

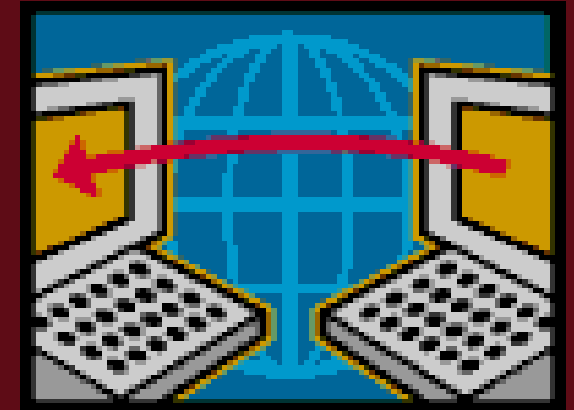
Online piracy – downloading the facts

6 May 2009

MEDIATIQUE

Overview

- Online piracy is endemic, ingrained and global
- Its growth has been fuelled by the dual factors of digitisation and broadband penetration
- Figures are unreliable but frightening nonetheless
- Consumer behaviour is a crucial element, and inter-demographic patterns suggest problems may worsen if unchecked
- Practical solutions are varied: legal challenge, technological remedies, new, compelling business models



Some sobering facts



For every legal track sold online, 20 are “stolen”



Average teenager has 800 illegal tracks on his or her iPod



UK music industry says piracy will cost £1.2bn between 2007 and 2012



25% of all Britons have consumed A/V content illegally online



30bn pirated CDs and DVDs are manufactured globally every year



TV and Film piracy cost UK industry c£530m in 2008



Currently 35% of all computer software globally is pirated



UK games industry loses £2bn a year from piracy

What is IP piracy?

- Camcording
- Sale/purchase of counterfeit DVDs and CDs
- Home copying
- File-sharing/downloading
- Streaming
- Secondary distribution

Extent of the problem is clear...

- Music piracy “led the way” with Napster (70m users by 2001)
- Sophisticated black market in music CDs and A/V DVDs, software and games – 30bn counterfeit discs produced each year in “copyright rogue” territories such as China, Russia, Thailand, Indonesia
- Secondary distribution is now prevalent
- Broadband penetration is major driver of illegal consumption (amplified by consumer willingness to engage in piracy)
 - Improvements in speed and volume have led to the sharing of larger files – the era of “BitTorrent”



Are we all going the way of South Korea?

HIGH SPEED

100mbps connectivity – 50 times faster than Digital Britain
USO, typically 10 times faster than UK

A NATION OF PIRATES

Half of population admit to online movie piracy

FINANCIAL LOSSES

Estimated loss from copyright piracy \$750m in 2007, 21%
up on previous year

COLLAPSING DVD SALES

DVD sales have dramatically fallen between 2002-2007

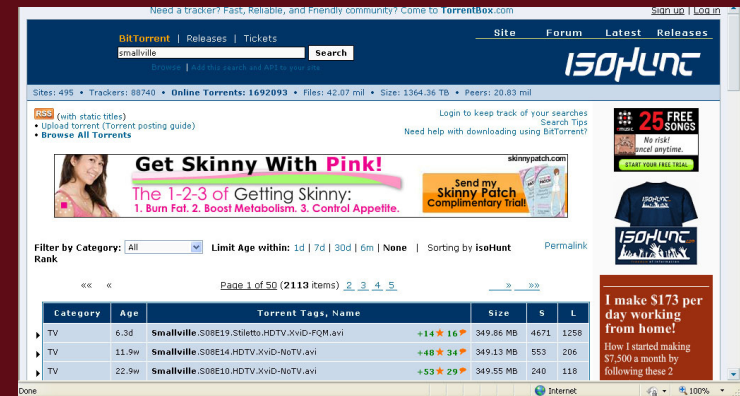
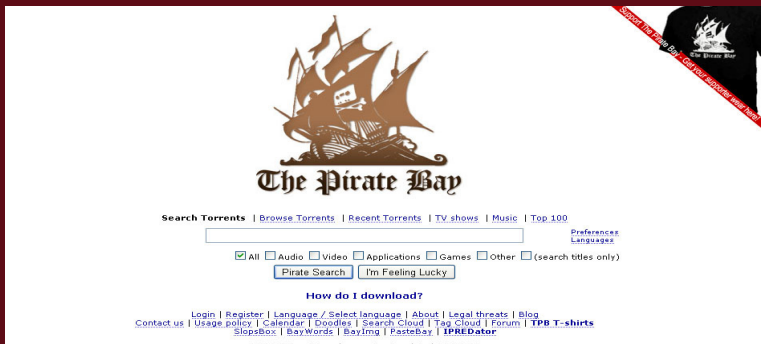
INNOVATIONS

Piracy going deeper underground – “cyberlockers”, a form of
closed file sharing, are growing rapidly

Why piracy matters...

