

Development of Digital Satellite Pay TV in Spain (2004-2008)¹

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Abstract

This article discusses the evolution during the period of 2004-2008 of *Digital +*, the only operator of satellite pay TV on the Spanish market at the moment. It describes the configuration of the offer and economic performance of the platform and its strengths and weaknesses as an operator. As an introduction, the article draws a broad outline of the evolution of pay TV in the U.S., Latin America and the EU, presents the main trends observed and describes the market situation in Spain.

INTERNATIONAL CONTEXT

The market for TV services in the world in 2006 was estimated at 250.000.000 million euros. The U.S., Europe and Japan accounted for 80% of revenues. While advertising remained the main income, revenues for pay TV had experienced the highest growth in the whole industry. In the same year 2006, 18% of the 1,100 million households in the world with television received digital broadcasts and 44% of those households had paid a subscription fee to pay-TV, analog or digital. Cable TV was the most common multi-platform on the planet. But satellite TV had a good rate of growth especially in developing countries², both in subscriptions and digital television distribution, while the IP TV³ technology was still a marginal emerging market. The United States accounted for 40% of the total television market in 2006 and about 88% of households was subscribed to basic or advanced pay TV. In 2007, 61% of households were connected through cable⁴. Satellite had grown significantly in recent years, reaching 26% of households⁵, due largely to the joint distribution agreements between telecommunications companies that brought various combinations of broadband services and telephony⁶. The turnover of pay television in the United States reached 60.004 million euros in 2006 compared to 5.919 million euros in United Kingdom, the reference for the european market.⁷ According to corporate data, all major pay-satellite platforms in the

¹ This work has been done with the help of the research project "Culture, Society and Television in Spain". Ministry of Science and Innovation. Proyecto Nacional de I + D + I (2007-2009). Ref. 2006/03962/001.

² Much of the growth of digital television in developing markets is supported by the satellite. See: *Digiworld 2007. España. Los retos del mundo digital*. Ed. IDATE-Enter. Madrid, 2007. Page 72.

³ Internet Protocol Television.

⁴ The major cable operators in the U.S. market are *Comcast and Time Warner Cable*.

⁵ Of the 112.8 million U.S. TV households in 2007, 69.3 mill. of households were connected to basic cable or premium and 29.6 mill. of households were connected via satellite. Households with access to VOD services were 31 million. See: <http://www.mpa.org/USEntertainmentIndustryMarketStats.pdf>

⁶ *Digiworld 2007. España. Los retos del mundo digital*. Ed. IDATE-Enter. Madrid, 2007. Page 46.

⁷ *El Libro verde de los canales temáticos. Una perspectiva multidisciplinar de la publicidad en los canales temáticos*. ArceMedia & AIMC. Madrid, 2006. Page 48.

U.S. market⁸, *DirecTV U.S.* and *Dish Network* (formerly *EchoStar Communications Corporation*), had 16.8⁹ and 13.78¹⁰ million subscribers in December 2007, respectively. Both satellite companies have always been aware of the need for concentration in a highly competitive market like the U.S. and began a failed merger process in 2001. The Federal Communications Commission, the regulator body of the telecommunications sector in the U.S., finally rejected the operation in October 2002, believing that the alliance between the two major satellite TV services would substantially reduce competition in the distribution of multichannel programming, hurting consumers and creating a *de facto* monopoly on the distribution of television in certain rural areas.¹¹ Despite the ruling, rumours remain about the possibility of such a merger in the near future.¹² As for the market for satellite pay TV in Latin America; after years of fierce competition, *DirecTV* and *SkyNews*, the two major digital satellite platforms in Latin America, reached a merger agreement in February 2004. The merger was expected since *News Corp.*, owner of *Sky Group*, bought a year before *Hughes Electronics*, a *General Motors* subsidiary, which was the technology provider for *DirecTV*. *DirecTV*, a Cisneros Group company established in 1995, had Venezuela, Argentina and Puerto Rico as its main markets, while *SkyNews*, owned by *Televisa* and *News Corp.*, was dominant in Brazil and Mexico. Overall, both platforms have gained 3.2 million subscribers throughout Latin America, a result that seems poor in such a large potential market. In fact, the merger was not such, but a complex web of alliances and purchases. In Brazil, Costa Rica and Panama, existing platforms were merged under the name of *Sky*; in Chile, Colombia and Venezuela, *Sky* bought *DirecTV*. In Argentina and Mexico the two operators continued the competition for the same audience with a very different end: in Argentina *DirecTV* absorbed *Sky*, in Mexico *DirecTV* went bust and sold the subscriber base to *Sky*. The entire cluster is managed by *DirecTV Latin America*, which includes three divisions: *DirecTV Panamericana*, *Sky Mexico* and *Sky Brazil*.¹³ The alliance of *DirecTV* and *Sky* created a *de facto* monopoly in the satellite TV business throughout Latin America, as the various divisions of the new company came to control about 95% of the market for satellite pay TV in the region. In addition, the merger helped to reduce costs in management expenses, technological equipment, marketing and advertising costs.¹⁴ *DirecTV Latin America* had reached approximately 4.8 million subscribers in December 2007.¹⁵ As for Europe (EU27), in December 2006

