THE UK TELEVISION LANDSCAPE REPORT

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

Q2 2016

BARB

Insight and analysis by

REDSHIFT

THE UK TELEVISION LANDSCAPE REPORT

HELLO,

Welcome to the latest edition of The UK Television Landscape Report, a quarterly report that reviews population trends and changes in how people can watch television.

Advances in technology have brought new ways for viewers to watch their favourite programming. News coverage of these developments is extensive, not least because of the dominant place that television still occupies in our collective consciousness. Yet frequently, this coverage can overstate the impact of the new and overlook enduring strengths of the television industry.

Each year, BARB interviews over 53,000 people for our Establishment Survey. It is a vital part of the services that we commission to deliver daily viewing data from a representative panel of over 5,100 homes. The Establishment Survey identifies shifts in the landscape that we have to monitor, while also providing new panel homes and details for our weighting scheme.

Household demographics are naturally an important part of what we ask about in the Establishment Survey, although we also focus on the ways in which people can watch television.

We ask about ownership of TV screens and a range of other devices that can be used to watch television programmes. We explore which distribution platforms are available in homes across the country. We also investigate the take-up of subscription VOD services that are delivered by new entrants in the television ecosystem.

The UK Television Landscape Report features articles that delve into certain parts of the data. For this report we look at two questions:

• There is enormous interest in the viewing habits of the millennial audience; what can the Establishment Survey tell us about how they watch television?

• What's happening in the pay TV marketplace: is pay TV declining, or in robust health?

The report also includes trackers that provide regular updates on issues such as take-up of SVOD services, device ownership and platform take-up. For BARB customers, there are additional interactive features to this report; you'll find these after logging on to our website.

What this report doesn't do is explore changes in viewing behaviour. That remains the principal focus for our annual publication, The Viewing Report. Side by side, these two complementary reports provide insight on the changing ways in which people can watch television and the ways in which they do.

I hope that you enjoy this edition and welcome your feedback.

Justin Sampson
Chief Executive
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MILLENNIALS – A BREED APART?

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What do millennials want? The now-familiar OTT narrative suggests they are deserting linear television on the main screen en masse in favour of on-demand programming consumed on portable devices. Establishment Survey data suggest the reality is less apocalyptic: not so much a rejection of linear as an embrace of television in all its forms, both traditional and new. Millennials want ready access to television in all the ways it can be consumed.

WHAT DO WE MEAN BY A MILLENNIAL?

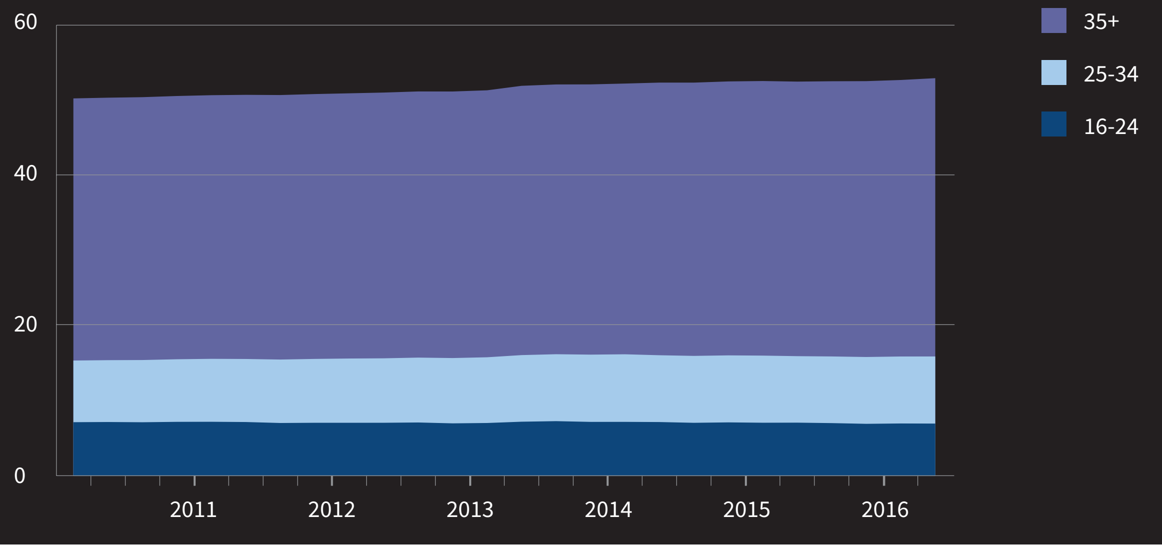
The term millennial is used widely in the marketing industry with little clarity about exactly whom it refers to. For most commentators, the definition is based on age: a millennial is someone born in the last two decades of the 20th century. This fits with the debate within the television industry, which focuses on the viewing habits of people who have grown up having access to a markedly different set of devices on which they are used to consuming television: PCs and laptops, followed in this century by smartphones and tablets.

It also fits neatly with the 16-34 age cohort that media planners and broadcast analysts regularly use in discussing programme audiences, so this is the definition we will use for this article: a millennial is someone in the 16-34 age bracket.

This is a broad range, and technology has moved fast over the past 20 years. Today's 16 year-olds have grown up with a different set of viewing options to 30 year-olds, so in the analysis we have split this broad age group down the middle to see whether there are significant differences between 16-24 (younger millennial) and 25-34 (older millennial) age groups. Collectively these millennial age groups comprise 29% of the adult (16+) population, split 16% older millennial, 13% younger millennial. These proportions have remained remarkably stable over the past five years.

MILLENNIAL AGE GROUPS WITHIN THE UK ADULT POPULATION

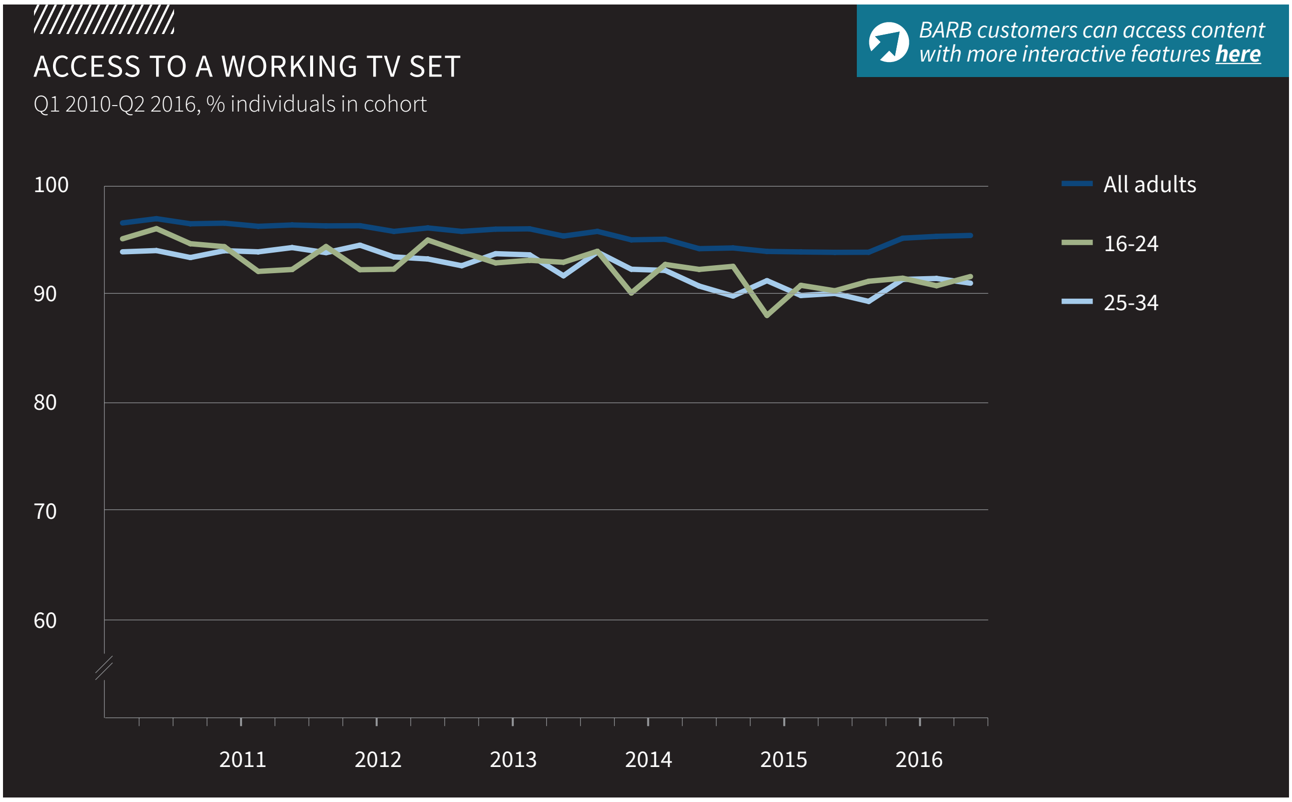
Q1 2010-Q2 2016, millions of individuals



DEVICE ACCESS FOR MILLENNIALS

Since much of the debate within the industry is focused on the extent to which traditional viewing is actually declining in the face of new ways of consuming television, there is an obvious question to start with: are millennials less likely to have access to a working TV set? The answer is yes, but not by much: 92% of millennials have access to a TV, compared to 96% of all adults. There is no significant difference between the younger and older millennial age groups.

Access to a TV set has been declining slowly for the population as a whole. The decline may be slightly faster for millennial age groups, but the difference is small: the gap between the average for millennials and the entire adult population has increased from two percentage points in 2010 to four in 2016.

