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WEEKLY INSIGHT
Football hurls European pay tv crisis

British ITV Digital, controlled by the Carlton and Granada TV groups, has been the latest victim. In March it filed for bankruptcy unable to cope with payments to the National League of football clubs (€288 million which it wanted to reduce to 81 millions). This week, the company has been put up for sale. ITV Digital's failure adds to those of German Kirch Media and the Spanish Quiero TV, marking the beginning of the bursting of the sport rights bubble. Having demystified the idea that football is the most profitable content, digital platforms have started to renegotiate match prices with clubs. While the broadcasting of major championships such as the World Cup is guaranteed because of its advertising power, stormy clouds loom over local leagues and teams.

Whatever the outcome of negotiations is, it will be transcendental to the definition of the content of future digital television.

Highlights
- Football accounts for more than 70% of the cost of the content of digital channels. However, their incomes are, at best, about 40% of their total turnover.
- In the UK, BSkyB has agreed to pay £1.1 billion (€1.79 billion) for a three-year agreement allowing it to
broadcast the Premier League on a pay per view scheme. In early February, BSkyB announced **record losses exceeding £ 1.2 billion** (€ 1.94 billion) in 2001’s second semester, after charging £ 60 million (€ 97 million) for the amortisation of goodwill for its investments in football teams. Its competitor, ITV Digital, had a £315m three-year agreement for the broadcasting rights of the Second Division league games. ITV Digital had **operative losses of £ 351 million** since it was only able to draw 1.2 million subscribers.

- In **Spain**, the two major digital platforms embarked upon Spanish League broadcasting rights in 1998. Sogecable and Telefónica set up a joint venture with TV3, Audiovisual Sport, to manage these rights, for which they paid some 230 million per year to the Professional Football League (LFP), the confederation of football clubs. After four years, **Audiovisual Sport accounts show increasing red numbers**: in 1998 it lost 13.1 million; in 1999, 69.7 million, and, in 2000, 76.8 million. All in all, Canal Satélite and Vía Digital have lost more than 360.6 million because of football over the last four years.

**Press Review**

**From Financial Times**

"(...) The clubs have been badly served by the League, which signed a big contract with a start-up without making absolutely sure that it had parent company guarantees. Still, Carlton and Granada will bear the brunt of the blame. Their executives **miscalculated the appetite for pay-TV**. They sanctioned **hugely expensive deals** to buy sports rights. They failed to assess the aggression of Rupert Murdoch, who changed the competitive landscape of pay-TV by giving away set-top boxes for his own platform, British Sky Broadcasting. These mistakes would not justify the government standing in the way of a possible Carlton-Granada merger. Westminster and Whitehall may be less sympathetic to the ITV companies. But there is still a logic to unifying ownership of ITV on a timetable approved by the competition authorities. Other executives in Europe have made similar miscalculations, hoping for quicker take-up of multichannel television as well as overestimating the value of football. Nor should Carlton and Granada be savaged just because their entrepreneurial venture failed. For years, the complaint against the ITV companies is that they have not been adventurous enough."

[Full Story]

**From The Guardian**

"Three cheers for the collapse of ITV Digital. Mark down Wednesday May 1 2002 as the day when Nationwide football clubs stopped living in financial cloud-cuckoo-land and entered the real world - a world where books have to be balanced, and where the expectations of the players and the fans need to be tempered by hard economics. The only pity is that the plug cannot be pulled just as swiftly on that scourge of modern football, namely the players’ agents. (...)

There is irrefutable evidence that far too many spent the ITV Digital money in advance, rather than spreading it over three years, and that their clubs’ financial problems are therefore entirely of their own making. In this respect the ensuing purge of the players might be deemed unfair. But the reality is that **players and chairmen alike have allowed themselves to be deluded into thinking that football was in some inexplicable way divorced from the everyday world.**"

[Full Story]

**From The Independent**

"One of the **mistakes** ONdigital (rebranded ITV Digital last year) made at the outset was to try to **compete head-to-head with satellite for the same subscribers**. The best option for digital terrestrial is to aim for a completely different segment of the market. There is a crucial step that can be taken, and that is to speed up as urgently as possible the strengthening of the terrestrial signal for digital, so that it can reach **80 per cent of the population** rather than just over 50
The slowness of this process has been one of the most important reasons for the current difficulties. Having digital terrestrial as an option is important above all for competition policy reasons. If the only digital options available are satellite (dominated by one player, Sky, owned by Rupert Murdoch) or cable (physically available to a limited number of homes), real choice for the viewer is inevitably circumscribed."

