL ANALOGUE</b>	<b>21MN; 97%</b>	<b>GENERALIST PROGRAM SCHEDULE, AGED AUDIENCE</b>
<b>SATELLITE</b>	<b>5,9MN; 28%</b>	<b>WIDE OFFER, THEMATIC CHANNELS; PREMIUM CONTENTS DRIVING CONSUMPTION GROWTH</b>
<b>TDT</b>	<b>3,5MN; 15%</b>	<b>AFTER THE SWITCH OFF GENERALIZED ACCESS TO NEW CHANNELS, CONTENTS, SERVICES</b>
<b>IPTV</b>	<b>250THOUSAND; 1%</b>	<b>TRIPLE PLAY SIGNIFICATIVE MARKETING LEVER; UNTIL NOW LIMITED PREMIUM CONTENTS</b>
<b>INTERNET, VIDEO PORTAL</b>	<b>ND (low penetration)</b>	<b>THE ACCESS VIA PC LIMITS THE DEMAND; UNTILL NOW LIMITED PREMIUM CONTENTS</b>
<b>MOBILE</b>	<b>8,5MN PEOPLE; (18% pop &gt;14 years)</b>	<b>JUST FEW STRONG CONTENTS GENERATE HIGH NUMBER OF TAKE</b>

# THE TV TWO SIDED MARKET



**The two markets are tied: without audience success it is not possible to sell advertising spaces**

# THE AUDIENCE MARKET

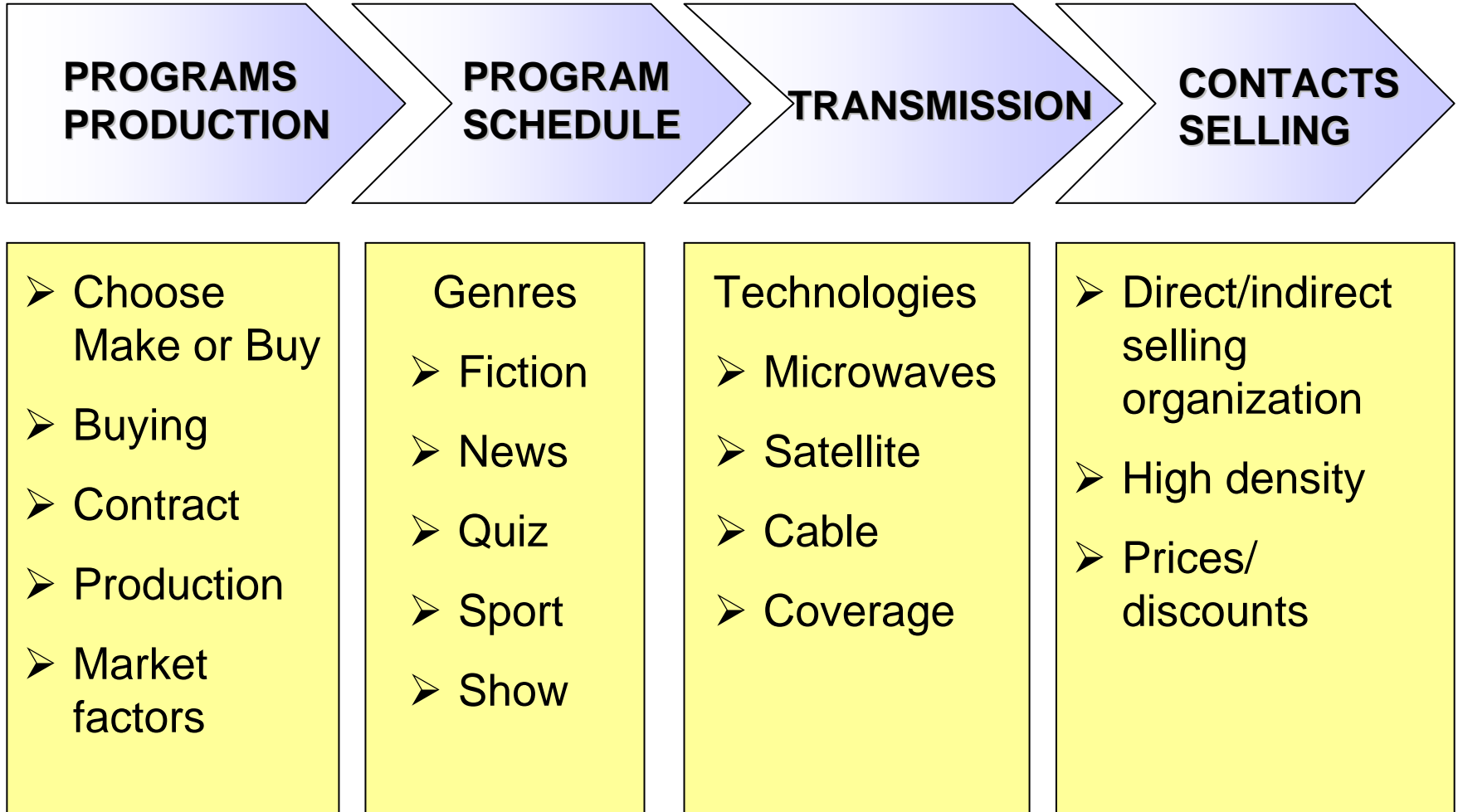


**The demand curve is downward-sloping depending on viewers sensitivity to the advertising and to the program**

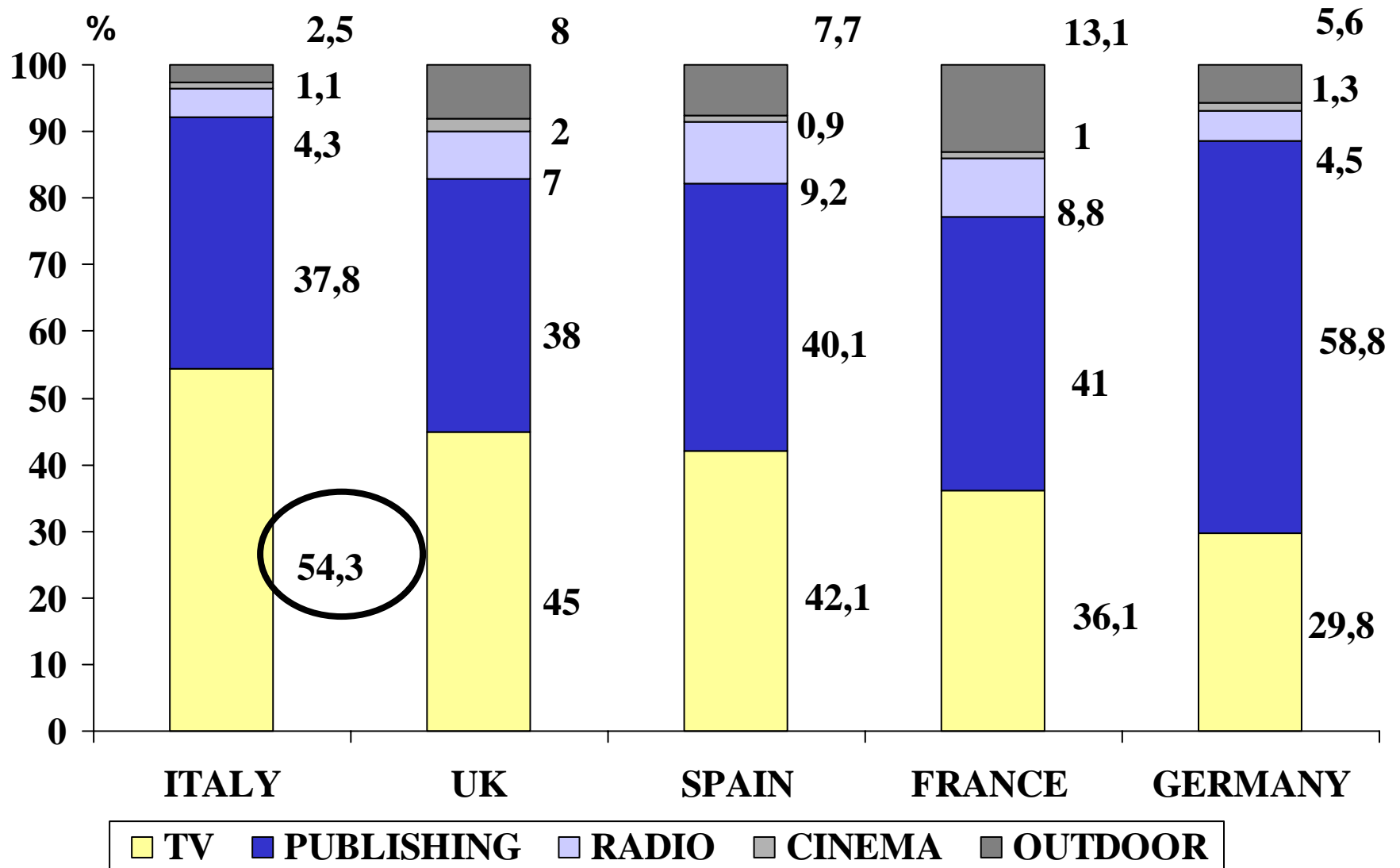
**The last spectators to leave the program are the ones which tolerate better the advertising and which use to give more value to the contents**

**The percentage of advertising in a program that maximise profits is the one that maximize the sold contacts (audience per advertising time)**

