DIGITAL TV EUROPE

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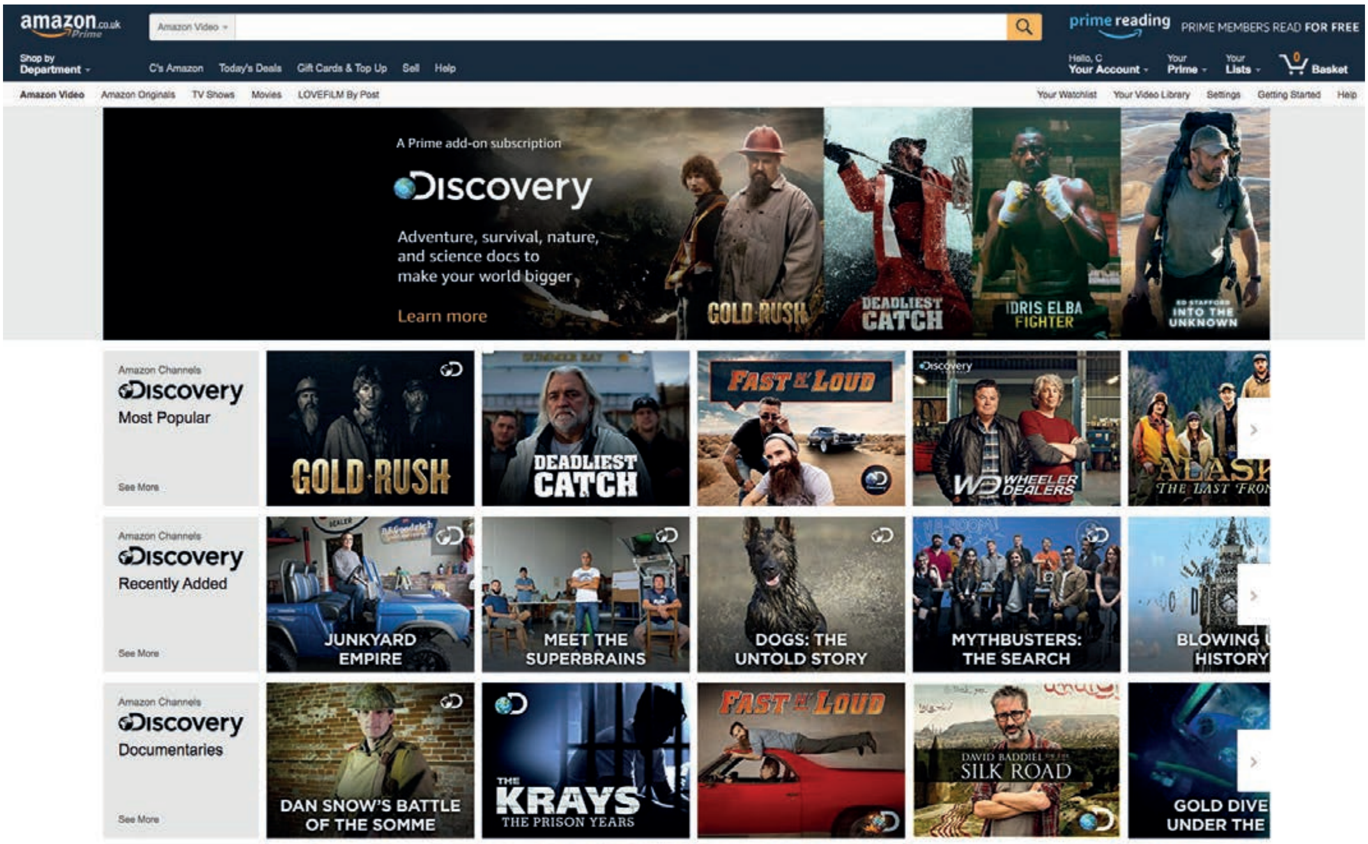
AMAZON'S EUROPEAN CHANNELS

MULTISCREEN & OTT PART 3



Amazon channels its European TV ambitions

Two months on from launch, *Digital TV Europe* discusses Amazon's European Channels initiative with MD Alex Green, and finds out about the upsides to the scheme from Amazon's launch partners. Andy McDonald reports.

Amazon launched its European Channels offering the UK, Germany and Austria on May 23, extending a project that it first introduced in the US back in December 2015. Amazon Channels allows Prime users to add individual live and on-demand TV channels as part of their subscription package, and is a major new development in the e-retail giant's push to become front of mind as a provider of film and TV content.