⁸ Parsons, P.R./ Frieden, R.M. *The Cable and Satellite Television Industries*. Ed. Allyn and Bacon. Boston, 1998.

⁹ *Annual Report 2007 DirecTV Group*. See: <http://investor.directv.com/annuals.cfm>

¹⁰ Fourth Quarter 2007 results of Dish Network. See: <http://dish.client.shareholder.com>

¹¹ Source: Federal Communications Commission. <http://www.fcc.gov/mb/echodity>. Inquiry: 30/04/2007.

¹² "Malone: DirecTV is (almost) done deal" *BusinessWeek*, February 2008. See: http://www.businessweek.com/technology/content/feb2008/tc20080225_978295.htm

¹³ See: <http://www.directvla.com>. Inquiry: 15/05/2008.

¹⁴ "Cisneros y Murdoch llegan a un acuerdo para fusionar DirecTV y SkyNews en Latinoamérica". Journal *El Mundo* (25/02/2003)

¹⁵ *Annual Report 2007 DirecTV Group*. See: <http://investor.directv.com/annuals.cfm>

households received television signals via terrestrial analogue (45%), cable (35%), satellite (21%), digital terrestrial television (DTT) (7%) and xDSL/IP TV (2%). Only 36% of households paid for television services.¹⁶ As a general rule, and although there were large differences, major countries with access to television via terrestrial and satellite had less subscribers to pay-TV offers, than countries with a high level of access to cable TV¹⁷. There is also an increasing trend: households subscribed to pay TV tend to pay for extra services, such as fixed or mobile telephony or xDSL access. These joint offers are often called "double play" and "triple play", according to the number of combined services.

Furthermore, 30% of European households were digital by the end of 2006, implying that its penetration quadrupled since 2000. The main players in this high growth were cable, digital satellite and DTT played a major role in these figures, with one third of households in the United Kingdom and a major presence in Italy, France and Spain.¹⁸ As for digital platforms, ten years after launching the first satellite platform in 1996¹⁹, results came up different in each country²⁰. In all cases there have been significant problems of implementation. Two digital terrestrial platforms, *Quiero TV* in Spain and *ITV Digital* in the United Kingdom, went bankrupt; in Italy, Spain and, recently, France satellite platforms were merged due to the inability to sustain heavy losses or the need for more competitiveness with new players in the digital sector. Only *BSkyB* group and *Canal + (Vivendi)* maintain a significant presence in the market for pay TV as such, while players such as *Kirch Group* in Germany collapsed. Telecom operators such as Telefonica Spain, Telecom Italia and France Telecom have been moving away from direct management of digital satellite television services to focus on xDSL combined with telephony and broadband access. It can safely be said that the most visible result of a decade of history of digital television in Europe, is the formation of monopolies in digital satellite services, after years of competition that weakened the whole TV business.²¹

It is clear that the European market for pay television is now a fragile and highly competitive sector. Its key features are permanent change, accelerated by technological change and, above all, market pressures in clear contrast to the relative stability of the analog system.²² Furthermore, in an open multichannel landscape, pay television companies in Europe have followed a clear trend towards concentration and transnationalization business, although their revenues continue to come primarily from national markets.

¹⁶ E-communications household survey – Wave II". Eurobarometer nº 274, April, 2007. Pages 102-105.

¹⁷ Lange, A. *The financial situation of television companies in the European Union (1999-2004)*. European Audiovisual Observatory (OEA). Strasbourg, 2005.

¹⁸ *Digiworld 2007. España. Los retos del mundo digital*. Ed. IDATE-Enter. Madrid, 2007. Page 46.

¹⁹ *Canal Satellite Numérique* in France, launched in April 1996.

²⁰ PAPANASSOPOULOS, S. *European Television in the Digital Age: Issues, Dynamics and Realities*. Ed. Polity Press, 2002.

