THE UK TELEVISION LANDSCAPE REPORT

A quarterly review of population trends and changes in how people can watch television

Q2 2017

BARB

CONTENTS

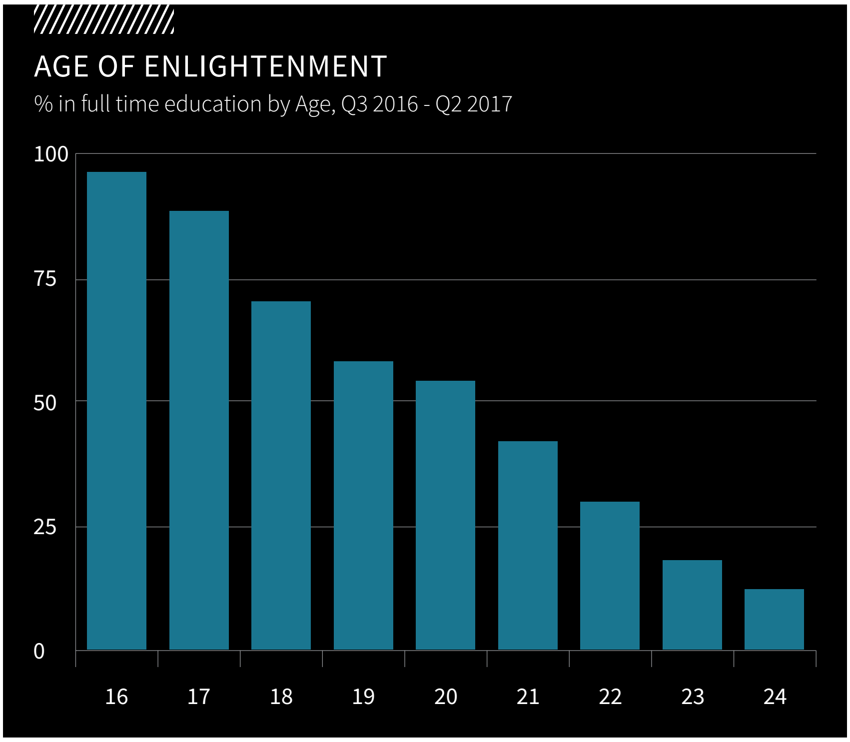
REDBRICKS
& MORTAR
BOARDS

REDBRICKS AND MORTAR BOARDS

The United Kingdom has long been a bastion of learning and education. Our institutions and foundations are centred around the promotion of learning as a means for bettering and building the utility of society. Today, they are still known throughout the world for their excellence and pioneering nature. From Enigma to Dolly the sheep, UK universities have continued to play an important part in historic discoveries.

But once the dominion of the few, de-regulation and expansion of university accessibility in the late 20th century now means more young people than ever continue their studies post school and into university life.

Now over half of all young people leaving school go on to university to study with the aim of completing a degree or equivalent. Most will finish at the age of 21 although a significant number continue well into their mid-twenties; 53% of all 16-24 year olds are in full time education.

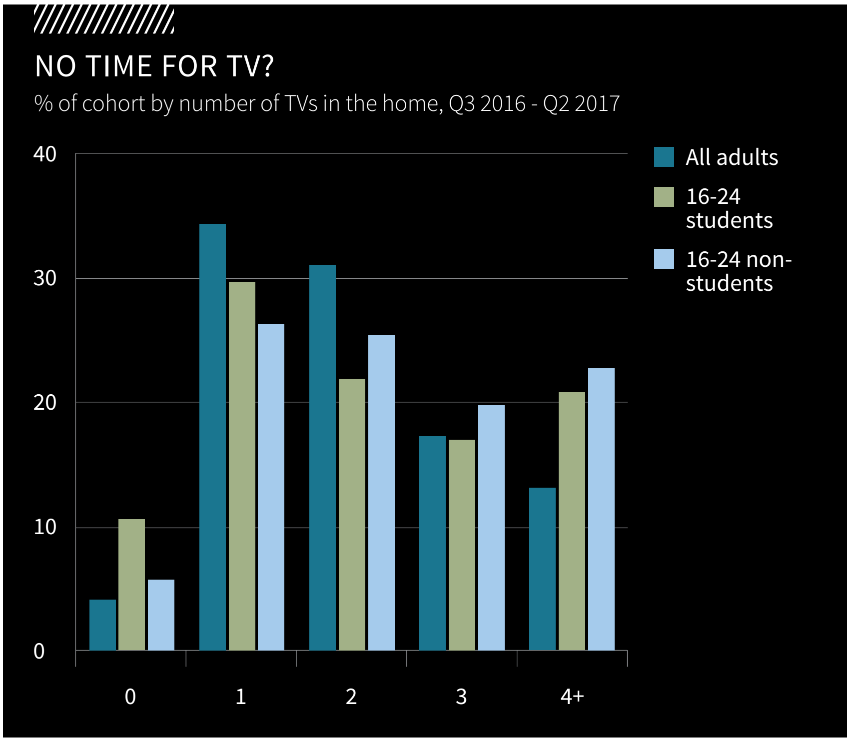


What are the implications of this in media terms? 16-24s have historically been a key target for advertisers and programme makers alike; they are after all future influencers, future leaders and future consumers. With such dichotomy between those working and those within education, it's important to understand these two distinct segments, especially when it comes to media choices and exposure.

STUDY BREAK

Students especially are transient by nature as are, to a degree, young people in general. They are likely to move home on a regular basis and make short term plans. Even within university life, it is possible they will live in multiple homes during their studies.