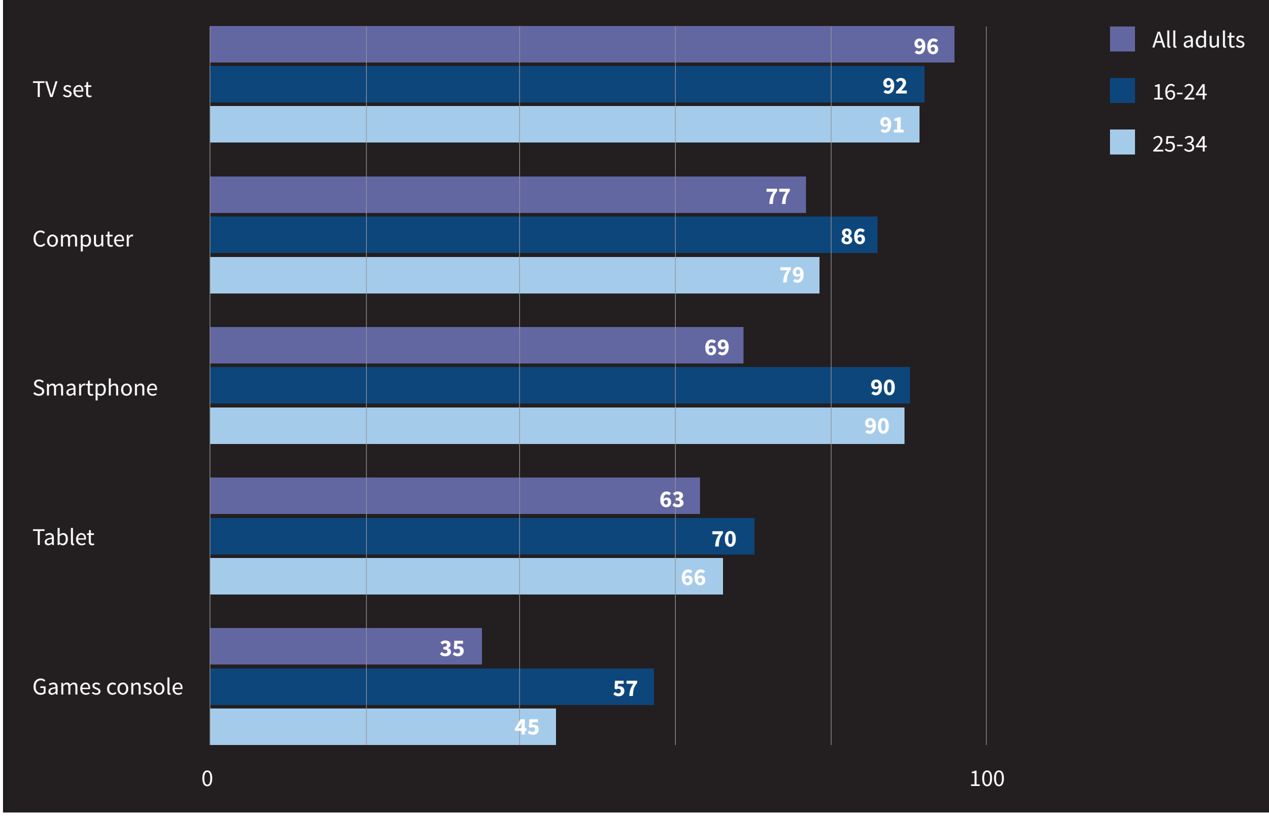


Do millennials have greater access to other devices on which they can watch television? The answer here is a much clearer yes. The most striking difference is in access to a smartphone: 90% of millennials (in both age groups) have a smartphone, compared to 69% of all adults (including 16-34 year-olds), and only 59% of over 35s. The smartphone is a device that is practically ubiquitous for younger people. However, even for millennials, the TV set is more pervasive: more millennials have access to a TV than to a smartphone.

Less surprisingly, millennials also have significantly higher access to a games console (50% vs. 35% for all adults). There is almost as great a difference between the younger and older millennial age groups (57% vs. 45% respectively) as there is between millennials and all adults. PCs and laptops have a much smaller difference between millennials and all adults (82% vs. 77%), and it is the same for tablets (68% vs. 63%).

ACCESS TO DEVICE BY AGE COHORT

Q2 2016, % individuals in cohort



The difference in access to these other devices is not especially surprising. Millennials, particularly younger millennials, have a strong incentive to exploit the portability of non-TV devices to enable them to control their own television experience, since in many households they will not have control over the main TV screen, and often will not want to share their viewing with older adults, particularly parents. It is hardly a new trend for younger people to want to watch television on their own.

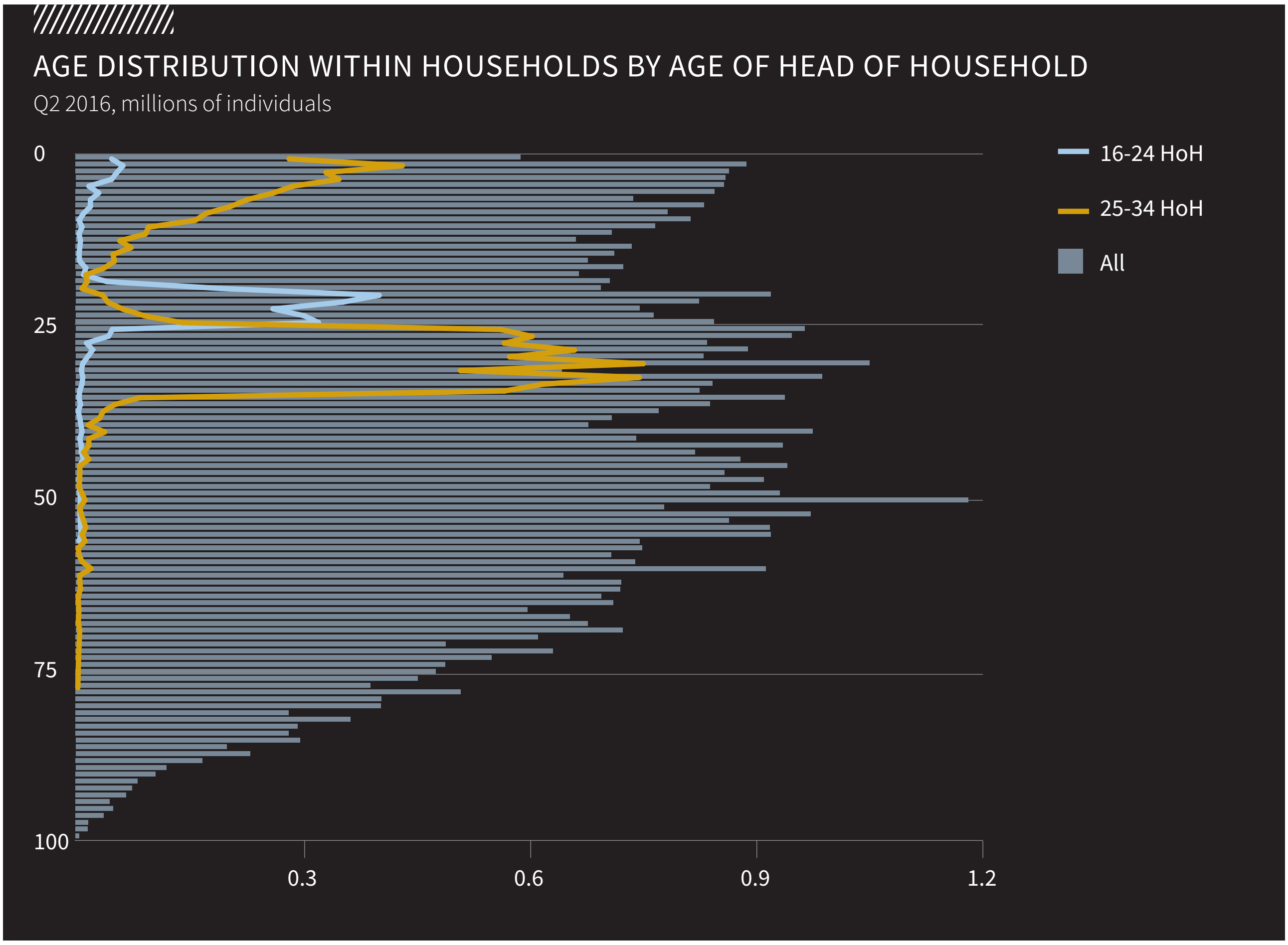
Control of the TV is important: many millennials live in homes in which the head of household is not a millennial (45% of all millennials, and 67% of younger millennials), and in these homes they are unlikely to determine the television viewing arrangements. If we want to understand the viewing set-up that millennials want for themselves, we need to narrow our focus to those households in which a millennial is the head of household. We'll call these *millennial households*. Here we can be more confident that viewing arrangements are millennial-driven.

MILLENNIAL HOUSEHOLDS

These millennial households comprise approximately 18% of all households, split 14% older millennials, 4% younger millennials. These proportions have remained broadly stable for the past five years.

The age distribution within millennial households is very different from the population as a whole: it is heavily skewed to the age brackets for millennials and children.

There are very few older adults in millennial households. For younger millennial households, the skew to the younger millennial age group is even more pronounced; there are relatively few children. The age distribution within these homes gives us a great deal more confidence that the viewing set-up will be determined by a person in the millennial age group.



The average size of millennial households is greater than for households overall: there are significantly fewer single person households, and nearly 25% of millennial households have four or more people, compared to 19% for the population overall. Older millennial households have more young children, which explains the larger household size.

Social grade is an even stronger differentiator. Millennial households are skewed towards C1 compared to the population as a whole, driven in particular by younger millennial households, for which the skew is pronounced. Among older millennial households there is a significant skew towards large households with lower social grades.

The next charts shows how millennial households vary from the population as a whole. For example, 31% of older millennial households are social grade C1 compared to only 28% of all households.

