Broadcasters, no longer the customers for hardware

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Heard in the aisles at IBC and at the conference was the message: "Vendors do not understand end users are not always their best customers. We provide outsource facilities and we are the biggest customer for some suppliers. We expect to be treated accordingly". One outsourcer went on to give the example of a major post-production equipment supplier, claiming to buy more from this manufacturer than any broadcaster in the region, but treated worse. If true this represents a change in business dynamics and worthy of further investigation. The claim is researched in this article to see if the market for outsourcing really is significant, and if there is a lack of understanding among vendors of the scale of the market.

Silence

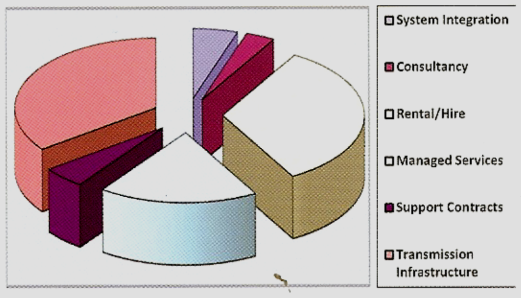
I started by contacting a number of leading manufacturers to invite comments which would inform this article. The response was… an almost complete silence. One PR person told me that the issue was not on their clients' radar at the moment.

The one exception, the one person to put his head above the parapet, was not himself a manufacturer but a systems integrator. David Phillips of TSL told me "With the large number of companies now offering outsourced services – both transmission playout and studios – it is important that manufacturers direct sales effort to these companies as well as, and more so, than to the end user."

He added that as an independent SI, TSL when necessary hosts "'shoot-outs' and 'proofs of concepts' on behalf of the outsourcing company, acting as equipment agnostic advisers."

It seems that the outsourcing industry feels the need for more active support from vendors. A need that can only in part be provided by SIs, not least because they have their own sales agendas to pursue.

What is the scale of the issue? Is this only a European matter or is outsourcing spreading worldwide? How much does the sector justify in terms of resources from manufacturers and other vendors?



The facts

The 2011 edition of the IABM Global Market Valuation & Strategy study is widely regarded as the most authoritative economic account of our industry. It suggests that services – all parts of the industry which are not hardware or software – represent 34% of the business in 2010.

That in turn is broken down into a number of sub-segments. Of these, managed services represent close to one and a half billion dollars of revenue worldwide. That is the level of fees charged to broadcasters, and will include other overheads apart from equipment, and purchases from other than broadcast suppliers. But it is probably safe to talk about it being a market worth around a billion dollars to vendors.

Business models

When we are talking about managed services in this context, the most common offering is in playout and uplink. This works well in markets where there are national broadcasters with relatively complex transmission requirements. Financially squeezed broadcasters want to focus on their core business, and thus are happy to outsource transmission.

For the service provider it is a sound business because playout and uplink services scale easily around a core facility or set of facilities. Master control, storage, automation and asset management can rapidly be expanded to meet a growing requirement, and the heavy investment in satellite farms is better amortised over multiple clients.

This idea of the multi-client service provider has proved particularly popular in Europe.

Major players include Arqiva, Chellomedia, Encompass, Red Bee Media, TDF (Cognacq Jay Images) and Technicolor, with other smaller and niche players also becoming more prominent.

Outside Europe there has been more resistance to the idea. In the US, the tradition of the "mom and pop" TV station in each market – together with the relative simplicity of delivering a channel to one mast on top of the building – has led to broadcasters keeping playout in house. That said, NBC has outsourced its network operations to Technicolor.

Similarly, Far Eastern broadcasters have seen more advantages in competition than co-operation. Interestingly, though, in Australia the two big rivals ABC and WIN recognised the benefits of scale and came together in a joint venture to build a digital playout facility, MediaHub. The scope of the centre allows the two partners to bring in third party playout contracts, providing an extra revenue stream.

The future

What will drive managed services as a sector in the future is the requirement to deliver to multiple platforms, in a timely manner as well as maintaining quality. Technicolor in the Netherlands recently won the contract for multi-platform delivery for the national broadcaster because it demonstrated the speed with which it could get live television onto the web.

Multi-platform delivery requires different back office processes like asset management and fulfilment as well as transcoding and metadata. This opens opportunities for new entrants into the market like Alcatel-Lucent, Cisco, Ericsson and Microsoft.

Aside from broadcast to consumer delivery, the other growing area of managed services is in IP transmission of content during production and post-production, and from producer to broadcaster. Specialists like Aspera and SmartJog are now being challenged by telcos such as Verizon Business which see opportunities in point to point file transfer.

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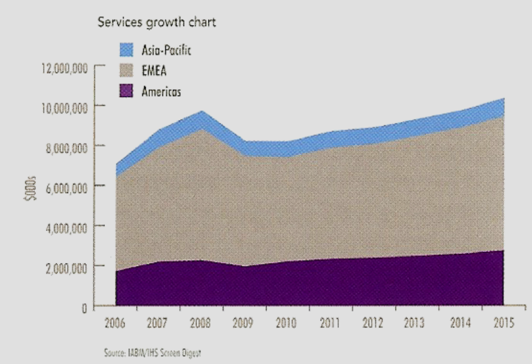

Despite this positive news, research for the IABM report suggests that growth in services will be slow: just 4.4% CAGR from now to 2015. As the graph suggests, Europe continues to dominate services and will retain its proportion.

In Asia-Pacific there are large broadcasters and conglomerate media agencies – not least in China – that will show limited interest in relinquishing control of any part of the supply chain. Breaking that control will require determined work on the part of the outsourcing company and its technology partners.

While North America may not move far towards outsourcing of playout and delivery services – although multi-platform delivery is as much a challenge for US broadcasters as for anyone else – the market in Latin America may well prove fruitful, being much more European in its outlook as well as its competitive nature. From IABM data the media industry in the region is expanding fast, at double the global rate.

In conclusion…..

There clearly is interest amongst broadcasters in outsourcing services outside the core business to specialists. Playout is just one example, but specialist transmission companies have developed very large operations, supporting hundreds of channels and variants, and delivering across the whole spectrum of platforms.

Because they are specialist providers they tend to develop their own infrastructures to meet their specific workflows, rather than buying packaged systems or sub-contracting further to systems integrators. So they are targets for every vendor with appropriate products.

Outsourcing is no longer a new part of our industry: it is well established, proven and set to grow. With the roll-out of digital television well underway around the world, and the unprecedented growth in demand for online and mobile services, the market for managed service contracts is huge. ☐