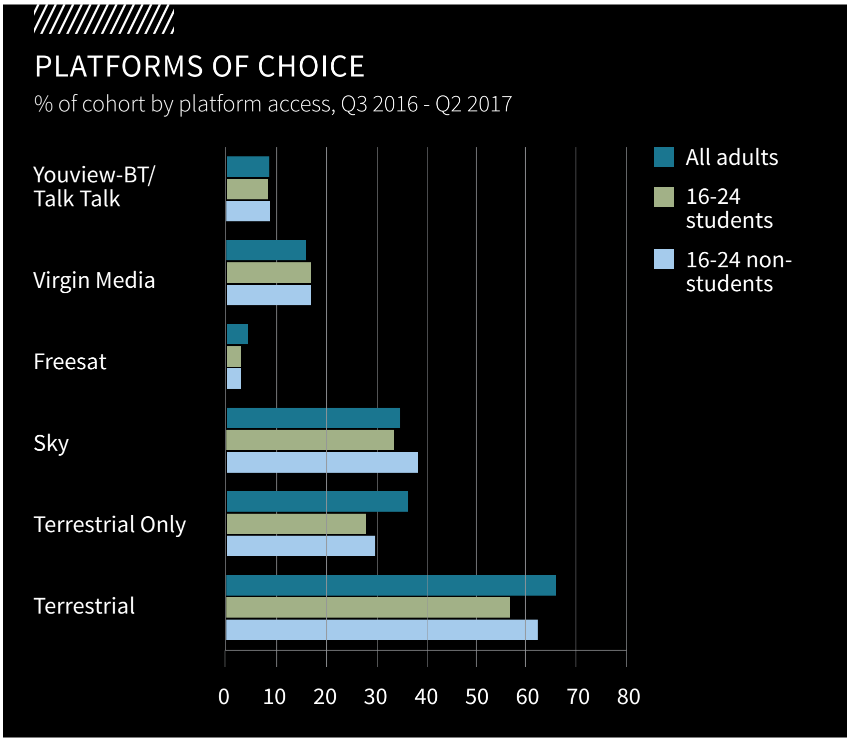
Over 10% of 16-24 students do not have access to a TV set. Whether this is a reaction to the cost of licence fees or indeed the inconvenience of moving a large screen TV between abodes is unclear but what is, is that a significant number are spending time at home without a TV set (and hopefully studying).



ELECTIVES

Of those that do have TV sets, there are differences in how they receive their television. 62% of 16-24 young adults outside of education have access to terrestrial television, as well as 38% having access to Sky with subscription. However, for students, this falls to 56% having access to Freeview and only 33% with Sky subscriptions.

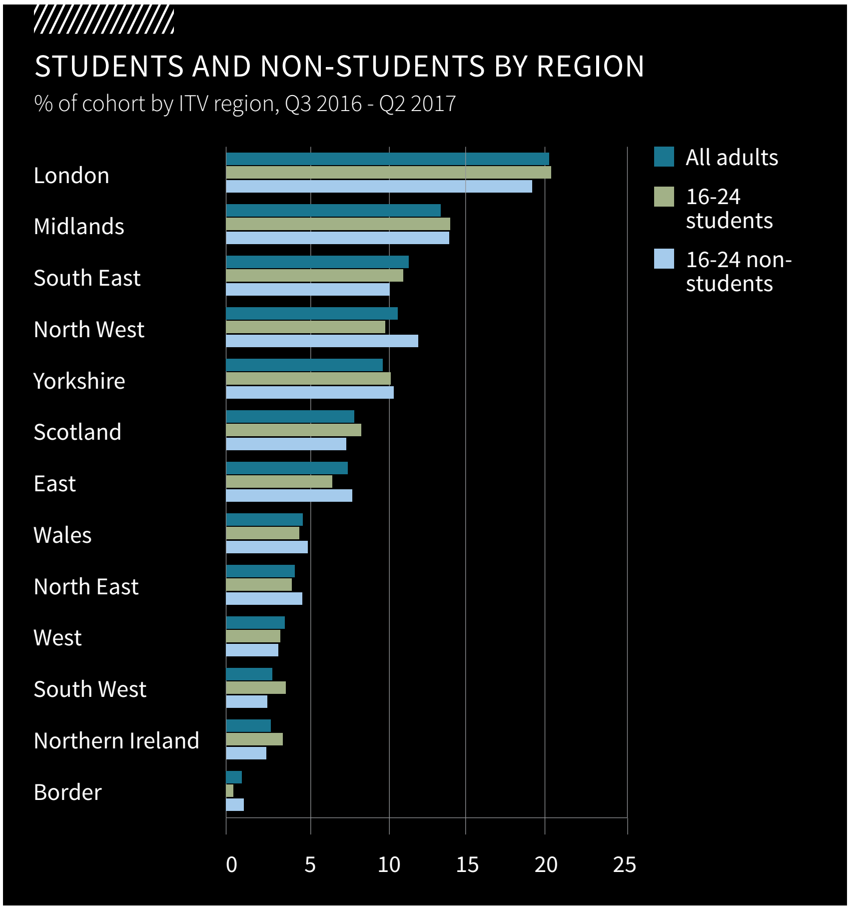
Virgin Media interestingly indexes higher for both student and non-student 16-24s than all adults. This is possibly geographical in nature in that cable networks are largely centred around urban areas, which are where many universities are based.



STUDENT HAUNTS

However, when we break out where students and non-students alike live throughout the UK, we get some interesting results. For sure, London, which has a plethora of universities within it, has a higher percentage of students compared to non-students. However, North West, home to the great cities of Manchester and Liverpool and their Russell Group universities, is home to less than 10% of 16-24 students but 12% of 16-24 non-students.