²¹ Llorens, C. "Una década de televisión de pago digital en Europa: de la utopía a la reconversión". *Ponencia en el III Congreso Internacional Comunicació i realitat. La utopia digital en els mitjans de comunicació: dels discursos als fets. Un balanç*. Barcelona, 20-21 May 2005.

²² Aranz, C. M. *Negocios de televisión. Transformaciones del valor en el modelo digital*. Ed. Gedisa. Barcelona, 2002. Page 50.

The incumbents of pay TV in Europe, satellite or cable, now face increased competition from media and telecommunication companies, offers double and triple play (IP TV, Internet access and telephone services), and all kinds of mobile services. The pay TV market is no longer a competition of cable and satellite operators.

The European TV sector is now a complex web of varied offers, technologies, consumer patterns and business models that hinder the dominance of pay TV promised by optimistic late 20th century predictions.²³

THE SPANISH MARKET OF DIGITAL PAY TV

From 2004 to 2008, the Spanish pay TV business was stagnant, even in recession, with a share of total TV sector revenues ranging from 42,2% in 2003 to 41,1% in 2008 (government subsidies excluded).²⁴ Some market trends can be identified in Spain: the heavy concentration in a few operators, the parsimonious subscriber growth, the relative fragility of the revenue from services such as pay per view (PPV) or video on demand (VOD), the languid revenue growth in cable and satellite, and the emergence of new media, particularly television via xDSL, with rates growth of 63% in 2007, although its share was still negligible.²⁵ Following the merger in 2003 of the two digital satellite platforms operating in Spanish territory, *Canal Satellite Digital* and *Via Digital* into a single operator, *Digital +*, pay TV in Spain became a highly concentrated business²⁶. In 2008, three companies, *Digital +*, Sogecable-owned (100% Prisa²⁷), Ono²⁸ (20% *Multitel*; 15,2% CCMP Capital Advisors; 15,2% Providence Equity; 15,2% Thomas H. Lee Co.) and *Imagenio* (100% *Telefónica*) controlled 93,7% of pay-TV market in Spain (1.957,1 mill. euro) and concentrated 87,7% of pay-TV subscribers.²⁹ In 2008, the share of satellite television in the revenues of the pay TV market in Spain was 73,8%, cable reached 16,6%, television via xDSL 8,9% and TV over mobile meant less than half a percentage point.

²³ Bustamante, E. *La televisión digital terrestre en España. Por un sistema televisivo de futuro acorde con una democracia de calidad*. Working paper. Ed Alternativas Foundation, 2008. Page 9.

²⁴ *CMT Annual Report 2008*. Spanish Commission for the Telecommunications Market, 2009. Page 122.

²⁵ *CMT Annual Report 2007*. Spanish Commission for the Telecommunications Market, 2008. Page 117.

²⁶ "Pay TV concentration in Spain." *Journal Screen Digest*, May 2006. Page 135.

²⁷ Prisa participation was 20% of Sogecable in late 2005, but in March 2006 bought part of the shares of Telefónica and Vivendi Universal, which Telefónica reduced its share from 23.8% to 17.1% and the group Vivendi from 11.79% to 3.01%, while Prisa reaches 43% of the shares of Digital Plus. In 2008, Prisa share reaches to 100% of Sogecable.

²⁸ Ono in 2005, with 38.14% of the market bought Auna cable that held the 32.38%. The remaining operators: Telecable, and Euscatel R, totaled only 30% of the market for cable television.

²⁹ *CMT Annual Report 2008*. Spanish Commission for the Telecommunications Market, 2009. Page 139.

Table 1: Revenues Pay-TV IN SPAIN IN 2008

| | Million. Euros | Percentage |
|--------------|-----------------------|-------------------|
| Satellite TV | 1542,27 | 73,8% |
| Cable TV | 346,68 | 16,6% |
| IP TV | 185,05 | 8,9% |
| Mobile TV | 16,22 | 0,80% |
| Total | 2090,22 | 100% |

Source: Calculations based on data from CMT Annual Report 2008

Payment from subscribers reached 1314,5 million euros in 2008, nearly 70% percent of the total turnover, and remained the most important revenue from pay TV. Meanwhile, pay per view and video on demand accounted for 243,8 million euros, a very positive trend (it would have meant a 7,1% increase over the previous year), but still not too significant in the overall market. The two main products consumed in PPV for the year 2007 were football games, with revenues amounting to 154,1 million euros (although the number of contracts decreased over the previous year) and film, with revenues of 58,9 million euros.³⁰ Audience for pay-TV reached 13% in 2008 from 11% in 2007; 8,2% of it came from specialised channels growth (1,78% in 2000³¹). The larger share had more to do with more viewers per subscriber than by increased penetration.