- Current content funding fundamentally based on traditional business models (YouTube video advertising revenues c\$100m in 2008, compared to £3bn of TV advertising revenues in the UK)
- Ability to spend c£2bn on UK TV content, for example, is dependent on generating those revenues
- Online viewing of content is already cannibalistic of traditional revenues – rendered worse by “seepage” owing to illegal consumption
- Export-led recovery in the UK would be strengthened by anti-piracy measures aimed at ensuring full value for UK content producers

"It is an enormous game of mole-whacking" Cliff Fluet, Lewis Silkin



How many are involved in online piracy worldwide?

- BitTorrent has 150m users worldwide
- Pirate Bay and Mininova have over 50m users alone
- File sharing accounts for 60% of all internet traffic – Envisional research
- In the UK 7.3m households involved in piracy – 28% of the population
- UK Government estimates 25% of UK internet users engage in online music piracy

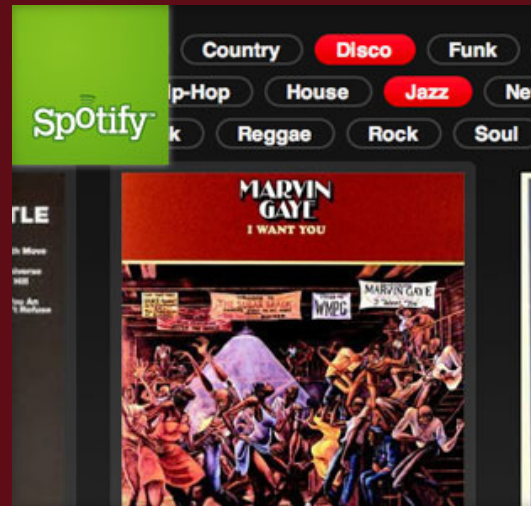
What has online piracy done to music?

- Piracy hit music first and worst; physical sales in continual decline – down 15% globally in 2008
- IFPI says 95% of all digital music comes from unlicensed sources
- 83% of European iPod owners do not regularly buy music online
- Legitimate digital music sales grew by 25% to \$3.7bn in 2008, accounting for 20% of music sales:
 - Ahead of newspapers (4%), magazines (1%) and film (4%)



Re-legalisation efforts have borne some fruit...

- iTunes has sold 6bn songs
 - Games synchronisation – e.g., Guitar Hero
 - Mobile music access services
 - ISPs (BSkyB, TeliaSonera, Neuf Cegetel)
 - Advertising supported services are evolving: Spotify, Last FM, MySpace Music
 - New online stores
-
- Efforts to involve ISPs in throttling music piracy



What has online piracy done to film?

- Physical piracy of DVDs biggest factor
- In 2007, 95m films were downloaded illegally in the UK, compared to 158,000 legal downloads
- UK piracy fuelled by English-language dominance of global film market
- The most recent Ipsos survey indicates a UK annual TV and film revenue loss of £531m due to copyright theft of all kinds
- *Dark Knight* downloaded more than 7m times on BitTorrent
- Mixed evidence as box office doing well, UK cinema audiences up 16% in 2008

Case in point: *Wolverine*

- Leaked in early April
- Downloaded 100,000 times in 24 hours
- Cinematic release 29 April UK, 1 May US
- Fox reviewer sacked



Efforts to re-legalise in early stages of development

- New online services evolving – Lovefilm streaming service, services from 4OD, Sky Player, BT Vision
- Findanyfilm website, which aspires to be the film information of choice and links only to legal commercial sites, has achieved 1 million visitors within its first 3 months of operation
- iTunes gaining traction with movie sales and rentals – 33m movies sold or rented to date