MILLENNIALS HOUSEHOLDS BY HOUSEHOLD SIZE AND SOCIAL GRADE

Q2 2016, % variation from whole population

***Average social grade calculated with A=6...E=1*

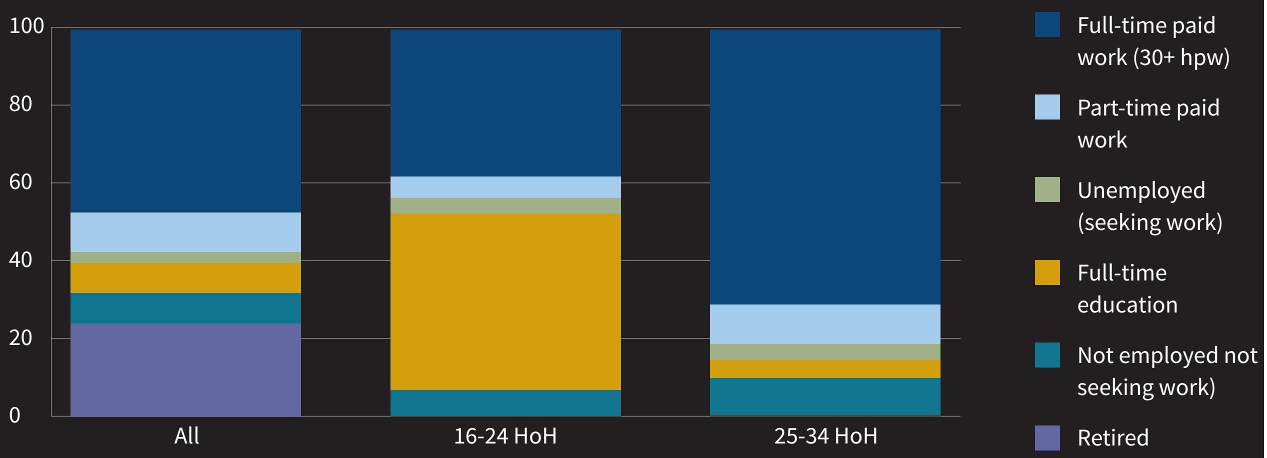
Employment status shows the reason for the skew in social grade: full-time education is the single biggest category for younger millennial homes. 45% of people in younger millennial homes are in full-time education. Under the social grade classification, homes where the head of household is in full-time education are classed as C1.

Younger millennial households are also skewed towards the D social grade, because young heads of households in work tend to be people who left full-time education relatively young, and are therefore less likely to have skilled, supervisory or managerial level jobs.

The preponderance of people in full-time education or in less skilled jobs means that disposable income for these younger millennial homes is likely to be significantly lower.

EMPLOYMENT STATUS BY AGE OF HEAD OF HOUSEHOLD

Q2 2016, % individuals in cohort



DEVICE ACCESS WITHIN MILLENNIAL HOUSEHOLDS

What set-up do millennials choose to watch television when they are in charge of the household? We can examine this from three perspectives:

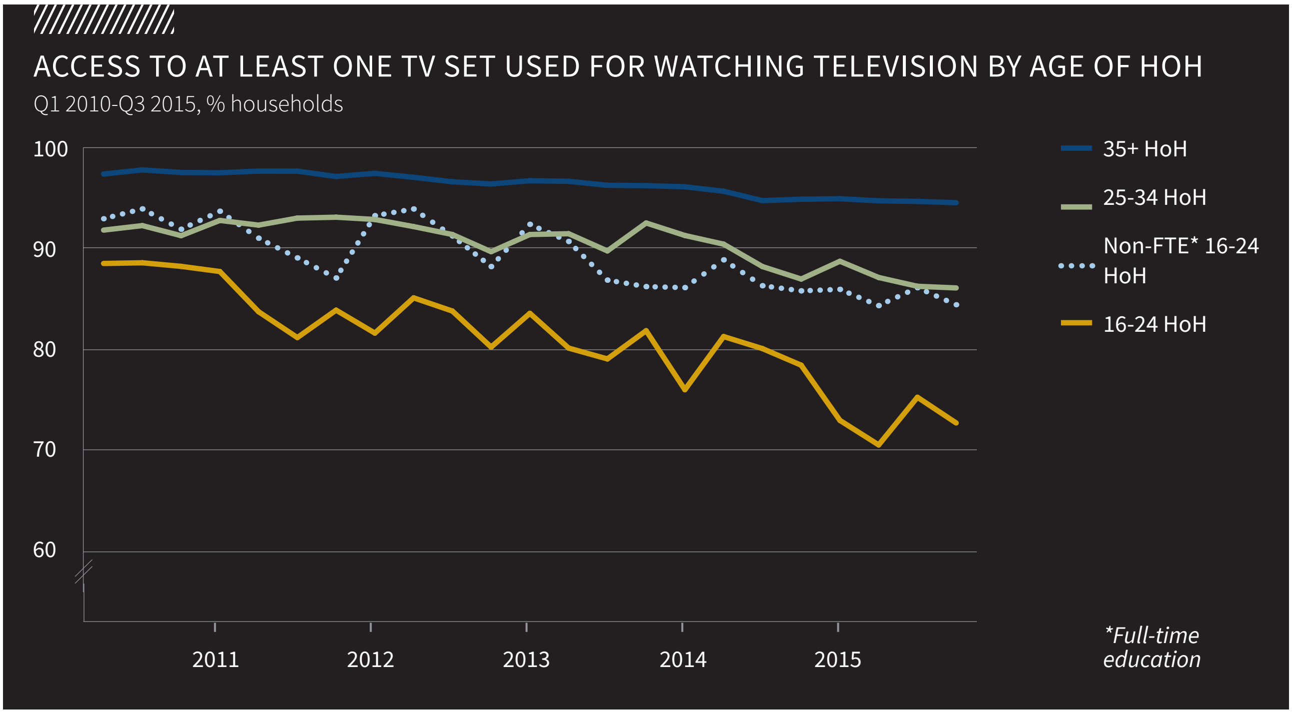
- to what extent do they adopt a traditional viewing arrangement, i.e. have access to a TV set?
- to what extent do they have access to other devices which are used for watching television?
- what is their choice of platform and/or service?

ACCESS TO A TV SET

Millennial homes do appear to use a TV set less for television viewing. Only 84% of millennial households have access to a TV set, compared to 95% of homes with an older head of household. However, the millennial figure is pulled down by the much lower percentage of younger millennial homes which have access to a TV set (73% vs. 86% for older millennials). This is because a high proportion of younger millennial householders are in full-time education: student accommodation rarely provides TV access. This is hardly a phenomenon specific to the millennial generation: students have never had ready access to a TV.

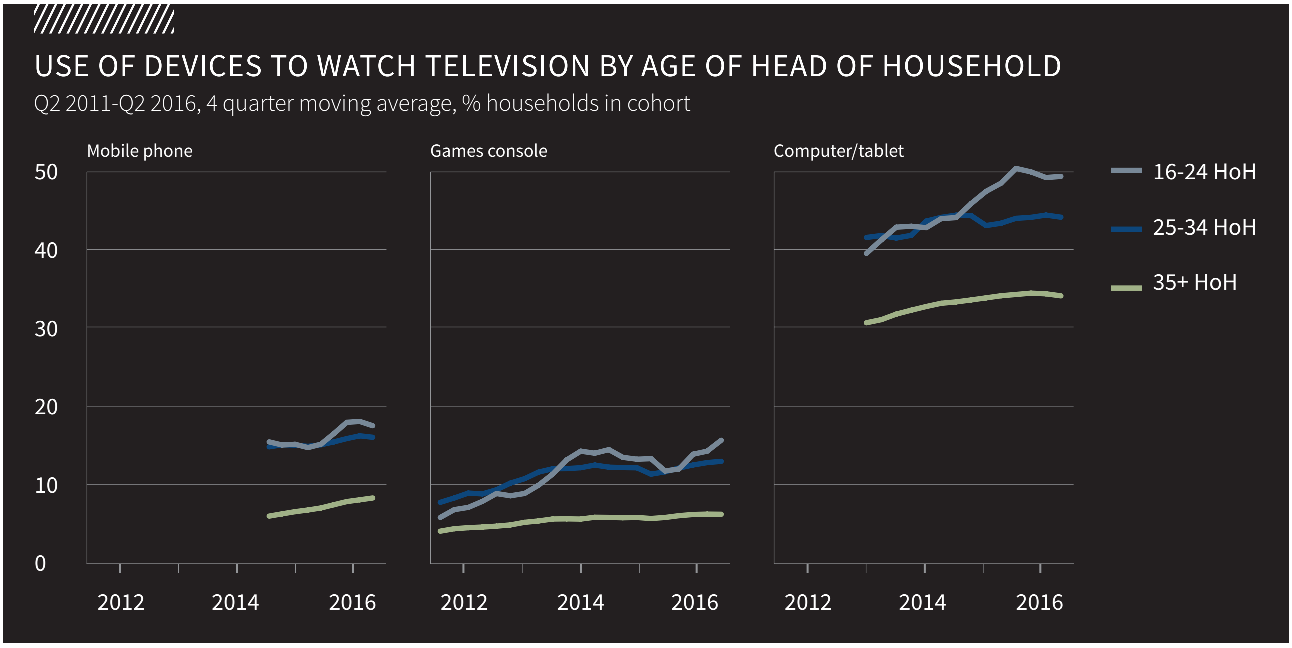
If we exclude homes where the head of household is in full-time education, the proportion of younger millennial homes with TV access increases to 84%, and the overall millennial average increases to 87%.

It is clear that millennials are somewhat less concerned about watching television on a TV, but the figures do not yet suggest millennials are forsaking the TV set en masse. **Ofcom's recent qualitative report on linear vs. non-linear viewing** reported that the TV set continues to be the favoured device for both linear and non-linear viewing across all age groups, including millennials. However, overall TV set access is very slowly coming down, and as it does so, millennial access is decreasing slightly more rapidly.