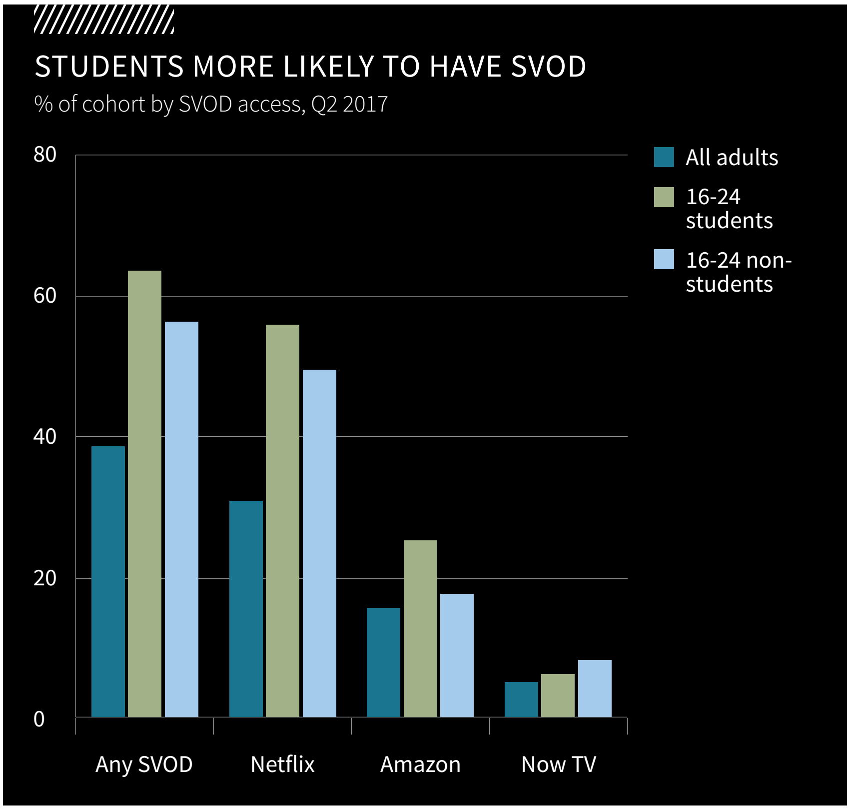
There is likely to be more at play here, including local job markets and industries, either pulling or repelling non-student 16-24s to live in one area over another.



PRIVATE LIBRARIES

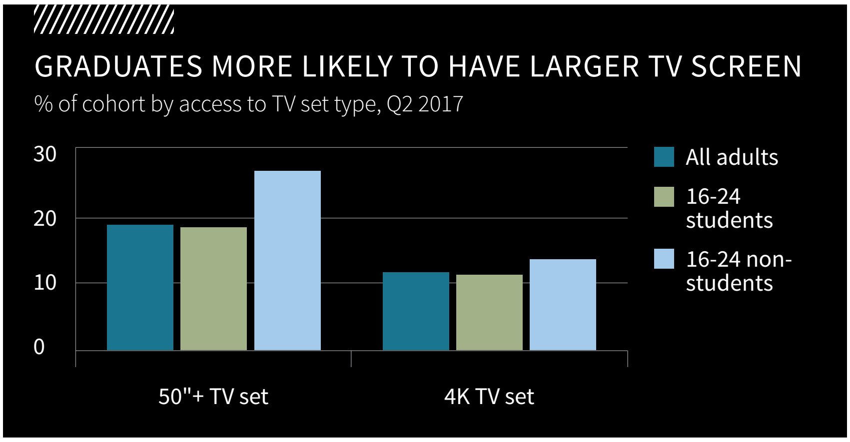
We've seen how 16-24 students are less exposed to traditional broadcast services than their non-student peers, with fewer owning a TV set in the home. But when it comes to subscription VOD services, their roles are reversed. 64% of all 16-24 students have access to one of the big three SVOD services, compared to 56% of non-students.

Netflix remains the dominant and most popular service within both groups, with 56% of 16-24 students with access compared to 49% of non-students. A similar relationship also arises with Amazon. And while Now TV is more popular among 16-24s than among all adults, students are less likely to have access than non-students. This is possibly a reflection of the appeal of Now TV being a hybrid of both linear and VOD services.



SCREENING FOR SUCCESS

We've seen the continued rise and prominence of larger TV screens in UK households, and for young people it's no different. If they can, they want a larger screen to watch their television, and of the best quality. But of course, for students, with their transient nature and financial pressures, the ability to either afford these technologies or prioritise them against other goods and services (like a computer for studies) is stark.



As such, 16-24 year old students, compared to those that have finished studying are less likely to have access to a 50+ inch TV screen or a 4K TV set. However, once out of university and education, young adults more often than not are expressing their new found disposable incomes and tastes by acquiring the largest and highest quality TV set.

GRADUATING WITH HONOURS

What is clear from our data is that in a world of segmentation, simple, broad assumptions across demographics can no longer fully explain the nuances of these individuals. Our media choices and exposures are defined by multiple factors. For young people in learning, the pressures of study and further education are like never before. So, don't be surprised if how they get their television may be different, not only to the rest of the population but even within their own age group.