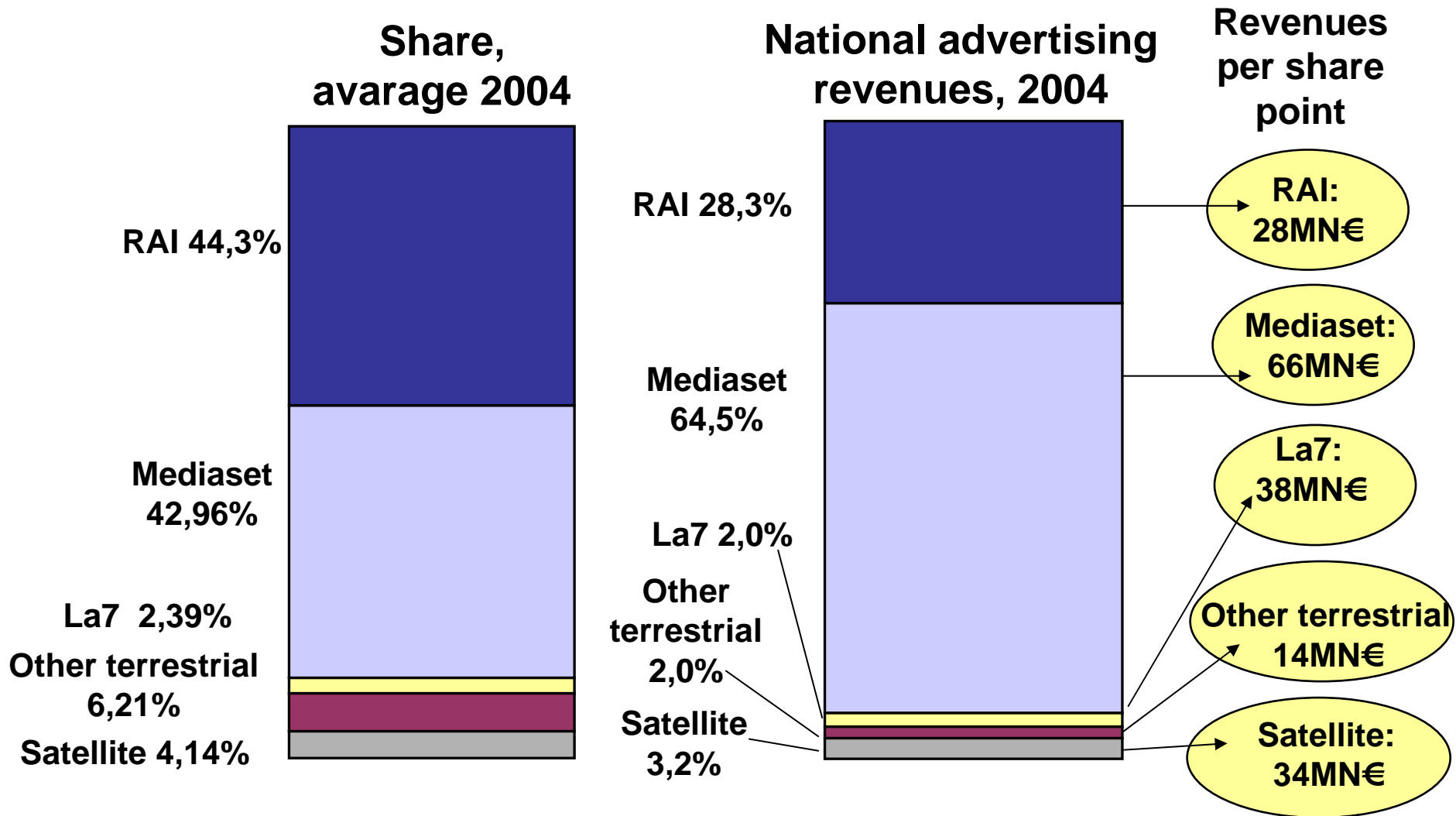
# TRADITIONAL TELEVISION VALUE CHAIN



# ITALY: OVER 50% OF CLASSIC MEDIA ADVERTISING INVESTMENTS GOES TO TELEVISION

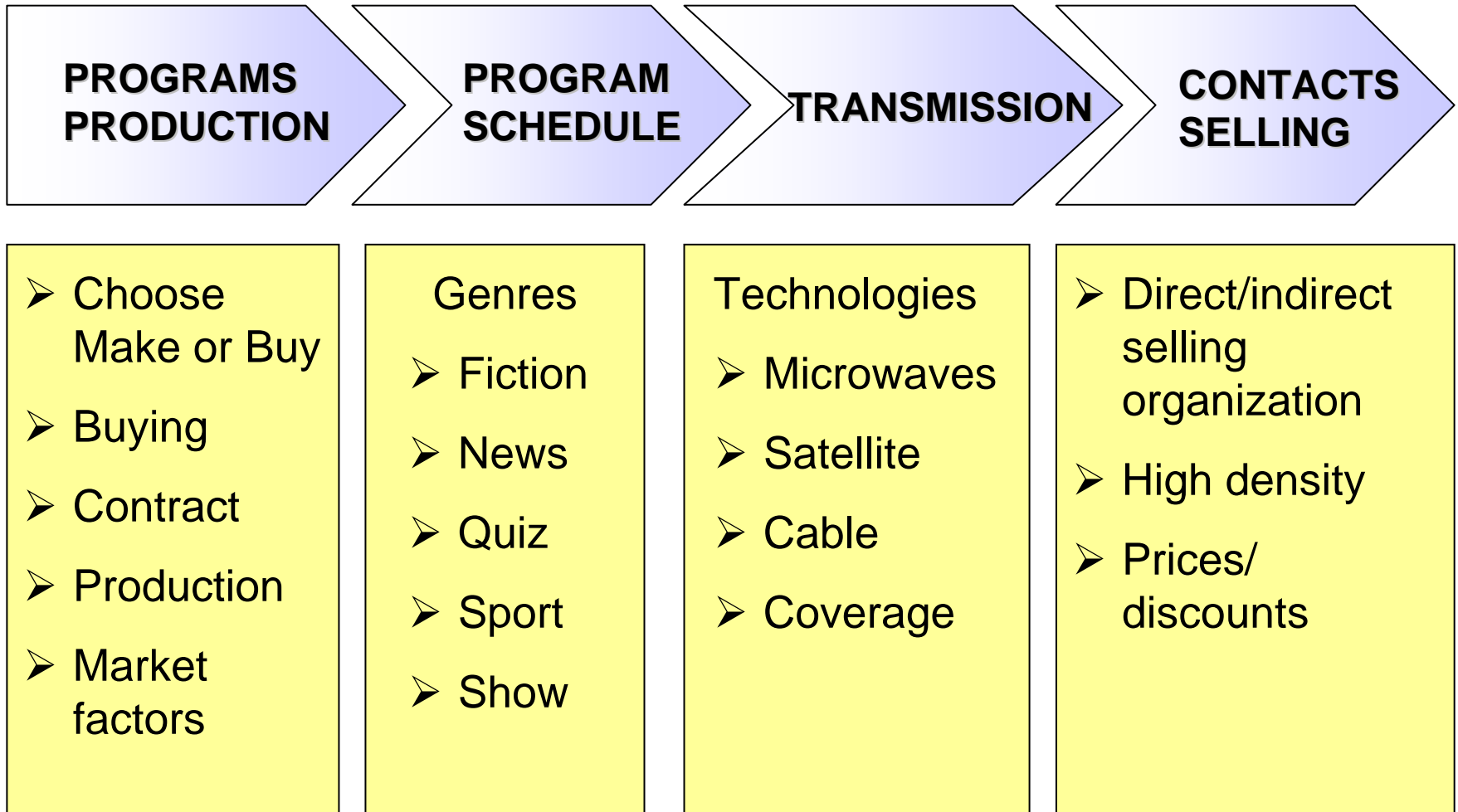


# ITALY: TV MARKET PRESENTS AN HIGH CONCENTRATION BOTH REFERRING TO SHARE AND TO ADVERTISING REVENUES





# TRADITIONAL TELEVISION VALUE CHAIN



# TRANSMISSION COSTS

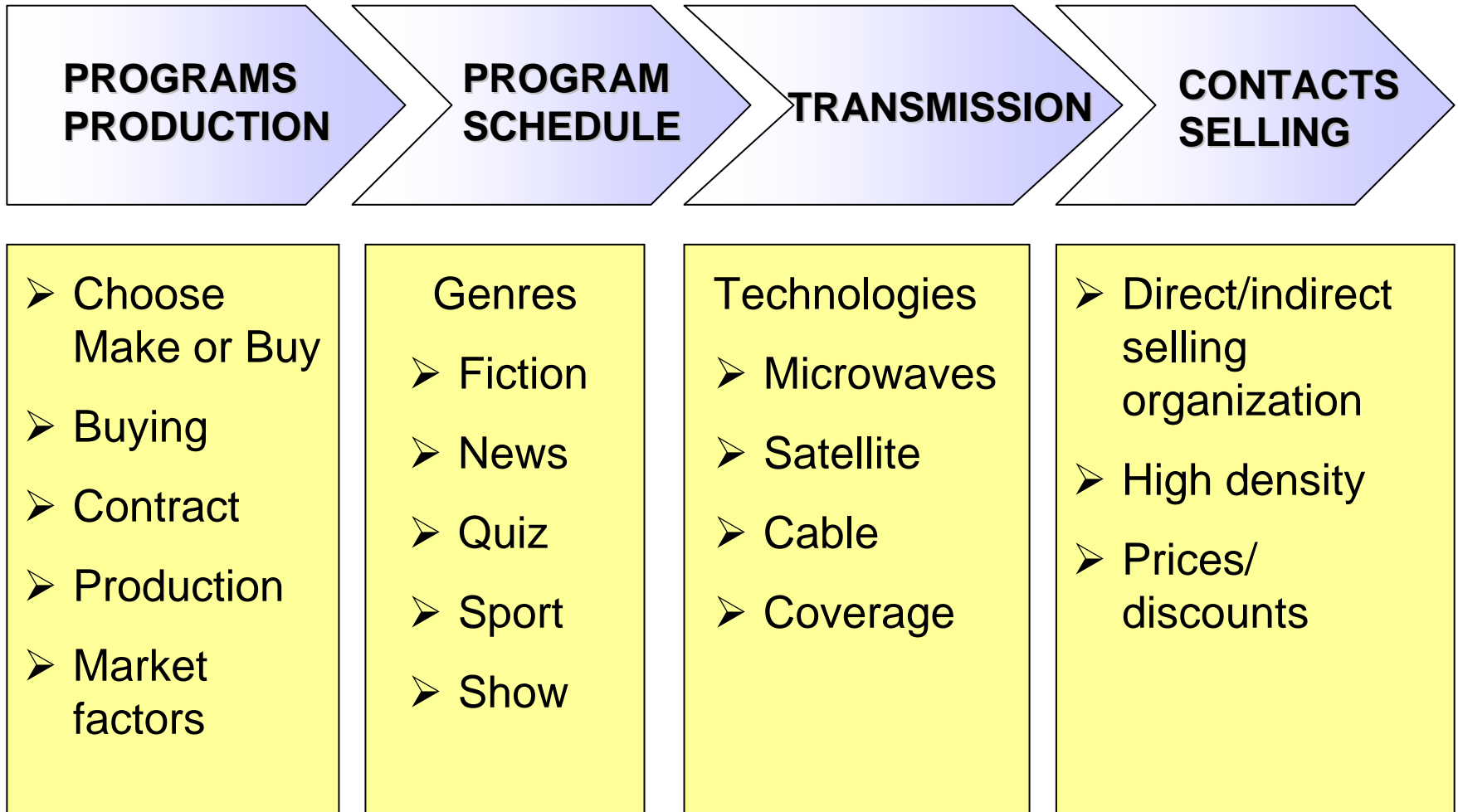
**The transmission cost per viewer is a rising cost**