ACCESS TO OTHER DEVICES TO WATCH TELEVISION

The difference between millennial and older households is much more marked when it comes to claimed use of non-traditional devices to watch television. Millennials are around twice as likely to say that they use a mobile phone or games console to watch television, and about a third more likely to claim usage of a computer or tablet.



This suggests millennials are willing to consume television in different ways; it doesn't necessarily demonstrate a diminished interest in television itself. Mobile devices like smartphones or laptops offer additional flexibility and greater opportunity to control what is being watched, for example when the main screen is already in use. As multi-purpose devices, they are also likely to be seen to offer greater value for money than a TV set, particularly when the household is considering a second device to complement the main TV. Younger households are likely to face greater constraints on spending power, and we have seen that millennial households skew towards lower social grades.

The greater role for non-traditional devices highlights the importance for broadcasters and content providers of having a comprehensive cross platform strategy if they want to reach millennial viewers, i.e. being able to deliver their programming seamlessly across all types of screen, not just the main TV.

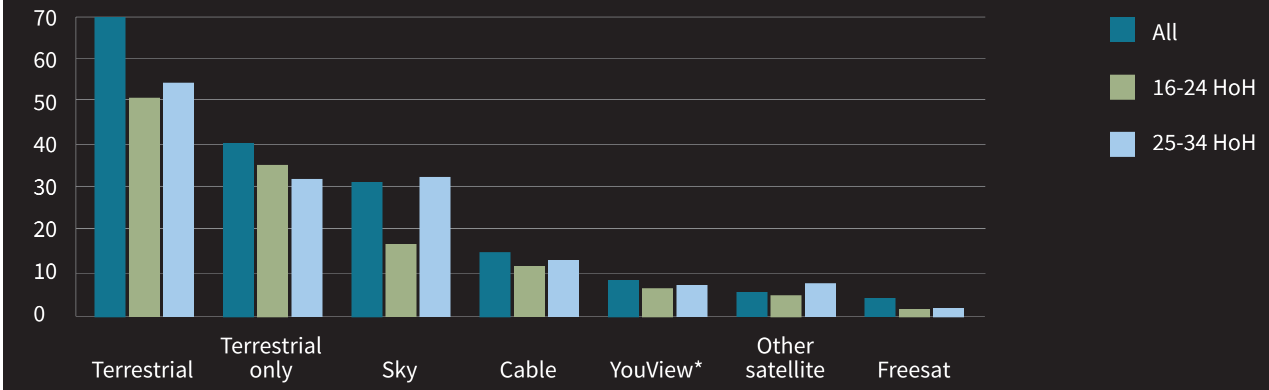
PLATFORM/SERVICE CHOICE

Spending power appears to have a significant role in platform choice, particularly for younger millennials, who are more likely to have less disposable income. They are less likely to use pay TV platforms, especially Sky, and are more likely than older millennials to use free terrestrial only.

By contrast, Sky over-indexes on older millennials, which is likely to be connected to Sky's appeal to families with children, as well as younger adults' greater engagement with sports.

PLATFORM TAKE-UP BY AGE OF HEAD OF HOUSEHOLD

Q1 2016, % households in cohort

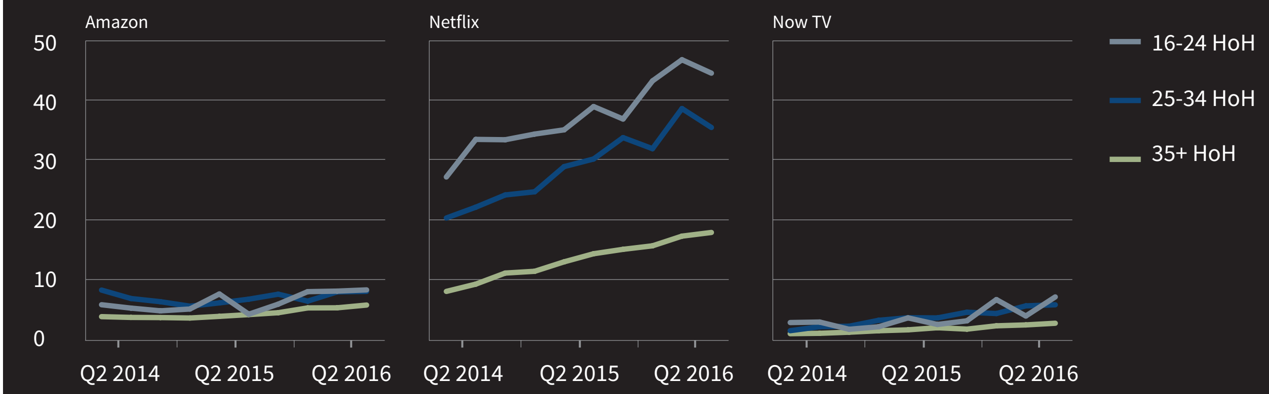


However, younger millennial households are not averse to paying for television: they are significantly more likely than other age groups to subscribe to Netflix, which is a substantially less expensive option than the full Sky platform, and 45% of younger millennial households do so. Millennials overall are twice as likely as older households to be Netflix subscribers, while younger millennial households are three times as likely.

Millennial households are more likely to subscribe to SVOD services in general, although the difference between millennial and older households is less marked for Now TV and Amazon.

SVOD ACCESS BY AGE OF HEAD OF HOUSEHOLD

Q1 2014–Q2 2016, % households



Looking at what the Establishment Survey tells us, the overwhelming impression is not that millennials have given up on traditional television, it's that they embrace television in all forms and modes of consumption: linear and non-linear, TV set and tablet. It is hardly new for each generation to want to assert its right to define its own ways of watching; older age groups had relatively few options for doing so, but technical progress has given the current generation many more ways to do so, and it is grasping the opportunity with both hands.

THE CHANGING SHAPE OF PAY TV

THE CHANGING SHAPE OF PAY TV

The pay TV market is changing, galvanised by new SVOD players delivering pay TV services through the internet. The conventional narrative focuses on how SVOD threatens traditional pay platforms by encouraging subscribers to trade down to slimmer, less expensive pay packages. This narrative may be appropriate in the US, where pay TV penetration is much higher, but the figures suggest this is not happening in the UK. New services seem to be expanding the pay TV market rather than slicing it more thinly, and there appears to be plenty of further room for growth in the pay market.

HOW HAS THE PAY TV MARKET EVOLVED?

When we talk about pay TV, we typically mean television services for which consumers pay an ongoing subscription. For many years, the market comprised two major pay platforms: Sky and Virgin Media. Over the past three to four years, however, the pay market has become much more diverse, and new players have come in to challenge the traditional model established by Sky and Virgin Media.

The UK SVOD market was pioneered by LoveFilm's streaming service in late 2010, but really sparked into life in 2012 with the launch of Netflix, followed by LoveFilm's integration into Amazon Video. BT and TalkTalk have added further choice, establishing YouView as the platform for their lower cost pay TV bouquets.

All of these new entrants have developed different propositions to Sky and Virgin Media, typically at lower price points. Bundling television, broadband and telephony services together has become commonplace, which in turn has made it harder to discern the price of the television element.

The pay market now looks much more varied. It now broadly divides between:

- Platforms that set out to provide most if not all the staple items in the household's television diet, including a comprehensive set of linear channels and access to VOD services

- SVOD services that do not set out to be comprehensive but seek to add extra elements that are not served up by the platforms, typically on an on-demand rather than live basis

Platforms which provide linear channels are still the central pillar of UK households' television experience: 98% of all UK TV homes use some form of platform which enables viewers to switch easily between a broad range of linear channels. It's possible that Tim Cook may be right when he tells us that "the future of TV is apps", but there is little sign the apps will be taking over any time soon.

Innovation in the packaging of pay TV services already threatens to render these neat distinctions obsolete. Sky's recently launched second generation Now TV set top box is arguably a platform rather than an SVOD service, because it integrates linear and on-demand services, and could in principle supply most if not all of a household's television requirements.

This market isn't going to stand still; waiting in the wings are a host of potential new entrants, like Vodafone, Apple or Facebook, all of whom are reported to be considering the launch of their own content services. They will each be seeking a new angle or configuration which will make them stand out from the competition. Whether they do so or not, the pace of change is unlikely to flag.

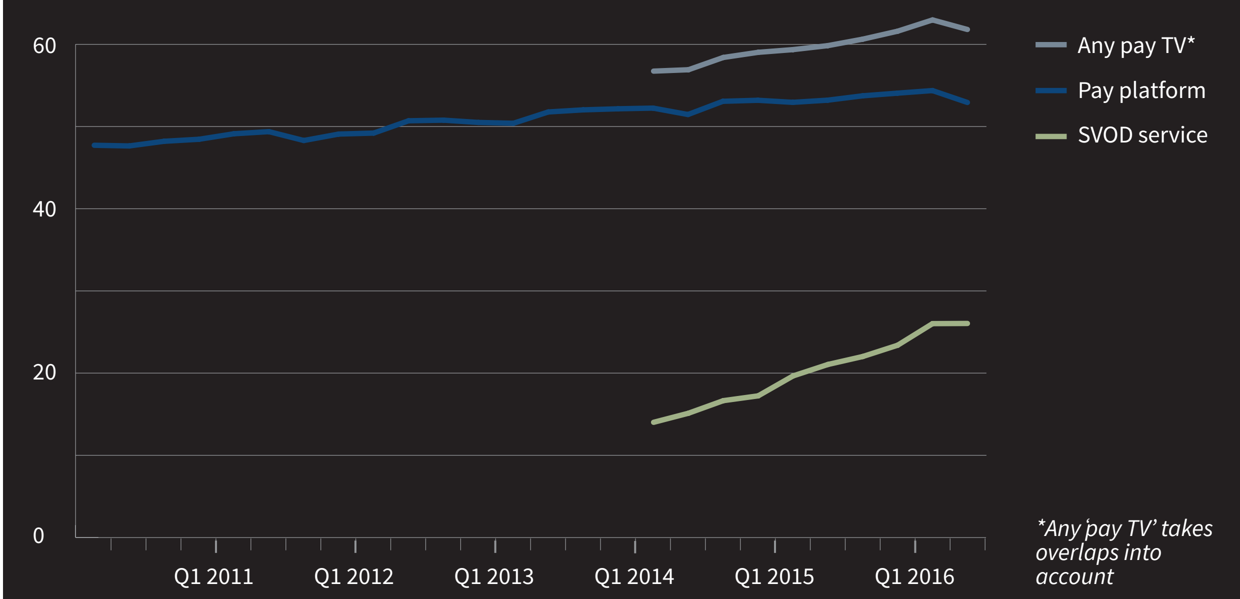
The pay platforms in the UK market now are Sky, Virgin Media and YouView, while the major SVOD services are Netflix, Amazon Video and Now TV. These are the major players we can track using the Establishment Survey.