VOD THE ALMIGHTY

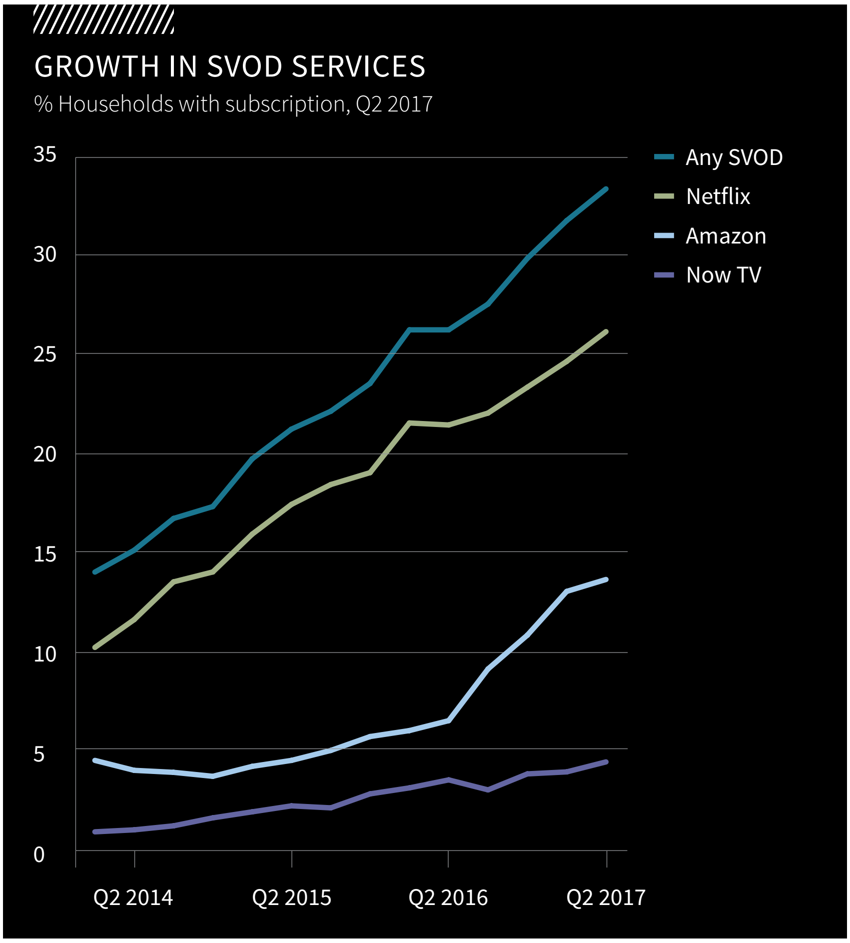
VOD THE ALMIGHTY

In October 1985, Blockbuster Video was founded. On the back of ever increasing VCR sales, home entertainment was taken to a new level. Film and TV studios were now offered new avenues to monetise their programming outside of cinema release and broadcast. Video rental was here.

The concept of leaving the house and going into a high-street store to choose a film to watch that evening might seem alien to the young of today, but this is what happened. VCR ownership was as high as 83% of all households by the turn of the century and this reflected the popularity of the rental video market.

But from strength and dominance, the days of going down to your local video store are no more and alas, Blockbuster Video closed its doors for the final time in 2013.

As we've seen recently (in our Q4 2016 report) with the VCR itself, PVR technology has had a significant impact. But in addition to recording our linear television, we are now able to watch our favourite programmes via broadcaster VOD applications, and also new subscription VOD services. Broadcaster VOD apps are now as embedded in our television psyche as the channel brands themselves and provide us alternative ways to make sure we don't miss programmes on television. Digital over-the-top distribution is now the leading method outside of broadcast in which to watch high end television content. However, it is with subscription services where we see the most disruption to the old world. Offering access to archive television, movies and now high budget exclusive series commissions all in one place, it is no wonder the services of Blockbuster and others are no more.



In just a few short years, the rise of subscription VOD has had profound change on the UK television landscape. Now in over 33% of households, subscription VOD services offer complementary or indeed in some cases, alternative opportunities for watching high quality movies and television that are not through traditional broadcasting. Netflix and Amazon Video are now as well known for exclusive series like The Crown, Stranger Things and Man in the High Castle as for the wealth of archive content available on their platforms.

By far the most dominant of these SVOD services in the UK is Netflix. Launching in 2012, it is now in more than 26% of households. That's a subscription base of more than 7.3m homes. Not far behind and, interestingly, closing fast, is that of Amazon Video. In Q2 it was estimated to be in 14% of all households, a growth of 112% in the last 12 months alone. The exact reasons for this are not clear but it seems pertinent to mention the correlation between the strong growth in subscriber numbers and the launch of The Grand Tour with Jeremy Clarkson. Now TV, Sky's OTT offering, continues to grow and currently is in over 1.2m subscriber homes.

FRIEND OR FOE

The arrival of both Netflix and Amazon Video in the UK has often been used to support the 'death of TV' claim, with the old norms and linear distributors being replaced with a new way of watching programming. While there is evidence of the phenomenon of 'cord cutting' or indeed 'shaving' in the United States, subscription to Netflix and Amazon are more often to be additional, complementary services to pay-tv offerings, rather than alternatives. Instead of being a threat, they can offer even more content to a segment of the population who quite simply love television.

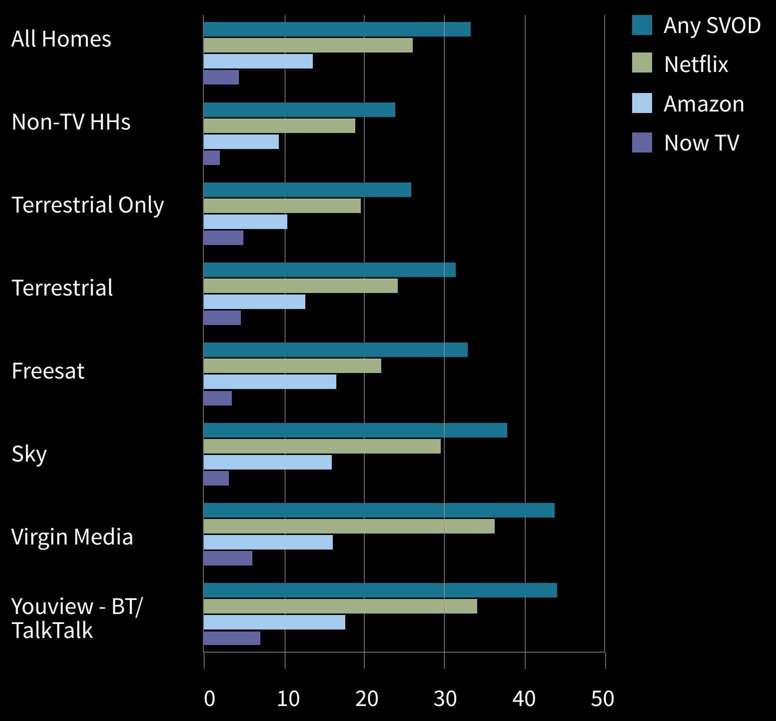
Although Netflix exists in 26% of all homes, in Sky homes that rises to 30%, 34% for YouView, and a staggering 36% for Virgin Media. In other words, you are 40% more likely to have Netflix if you subscribe to Virgin Media than the average household. A similar pattern emerges for Amazon Video, with subscribers to pay-TV services via Sky, YouView and Virgin Media more likely to have Amazon video than those without.