The subscription base increased very slowly, even with the positive data obtained in recent years by television via xDSL. In 2008, there were 216.542 new subscribers compared to 235.167 in 2007 and 360.000 in 2006. IP television registered the highest rate of subscription growth, with 133.691 new customers in 2008, while cable obtained 113.079 new subscribers and satellite losted 30.228 subscribers.³²

³⁰ CMT Annual Report 2008. Spanish Commission for the Telecommunications Market, 2009. Page 136-137.

³¹ El Libro verde de los canales temáticos. Una perspectiva multidisciplinar de la publicidad en los canales temáticos. ArceMedia & AIMC. Madrid, 2006. Page 61.

³² Subscribers increase 2007: Telefónica: 128.132 / Orange: 43.988 / Sogecable: 21.093 / Ono, 15.670 / Telecable de Asturias, 14.242. Source: CMT Annual Report 2007. Spanish Commission for the Telecommunications Market, 2008. Page 129.

Table 2: HOUSEHOLDS WITH PAY TV SUBSCRIPTIONS IN SPAIN BY OPERATORS

| | Year 2006 | Year 2007 | Year 2008 |
|-----------------------|------------------|------------------|------------------|
| Digital+ | <i>2.044.000</i> | <i>2.065.093</i> | <i>2.034.865</i> |
| Ono | <i>949.152</i> | <i>964.822</i> | <i>1.039.012</i> |
| Imagenio | <i>380.634</i> | <i>508.766</i> | <i>607.203</i> |
| Telecable de Asturias | <i>96.062</i> | <i>110.304</i> | <i>121.332</i> |
| R Cable | <i>60.988</i> | <i>63.831</i> | <i>69.830</i> |
| Orange | <i>9.759</i> | <i>53.747</i> | <i>87.387</i> |
| Euskatel | <i>38.851</i> | <i>40.414</i> | <i>46.584</i> |
| Rest | <i>165.611</i> | <i>185.409</i> | <i>190.553</i> |
| Total | 3.745.057 | 3.980.224 | 4.196.766 |

Source: Calculations based on CMT Annual Report 2007/ 2008

In 2008 pay-TV reached just over 4.196.766 households³³ in Spain, of which 48,5% were subscribers of satellite television, 34,8% of cable TV and a 16,7 % of IP TV³⁴. The average monthly expense per household for pay TV was around 33,2 euros a month by the end of 2007.³⁵ New customers of pay TV in 2008 subscribed mainly to combined services, the so-called triple play³⁶ offerings provided by cable operators and telecommunication operators, specially fixed line operators.³⁷ The concept of offering triple play (voice, broadband and television) as a prerequisite to compete, now defines the strategies of all operators.³⁸ The current competitiveness of the triple play offer raises serious doubts about the viability of the *Digital Plus* platform, stalled since 2005 around two million subscribers, even though it absorbed the customers of the analogue pay-TV channel *Canal +*³⁹, which disappeared in 2006. One of the most attractive advantages of double and triple play for xDSL subscribers is the simplicity of installation. It

³³ The percentage of penetration would be 24.89% of Spanish households. Universe: Households 15,991,763 (XVIII Surge Household Panel. October-December 2007. Red.es).

³⁴ *CMT Annual Report 2008*. Spanish Commission for the Telecommunications Market, 2009. Page 137.

³⁵ Annual Report ONTSI: "La Sociedad en Red 2007". Ed. Red.es. Madrid, 2008. Page 105-106.

³⁶ Combined offerings which include TV, telephone and internet.

³⁷ *CMT Annual Report 2008*. Spanish Commission for the Telecommunications Market, 2009. Page 141.

³⁸ *Televisión Digital*. Gaptel Report. Ed. Red.es, March 2005. Page 44.

