

which 129 000 were active, by June 2009. The basic offer costs PLN49.00 (EUR11.97) for three months, or PLN89.00 (EUR21.74) for six months.

2.2 Up-front costs of digital TV can deter take-up

Although consumers may be willing to pay more for a digital TV package that is perceived to be better value for money, the requirement for an STB represents a barrier to entry. The retail channel may offer pay-TV subscribers a greater choice of STBs in some markets, but pay-TV operators have two key advantages.

- Because they buy STBs in bulk and are able eventually to recoup their costs through subscriptions, they can offer new customers subsidised, or in some cases free, STBs. Following the expiration of their contract period, subscribers usually own the STB.
- Pay-TV operators can offer STBs to their subscribers on a rental basis, allowing the consumer to spread the cost of the equipment, while generally giving him the benefit of customer support, if the STB develops a fault. Meanwhile, the operator benefits from a recurring revenue stream from renting out the STBs, with the opportunity to recover the cost several times over and still own the equipment. Older and/or faulty STBs can be refurbished and reissued to other subscribers.

Table 2.2 shows the prices of STBs from selected operators.

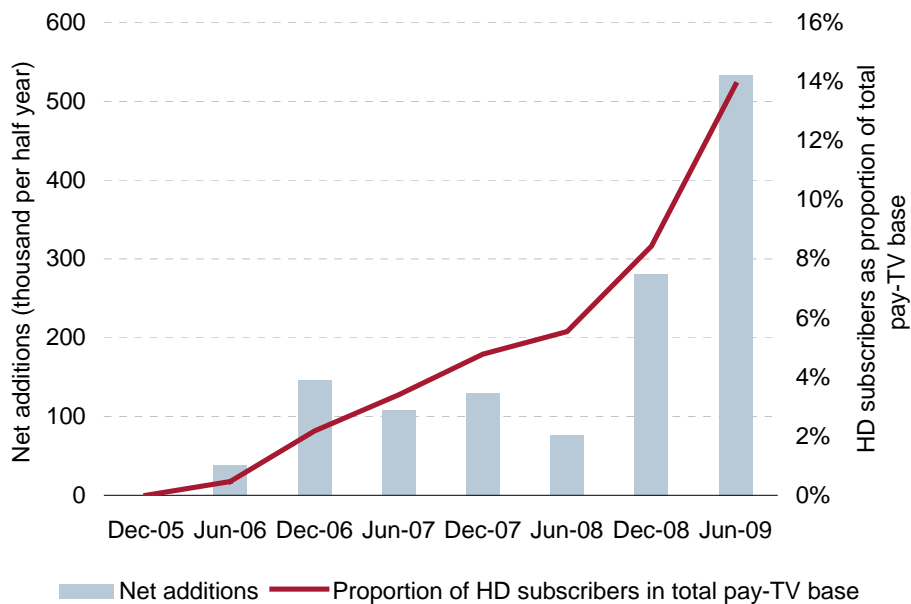
Table 2.2: *The prices of STBs from selected operators at October 2009³ [Source: Analysys Mason and operators' websites, 2009]*

Pay-TV operator (country)	Type of STB	Rental price	Purchase price	Comments
Belgacom (Belgium)	HD decoder (basic HD STB)	EUR6.00 per month	EUR250.00	Purchase price currently reduced to EUR199.00 in a promotion
BSkyB (UK)	Standard Sky box (basic SD STB)	N/a	Free	Subject to 1-year Sky subscription
	Sky+ (SD STB with DVR)	N/a	GBP49.00 (EUR55.16)	Subject to 1-year Sky subscription

³ Prices listed were current in October 2009, but are subject to change at any time.

December 2008. Furthermore, in the six months to June 2009, after reducing the cost of the HD DVR to GBP49 in January 2009, BSkyB gained over 0.5 million net additions, boosting HD penetration to 13.9% from 8.4% in December 2008, as shown in Figure 3.3. This approach has enabled BSkyB to maximise its revenue from early adopters, after which it has focused on deriving mass adoption by offering lower prices that are made possible by economies of scale.

Figure 3.3: BSkyB's HD penetration and net additions, December 2005–June 2009 [Source: Analysys Mason and BSkyB, 2009]



Another key factor in driving up the penetration of HD in BSkyB's subscriber base is the increasingly rich content that it has provided. With 35 HD linear programming channels, as of November 2009, BSkyB offers far more than its main competitor, Virgin Media, which offers only seven HD channels. Virgin Media has chosen to focus on increasing the amount of HD content on its VoD services, which included 300 hours of HD programming at June 2009.

A growing number of consumers are buying increasingly affordable HD-ready or full HD TVs, and soon realise that they will not realise the full benefit of their investment if they do not have access to a large selection of HD programming. Consequently, pay-TV operators now have a window of opportunity within which to monetise HD content before it becomes more widely available through FTA services and loses some of its 'premium' status.

In more-sophisticated markets, some operators are already looking beyond HD and are intending to deliver 3D TV to their subscribers. BSkyB plans to launch its service next year, while its rival, Virgin Media, had completed a successful trial by November 2009.

Most of the operators listed above offer subscription VoD services to complement transactional VoD services. In June 2007, the ISP Free was the first to launch an SVoD proposition in France. Within a year, the number of VoD purchases had increased by 58%, contributing to a 40% increase in broadband value-added services revenue (when comparing results from the first half of 2008 with the those from the equivalent period in 2007).¹⁰ Orange also launched its first SVoD propositions that month, eventually adopting the practice used by some US operators of bundling linear programming with complementary on-demand content.

The co-existence of transactional VoD with SVoD services enables pay-TV operators to appeal to both light and heavier users of VoD, while generally stimulating the usage of VoD by subscribers.

The range and size of BSkyB's paid-for VoD offering is constrained by its infrastructure. Having opted to use push-VoD for popular, but free, catch-up TV services, its paid-for VoD offering is currently limited to an old-fashioned NVoD service offering a relatively small range of content. However, we expect the situation to change, as BSkyB's broadband subscriber base, and the number of STBs with an Ethernet port owned by that base, continues to rise. Already, some satellite operators have started to use an Internet connection to substantially increase the amount of true on-demand content they offer to their subscribers, allowing them to compete more effectively with cable and satellite operators and to increase their revenue.

- **DIRECTV.** In June 2008, DIRECTV launched the 'DIRECTV On Demand' service, which combines push-VoD and progressive download over a broadband connection to offer a wide range of free and paid-for VoD content on the TV. The service, which currently contains over 5000 VoD assets, is available to subscribers who have DIRECTV's latest generation of DVRs, which can be connected to a broadband line.
- **Canal+.** In November 2008, the French satellite operator Canal+ launched its stylish designer +LE CUBE HD DVR, giving its subscribers access through a broadband connection to an extensive VoD catalogue on the TV, including American TV series shown within a week of broadcast in the USA, for an additional EUR10 per month.

The take-up of VoD will vary widely between individual operators because of a number of factors, including the maturity of the market (how long VoD services have been deployed), the pricing of the offer, consumer receptiveness to VoD and the availability of content. One of the key ways of driving up VoD usage is to ensure a steady flow of newly released films,

¹⁰ Iliad Group (Paris, France, 2008), *MANAGEMENT REPORT – SIX MONTHS TO JUNE 30, 2008*. Available at: http://www.iliad.fr/en/finances/2008/Rapport_Gestion_1H_%202008_%20Eng.pdf.