Interestingly, of those without a TV platform at all only 24% subscribe to an SVOD service. So, perhaps the idea of these services replacing traditional distributors are some way off the mark.

The UK has a rich heritage in high quality free-to-air television provision. Paying for television is now a mature market in the UK. So there already exists a value exchange in people's minds for those who are likely to spend money on their television. It is little wonder then that these predispositions around paying for broadcast TV in general also correlate with paying for subscription VOD services.

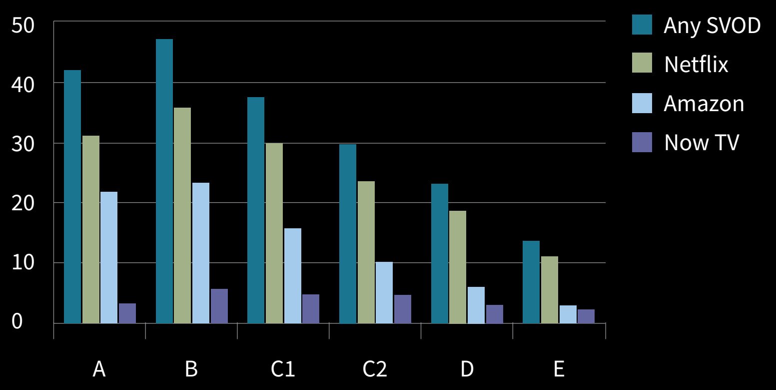
PAY-TV HOMES MORE LIKELY TO HAVE SVOD

% penetration of SVOD by platform, Q2 2017



SVOD BY SOCIAL GRADE

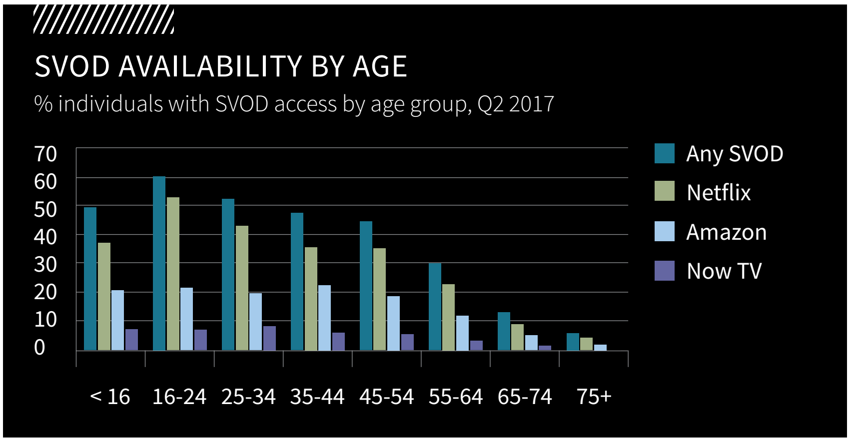
% households in cohort, Q2 2017



And like with any commodity, price points impact on these choices and decisions. Across social grade what we generally see is that the higher the social grade of the household, the more likely it is to subscribe to these additional services. 42% of grade A households, and 47% of grade B subscribe to SVOD, compared to 23% and 13% for D and E households respectively.

AGE IS NO BARRIER

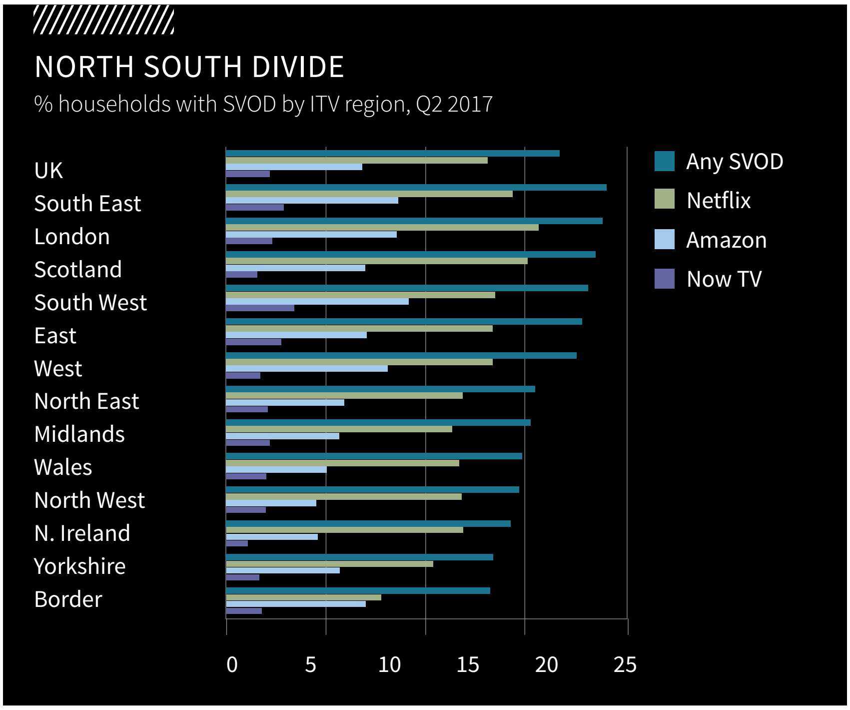
We've seen at a household level the cohabitation between pay-tv platforms and subscription OTT services, but a possible future concern for linear distributors may be the age cohorts of those who have access to these 'non-linear' facilities.