The European Channels initiative launched with more than 40 channels in the UK and over 25 in Germany and Austria, and Amazon has its sights set on further expansion in the coming months. "It's very much a starting line-up," says Alex Green, managing director, Europe, for Amazon Channels, speaking exclusively to *Digital TV Europe*.

"We wouldn't claim to have every channel that's available or all the TV that you need, but it's a great starting point, as we've got a combination of some well known brands like ITV, Discovery, Eurosport and others."

Amazon's UK launch offering includes Eurosport Player, Discovery, ITV Hub+, Hayu, Hopster, and Viewster. In Germany and Austrian the line-up features Cirkus, MGM, Syfy Horror and Mubi. Overall the European Channels line-up spans genres including film, sport, kids, lifestyle, factual, horror and fitness and Green says "the best thing really is that we can now just grow and grow the selection".

"The launch was a whole big wave of channels, so we're still making sure that customers can find those and the content is well presented. A lot of people were still on free trials from the start so they're becoming paid customers now. We're still very much in the early days, but I'm excited to say that we do have a strong pipeline and you will see channels regularly being added to the service."

Strategic moves

Amazon's Channels offering is part of the company's gradual transition into an entertainment powerhouse, rivalling the likes of Netflix in the online space and arguably pay TV operators in the traditional linear space.

Amazon made its first commitment to original content in December 2012 when it pledged to make six original comedy shows. It added five preschool kids to the slate in February 2013 and finally released an expanded line-up of eight comedy pilots and six kids pilots online in April of that year, allowing viewers to decide which would go to season. Since then Amazon has progressively upped its spend on content for its Prime service, with major originals like *Transparent*, *American Gods* and *The Grand Tour*.

Late last year IHS Markit estimated that Amazon had more than doubled its content spend from US$1.22 billion (€1.05 billion) in 2013 to US$2.67 billion in 2015. Meanwhile, speaking on the company's fourth quarter earnings call in February of this year, Amazon chief financial officer Brian Olsavsky said that Amazon Prime customers more than doubled the amount of hours they spent consuming video, music, and reading in 2016 compared to the year before. He added that Amazon's increased spend on original content will "continue in 2017 and likely beyond".

Prime Video has evolved in recent years from being part of Amazon's wider Prime offering, available in only a handful of markets, into a standalone video offering available across the globe. Amazon launched Prime Video as an individual, pay-monthly service for the first time in the US in April 2016. It then launched Prime Video in more than 200 international countries and territories in December.

Amazon also went live last year with a service called Amazon Video Direct, opening up its Prime Video service to "creators and storytellers", in a move widely seen as a direct shot at online video rival YouTube. Content creators can choose to make their videos available for free to Amazon Prime Video customers and earn royalties based on hours streamed, or opt to offer content to all Amazon customers on an ad-supported basis, via a rental purchase price, or as a subscription.

Green says that Amazon's European Channels launch is a "continuum" of its video efforts – "stretching from what you get for free with Prime, through to what you can rent or buy or subscribe to with channels, or indeed find other stuff that has been loaded direct from content providers".

"Something I think Amazon is good at is surfacing content that is most relevant to people," says Green. "That's related to other things you've watched and that we think you may like. That is something I think we can offer the content industry – how their content can be surfaced at the right place, at the right time, to the right customer."

As far as Amazon's channels line-up in Europe is concerned, Green says that "exclusivity is not really the objective". Instead Amazon offers content on an easily accessible platform, with a trusted billing service and the opportunity to cancel at any time.

"We make it incredibly easy for customers and that's kind of where we play, rather than relying on exclusive content in this part of our business," says Green. "Obviously with our originals and with our exclusive content that we offer within the Prime service, yes a lot of that is exclusive, but within the channels business we don't really rely on that."