**The return on transmission investments is decreasing (more the areas to cover are marginal, less convenient is the investment)**

**Different television can have different balance points in the transmission investments**

**The optimum transmission investments dimensions can be modified by institutional duties (coverage standards)**

# TRADITIONAL TELEVISION VALUE CHAIN



# TV PROGRAMS: PRODUCTION COSTS

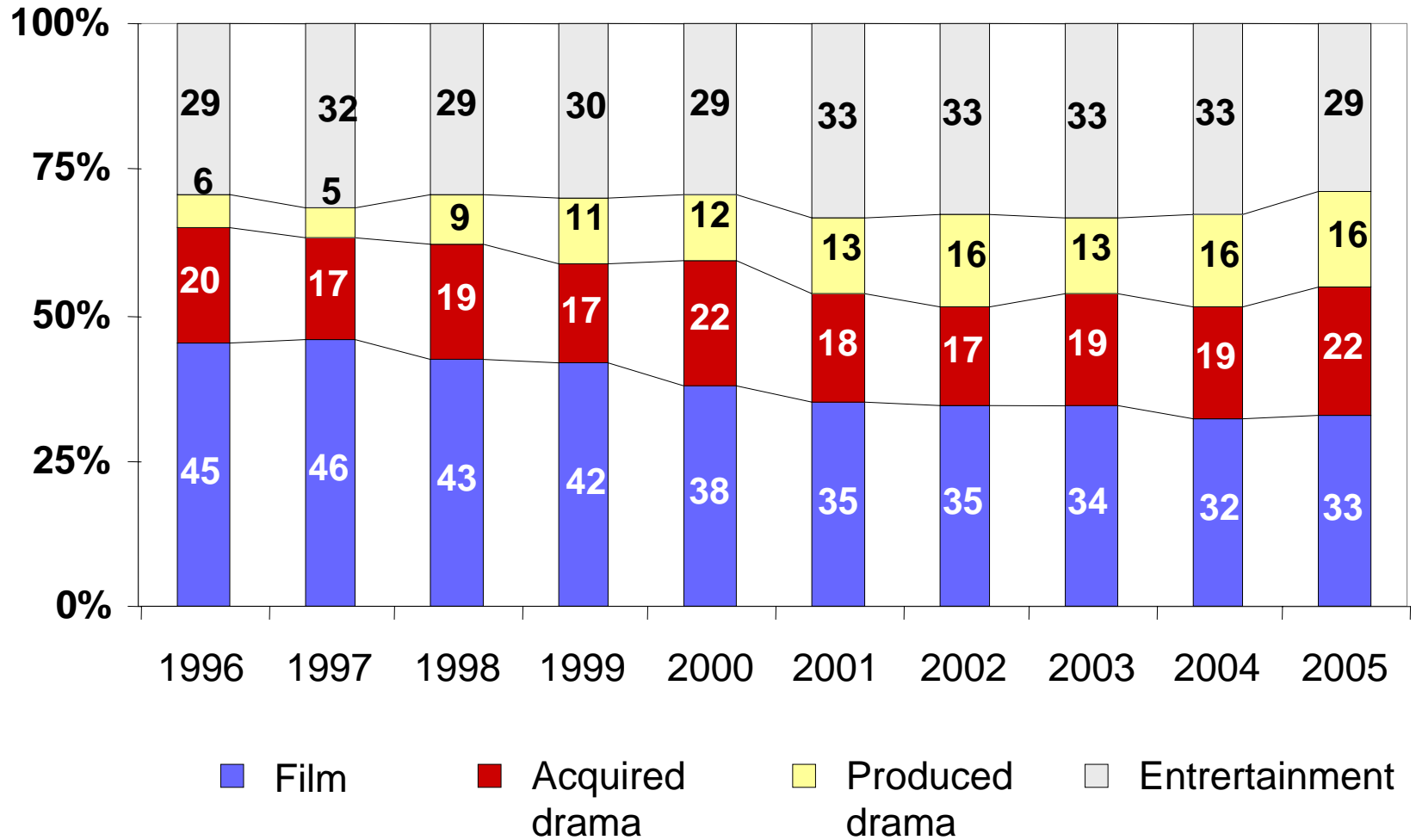
**Programs represent the main cost and the most important element of success**

**The N° of viewers depends on absolute decisions concerning the own program schedule, and on decisions related to competitors program schedule**

**Relation between program cost and N° of reachable viewers (Viewers Average Cost)**

**A.C. Audience + C. Transmission + Selling Costs + General Expense < Contact Cost**

# PRODUCT GENRES (ANALOGUE TV)



**TV PROGRAMS COST PER HOUR IS HIGHLY VARIABLE:  
DECISIONS CONCERNING GENRE AND COMPOSITION OF PROGRAM  
SCHEDULE ARE CRITICAL**

<b>Program genre</b>	<b>Cost per hour, €('000)</b>
USA Movies (blockbusters)	30-50.000
Italian Movies	4-10.000
Prime time show	4-900
Prime time USA series	1,5-3.000
Italian TV fiction	4-700
Daily program	80-150
Talk-show	30-60
Italian TV news	110

# REPEATED UTILITY TV PROGRAMS: COSTS OF PRODUCTION

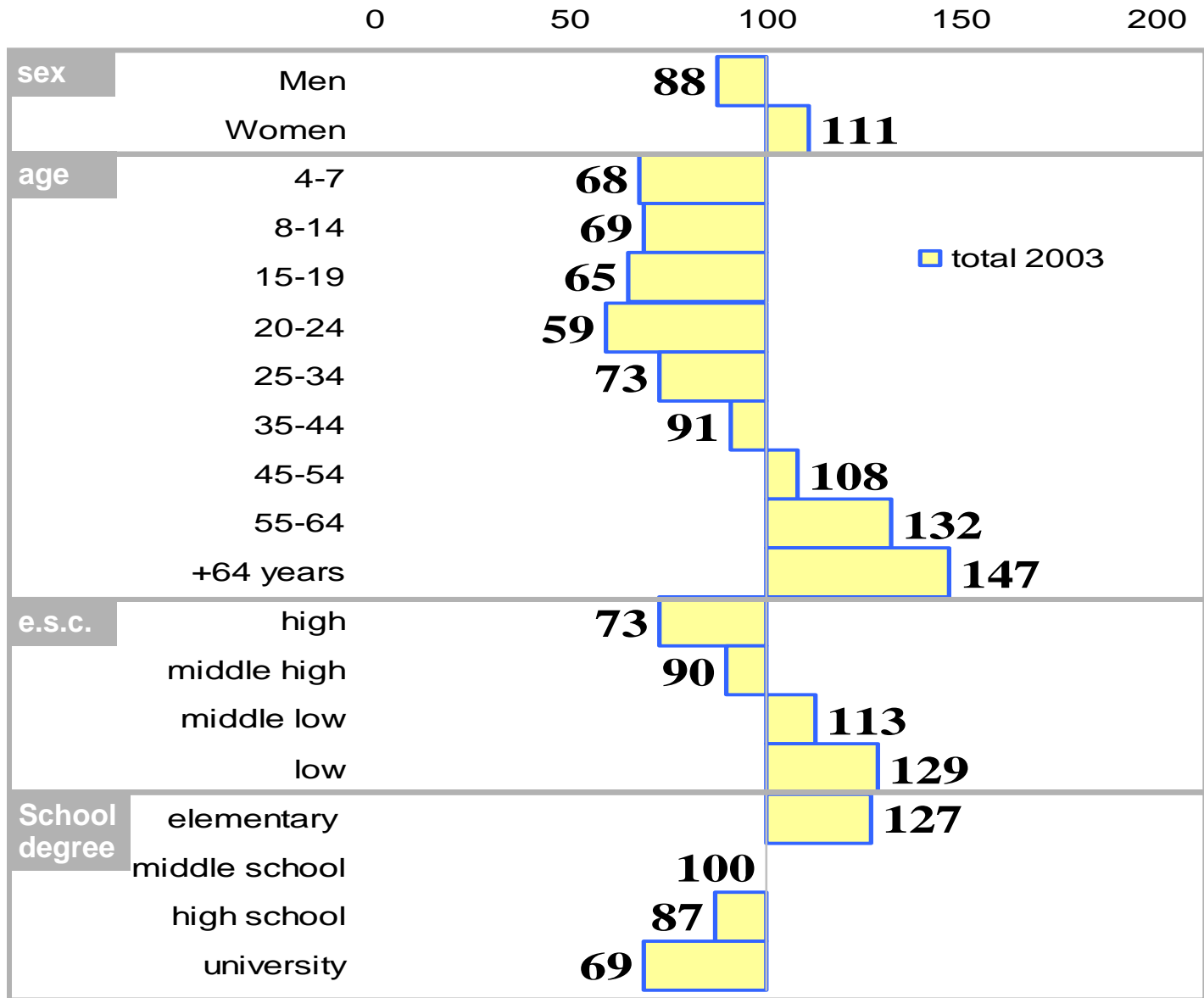
**The repeated utility tv programs can be used many times: the costs do not depend on the N° of times they are used (movies, serial..)**