In 33% of all households, 49% of all children in the UK have access to an SVOD service. That's around one in two children being able to watch high quality television that is not from a linear channel or platform. This rises even further when you look at young adults, 16-24s. Here a staggering 60% of all young adults have access to an SVOD platform, and Netflix is clearly the preferred provider. These demographics are generally not the decision makers - or bill payers - in the home. So as these demographic cohorts age and enter new lifestages it may be worth noting whether their desires for traditional means of receiving programming change.

NEXT DAY DELIVERY

We know that where you live in the UK can impact on how you get your television. The same is true when it comes to SVOD. Latest data continue to the trend we saw previously with the Scottish having one of the highest levels of subscriptions to Netflix, with 30% of all homes within the STV region subscribing to Netflix compared to 26% UK wide. But when it comes to Amazon Video, the Scottish trend is below the majority of England, with London and the South leading the way. Together with London, it is the South East and the South West most likely to subscribe to Amazon Video than anywhere else in the country with 17% and 18% of households respectively subscribing, compared to 13.6% for the UK.

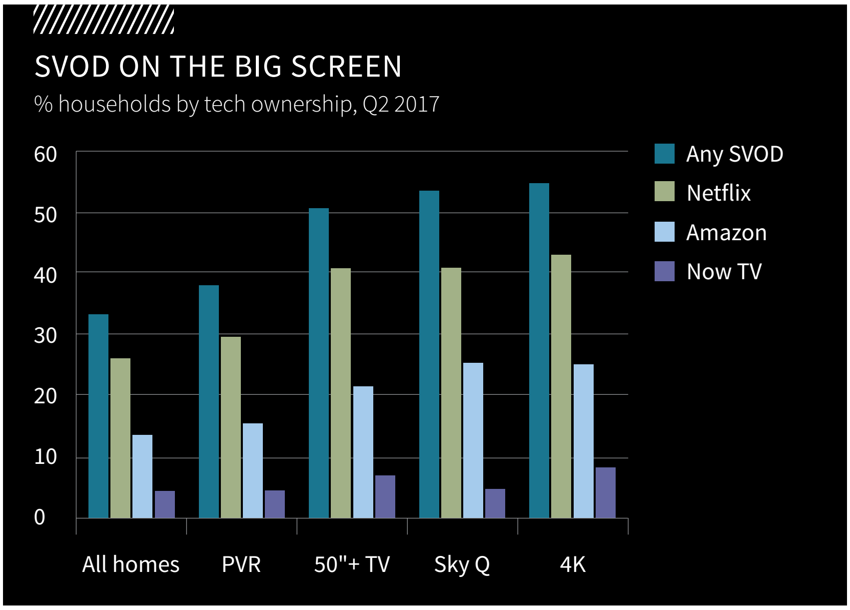


Of course, different people have different tastes and choices but there are some regional variables at play. SVOD services are often bundled together with additional offerings to make the purchase or subscription more palatable for the consumer. Taking Netflix for example, it can be purchased as part of a Virgin Media subscription, with its own access within the Virgin Media EPG. Which is why there are correlations with regions with high Virgin Media penetration and subsequent Netflix subscription. In fact, taking the Scottish and English Borders as an example, the cable network is near non-existent within this region, and that goes some way to explaining the fact it has the lowest Netflix subscription rates of anywhere in the UK.

For Amazon Video, subscription to its service is bundled together with Amazon 'Prime', its next day delivery service. Therefore, areas with high e-commerce rates and use of Amazon as a retail service are more likely to be aware, and use the SVOD service. This is one possible reason for the higher than average take up rates in London and the South of England.

RISE OF THE MACHINES

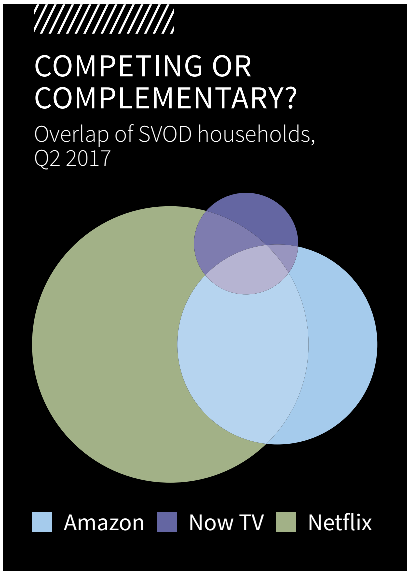
If you're paying additional money for premium television programming, it's probably of little surprise that you also value your television experience and technology. Both Netflix and Amazon Video now provide an ever-increasing number of titles in 4K quality, so it makes sense that over 50% of households with 4K TVs subscribe to an SVOD service. So, when we said earlier that SVOD subscribers simply love TV, we meant it. Not only do they want the most pixels, but across the largest dimensions. Homes with a TV set of at least 50 inches are 57% more likely to subscribe to Netflix than the average household.



Interestingly, of those with Sky Q, the new multi-tuner, hybrid set-top box from Sky, 54% subscribe to an additional SVOD service to complement their services from Sky itself.

WHEN ONE ISN'T ENOUGH

We know from our data that SVOD subscribers love television, and not only that, they want to watch it on the largest screen and in the highest quality. And whether you include or exclude SVOD in your definition of 'television' or not, the same applies to SVOD programming. It's clear that the TV set is their device of choice. But you might think, that in addition to their pay-tv channel line-ups, and their broadcaster VOD services, then there might only be need for one additional SVOD service subscription. Well, you'd be surprised. A significant number of us in the UK subscribe to not only one of either Netflix, Amazon or Now TV, but two, or indeed all three services, highlighting the strength of the individual programme titles within each of those platforms as driving factors for taking the service.



Although 7.3m households subscribe to Netflix, of those 2.2m also subscribe to Amazon. That's the equivalent of 30% of the Netflix subscriber base also subscribing to their competitor and vice versa, 58% of Amazon's base subscribe to Netflix. Programme commissioning and procurement for these platforms is becoming more competitive, so it will be interesting to see whether this significant complementary overlap continues. Or whether households increasingly begin to choose one or the other in the future.