Commentary by...
Juan Miguel López, PwC manager
Mad about soccer?
For the last few years football-broadcasting rights have undermined the economic health of the main pay TV players. Kirch Media's bankruptcy and, more recently, British ITV Digital's show that when it refers to paid content profitability, football is not as successful as it is in other arenas. On the one hand, its audience seem to have found a ceiling of two million subscribers, on the other, pay per view ratios are much lower than expected. While matches between Real Madrid and Barça attract an audience that justifies its astronomic price with succulent advertising income, full championship broadcasting turns out to be, for now, unviable. In this context, TV networks and clubs are negotiating matches broadcast prices until 2006. However, despite a slight downward correction in tariffs and a certain preference for the "matches of the century", trust in the power of appeal of football remains untouched. And this is not only so in case of television. Internet portal Yahoo! has just sealed an agreement with KirchSport and the FIFA to offer the World Cup highlights. The explanation for such strength is that soccer satisfies three key conditions for success in the media convergence era we are living in. It’s entertainment, it favours interactivity and the creation of communities with a common interest. Its audience ratio success allows it to benefit from synergies by combining different technological platforms (TV, Internet and mobile phone), although, for the time being, the incipient development of new media such as TDT (terrestrial digital TV) or ADSL (broadband Internet) doesn't enable them to reach the general public. With no other content able to mobilize the masses, the bet on football is seen as the sign-up of the season.

EBCENTER ARTICLE
Hardware, software, and mobile phone companies fight it out for digital diary assistant business
Susanna Arasa, Contents Director, Ebcenter
The spectacular growth that sales of PDA will undergo in the coming years has made big companies like Microsoft, HP, Compaq, Nokia, Siemens, and Motorola set out to capture this business. 

REPORTS
Total dollar loss from Internet fraud was $17.8 million
Title: 2001 Internet Fraud Report
Source: Internet Fraud Complaint Center (IFCC)
Date: April 2002
Abstract: The Internet Fraud Complaint Center's (IFCC) primary mission is to address fraud committed over the Internet. 2001 Internet Fraud Report, the first annual compilation of information on complaints received and referred by the center, finds that the total dollar loss from all referred cases of fraud was $17.8 million. Internet auction fraud was by far the most reported offence, comprising 42.8% of referred complaints, while non-deliverable merchandise and payment account for 20.3% of complaints. Nearly 75% of those involved in these types of offences tend to be individuals (as opposed to businesses) and 81% of them are male.
Electronic mail (E-mail) and web pages are the two primary mechanisms by which the fraudulent contact took place. Nearly 70% of complainants reported they had e-mail contact with the perpetrator. [Full Story]

**ICT increase labour productivity at a rate of 2.22%**

**Title:** The contribution of ICT to economic activity: a growth accounting exercise with Spanish firm-level data  
**Source:** Banco de España  
**Date:** April 2002  
**Abstract:** The bank of Spain has prepared a report that analyses the impact of Information and Communication Technologies (ICT) on Spanish economic activity. Over the last decade, there has been enormous technical progress in the ICT industries. These efficiency gains have driven down the relative prices of computers, software and communications equipment and have significantly stimulated the demand for this type of good. As a consequence, the ICT have experienced growth rates and have contributed to the acceleration of total factor productivity growth and labour productivity growth at an average annual rate of 2.22%. According to the report, the use of ICT as a capital input has made a positive and, relative to its cost share, significant contribution to output and productivity growth. This contribution was higher in the second half of the 1990s. For this period, we estimate that the use of ICT inputs accounted for nearly one-fourth of labour productivity growth. [Full Story]