Content is king

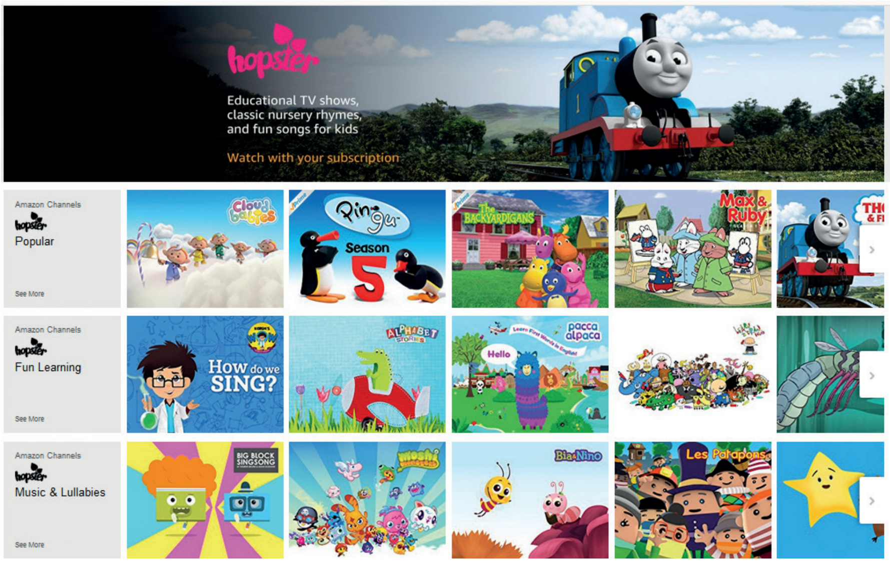
While much of Amazon's European channels content is available elsewhere, there are nevertheless some exclusives. Heera is a channel launched by Amazon itself, consisting of content from the Indian sub-continent. MGM's film channel was not established in the market prior to its launch on Amazon Channels, while Syfy Horror is a new service for Germany.

"One of the good things about our channels offering is it does allow businesses to launch new services without effectively taking all the risk themselves in terms of technology, and in terms of marketing. They really can use our platform as a very quick and easy route to finding customers," says Green.

The availability of Discovery as part of the Amazon Channels line-up in the UK also marks the first time that viewers have been able to pay for this service outside of a traditional pay TV bundle.

"We take a really long-term view of this business and I think in the long term our selection will grow and grow."

Alex Green, Amazon Channels



Kids service Hopster was one of Amazon's 40 launch channels in the UK.

"In this world of infinite choice we want our brands to be on all platforms so we can deliver our content to passionate communities," says Susanna Dinnage, president of Discovery Networks UK and chief content officer, international. "Amazon Channels is part of this strategy – curating loved brands like Eurosport on a growing platform – it's another way for us to reach content-hungry, time starved fans."

Dinnage says that Discovery, which owns Eurosport, is committed to providing "the best value for consumers by making our content available across every screen and service". She claims that Amazon offers a different service to consumers "who may be more value-conscious and do not want to pay for a packaged offering".

"We want to work with innovative people who share our ambition to get closer to fans," says Dinnage. "Amazon understands its customer base and uses extensive data and marketing to strengthen the partnership it has with people."

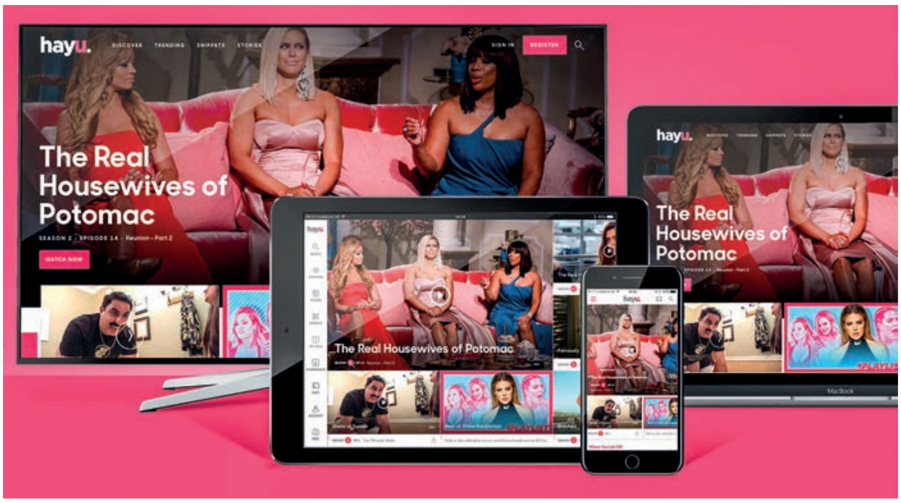
For Amazon's launch partners, there appears only to be upside in offering their content through Amazon Channels – particularly when scale, for most, is the ultimate goal.

"We are always interested at Hopster in making sure that we are able to reach audiences and families in the maximum possible number of places," says Nick Walters, the founder and CEO of the kids video-on-demand service. "From our point of view, Amazon has built a really significant presence in the UK. They are longstanding partners of ours on the Fire TV device as well. So it felt like a very natural extension for us to look at being part of Amazon Channels when it launched."

NBCUniversal International's senior vice-president, branded on demand, and managing director of Hayu, Hendrik McDermott, says that the strategy for the SVOD service – which specialises in offering reality TV series including *Keeping Up with The Kardashians, Made in Chelsea* and *The Real Housewives* – is to get it distributed "as widely as possible".