**The repeated utility tv programs represent an “immaterial fixed asset”**

**With the second run the broadcaster attracts an additional audience, even if lower than the first one**

**Budget growth as a market reaction to the potential profit generated by the second run**

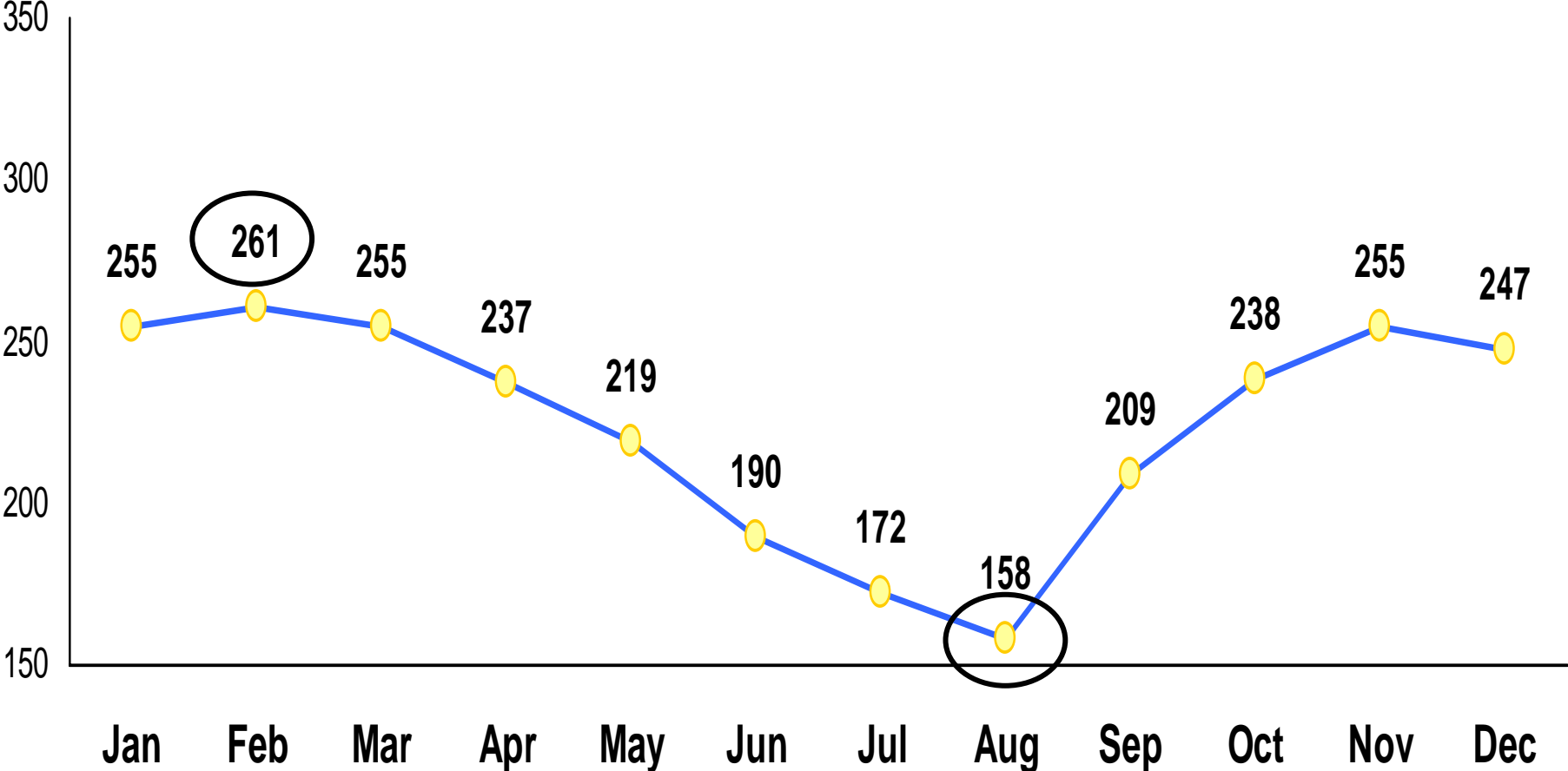
# AUDIENCE PROFILE



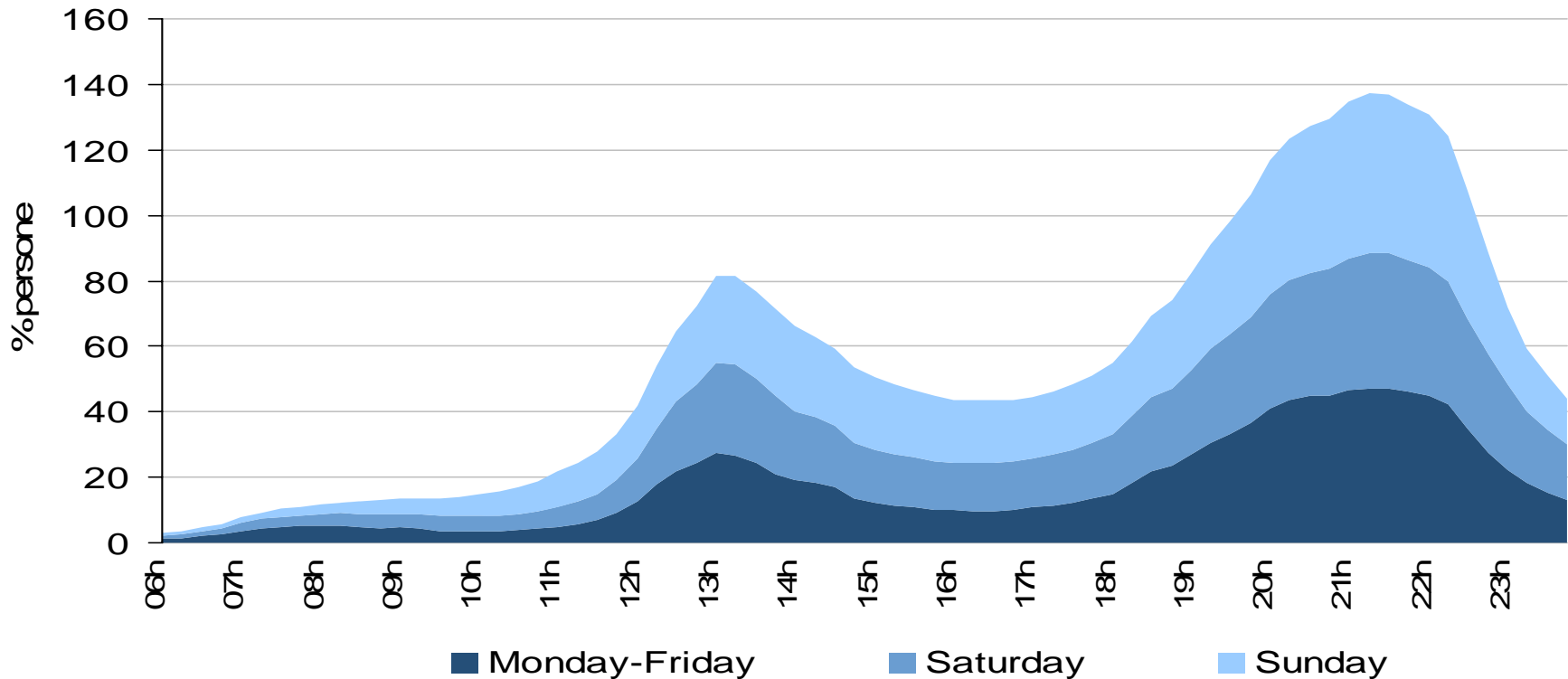


# TELEVISION: VIEWING SEASONALITY IN ITALY

MINUTES PER DAY



# THE TELEVISION CONSUMPTION



**The audience performance is steady in time and depends on sociological variables**

Source: Médiamétrie-Médiamat

Panel: Adults 15+

## THE LINK BETWEEN THE TWO MARKETS

$$1 \quad P_i = Cc_i * EAu_i$$

**$P_u$** = spot price

**$Cc$** = contact cost

**$EAu$** = Expected Audience

$$2 \quad EAu_i = f (CP_i, CFI, CP_j, NTv)$$

**$PC_i$** = Production Cost

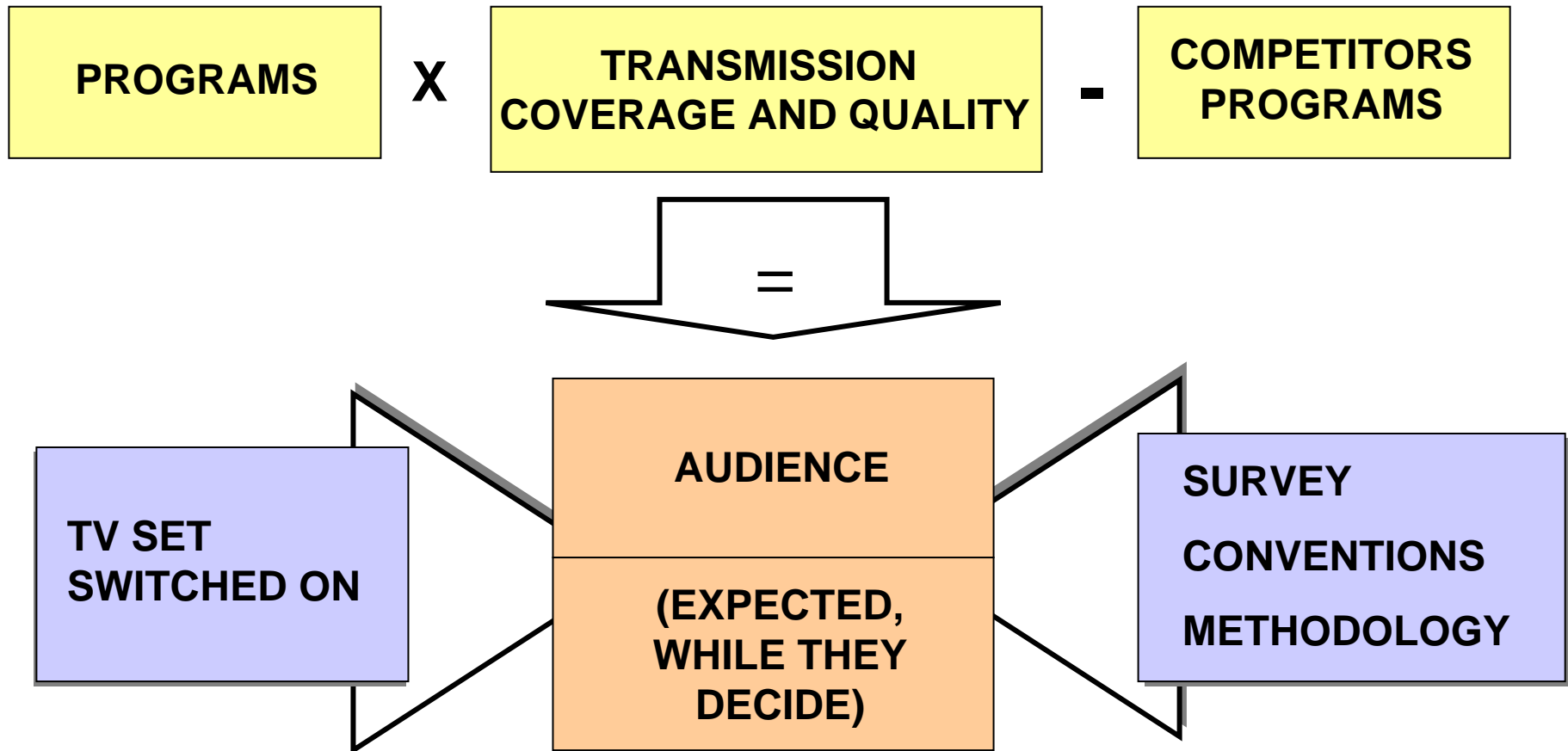
**$CFI$** = Fixed transmission costs

**$PC_j$** = Competitors Program Production Cost

**$NTv$** = N° TV Set switched on

$$3 \quad dEAu_i / dCP_i > 0 \quad dEAu_i / dCP_j < 0 \text{ if } i \neq j$$

# TELEVISION: INFORMATION MARKET VARIABLES



# THE TELEVISION COMPETITION

**Competition for viewers time is set on a punctual base**

**Program vs program mutually exclusive**

**Other substitutive product / services**

**Ambiguous role played by the brand loyalty**

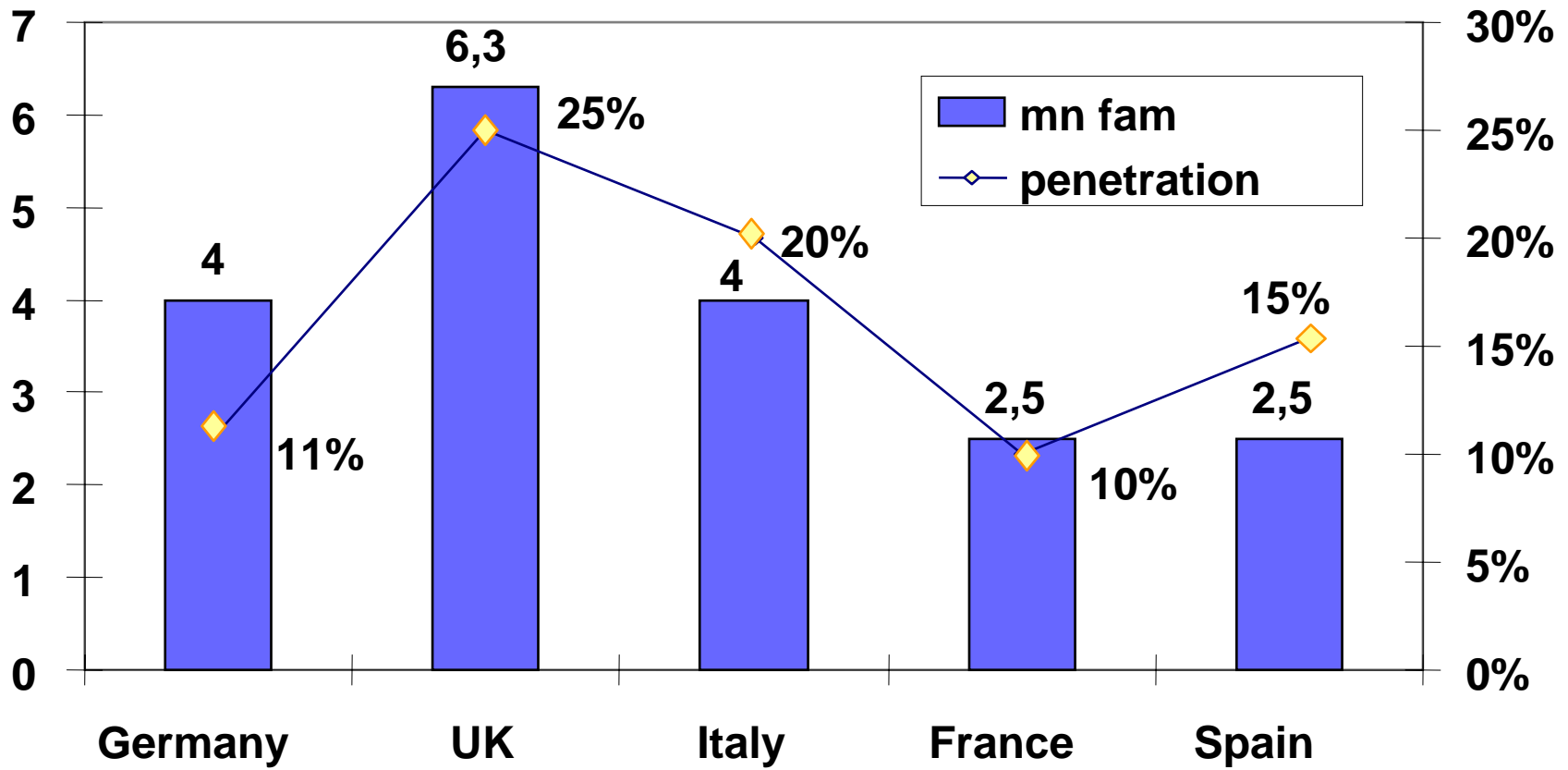