THE NEXT BIG THING

The last twenty or so years has seen the rise and fall of many technologies and services, previously thought of as mainstays in our lives. Blockbuster Video, once a central part in the home entertainment offering in the UK is no more. The growth in subscription VOD services shows no signs of slowing, or at least not yet, but will these trends continue? Or will the replacement for rental video be replaced itself with something new and even more convenient to consumers? With all these questions, only time will tell.

TV LANDSCAPE TRACKERS

The UK Television Landscape Report tracks key metrics which define the television landscape over time. The trackers feature in each edition of the report, and we will add to the number of trackers as we go.

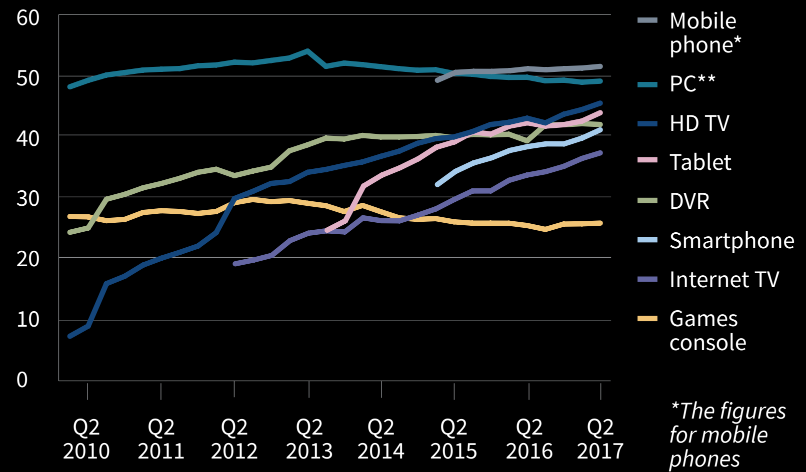
Tracking key metrics offers insights into the changing nature of the UK TV landscape. In many cases, the pace is slow; the question is, how steady?

DEVICE ACCESS

Growth in smart (internet) TVs within UK households continues with over 37m households now with an internet TV. It is likely at current growth rates that access to smart TVs will overtake PVRs in 2018. HD TV ownership continues to grow as late adopters replace old legacy TV sets.

DEVICE ACCESS

Q1 2010 - Q2 2017, millions of individuals



**The figures for mobile phones include smartphones*
***The figures for PC include tablets up to Q2 2013*

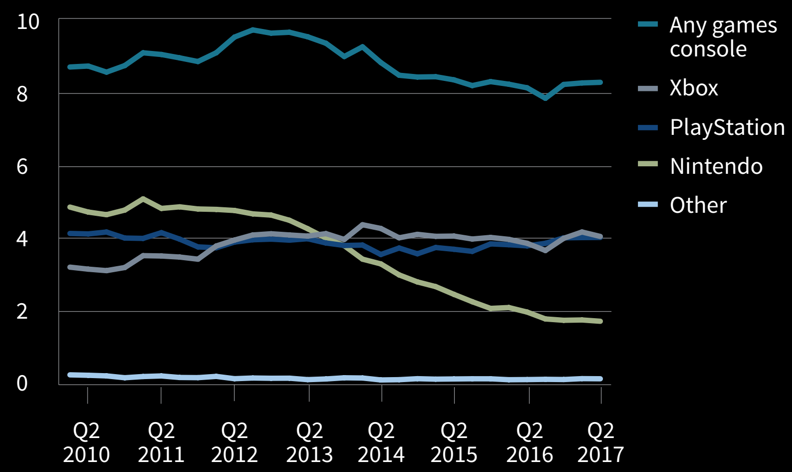
The Establishment Survey considers devices on a household level, so if any member of a household owns a device, then every member of that household is considered to have access. The one exception to this is mobile phones (including smartphones), which are considered to be individual devices, so if a household member owns a mobile phone, other members of the household are not considered to have access.

GAMES CONSOLE HOUSEHOLDS

The games console tracker follows the number of homes with a games console connected to a TV set. The Establishment Survey tracks each generation of the three main console brands: Sony PlayStation, Microsoft Xbox and Nintendo. Recent declines in the overall ownership, driven by Nintendo, have now stopped, with overall ownership holding steady at 8.2m households. We featured the recent declines in ownership in the Q1 2016 edition of the UK Television Landscape Report.

GAMES CONSOLE HOUSEHOLDS

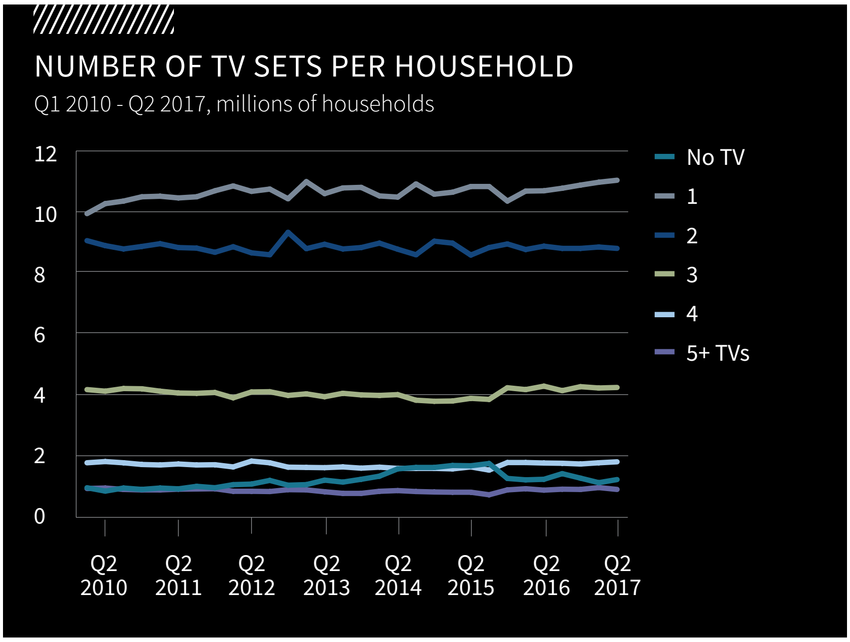
Q1 2010 - Q2 2017, millions of households