³⁹ In late 2005 the Spanish government authorized the license Sogecable convert analogue terrestrial pay-TV (*Canal + analogue*) into a new terrestrial television service, national coverage and free (*Cuatro*); consequently, *Canal +* became a premium channel, only available in the supply of *Digital +*.

doesn't require satellite dishes or wiring because the operators offer wireless wifi. Prices also tend to be low, due to fierce competition between the different operators in the quest to settle and grow in this emerging market.⁴⁰

DIGITAL SATELLITE PAY-TV IN SPAIN: DIGITAL +

From July 2003, *Digital+* is the only digital satellite platform in Spain. It was born from the merger of the two digital satellite platforms that operated in Spain between 1997 and 2003: *Canal Satélite Digital* (CDS) and *Vía Digital* (VD). The launching a duopoly for the Spanish market in 1997 was "forced" by the Spanish government at the time. The initial competition between the two platforms was fierce, but the pay-TV market in Spain was not flexible enough to maintain both offers. A merger into a single operator was the only way to stop huge losses.⁴¹

The merged platform, *Digital+*, is owned by Sogecable, the audiovisual division of Prisa. Prisa is the leading media group in Spanish market and has significant presence in Portugal and Latin America. In Spain Prisa owns the nationwide TV channel *Cuatro*, the radio chain *Cadena Ser* and the newspaper *El País*, among other assets. In the last years, Prisa has carried out an aggressive growth strategy in Spanish and Latin American communication market. This strategy has led Prisa to face an exploding level of indebtedness. An important part of Prisa/Sogecable of that debt resulted from the merger of the digital satellite platforms in 2003⁴². Since mid-2008, Prisa has tried to reduce the financial debt with the sale of *Digital+*, but this sale has not been possible so far. In 2008 *Digital+* revenues were 1542,27 million euro for a share of 73,8% of the total pay television market in Spain. It reached 2.034.865 subscribers, 48,5% of pay-TV households, but lost 30.228 of them from 2007, a negative growth rate of 1,5%. The Spanish satellite platform made available to its customers a wide range of packages and options that sometimes proved to be quite complex and expensive. The main novelties were the launch of two commercial offers in 2007: *Canal + Latino* and *Canal + România*, oriented to the main immigrant groups in Spain, and the skyrocketing prices of all their packages. Instead of reducing prices, following the trend shown for triple play offerings, in an effort to attract new subscribers, *Digital +* increased its prices on December 1, 2007. A decision which can be defined as dangerous in such a competitive and clearly hostile market. On the other hand, the offer is wide for the Spanish market, with more than 150 channels and services of all

⁴⁰ CMT Annual Report 2007. Spanish Commission for the Telecommunications Market, 2008. Page 133.

⁴¹ Beceiro, S. *La televisión por satélite en España: del servicio público a la televisión de pago*. Ed. Fragua. Madrid, 2009. Pages 141-142.

⁴² Almirón, N. "El deute de Sogecable i Prisa: anàlisi i gènesi d'una estratègia empresarial global d'alt risc". *Quaderns del CAC*, nº 29, year 2007. Pages 105-116.

kinds (data as reported by the operator).⁴³ The main channel provider of the platform was Sogecable, which produces nine exclusive channels for *Digital +* branded *Canal +* and ten other channels that are also available to other pay TV operators.⁴⁴

Table 3: CHANNELS SUPPLIERS BY SOGECABLE

| Exclusive channels for Digital + | Channels also available to other pay TV operators |
|----------------------------------|---|
| Canal + | CNN + |
| Canal + 2 | DCine Español |
| Canal + ... 30 | Viajar |
| Canal + Comedy | Golf + |
| Canal + Action | Sportmanía |
| Canal + DCine | Documanía |
| Canal + Fútbol | 40 TV |
| Canal + Sport | 40 Latino |
| Canal + Eventos | Caza y pesca (Hunting & Fishing) |
| | Jetix |

Source: Sogecable. Annual Report 2008

Among suppliers outside of the own company the presence of Spanish production was low and packages of majors and subsidiaries of large international media groups proliferated. In a list not intended to be exhaustive, the leading providers were Multicanal⁴⁵, Televisión Española, Disney-ABC Cable Networks Group, MTV Networks España, Turner Broadcasting System España, Fox International Channels Iberia, NBC Universal Global Networks España, Discovery Networks Iberia, Televisa España and Sony Pictures Television International Networks Iberia (*AXN*).⁴⁶

⁴³ Sogecable. Annual Report 2008. Page 34. Available at: <http://www.sogecable.es/media/576949.pdf>

⁴⁴ Sogecable. Annual Report 2008. Available at: <http://www.sogecable.es/media/576949.pdf>

⁴⁵ *Multicanal*, a major producer of theme channels originating in Spain, is at present *Chellomedia*, the content division of *Liberty Global*, one of the worldwide largest cable group

⁴⁶ Calculations based on information gathered on the websites of Pulsa Media Consulting (<http://www.canalestematicos.es>) and Consejo Especialista en Canales Temáticos (<http://www.conect.es>)

