The Case for Consolidation in the TV market – and whether is should be driven by the market promoting freedom of choice or by legislation.

Contrary to what you might have heard the set-top-box is alive and well and the TV market is growing. The global number of pay TV subscribers in the world reached over 900 million in 2014 and is expected to reach 1.1 billion in 2020 (ABI Research). These customers generated pay TV revenues of US$ 257 billion in 2014, and this figure is expected to grow to US$ 313 billion by 2020 (ABI Research). The number of set-top boxes shipped in 2014 reached 300 million (IHS). The number of set-top boxes shipped are expected to fluctuate over the coming years but is estimated to land at 277 million in 2019. The fastest growing segment of set-top boxes is connected pay TV set-top boxes, which is expected to grow from 109 million shipped boxes in 2014 to 175 million in 2019.

But if we want to this growth to continue, and we do, there is an immediate problem for operators that need to be dealt with. Because aside from the projected continued growth for the traditional TV market, other viewing sources are expected to compete for market share and gain traction. New players, such as OTT and Internet TV, challenge the pay TV operators' strong market position. So there is an urgent need to ramp up innovation and deploy new and more advanced services and to offer the best of Live TV and Internet TV in one simple solution.

Then there is also the matter of global trends versus local realities. For example, if we look at the total number of hours watched for 2015 in the US, adults will spent an average of 5 hours, 31 minutes watching video each day, compared to 4 hours, 56 minutes in 2011 (eMarketer). However the number of hours watched for traditional TV is down to 4 hours and 15 minutes. So the increase we are seeing is being driven by video on digital devices - PCs, mobile devices and other connected devices including over-the-top (OTT) services and game consoles. Time spend watching video on these devices has increased from 21 minutes in 2011 to 1 hour and 16 minutes in 2015 (eMarketer). For operators that want to stay relevant there is an urgent need to reinvent themselves, and to reimagine what a TV service could be.

However, for US market the problem is two-fold, as explained in a recent article by Mr. Tom Wheeler, chairman of the Federal Communications Commission (FCC). For the US market there is a very limited choice for consumers when it comes to set-top-boxes (often the choice between three different versions that all needs to be leased from the operators that provides the service) and since consumers lease rather than buy them from the operators, there is also higher total cost (even beyond having covered the actual value of the box) for the consumer, as there is no competition for their business. And although this is currently a revenue stream for the operator, it is ultimately a cost that is driving cord-cutting when other options, seen as more flexible, are presenting themselves.

The reason for this development is that market for operating systems for set-top boxes and TV sets is highly fragmented. This means that hundreds of different operating systems flood the TV market (unlike the PC and mobile-device markets that after their consolidation uses only a few). The lack of a single standard inhibits rapid application and product development for the TV market. It also means that it cements the need for a certain device (be it set top box or TV set) with a certain operating system that only the operator can provide, creating a type of monopoly effect.

But the fragmented software environment is also one of the operators' main challenges in terms of developing and launching new TV services faster and cheaper, as each operating system require a separate integration. If TV operators, set-top box manufacturers and smart TV providers could agree on a standardized software, it would mean faster innovation, faster integration, quicker time-to-market for new services as well as the freedom of choice for the end-consumer.

So the only real question here is which operator will get there first.

As for the demise of the set-top box itself, it is not going anywhere anytime soon. It might not look the same over time, but as it is still needed to guarantee that the consumer gets exclusive access to the content they've paid for and it guarantees the quality of that service, so it still has a very crucial role to play. Now whether it will do so by having a physical presence in the living room, being virtualized in the cloud, being a part of a smart TV or becoming the hub of the connected home remains to be seen. But it will certainly be a part of the continued merger of traditional TV and Internet services as interactive TV continues to grow over the next few years.

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