By counting YouView as a pay platform, we are slightly overstating the number of pay TV households. The overwhelming majority of YouView set top boxes are sold through BT and TalkTalk to customers who take pay TV services, although there is a BT entry level package which makes it possible to get a YouView box from BT without subscribing to BT's pay TV channels. A small number of YouView boxes are also purchased directly through retail channels, and these may be used only for free channels. In any event, the proportion of YouView households which do not subscribe to pay TV is relatively small.

Taking both pay platforms and SVOD services into account, the overall pay TV market has seen substantial growth since 2012. Over 60% of UK homes take some form of pay TV service, up from 47% in Q1 2010. This growth has been driven by the success of the SVOD services, particularly Netflix which has grown by 110% since BARB started to track access to the service in Q1 2014. It is now in over 20% of UK homes.

ACCESS TO PAY PLATFORMS AND SVOD SERVICES

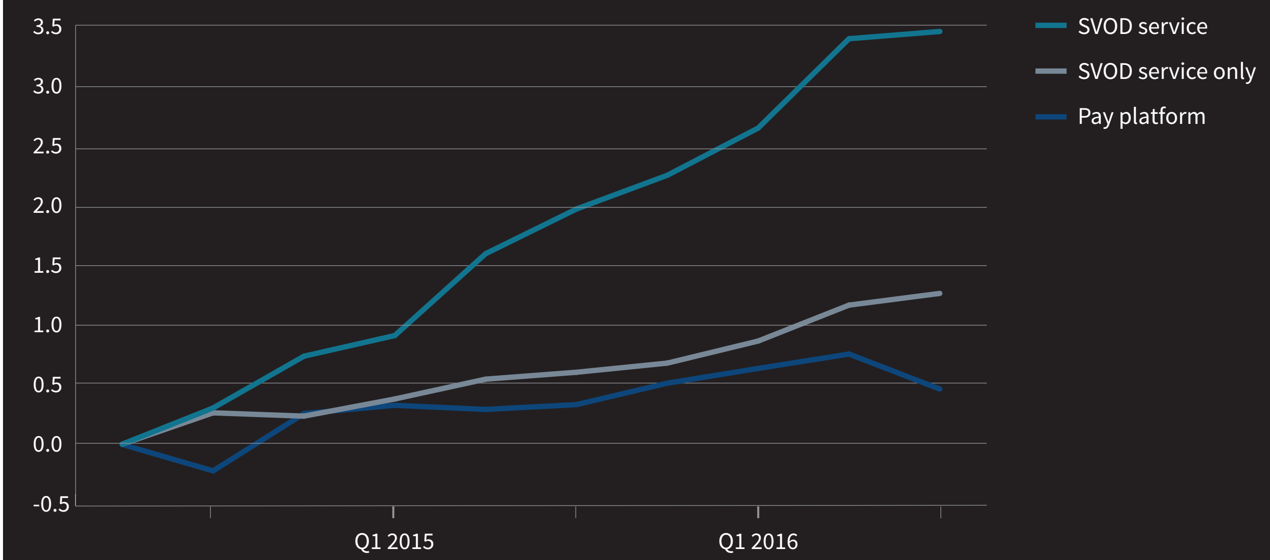
Q1 2010 – Q2 2016, % households



However, growth is not confined to SVOD: there has been growth in all categories, including pay homes which only take an SVOD service (and therefore do not have a pay platform) and pay platforms.

CHANGE IN PAY TV SUBSCRIBERS BY TYPE OF SERVICE SINCE Q1 2014

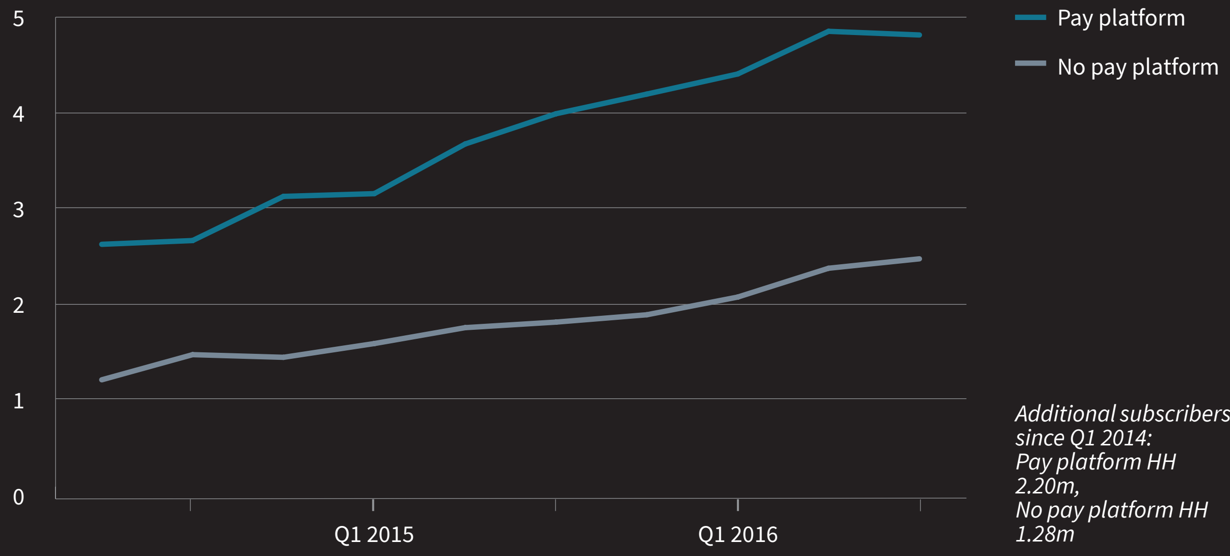
Q1 2014 – Q2 2016, millions of households, Q1 2014 = 0



There are two schools of thought about the types of homes that SVOD attracts. Those who already value pay and those who would like it but can't afford it. The evidence is that it's twice as likely to be the former. On one hand, SVOD services appeal to existing pay platform homes which value television and want access to the additional content SVOD services can provide. On the other, it can be argued that SVOD services appear to be attracting homes which may be interested in pay TV services but are perhaps deterred by the cost of a full pay platform.

SVOD ACCESS BY PAY PLATFORM ADOPTION

Q1 2014 – Q2 2016, millions of households

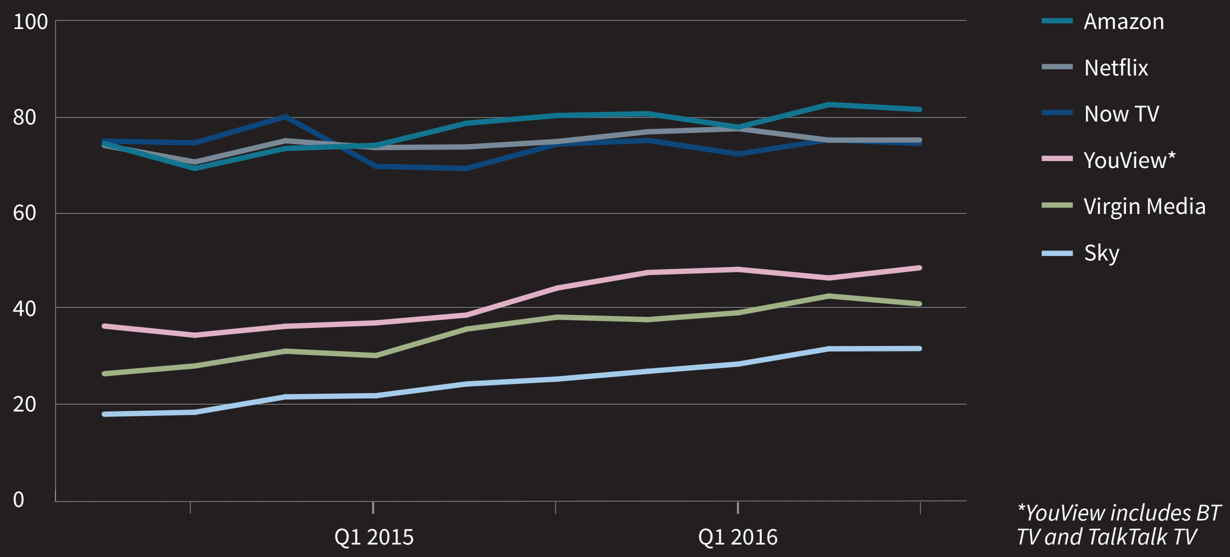


Additional subscribers since Q1 2014: Pay platform HH 2.20m, No pay platform HH 1.28m

SVOD services have a complementary rather than primary role: 75-80% of SVOD households also take at least one other pay TV service, either another SVOD service or a pay platform. The proportion of pay platform households which take another pay TV service is steadily rising too: now between a third and a half of pay platform households do so. It is perhaps not surprising that a greater proportion of YouView homes take additional pay TV services: the BT and TalkTalk pay TV bouquets are not as comprehensive as the other pay platforms.