Table 4: DIGITAL + OUTSIDE SUPPLIERS

| Provider | Channels |
|--|--|
| Multicanal | <i>Hollywood Channel, History Channel, Food Channel, Odyssey</i> |
| Televisión Española | <i>TVE Clan, Docu TVE, Canal Teledporte and Classic</i> |
| Disney-ABC Cable Networks Group | <i>Disney Channel, Playhouse Disney and Toon Disney</i> |
| Spain MTV Networks | <i>MTV, Nick and Paramount Comedy</i> |
| Turner Broadcasting System | <i>Cartoon Networks, Boomerang, TCM and TNT</i> |
| Fox International Channels Iberia | <i>Fox and National Geographic</i> |
| NBC Universal Global Networks España | <i>Calle 13 and SciFi</i> |
| Discovery Networks Iberia | <i>Discovery Channel and People & Arts</i> |
| Televisa Spain | <i>TLnovelas and Canal de las Estrellas</i> |
| Sony Pictures TV International Networks Iberia | <i>AXN</i> |

Source: Calculations based on information gathered on Pulsa Media Consulting and Consejo Especialista en Canales Temáticos

In terms of strategic contents for the development of pay-per-view (PPV), the key issue for *Digital +* in 2007/2008 was the loss of the broadcasting rights of major football clubs of the first and second tier leagues⁴⁷. These rights were bought by *Mediapro*⁴⁸ at the expense of *Audiovisual Sport* (owned by Sogecable) for an amount close to 3.000 million euros, around 40% more than offered by Sogecable⁴⁹ itself. This loss of rights was accompanied by a new and bitter "football war", similar to the one that was waged in 1997 between the two digital platforms in the market at the time (*Via Digital* and *Canal Satelite Digital*). This highly reported conflict erupted in the summer of 2007 when *Mediapro* confirmed that it would manage the rights of football clubs on its own rather than continue with the alliance signed a year earlier (July 2006) with *Sogecable* in order to operate jointly the football rights within the framework of *Audiovisual Sport* (AVS).

The problem was finally solved in June 2009 with an agreement between Sogecable and Mediapro for the

⁴⁷ *Mediapro* holds the rights of eight teams from the 2008/2009 season and thirty more from the season 2009/2010. In total, managed for five seasons broadcasting rights of 38 of the 42 football clubs in the first and second divisions. Source: *Noticias de la Comunicación*, No 271. Page 16

⁴⁸ *Mediapro* has held since 2006, 40% of *Imagina Media Audiovisual*, the biggest producer of audiovisual in Spain: its main partners are *Grupo Arbol* (40%) and the British multinational *WPP*. Source: <http://www.mediapro.es>

⁴⁹ "Mediapro rompe su acuerdo con Sogecable para gestionar los derechos del fútbol en solitario". *Noticias de la Comunicación* nº 271, July-August 2007. Page 16

joint exploitation of football rights⁵⁰. From 2007 to early 2009, Digital+ had no exclusive access to the LFP League and the Copa del Rey, the two leading Spanish football competitions; this situation was completely unknown to the platform since they had always had access to football matches played by the top Spanish clubs and competitions in the form of pay per view, inherited from the former *Canal Satellite Digital*. On the product offer side, the services incorporated in the period of 2004-2008 basically had to do with advances in the decoder hardware. The most noteworthy were the Multi+ and iPlus services.

Multi+ service, launched in September 2007, enabled the subscriber to view different channels in different rooms. IPlus service implied buying a new decoder, in principle something unattractive, that allowed access to DTT, record programs on the hard drive, and enjoy the high definition (HD) channels that were available.⁵¹ The main obstacles to the development of the iPlus service, which might have hindered its implementation in the short term, were: a) the high starting price of equipment –€ 395- apart from the monthly fee from 3 to 6 euros, and b) the lack of channels in HD, as Digital Plus did not launch its first HD channel, *Canal + HD*, until January 2008.⁵² Supply of *Digital +* channels through other technology platforms was discarded from business strategy in 2004-2007, while the rest of Europe's digital platforms were involved in multiplatform strategies. In 2007, *Digital +* faced two new challenges on this issue, of relatively different relevance. The first of these challenges was the development of mobile TV. With that goal *Digital + Mobile* launched earlier that year a service that offered some tailored television channels for a monthly 6 euros fee. In its first year of operation it got 80.000 subscribers via the Vodafone Live! with 3G.⁵³ The second challenge was more meaningful for the future of the platform, as it intended to enable *Digital+* to cope with rivals. In alliance with the telecommunications sector It started to offer a triple play package of its TV channels and broadband telephony. To that end, *Sogecable* signed in June 2007 an agreement with *Telefónica* to offer joint services for television, telephony and ADSL from December of that same year on, just when trade restrictions between the two companies established by the merger of the former satellite platforms *Canal Satellite Digital* (CSD) and *Via Digital* (VD) lapsed.⁵⁴ The result was the launch in early December 2007 of the *Trio +* service, including *Digital +*, ADSL 3 MByte and flat rate voice from *Telefónica*. It must be noted that *Trio +* means that *Digital+* is not offered via xDSL, but only via satellite where *Telefónica* can't sell its own *Imagenio* TV service via xDSL due to lack of bandwidth, ie