# ENTRY BARRIERS

**Necessity of a program schedule articulated during the whole day (handicap for smaller networks)**

**Necessity to have a selling organization for advertising slots that cover the whole national territory**

**Necessity to understand on real time the demand changes and evolutions (Experience Curve)**

# DTT PENETRATION IN EUROPEAN COUNTRIES AND FORECAST DATE TO SWITCH OFF



FORECAST  
DATE TO  
SWITCH OFF

2010

2012

2008

2010

2010

# **THE GROWTH RATE OF TERRESTRIAL DIGITAL TELEVISION PENETRATION DEPENDS ON VARIOUS FACTORS**

**IN 2006 PUBLIC FUNDINGS FOR DECODER BUYING IN ITALY WERE NOT RENEWED, THE PENETRATION GROWTH WILL BE ENCOURAGED BY:**

**Decoder price reduction**

**Substitution rate of TV sets (Decreasing prices)**

**Enrichment of DTT offer (PPV contents, interactivity)**



# **THE DTT PENETRATION GROWTH ENCOURAGE THE DEVELOPMENT OF VARIOUS OPPORTUNITY FOR TELEVISION OPERATORS**

**PPV model seems to perform with football, Mediaset and LA7 introduce the same model for other contents**

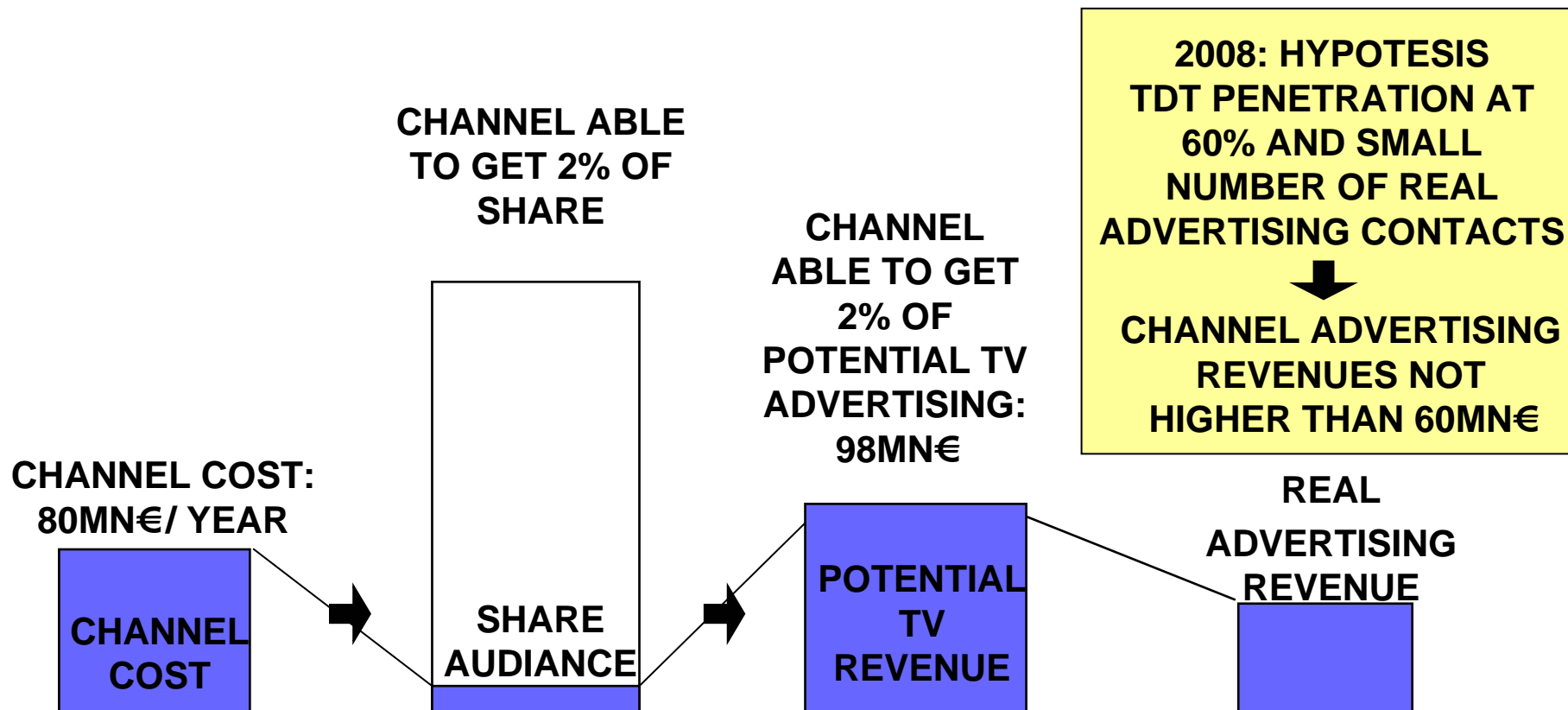
**Thematic Pay Channels: channel production costs can be low, but commercial expenses are really high**

**Interactive applications: the market development requires big audience and depends on the level of technological deployment (bandwidth, return channel)**