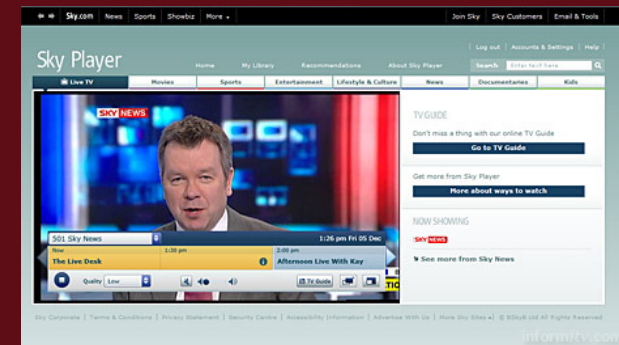


TV content piracy rife in the UK

- UK world leader in TV piracy – 25% of all online piracy taking place here (English as a global language a factor)
- TAP Research put total loss from piracy for TV at £82m in 2007
- Broadcast schedule determines demand – the most popular downloads are US series not yet broadcast in UK, but which have a terrestrial or pay-TV showcase window
- Popular series are available illegally online within minutes of their legal broadcast
- Most recent series of *Lost* on Sky One is mirroring the US schedule with the aim of reducing online piracy
- Threat to TV export industry: piracy potentially reduces the value of UK content exports – a critical sector post the financial services meltdown?

Efforts to re-legalise online TV content nascent

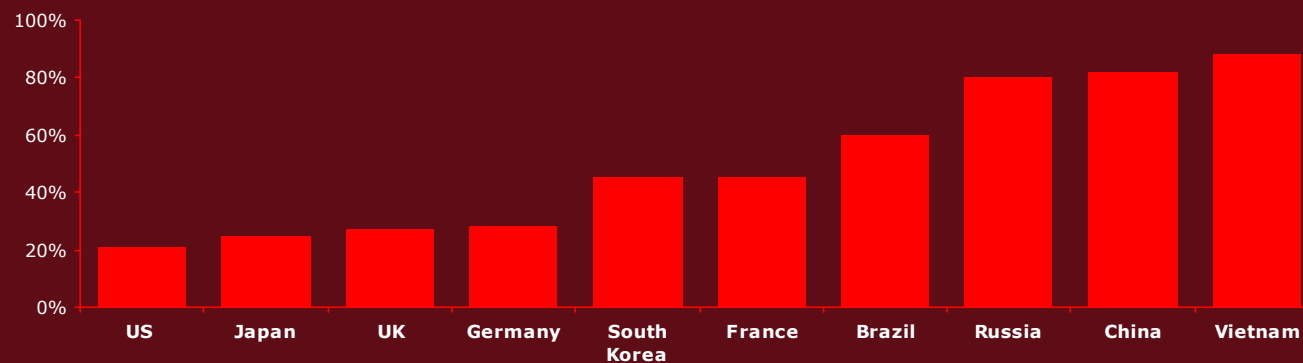
- Catch up TV a huge success, led by BBC iPlayer – over 380 million streaming/download requests since launch
- But BBC content is not monetised and is increasing consumer expectations of content on demand, ad free and without subscription or other payment
- C4 service performing well; ITV and five lagging
- Canvas Project may introduce mass market appeal for catch-up, archive (with a pay element in place)?



Business software massively pirated

- All major software companies have been affected by piracy: US company Autodesk estimates there are more than five illegal copies of its software for each legal one sold
- Currently about 35% of all software in the world is pirated; if all were legal this would provide an additional \$40bn in revenues to software companies
- The Business Software Alliance estimates that a 10% reduction in piracy worldwide would add \$140bn in GDP, 600,000 new jobs and \$24 billion in tax revenues