⁵⁰ The unexpected agreement between Sogecable and Mediapro for the joint exploitation of football rights covers the next three seasons. See: "Sogecable y Mediapro pactan el fin de la 'guerra del fútbol". Journal *El País* (05/06/2009)

⁵¹ Data from the corporate website of Digital+ (<http://www.plus.es>)

⁵² "Digital+ lanza Canal+HD, el primer canal nacional en Alta Definición". Mundoplus.tv, January 25, 2008. See: http://www.mundoplus.tv/noticias.php?seccion=tv_digital&id=4332

⁵³ Sogecable. Annual Report 2008. Page 34. Available at: <http://www.sogecable.es/media/576949.pdf>

⁵⁴ The conditions imposed to allow the merger to keep both companies increase their business ties in their respective sectors for a period of five years.

nearly 50% of the Spanish market⁵⁵. The initial price of *Trio +* was the sum of the separate prices of both services, *Telefónica Duo* plus *Digital+* package, so the product was not successful. By February 2008 end it had only obtained about 5.000 customers.⁵⁶ Regarding the evolution of the *Digital+* subscribers, it can be noted that, following the merger of the former CSD and VD platforms in 2003, the number of subscribers dropped to 1,652,600 in 2004. Only in 2006, the platform reached a similar result to the sum of those obtained before the merger, and this only happened after the migration of all the subscribers of the defunct analogue pay TV channel *Canal+*⁵⁷. The fact that the number of subscribers stagnated at around two million, not far from the one obtained by the *Sogecable* before the merger (the sum of the subscribers of the former *CSD* and *Canal +* analogue) indicate that the benefits of the integration into a single platform were disappointing to *Sogecable*. It assumed the high financial cost of the whole merger and ceded part of its capital to *Telefónica*, but did not obtain a significant number of new subscribers⁵⁸. Still, the two million subscribers of *Digital +* are the main source of income for the *Sogecable*, 62.8% of total revenue, and therefore the main asset to negotiate a future sale of the platform.

Table 5: EVOLUTION OF HOUSEHOLDS SUBSCRIBED TO DIGITAL+

| 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------|-----------|-----------|-----------|-----------|
| 1.652.600 | 1.960.700 | 2.044.000 | 2.065.100 | 2.034.865 |

Source: Calculations based on data from CMT. Annual Report 2008

In parallel to subscriber base growth, the increase of net income of *Digital +* has slowed in recent years. Results are positive, but not much from a several year perspective. They look darker when considering the investments required in the coming years to upgrade the technology of the decoders in order to achieve interactive features or acquire strategic content such as football games.

⁵⁵ "Competencia investiga la alianza de Telefónica y Sogecable para TV". Journal *Expansión*, November 10, 2007.

⁵⁶ "Fracasan las ventas del servicio de Internet y TV Trío+". Journal *Expansión*, March 27, 2007.

⁵⁷ *Canal +* ceased analog broadcasting in the December 7, 2005; your dial was occupied by new free channel in the group Sogecable: *Cuatro*.

⁵⁸ "Sogecable aumento sus ventas un 9,3% en 2006 por las operaciones de Cuatro, pero vuelve a pérdidas". *Noticias de la Comunicación* nº 266, February 2007. Page 37 and 38.