**Capacity leasing to content provider**

# THE DTT INTRODUCTION DOESN'T CHANGE THE COMPETITIVE CONDITIONS OF ENTRY IN THE NATIONAL FREE TV MARKET

- 📄 ENTRY BARRIER DEPENDING ON TV PROGRAMS
- 📄 REDUCED ADVERTISING MARKET WITHIN SOME YEARS



# PUBLIC INTERVENTION REASONS

## POLITICAL REASONS

Public service

Pluralism

## ECONOMIC REASONS

Consumer defence

Efficiency

Industry development

# **PUBLIC INTERVENTION INSTRUMENTS**

**Market structure and entry check**

**Licences and frequencies allocation**

**Conduct regulation**

**Transmission duties**

**Programs decency and morality**

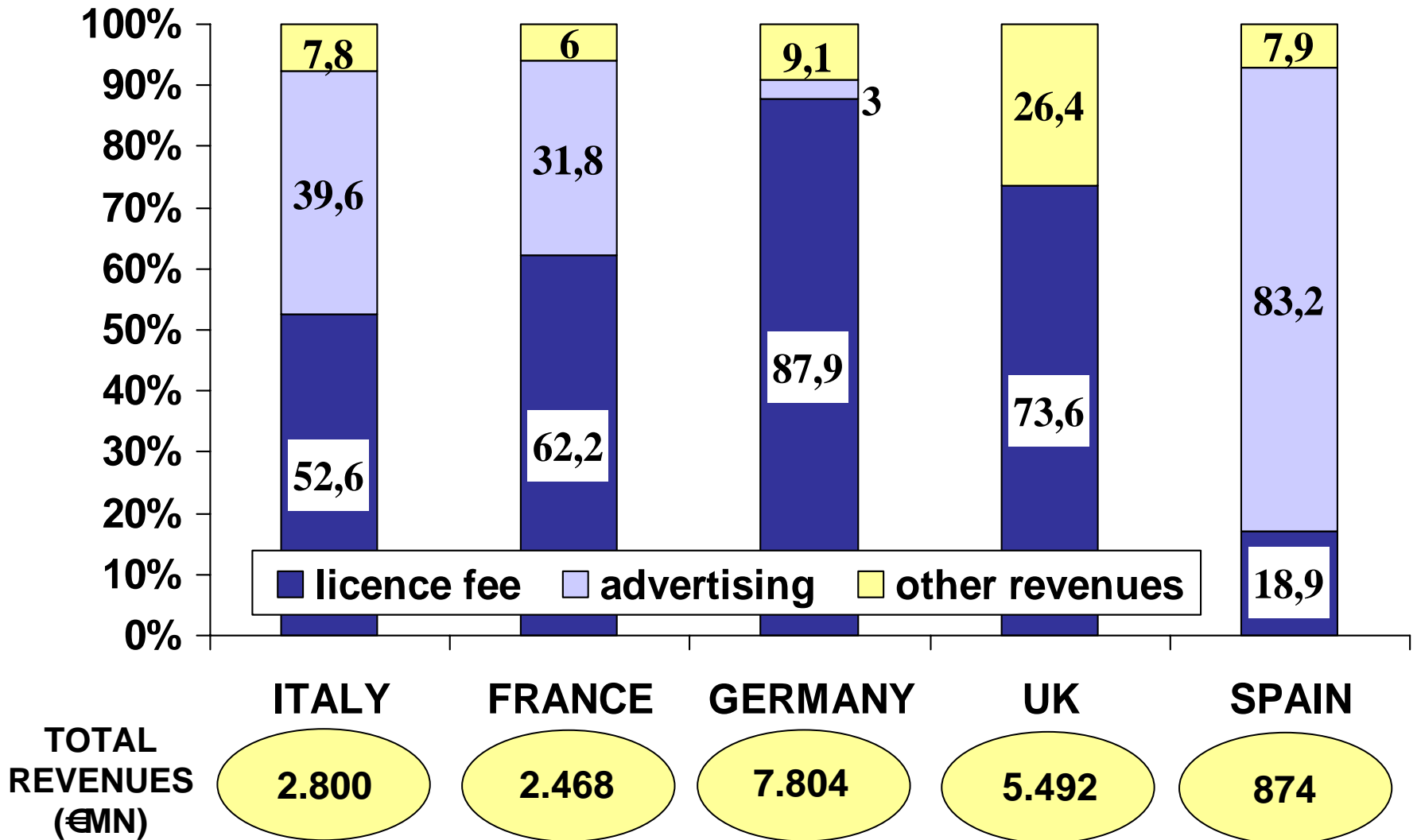
**Advertising spots**

**Public service duties**

**Promotion of pluralism**

**Concentration control: Antitrust regulation**

# PUBLIC NETWORKS: REVENUES COMPOSITION IN THE MAIN EUROPEAN NATIONS, 2004



# MARKET AND PUBLIC MONOPOLY BENEFITS AND LIMITS

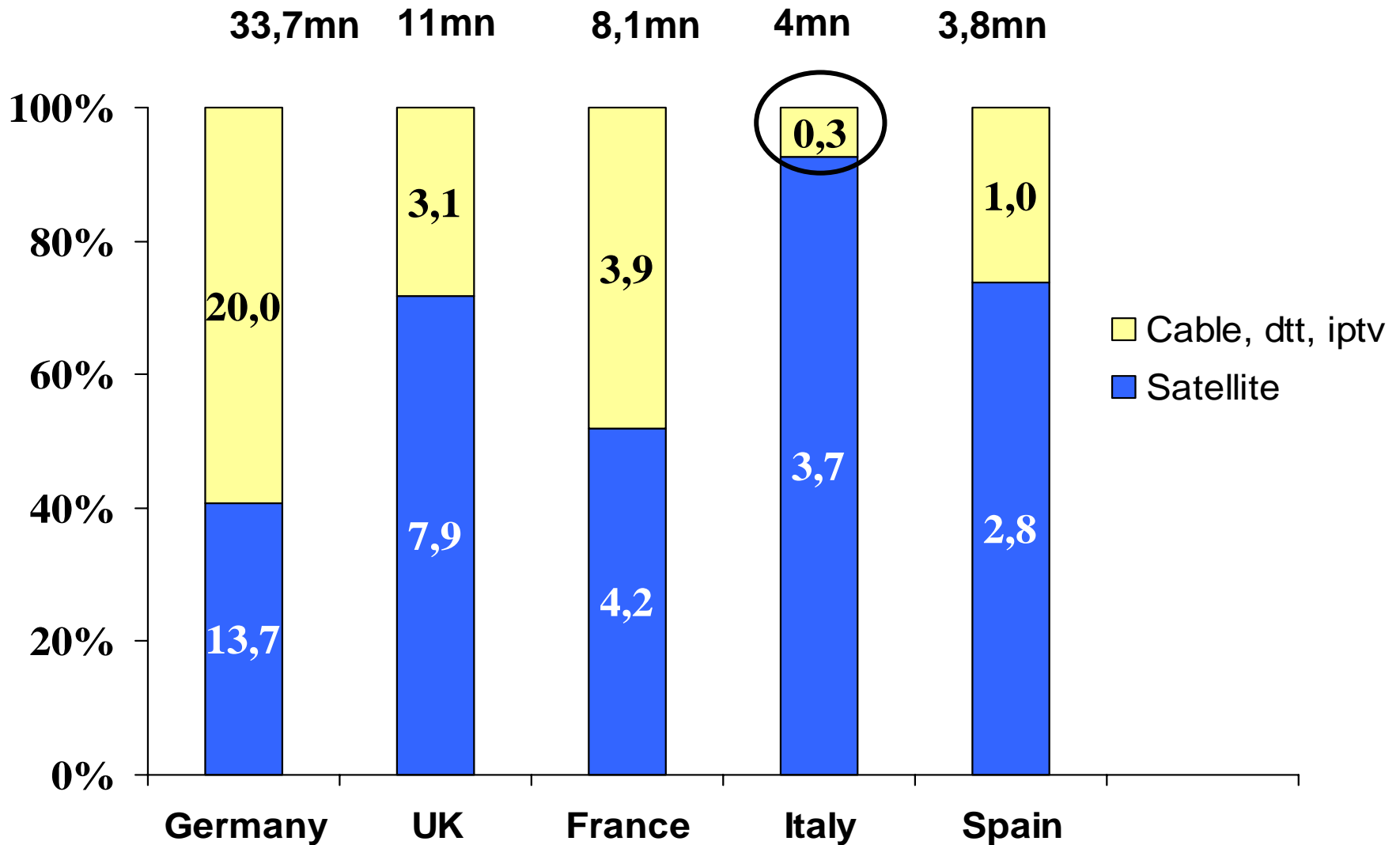