ACCESS TO MULTIPLE PAY TV SERVICES BY TYPE OF SERVICE

Q1 2014 – Q2 2016, % service with access to any additional pay TV service

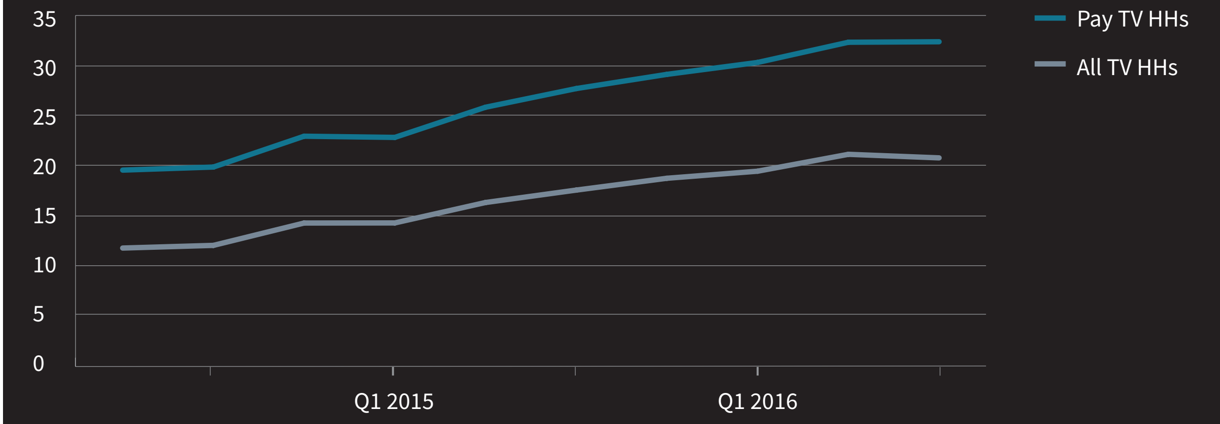


**YouView includes BT TV and TalkTalk TV*

We are slowly but steadily becoming more willing to accept the idea that we need more than one pay TV service: in the two and a half years since Q1 2014, the proportion of pay TV homes with more than one service has increased from 19% to 32%. This means that 21% of all UK TV homes now have more than one form of pay TV.

ACCESS TO MULTIPLE PAY TV SERVICES

Q1 2014 – Q2 2016, % households



COMPOSITION OF THE PAY TV AUDIENCE

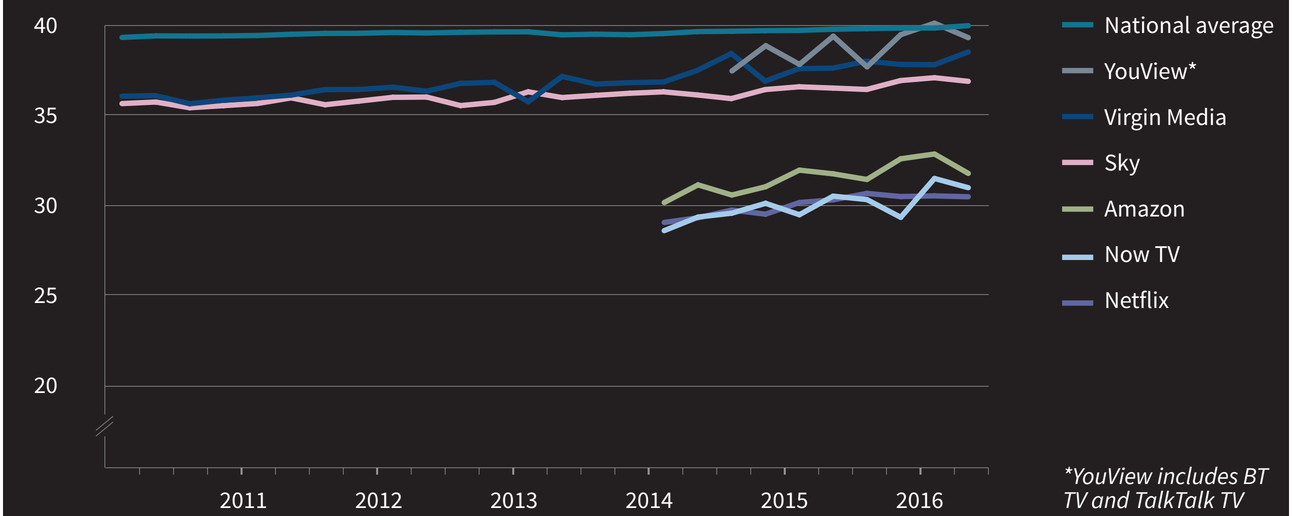
SVOD services are changing the profile of the pay TV audience. The average age in pay platform households is already three years below the national average (37 vs. 40); the average age in SVOD homes is approximately five years younger still.

While Now TV is principally aimed at terrestrial homes, whose average age is older, it has a younger average age than Sky and Virgin Media. Amazon Video has the oldest average age among the SVOD services, possibly reflecting the fact that it is marketed in a different way as part of the Amazon Prime delivery service.

The average age of all pay TV households is slowly trending upwards, reflecting both the natural ageing of the subscriber base and the increasing penetration of pay TV services within older age groups.

AVERAGE AGE WITHIN PAY TV HOUSEHOLDS

Q1 2010 – Q2 2016, average age



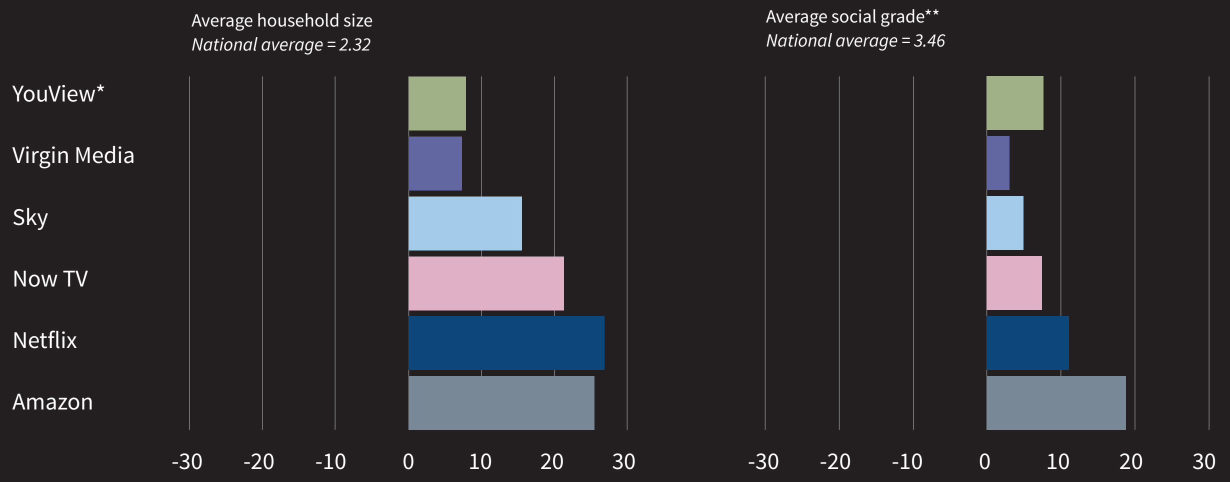
*YouView includes BT TV and TalkTalk TV

Pay TV households have a higher average social grade than the national average. Netflix has a slightly higher average social grade than all the platforms, but Amazon Video's average grade is highest of all, reflecting its positioning as part of Amazon Prime rather than as a standalone entertainment service.

They also have a higher average household size than the national average. All the SVOD services have a higher average household size than the pay platforms, reflecting the attractiveness of SVOD services to larger households with a higher demand for television entertainment.

PAY TV SERVICE BY HOUSEHOLD SIZE AND SOCIAL GRADE

Q2 2016, % variation from national average



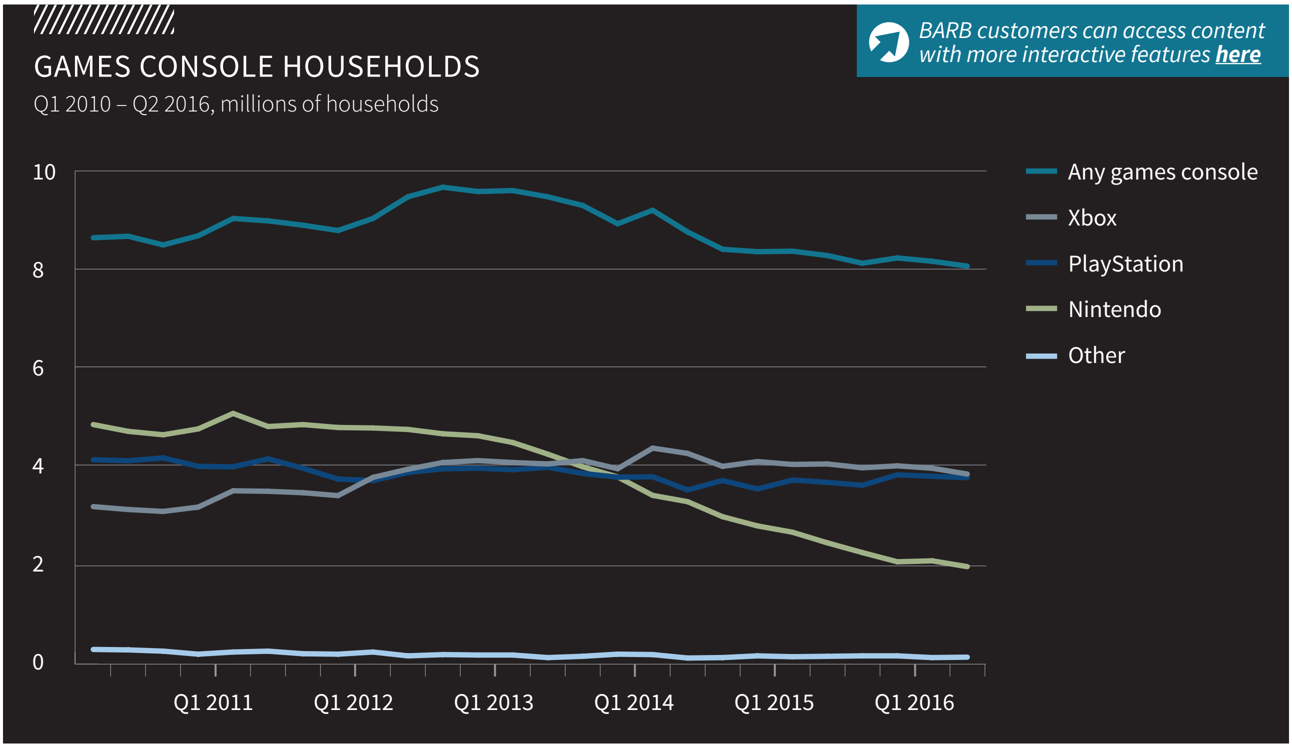
**YouView includes BT TV and TalkTalk TV homes **Average social grade calculated with A=6...E=1*