Table 6: ANNUAL ACCOUNTS OF DIGITAL + (Mill. €)

| | 2005 | 2006 | 2007 |
|---------------------------------|---------|---------|---------|
| Net business | 1.500,9 | 1.469,4 | 1.507,6 |
| Operating revenue | 1.505,3 | 1.473,7 | 1.522,0 |
| Operating expenses | 1.153,5 | 1.165,6 | 1.202,0 |
| Gross operating result (EBITDA) | 308,1 | 308,1 | 320,0 |
| Net operating profit (EBIT) | 110,0 | 110,0 | 176,0 |

Source: Calculations based on data from the *Noticias de la Comunicación* No 266 and 277

Sogecable transferred all its pay TV business to a separate business unit, *Canal Satellite Digital*,⁵⁹ which is currently responsible for operating the *Digital+* platform and produce their pay channels under the *Canal +* brand. Since August 1, 2006, *Sogecable* manages directly only the activity of the free terrestrial channel called *Cuatro*. It is their main challenge at present where all of their efforts are focused, as in recent years. In 2007 the *Grupo Prisa (Promotora de Informaciones)* increased its shareholding to gain full control of *Sogecable*, owner of *Digital +*⁶⁰. The two stated strategic aims were to focus their audiovisual market strategy in *Sogecable* and to restructure the debt of *Sogecable*, calculated at 2,200 million euros by the company's president.⁶¹ But their obvious ultimate goal was a future sale of the pay-TV business to reduce debts of *Sogecable*. Given the poor performance of the pay television business in recent years, *Prisa* publicly announced the sale of *Digital +* as a whole in June 2008, including the content production divisions. *Prisa* kept the free television business, launched two years before with their channel *Cuatro*, which offered better long-term prospects.⁶² Negotiations for the sale of *Digital +* platform started in the middle of 2008, and had not yet been ended when this article was finished in June 2009.

DIGITAL+ FROM 2004 TO 2008

In summary, it could be said that *Digital +* overcame a complex merger process in 2003 that harmed its

⁵⁹ This differentiated business unit, *Canal Satellite Digital*, is 100% owned by *Sogecable* and integrates DTS, the company that manages *Vía Digital* prior to the merger.

⁶⁰ *Sogecable* owns *Digital +* (100%) through the company *Canal Satellite Digital* and *Vía Digital*.

⁶¹ "No hay ofertas". Journal *El País*, December 21, 2007

⁶² "Prisa puede vender Digital+ tras lanzar una Opa sobre Sogecable". Journal *El Mundo*, December 21, 2007.

growth in the following years⁶³. It has more subscribers to pay-TV than any other operator have, and hence a high participation in the Spanish market. It has clear competitive advantages as the wide range of content offerings⁶⁴ and the know-how and experience accumulated on the Spanish pay-TV market⁶⁵. On the other hand, they also have agreements with the U.S. majors offering movie premières, and it produces the main Spanish premium channel, *Canal +*.

But increased competition from other operators and carriers to offer triple play, a late effort to join with telecommunications operators in order to supply its television channels, the high cost of contents suited for *Pay Per View* and a business model based on high prices and few investments have led to an unpromising future. From 2004 *Digital +* suffered the attack of other players within the business of pay television in Spain, especially from those that combined TV with telephone and Internet services, ie. offer *double* or *triple play*. This operators were cable, ADSL and, starting later, mobile TV and Internet.

As for DTT (Digital Terrestrial Television), it was preceded by the fiasco of its pay TV model: bankruptcy of *QuieroTV* in Spain and *ITV Digital* in the United Kingdom. Although relaunched later as a mainly free service, the possibility to charge for extra services is a threat to be taken into account in the pay TV business, specially when *Pay Per View* is considered.

A scene of fierce competition between operators is drawn, even bloodier than the war waged some years ago between the starting satellite platforms. Anyway the size of recently arrived operators is not yet significant in terms of market share, which remains concentrated in *Digital +*. *Digital +*, the Spanish satellite platform, ended this period in a very delicate position, since it took several years to assume the costs of the merger, subscription growth was meagre and earnings did not rise as expected. Part of the strategy for *Digital +*, like other European platforms in neighbouring countries, was to launch new services and, rather late, to try to become a content provider for other networks. But as this article shows, the Spanish platform has been unwilling or unable to offer attractive multi-platform services and to invest in new developments and services such as interactive decoders or high-definition channels were hardly significant in the analysed period considered, although relaunched in 2007. The future of *Digital +* at present is uncertain. *Sogecable*, the current owner of 100% of the platform, has been looking for a buyer to reduce the Prisa's indebtedness. The outcome of the sale, if it is eventually successful, may totally change the landscape of the digital pay-TV market in Spain.

⁶³ *Televisión Digital*. Informe Gaptel. Ed. Red.es, March 2005. Page 14

⁶⁴ Satellite supports a large number of channels and even high-quality HD; also, Digital + holds the broadcasting rights for a wide variety of topics and a dozen premium channels.

⁶⁵ Caballero, L. *IDT*. Ed. Tirant lo Blanch. Valencia, 2007. Page 146-147

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