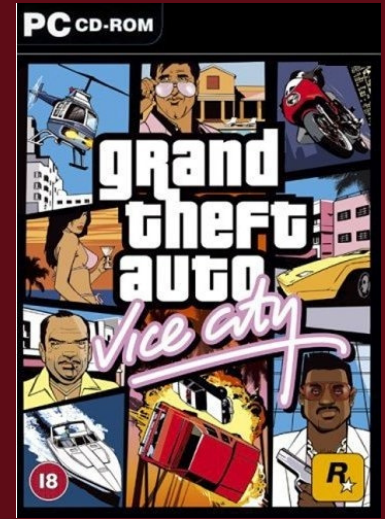
2006 Business Software Piracy Rates



Source: Business Software Alliance and IDC study

Video games: pirated but still buoyant

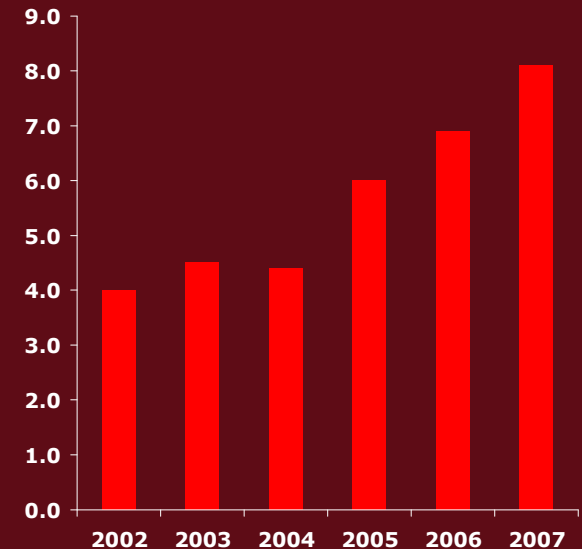
- Video games hardware and software sales were £4.0bn in the UK in 2008
- Games sales reached an all time high of £1.9bn last year compared to £1.5bn in 2007
- The UK is the third largest market after the US and Japan
- The industry employs more than 20,000 in the UK
- £2bn is lost every year in the UK to games software counterfeiters (Source: Elspa)



Connectivity promotes pilfering?

- Broadband penetration is now 65% in the UK
- Digital Britain aims for universal broadband capability by 2012
- 34 million adults, or 67%, now go online every month, up 7 percentage points since 2006
- Time spent online per internet user has doubled in the last five years on the back of the roll-out of flat-rate/free internet access
- Internet use remains far lower than TV viewing, even amongst young demos (with 15-24 internet users averaging just over 10 hours per week)
- Non-linear viewing expected to reach 20% of viewing by 2014

Average time spent online per internet user (Hours per week)



Source: Enders, Comscore

Mobile phones more resilient to pirates?

- Penetration is estimated at 84% in the UK
- Services such as texting, ringtones and user generated video clips have created large new markets
- Micro payments and integrated billing platforms minimise direct piracy issues
- Content piracy has mainly been a secondary effect on mobile phones, with pirated material procured elsewhere and transferred to the device
- Mobile phones are morphing into multimedia devices – MP3 player, portable video player, web browser, GPS – e.g. iPhone



Remedies to combat piracy

- To date:
 - YouTube has been filtering out illegal content, following Viacom's \$1bn copyright lawsuit and YouTube's desire to partner with Hollywood
 - Amazon handed over control of the Kindle 2's text-to-speech application when the Authors Guild claimed the function violated copyright law
 - Sweden's court ruling that Pirate Bay is guilty of violating copyright law
 - ISPs have been testing warnings and graduated response (e.g. AT&T in the US): warnings alone cause a significant drop in illegal downloading
 - More inclusive and less threatening marketing messages

Other possible solutions

- Emphasise “must have” destination programming/content, easily accessible (sport, talent shows, results-based programming in real time)
- Offset revenue losses by emphasising live “gigs” over recorded – i.e., touring bands
- Bundle services – tied to valued offerings (e.g., music free to phone subscribers)
- Stop giving away professional content (newspaper sites, catch-up);
 - BUT be aware that piracy may actually stimulate commercial purchase – free window may be a useful marketing ploy



New business models are key...

- Increased co-operation between content owners and networks – an end to mutually assured disruption (win-win)?
- Emphasis on live events - live performance revenues rose in the UK by 133% in 2008
- Re-deployment of “old media” assets – legacy players need to protect/enhance content funding models or die
- Delivery and pricing that is attractive – make it easy, make it simple, make it cheap
- Teenagers will spend on ringtones, texts, TV voting: why not on music and videos?

“Monetise don’t demonise!”

Conclusions

- Reliable figures are hard to come by
- It's a global problem, hitting every sector, in different ways
- Piracy is now a mass activity and involves millions of people
- Close correlation with internet penetration and connection speeds
- Different moral perceptions across the generations – fundamental difference in concept of ownership?
- Technical solutions are continually thwarted
- New business model need to make legal content attractive, convenient, reasonably priced

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