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.

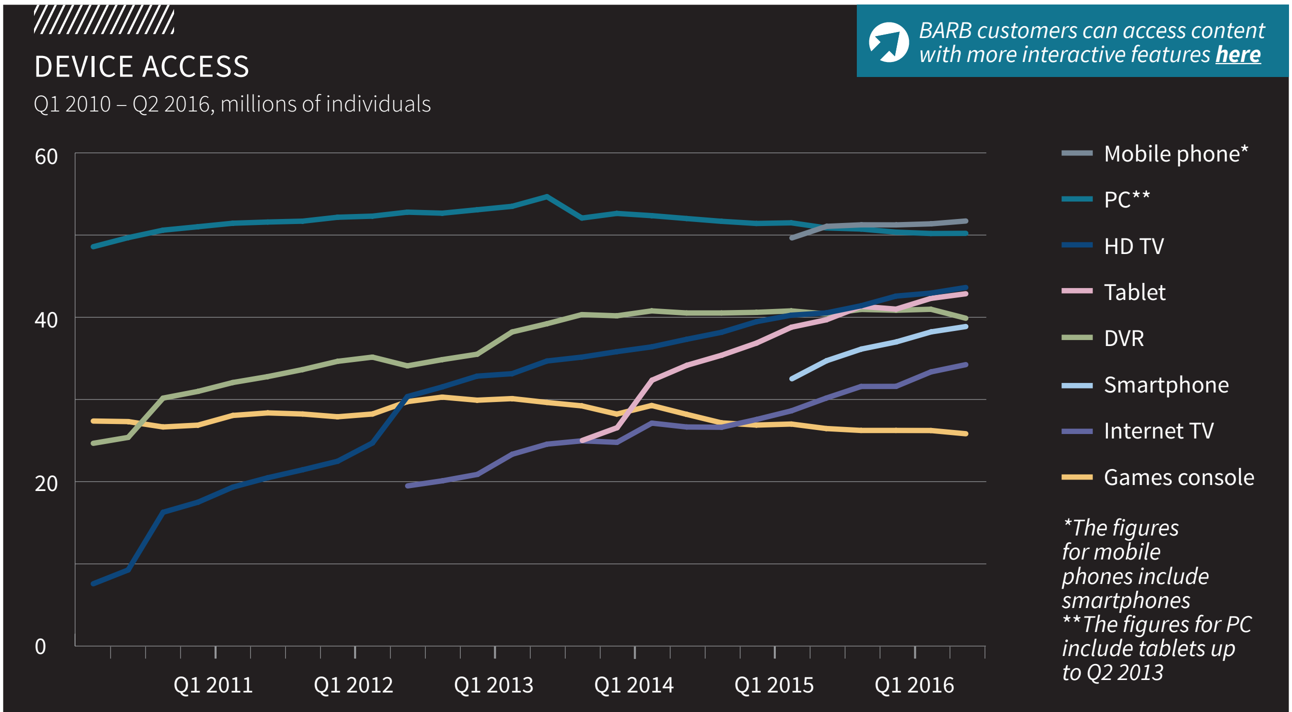
Tracking key metrics offers insights into the changing nature of the UK TV landscape. In many cases, the pace is slow; the question is, how steady?

GAMES CONSOLE HOUSEHOLDS



Games console ownership continues its decline since its peak in 2013, driven by a steady decrease in the number of households with Nintendo consoles. PlayStation 4 is winning the battle with Xbox One for the latest generation of console. It looks as though Sony will shortly reclaim the overall no.1 spot it lost to Microsoft in 2012.

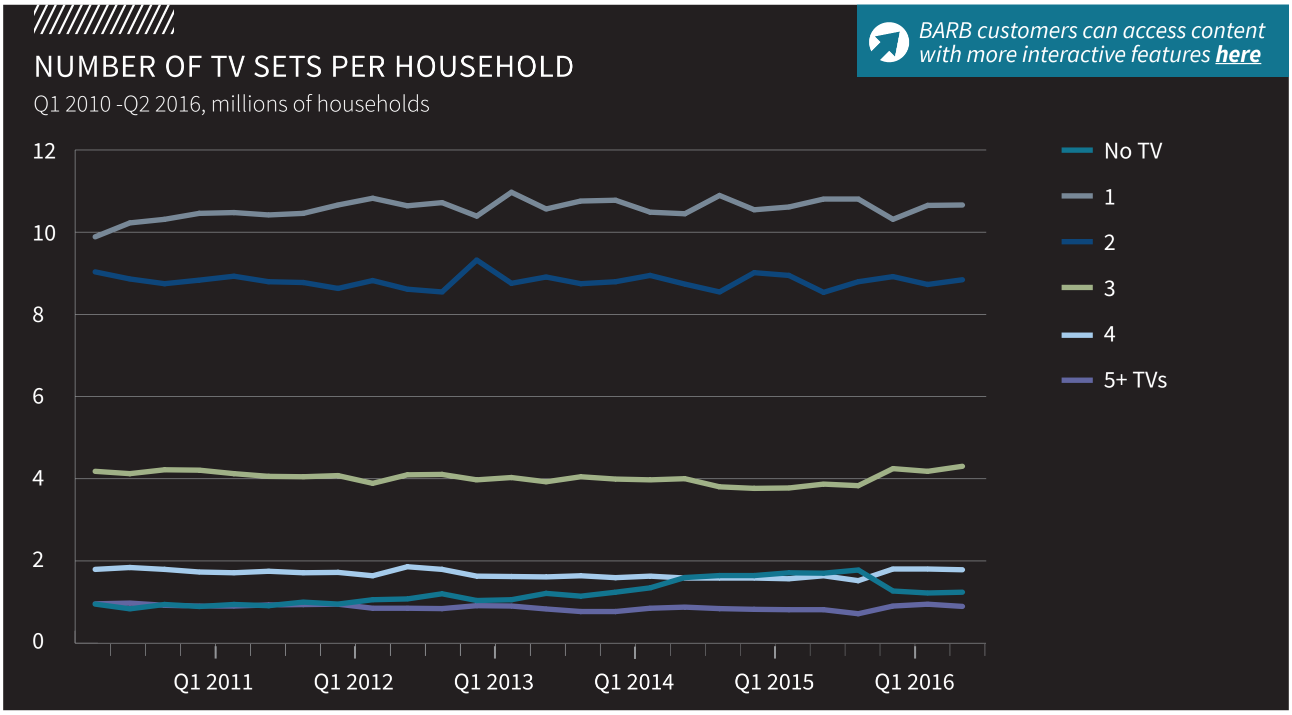
DEVICE ACCESS



****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.**

The device tracker follows the steady increase in the number of devices people have available to watch TV. The figures for Q2 2016 show a fall in DVR and games console access. Smartphones and tablets continue their rise. Access to PCs has flattened off after a slow decline since 2013.

