Digital migration drives global TV distribution revenues to more than $230 billion by 2010

By Kara Hartig

Successful migration of subscribers to digital tiers and increasing average revenue per user (ARPU) from enhanced services will fuel worldwide spending on TV distribution, with revenues reaching $230.3 billion in 2010 at a compound annual growth rate (CAGR) of 8.3%, according to PricewaterhouseCoopers' *Global Entertainment and Media Outlook: 2006–2010*.

The *Outlook* defines the TV distribution market as consumer spending on subscriptions to services such as satellite, video on demand (VOD), Internet protocol TV (IPTV), and basic or premium cable. It also includes pay-per-view (PPV) in the U.S., Canada, as well as Europe, the Middle East, and Africa (EMEA). While VOD allows viewers to access programming at any time through servers, PPV dedicates channels to programming at scheduled intervals. The U.S. market further integrates advertising on local TV stations and cable systems.

The U.S. will keep strong hold of its largest-market title, despite saturation somewhat dampening growth, with revenues rising to $117.1 billion in 2010 at a 5.4% CAGR. Asia Pacific will represent the fastest-growing region, increasing at a rapid 13.9% CAGR to $36 billion in 2010. Having the second-largest regional spending, EMEA will expand at an 11.6% CAGR, nearly doubling from $35.2 billion in 2005 to $61 billion in 2010. Although the market in Latin America will remain small, a 10.8% CAGR will shepherd revenues to $11.7 billion in 2010. Canada will expand at a 6.4% CAGR to $4.5 billion in 2010.

In the U.S., a shifting telecommunications regulatory structure has allowed phone companies entry into the market, forcing basic subscription fees downward and cannibalizing incumbents' share. However, increased ARPU from both bundled services and migration to digital tiers will sustain end-user spending, rising at a 6% CAGR from $59.8 billion in 2005 to $80 billion in 2010. Moreover, digital migration will offset decreasing cable subscribership, sustaining advertising growth. With TV station advertising expanding at a 4% CAGR to $30.5 billion and local cable, at a 4.7% CAGR to $6.7 billion, advertising will constitute $37.2 billion in 2010.

By category, basic subscriptions will rise at a 5.5% CAGR to $58.3 billion in 2010, with premium subscriptions increasing at a 5.1% CAGR to $14.4 billion. However, VOD will represent the standout in growth, expanding to $3.9 billion in 2010 at a 22% CAGR. Through VOD's aggressive rollouts and relatively higher programming availability, the category will also moderate PPV growth, dropping to single digits in 2006 and averaging a 5.7% CAGR to $3.4 billion in 2010.

In EMEA, cable operators will consolidate in response to competition from phone companies as well as free digital and satellite services, thereby marshalling in triple plays, VOD, and digital conversion. These factors will slow erosion of cable subscribership (cable household growth averaging a 1.5% CAGR through 2010) and propel ARPU—the principal driver of EMEA distribution spending. Total subscriptions will rise to $56.3 billion in 2010 at a 10.6% CAGR. Meanwhile, phone companies' expansion of IPTV—enhancing capacity—will also stimulate VOD and therefore subscription growth, with VOD skyrocketing at a 56% CAGR to $3 billion in 2010.

Western Europe will have the highest spending, increasing at a 9.7% CAGR to $43.5 billion in 2010. Central and Eastern Europe will expand the fastest at a 14.7% CAGR to $12.7 billion, with the next-largest revenue. By country, Russia ($9.9 billion) will surpass the United Kingdom ($9.7 billion) as the largest market in the region in 2010, with Spain ($5.8 billion) and France ($5.5 billion) ranking third and fourth. However, Italy will grow the fastest of all countries at a 22.9% CAGR to $5.5 billion, spurred by satellite and IPTV.

In Asia Pacific, cable operators will compete with satellite launches and carriers' IPTV rollouts by investing in infrastructure. Subscription TV will therefore become increasingly attractive, growing at a 12.9% CAGR to $33.9 billion in 2010. With piracy's constraint of the market, digital platforms will also hamper ability to steal signals. Meanwhile, growth of digital cable and IPTV will expand the market for VOD, boosting spending to $2.1 billion in 2010.

The People's Republic of China will overtake Japan in 2008, growing at a 16.7% CAGR and constituting the largest market in 2010 ($8.4 billion and $8 billion, respectively). India ($5.4 billion), South Korea ($4.3 billion), and Taiwan ($2.1 billion) will boast the next-largest markets. Although Indonesia will remain small at $808 million in 2010, the country's satellite subscribership will explode in 2006 due to decreasing monthly fees, resulting in a 48.7% CAGR. Despite recouping spending levels in 2008, the Philippines will suffer the only negative growth rate (-10.1% in 2006) during the forecast period, following cable rate hikes in 2004.

In Latin America, new platforms and competition will stimulate subscription spending—rising from $7 billion in 2005 to $11.7 billion in 2010 at a 10.7% CAGR—with digital upgrades boosting channel capacity and spending on enhanced services. Like in other markets, VOD will also swiftly rise—at a 43.8% CAGR. However, its $86 million in 2010 will correspond to less than 1% of the market, and piracy will continue to compromise TV distribution's overall potential.

Argentina will continue to lead the region at $3.4 billion in 2010, recovering its steep decline at the beginning of the decade. Meanwhile, Mexico's strong 13.7% CAGR will bring the country to second place in 2010 at $3.2 billion, overtaking Brazil at $3.1 billion.

In Canada, digital satellite expansion will drive the market despite impending saturation, and triple plays will aid cable's subscriber retention. By category in 2010, basic subscriptions will increase at a 5% CAGR to $3.1 billion, while premium spending will reach $794 million at a 4.8% CAGR, both supported by digital migration. Although PPV will grow relatively more quickly at a 7.9% CAGR to $296 million in 2010, VOD's 33.8% CAGR will bring the category to $356 million in 2010, surpassing PPV in 2009.