"Amazon obviously represents a large domestic US player, clearly on the expansion trail in Europe. So in terms of fulfilling our core strategy of getting Hayu to as many subscribers and as many places as possible, Amazon is certainly able to help us in that regard," says McDermott. "I think on top of that we have both gone in eyes wide open on the marketing front. We're helping to promote each other's services. So I think both on the reach and breadth of their service, as well as the communication with potential subscribers, there is quite a large upside for both parties."

Anime specialist Viewster is available as a channel in the UK and is using its positioning on Amazon to help diversify its revenue model. "We have a devoted following for Anime content in the UK that we knew wanted ad-free," says Ben Correale, head of content at Viewster Deutschland. "Amazon Channels was the best way for us to introduce a paid service, as the infrastructure and some marketing were already built in, and the nature of Channels encourages bundling, which serves niche offerings like ours very well. The opportunity to be part of the UK launch with a relatively small number of channels was an added bonus that increased our exposure. We are an AVOD platform first and foremost, but Amazon Channels enables us to relatively easily exploit a hybrid business model that includes SVOD, which in turn gives us access to content that might not have been available to us otherwise."



Hayu's early indications show the TV service is 'striking a chord' with Amazon users.

Elsewhere, ITV, a free-to-air UK broadcaster that typically relies on advertising revenue, is also working with Amazon in a bid to increase traction for its subscription-based ITV Hub+ service – a catch-up offering that lets users watch ITV programming without ad interruptions.

"Subscription VOD is clearly an exciting, high growth and global category with reduced technical barriers to entry," says ITV's group director of online, Paul Kanareck. He claims that while free TV, paid for by advertising, has been well understood for over 60 years, ITV is now looking to "upgrade that deal" by offering a subscription service.

"In the case of Hub+ on Amazon Channels we are interested in the deep billing relationship Amazon has with such a wide part of the UK population," says Kanareck. "Whilst we expect the majority of our subscribers to come directly to Hub+ we also calculate there will be a base of users who are more behaviourally inclined to purchase via Amazon."

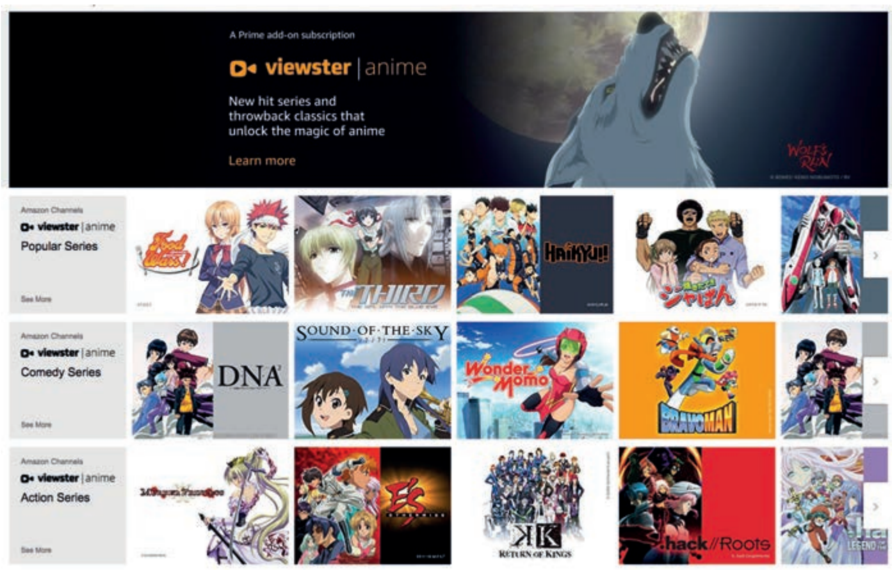
The future of pay TV?

While Amazon's move into offering channels may be seen by some as a logical extension of its content efforts to date, for others it could appear to be a more fundamental challenge to the traditional pay TV model.

After Amazon launched its European line-up in May, Paolo Pescatore, director of multiplay and media at analyst house CCS Insight, described it as a "highly disruptive move and one that threatens Sky's dominance in the pay TV market both in the UK and Germany."

"Beyond free to air services, the addition of Discovery's channels is hugely significant. This is the first time that its channels have been made available outside of the Sky universe and out of a bundle. In our opinion, this will force many households to think twice about their pay TV subscription and cut the cord as we've seen in the US. Especially if Amazon will add more live TV such as sports in the future," says Pescatore.