NUMBER OF TV SETS PER HOUSEHOLD

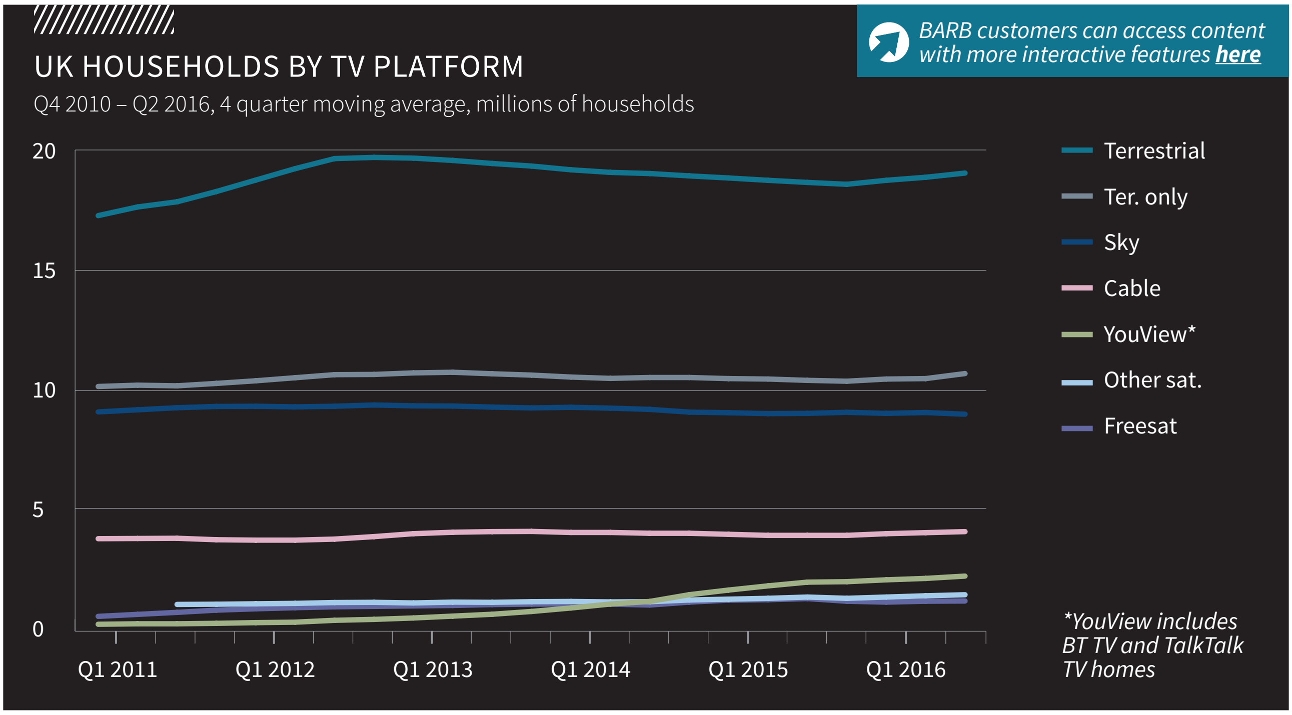


Q2 2016 figures show an increase in the number of households with two and three TV screens, which appear to be reversing the long term decline in the number of households with three or more TV sets. This period coincided with the Euro 2016 tournament, suggesting that the time-honoured link between major football tournaments and the acquisition of new TV sets remains in place.

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. A detailed description of the change in definition can be found **here**.

The impact of this change appears to have worked through, and the figures are now broadly stable at the new base level, although there has been a noticeable increase in the number of households with one TV and a small decrease in the number with two.

UK HOUSEHOLDS BY TV PLATFORM



This tracker focuses on the platforms viewers use to watch linear TV. The second quarter has seen an increase in terrestrial only households, which may be linked to the growing availability of new Freeview Play devices.

The platform categories used are as follows.

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

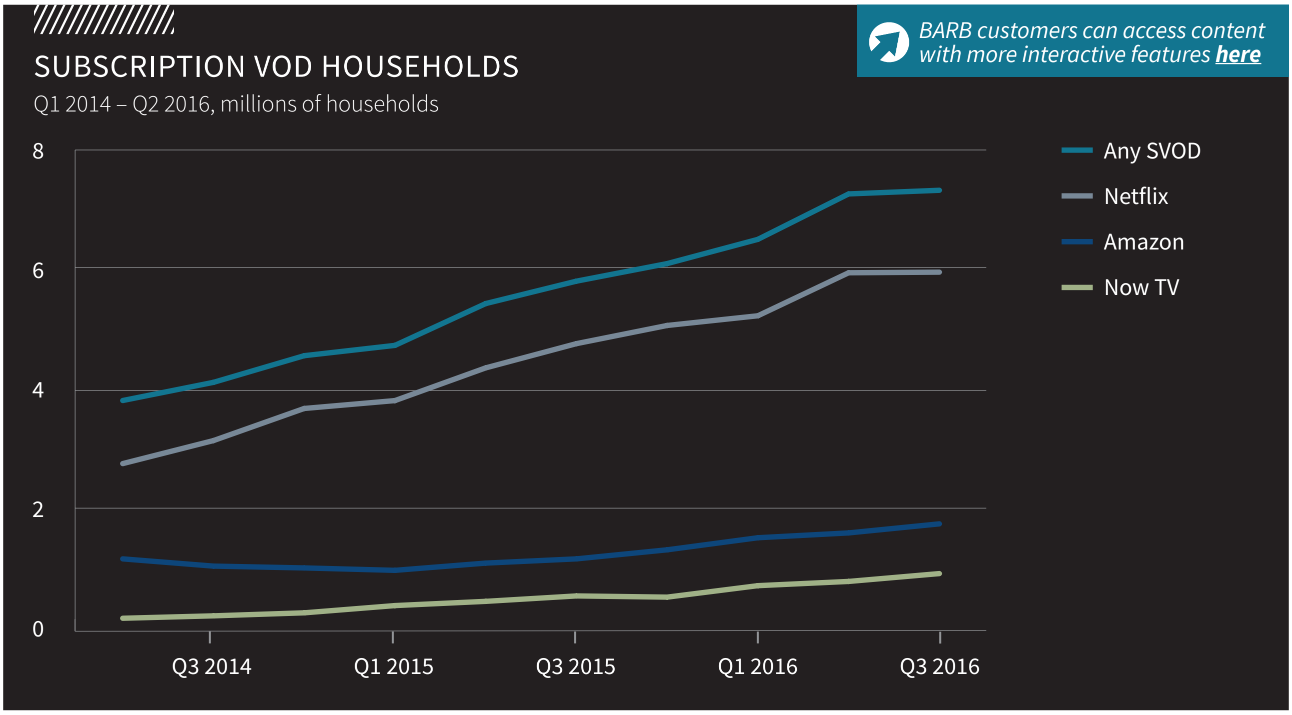
Terrestrial: all homes which have access to digital terrestrial TV via their aerials. This includes any homes across all categories which also have access to terrestrial.

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 that 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.

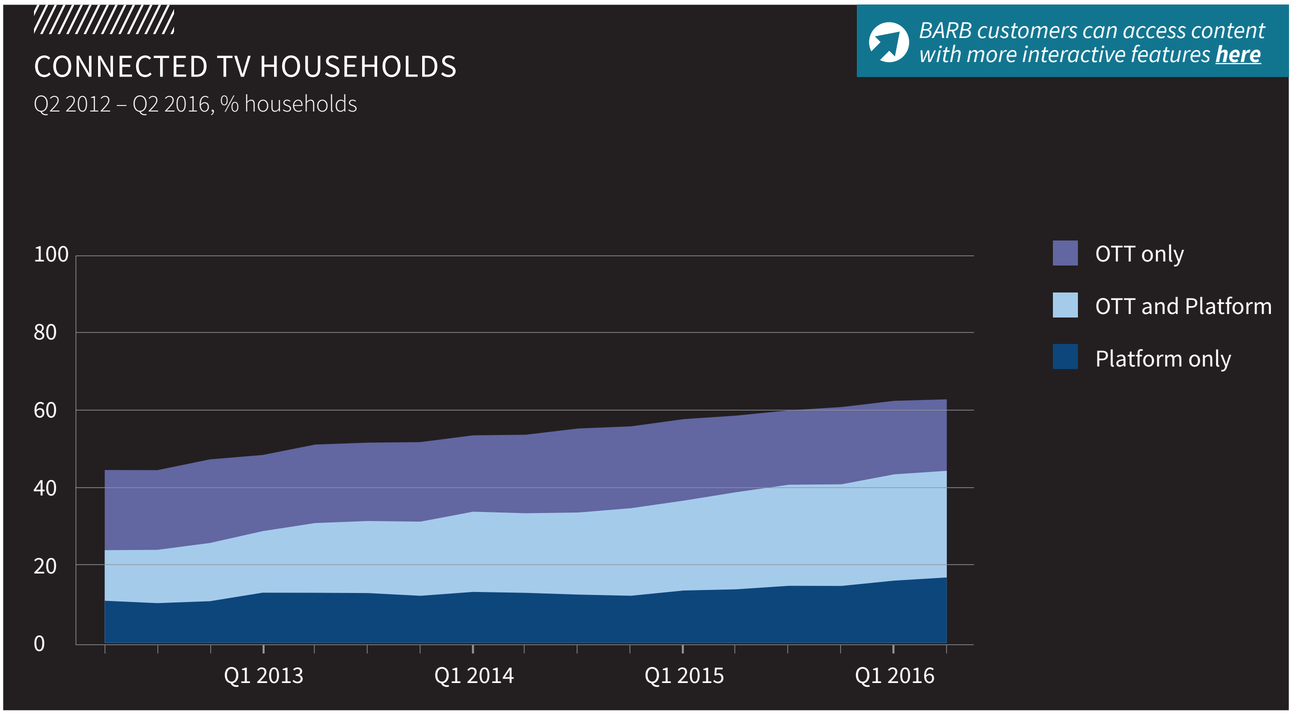
SUBSCRIPTION VOD HOUSEHOLDS

BARB customers can access content with more interactive features **here**



In Q2 Netflix completed the process of implementing the price rises it imposed on new customers from mid-2014. At that time, existing customers were protected from the impact of the increase, which added £1.50/month to the price for basic tier subscribers. These existing customers were asked to pay the new price from May-June 2016, which may explain the apparent stalling of the growth in Netflix subscribers in the last quarter. Both Amazon and Now TV continued to grow at roughly their historic rates.

CONNECTED TV HOUSEHOLDS



In this tracker we consider the extent to which UK households connect their TVs to the internet and therefore have access to the range of VOD services available from the major UK broadcasters or from other new entrants to the market.

Quantifying connectedness in this way is challenging because there are so many ways in which a TV can be connected to the internet. Using the Establishment Survey, we can define two ways to be connected (see So You Think You're Connected in the previous quarter's **report** for a fuller explanation of the methodology used):

- OTT connected includes households claiming an internet connection for their TV via a direct connection to the internet, a dedicated set-top box, a games console or a PC/tablet

- Platform connected includes households that have a connection to the internet via a Sky+HD, YouView or cable TV platform

Insight and analysis by