## MARKET

- Consumer sovereignty concerning viewing choices is weak**
- Market indicators (P) and cost indicators (CMg) are not precise**
- Competition drives to concentration**
- High risk of market monopolization**

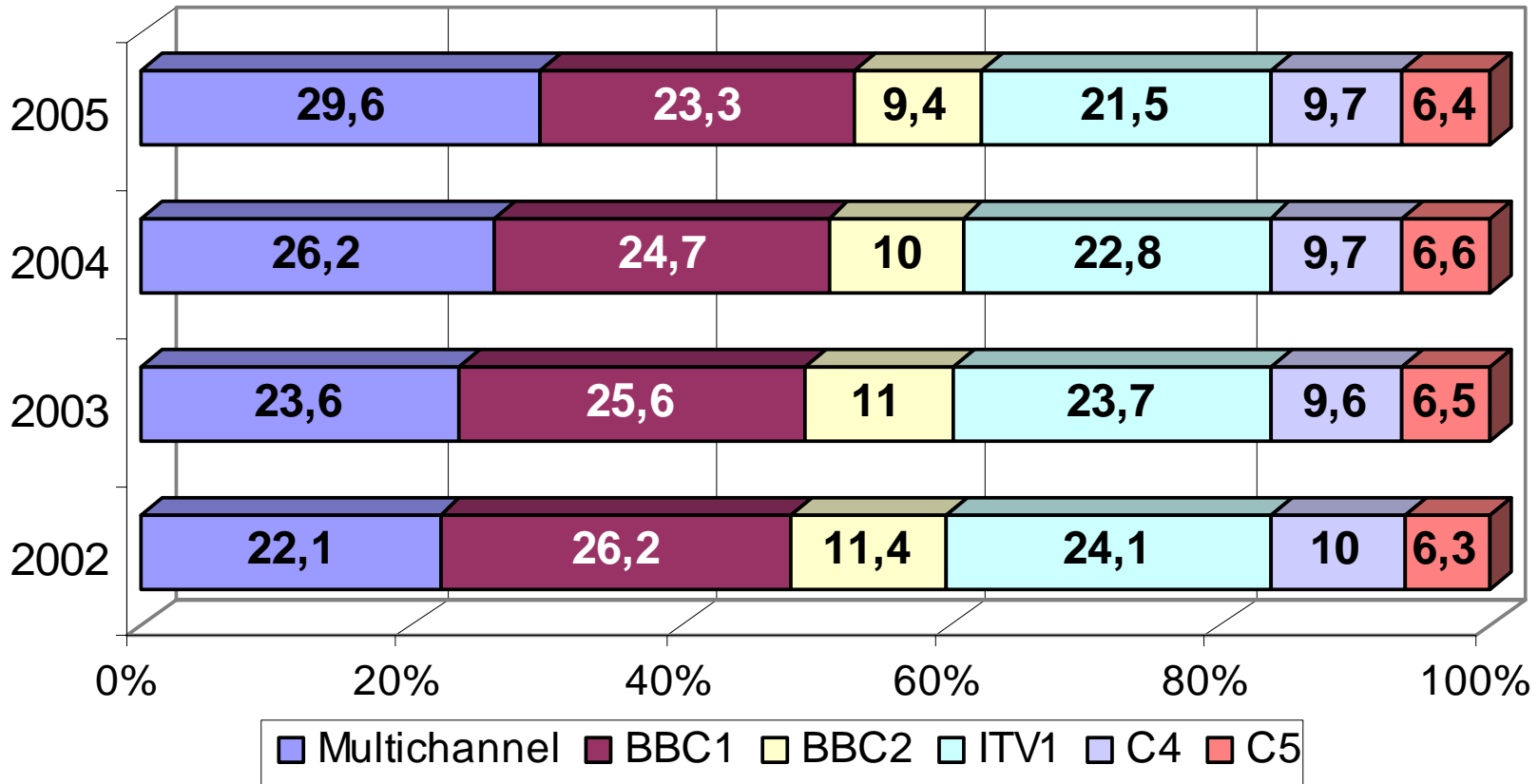
## PUBLIC MONOPOLY

- It is not subjected to the competition discipline**
- Absence of information pluralism (limited N° of channels)**
- It is able to activate services of public interest**
- It simplifies the coordination in spectrum allocation**

# SUBSCRIPTION HOUSEHOLDS: NUMBER AND COMPOSITION, 2005



# UK - TV VIEWING SHARE 2002 - 2005



Source: 2006, ITMedia Consulting

**Wide offers are increasingly popular in Europe, confirming the trend of the previous years**



# **BROAD BAND: THE AUDIOVISUAL CONTENT DISTRIBUTION MARKET IS DIVIDED IN TWO AREAS, CHARACTERIZED BY TWO DIFFERENT BUSINESS MODELS**