**There are almost 100 million Cyberchondriacs**  
**Title:** Cyberchondriacs update  
**Source:** Harris interactive  
**Date:** April 18, 2002  
**Abstract:** According to Harris Interactive, there are 97 million cyberchondriacs, that is to say, adults who go online to look for health care information. This number accounts for 75% of all adults online or 47% of all adults. The survey, a nationwide poll of 675 adults, also found that, on average, those who ever look for health care information online do so 3.3 times every month. This varies from 6.1 times among heavy Internet users to 1.3 times among light users. A slender 52% majority of those who look for health care information do so using a portal or search engine, which allows them to search for the health information they want across many different websites. About a quarter (24%) go directly to a site that focuses only on health-related topics and one in six (16%) go first to a general site that focuses on many topics that may have a section on health issues. [Full Story]

**COMPANIES**  
**Tech exec exodus**  
Sun Microsystems’ President and Chief Operating Officer Ed Zander will at least temporarily join the ranks of newly jobless executives, including AOL Time Warner Chief Executive Gerald Levin, Amazon.com Chief Financial Officer Warren Jenson, Palm CEO Carl Yankowski, Microsoft COO Rick Belluzzo, IBM CEO Lou Gerstner and Advanced Micro Devices CEO Jerry Sanders. The flow of resignations in recent months has many psychologists and professors of management worried that corporate America has come down with a case of collective burnout. They say executive churn correlates with corporate performance, measured by stock price, earnings reports and the magnitude of layoffs. From CNet. [Full Story]

**Finally, HP to merger with Compaq**  
After eight months of duelling with opponents on Wall Street and in the Hewlett and Packard families, Hewlett-Packard finally is on the verge of closing its $18 billion acquisition of rival Compaq Computer.
A Delaware judge ruled that HP did nothing wrong in the bitter proxy fight over the Compaq deal, giving the giant computer and printer maker the vindication it had sought after former director Walter Hewlett sued in a final attempt to sink the merger. From Wired News. [Full Story]

AOL will use Google search service
America Online has dumped Overture's pay-for-placement search service in favour of Google's similar AdWords offering, depriving Overture of one of its biggest customers and sending the company's shares plummeting nearly 36%. Overture says that this decision is a minor setback, but it is not clear what effect the loss of a substantial customer like AOL will have on the search engine company's financials. Overture has hung onto Microsoft, another significant customer. Together, Microsoft and America Online had represented about half the search engine company's business. From E-commerce Times. [Full Story]

WE RECOMMEND
To Outsource or Not To Outsource?
Analysts say a growing number of companies are now realizing that e-Business operations are difficult to handle alone and state that one way to handle e-business outsourcing is to find one company that can do it all. Such managed service providers (MSPs), which act as a sort of general contractor, making sure clients get whatever services they need and tapping a network of providers for the underlying hosting facility, security systems, or whatever else is needed. Although when you go to a hoster or an MSP, a lot of times you have to make a lot of concessions, standardization allows for big savings on commodities like storage and bandwidth. E-business outsourcers also offer the advantages associated with other, more traditional forms of outsourcing: economies of scale and (in theory) qualified staff. Notwithstanding, the need to keep things running, in fact, motivates a move toward some form of e-Business outsourcing far more often than the ability to actually cut costs. From CFO. [Full Story]

To Examine Collaborative e-Commerce
The ultimate goal of collaborative commerce and supply chain management is the delivery of exactly and only that which is demanded by the market, at precisely the time and price at which it is demanded. However, there are three critical problems to do this. The consulting firm Symbius survey describes these difficulties and presents a framework for solving these problems. In spite of the fact that many companies have proven that these initiatives create value, many current e-commerce models do not fully address the potential value of collaboration. Moreover, not only is the retrieval of information problematic, the sending of information can be even worse. B2B e-commerce models of the past have been particularly deficient in this respect. Lack of trust and concerns about Internet security of sensitive corporate data are major dampers on efficient information exchange. To succeed in the next round of collaborative commerce, corporate leaders should consider certain aspects of early collaboration models as tools or options. The selection will depend on many factors including industry fragmentation, depth of collaboration and sophistication of the user base. From Line56. [Full Story]