NUMBER OF TV SETS PER HOUSEHOLD

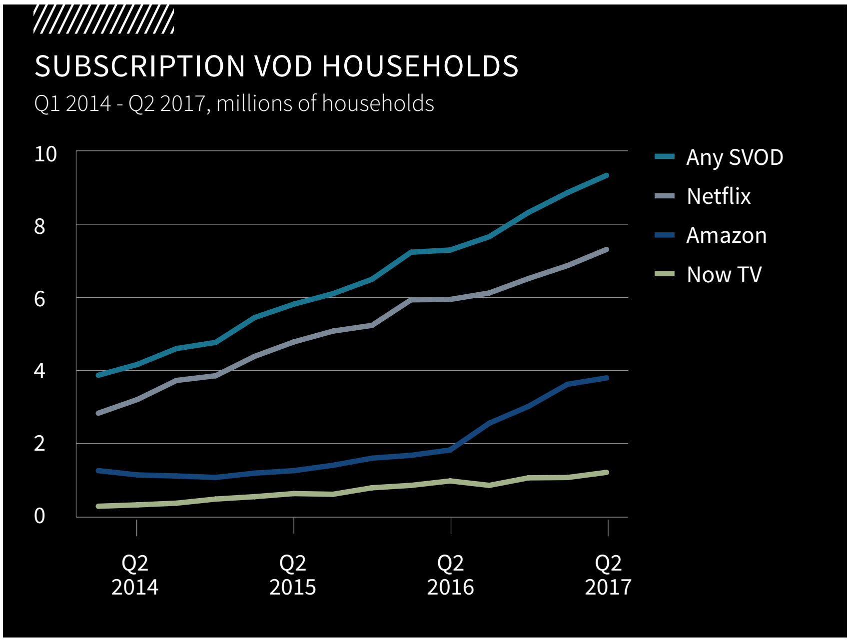
The definition of a working TV set changed at the end of 2015. Sets which respondents claimed had not been used to watch TV over the past six months and sets for which respondents could not specify the means of reception (cable, satellite, terrestrial, etc.) are now included in the definition. A detailed description of the change in definition can be found here.

In Q2 2017, it was estimated that there were 1.2m households without a TV set.



SUBSCRIPTION VOD HOUSEHOLDS

Access to subscription VOD services grew by 5.4% in Q2 2017, with just over 9.3m households subscribing to at least one of these services. Growth in Amazon slowed in the latest quarter to 4.9% and is now available in more than 3.8m subscribing households. Netflix, available in 7.3m, grew at 6.5% in the quarter. Now TV grew strongly at 14% and is available in over 1.2m households.



UK HOUSEHOLDS BY TV PLATFORM

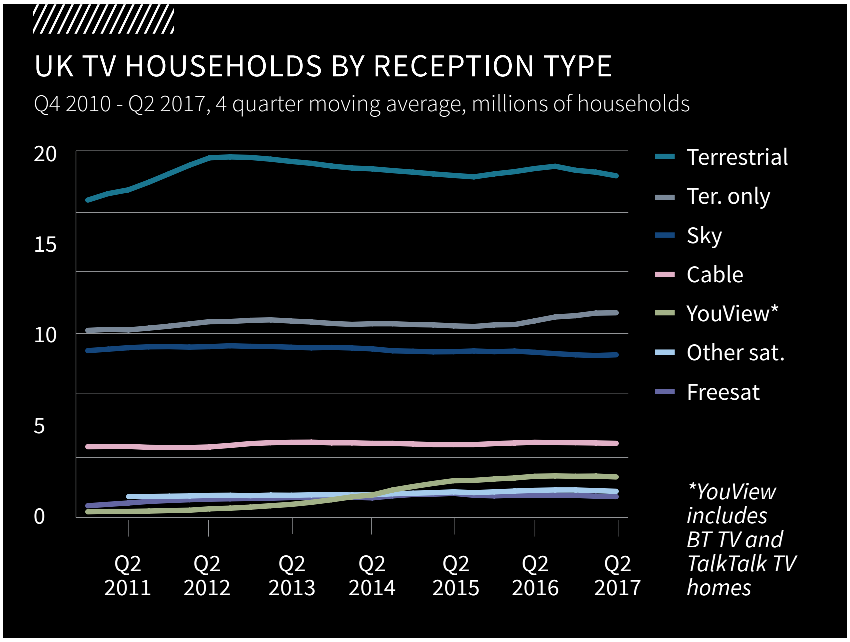
This tracker focuses on the platforms viewers use to watch linear TV.The platform categories used are as follows.

Cable: households that claim to receive cable; these households are almost entirely Virgin Media customers.

Freesat: homes which have access to Freesat, either through a set top box or integrated into the TV set. This does not include former Sky homes who do not have a live subscription but continue to use their Sky set top box to watch free satellite channels.

Other satellite: this category includes former Sky subscribers as well as viewers watching smaller, typically international, satellite service providers like Polsat.

Sky subscription: homes who pay for a Sky subscription package (not including Now TV customers who don't pay for a Sky subscription package).



Terrestrial: all homes which have access to digital terrestrial TV via their aerials. This includes any homes across all categories which also have access to terrestrial.

Terrestrial only: the subset of terrestrial households that do not have access to either cable or satellite reception. This includes most BT TV, TalkTalk TV and YouView homes.

YouView: all households who have the BT, TalkTalk or YouView platforms. The great majority of these homes will be using the YouView interface, but the figure will include a small number of homes using older versions of BT TV and TalkTalk TV.

BARB