When asked if Amazon is competing directly with the likes of Sky, Virgin Media and BT, Green plays down any rivalry. "We honestly don't think about the competition," he says. "We really just focus on the customer and



Anime specialist Viewster is using Amazon Channels to move from AVOD to SVOD.

continuing to add value – whether it's content selection, whether it's the user experience, whether it's the value, [or] the accessibility on all the devices."

While this may be true, Green's background might also provide some clues as to what Amazon is aiming at. Before joining Amazon in 2015, the experienced executive was director of TV at UK pay TV operator and incumbent telco BT. Before this he spent four years at Virgin Media where he was executive director of TV and online.

Amazon's Channels offering currently makes it easy for users to subscribe to individual channels of content on an à la carte basis. However, should the e-commerce giant decide in the future to bundle up packages of these channels and offer them at a competitive price, it would clearly be positioned closer to a traditional pay TV operator. Green is cagey about whether bundling could be on Amazon's roadmap.

"I can't comment or predict on our future packaging or pricing," he says. "Obviously today we have an à la carte model, which is new and we like how people are responding to that. Though we also always want to offer value to customers, so we'll see how that evolves over time."

Correale at Viewster says that while Amazon does not yet compete with traditional pay TV operators on a large scale, "the trend is certainly in Amazon's favour and it is already competing in certain ways". He says that while media companies are being forced to focus on their main channels and in some cases cut niche offerings, Amazon Channels may become the place viewers eventually go to if they want to create a bundle featuring the kind of content that Viewster offers.

Dinnage at Discovery claims that "Amazon Channels is pay TV, just packaged in a different way." She says that Discovery and Eurosport's involvement in the Amazon Channels scheme is about the "broadening of the pay TV world".

"It [Amazon Channels] is part of a rich ecosystem of pay TV services catering to varied consumer needs," says Dinnage. "With nearly 10 billion screens worldwide, the Amazon deal is another smart way to get on these devices."

At ITV, Kanareck says that Amazon's wider push into channels is "strategically interesting" in an age of on-demand viewing, but points out that the UK's public service broadcasters – BBC, ITV and Channel 4 – still account for the "overwhelming majority of viewing", most of which is live and on a TV.

"TV viewing habits remain remarkably robust and durable. Many US tech firms looking to play a greater role in influencing people's viewing behaviour are starting to recognise the benefit, at least in the short term, of building on that behaviour rather than trying to dislodge it," says Kanaerck. "Indeed, when we launched the Hub a few years ago we already placed our live channels at the heart of the product. It now accounts for upwards of 40% of viewing as people use their tablets as 'second TVs' as much as 'second screens'."

Kanaerck says that a million people a night watch ITV's live simulcast feed of popular reality show *Love Island* via the Hub. This is in addition to the two million watching live on a TV and the 1.5 million on catch-up. However, he claims "that's not to say we are not alive to the potential risks posed by the likes of Amazon who may look to dis-intermediate broadcasters like ITV from their audiences."

A major factor in how disruptive Channels will prove over time rests on how much traction the scheme gains with consumers. Amazon does not disclose sign-up figures for its Channels scheme and none of the Channel partners that *Digital TV Europe* spoke to would go into specifics either. However, the consensus so far seems to be positive.

Hayu boss McDermott says "from what we've seen the early indications are that Hayu is really striking a chord with Amazon subscribers. We're very pleased with the early indications, but again I would just qualify that by saying it's been just a short few weeks so we'll see where we're going to go."

At Hopster, Walters says that he is "pleased with the initial uptake" through Amazon, while Dinnage at Discovery says "we're very positive about the service launch" and describes "strong levels of engagement" for Eurosport Player.

"Subscribers [are] watching the live linear feeds and catch-up content in significant volumes. Amazon is doing a great job promoting Eurosport's current sporting events – such as the Tour de France – which is driving subscribers, but we don't disclose specific subscriber numbers," she says.

At Amazon, Green acknowledges that the advent of over-the-top and on-demand delivery means "the way we all watch TV is changing fundamentally". He says he believes "that change is accelerating, it's not going to turn back. We don't quite know how it will end up, but it is definitely happening and it's very exciting to be part of that."

Despite this, Green won't make any predictions about where he hopes the European Channels scheme will be years from now. "It would be a very brave person to say, in this space, where they want to be even in a year's time, let alone in five year's time. But we're off to a great start," he says. "We take a really long-term view of this business and I think in the long-term our selection will grow and grow."

Asked whether Amazon has plans to launch its Channels scheme in more countries in Europe, Green advises simply that we "watch this space." ●

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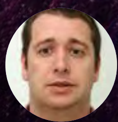

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