## **VIDEO PORTAL**

**VOD MODEL**

**FOCUS ON PREMIUM CONTENTS**

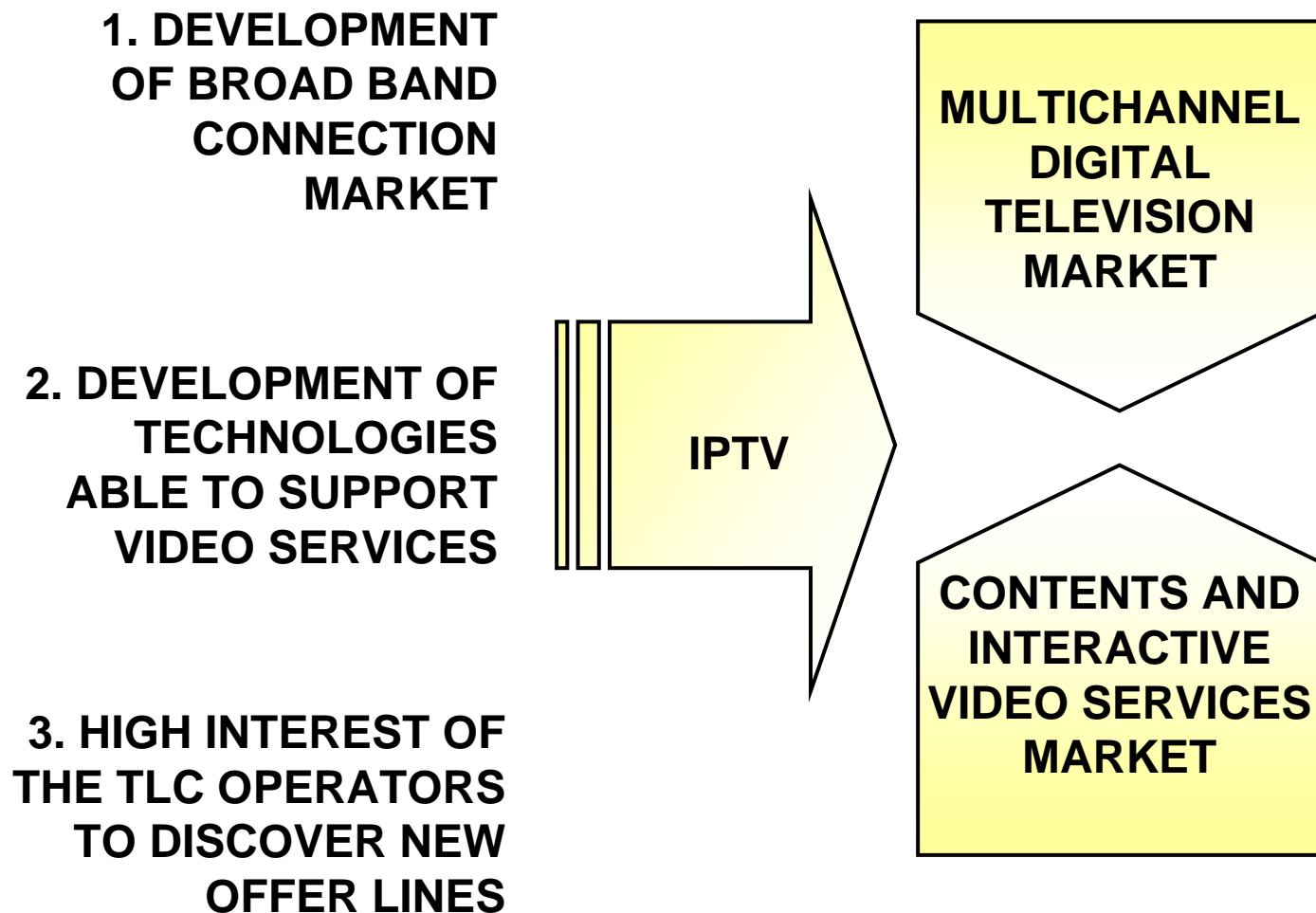
**CONSUMPTION MOSTLY BY PC**

## **INTERNET PROTOCOL TV**

**OPERATORS BEHAVE AS PAY  
TV PLATFORMS**

**WIDE RANGE OF CONTENTS**

# **WITHIN NEXT 3-5 YEARS IPTV WILL HAVE A SIGNIFICATIVE IMPACT ON THE AUDIOVISUAL MARKET**



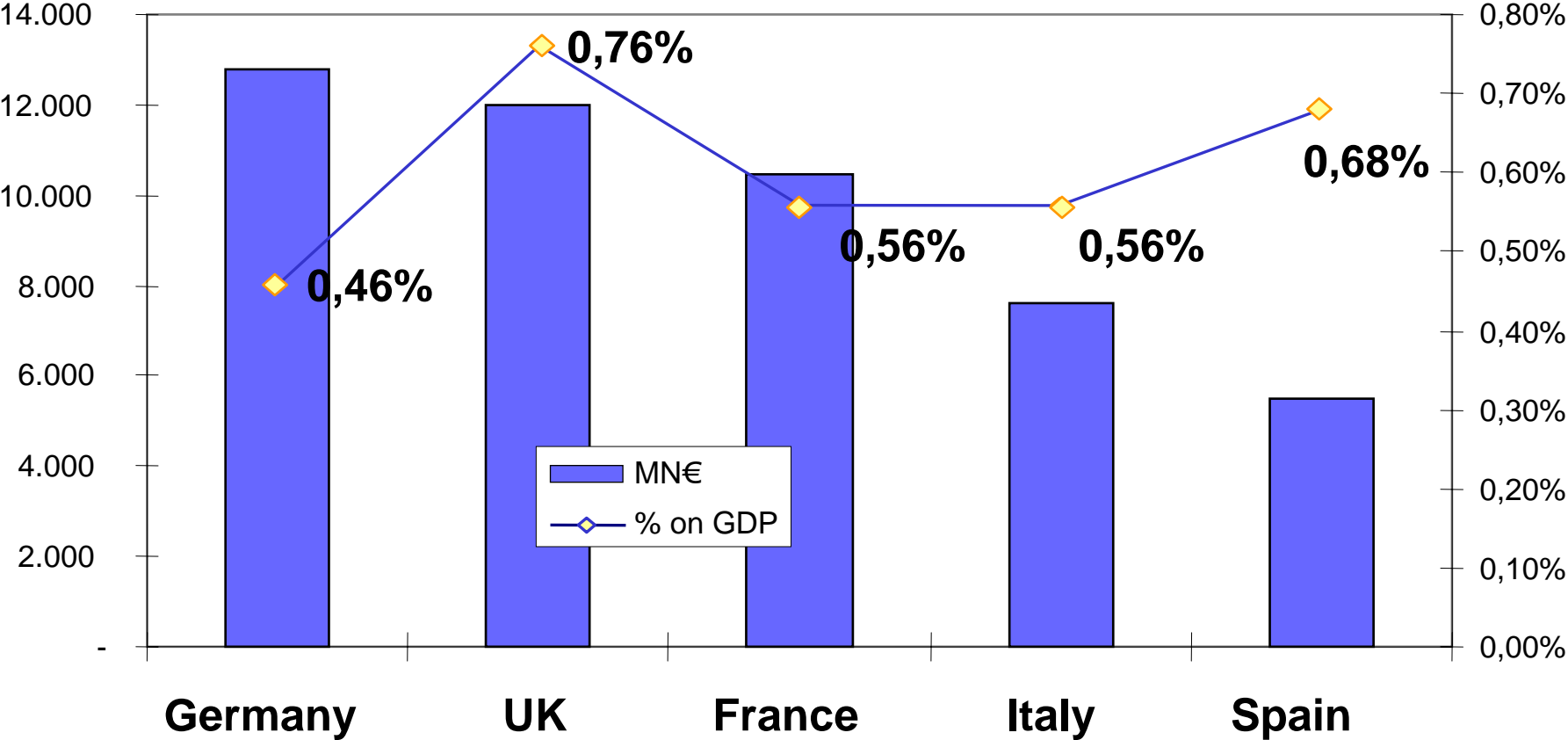
# ITALY: ADVERTISING INVESTMENTS ON CLASSIC MEDIA CONVERGE WITH THE MAIN EUROPEAN COUNTRIES



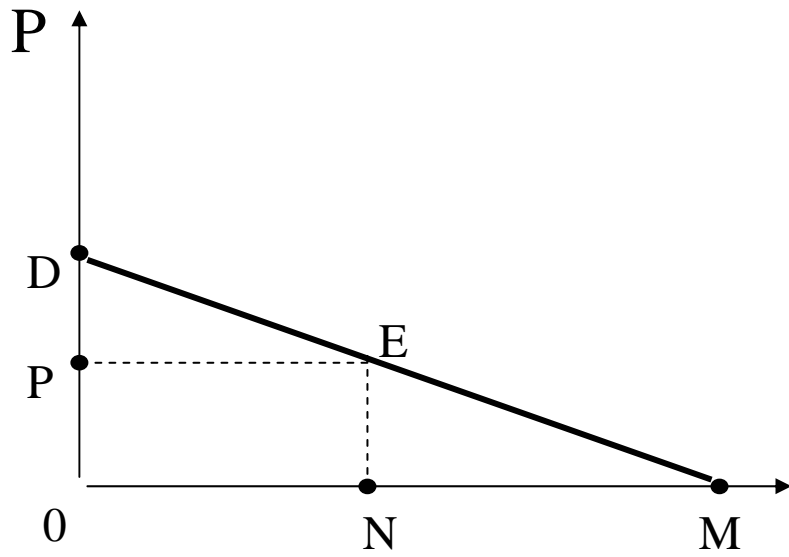
**ONLY THE SPANISH MARKET IS SMALLER THAN THE ITALIAN ONE**



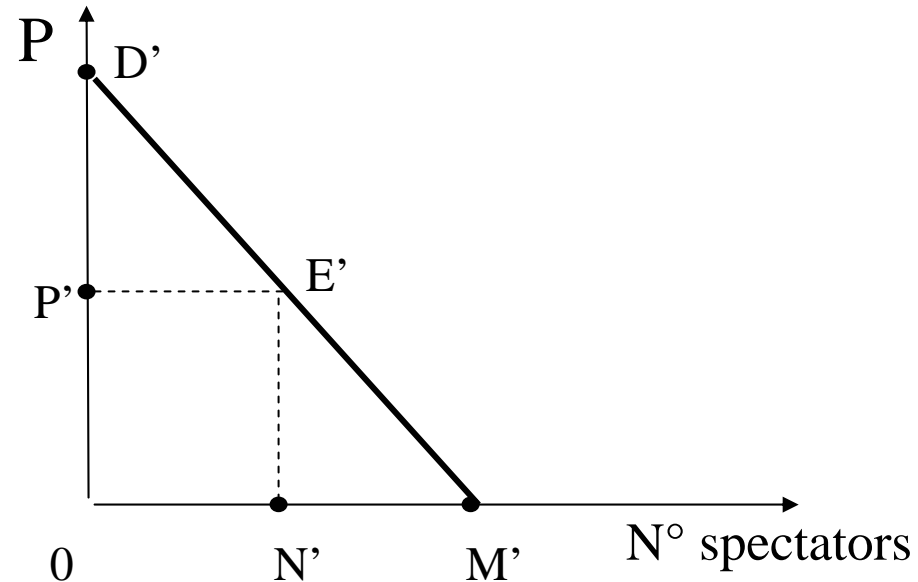
**THE INCIDENCE OF ADVERTISING INVESTMENTS ON GDP IS SIMILAR TO FRANCE ONE, BUT LOWER THAN IN SPAIN AND UK**



# THE DEMAND CURVE OF TWO TELEVISION GENRES



(a)







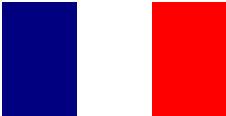
(b)

**More elastic demand  
(show, soap, quiz...)**

**More rigid demand  
(culture, music, sport...)**

**The OPEN and OP'E'N' areas represent the maximum revenues of a monopolist broadcaster for the two different genres (considering CMg transmission = 0)**

# TV CONSUMPTION IN EUROPE

	<b>COUNTRY</b>	<b>TARGET</b>	<b>(MINUTES/DAY)</b>
	<b>Italy</b>	<b>Adults 14+</b>	<b>225</b>
	<b>Spain</b>	<b>Adults 16+</b>	<b>221</b>
	<b>Germany</b>	<b>Adults 14+</b>	<b>215</b>
	<b>UK</b>	<b>Adults 16+</b>	<b>236</b>
	<b>France</b>	<b>Adults 15+</b>	<b>212</b>