A Technology and Media Test Bed?

Australia enjoys a unique combination of socio-geographic factors that have made it a popular test bed for consumer and technology products:

- Physically removed from major markets such as Europe and N. America
- Western business practices
- Proximity to Asia
- Consumer affinity for technology
- English speaking
- Large disposable income

In the mid nineties Australia was listed as the 2nd most rapid adopter of technology after Scandinavia. For this reason many companies launched test products in Australia before launching in larger markets like the US and Europe. Research and Development, time zone continuity and global risk diversification have also attracted ICT companies to Australia.

Unfortunately, the last decade has removed some of the sheen of the test-bed perception with lagging broadband infrastructure, slow growth in subscription television and relatively heavy government regulation. While the ICT industry, broadly, continues to grow and attract investment the direct foreign investment in Pay TV and consumer telecommunication has materially declined since 2000. Exit strategies, profitability challenges and changing investment profiles contributed to most exits, however media asset values in Australia remain strong.

In many cases suburban physiographics (commuting patterns, population and teledensity) are similar, but Australia is not the US nor is it Europe. It is a unique culture that has evolved with its own quirks - and a failure is to recognise this can undermine test bed projects. The Australia in View report examines some of the dynamics that make Australia a good and “not so good” test bed for products.

Dynamic Economy

Australia enjoys one of the highest standards of living in the G20 with median household net worth of $251,600.\(^1\) Large mineral wealth and a tightly regulated financial sector insulated the economy from the worst of the Global Financial Crisis although exports fell by 9.8 percent (2009). Australia is the 6th largest country in the world by land mass and boasts a dynamic and innovative economy with strong Energy, Mining, ICT, Services, Biotech and Transport sectors.

A population of 22.4 million approximates 8 million TV Households. Despite participation in the G20, ASEAN and other trade organisations Australia’s physical remoteness isolates certain aspects of its economy. Costs of goods is relatively high due to import cost, tariffs, social infrastructure and simple market economics of a small purchasing base. Subscription TV content is no exception. However, Australia is ranked 9 out of 183 for ease of doing business and 27 out of 183 for trade across borders - in the World Bank 2010 Doing Business rankings.\(^2\) The Howard and Keating governments (1991-2007) made significant progress in relaxing trade restrictions but domestic regulation and small market size still restrain efficiencies.\(^3\)

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<th>Australia Overview – 2009/2010(^5)</th>
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<td>Percentage of overseas born population</td>
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Creative Media Sector

Australia has also become a popular market for content creation with substantial studio, production and post production facilities. Reverse seasons, government grants and roughly 30 percent lower production costs (compared to the US) have attracted major international studios and

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\(^1\) Australian Bureau of Statistics (2006 Survey)

\(^2\) All figures in this report are in US dollars unless otherwise indicated.

\(^3\) 2010 World Bank doingbusiness.org

\(^4\) Who Rules? How Government Retains Control in a Privatised Economy, Michael Keating AC

production companies. Fox Studios was built in 1998 and provides a purpose built studio and film lab complex that is exploited by FOX Home Entertainment, Showtime, VooDoo, Animal Logic, and Granada. ASTRA recently released a study that estimates Pay TV industry investment in local Australian content at $530.2m annually. This is the first time Pay TV's local content investment has been quantified. By comparison the total value of all audio/visual production in Australia in 2006/07 was $1.675b.

Unique Media Market

Few players

The Australian Pay TV market has effectively been a duopoly with AUSTAR and FOXTEL as primary operators from 1998 – FOXTEL covering the capital cities and Western Australia – and AUSTAR everywhere else as the regional operator. Other smaller operators include Optus Television (reseller), TransAct, UBI World (ethnic narrowcast) and new IPTV entrant FetchTV. FOXTEL and AUSTAR operate advanced, digital HFC and DTH platforms with over 200 channels, PVR and on-demand products and 2.379m subscribers in aggregate.

Similarly, FTA accesses top shelf content from strong advertising revenue that is split amongst relatively few players. The government has also pledged not to allow the introduction of additional FTA licensees; and has separately funded FTA broadcasters $365.2m for a blackspot (digital, satellite fill-in) program. Ratings, share and ad revenues remain strong due to the strength of FTA viewing in Australia. Gross ad revenue from January to June 2010 was $1.77b. Additionally, the ABC and SBS operate a breadth of well-respected public broadcast programming.

The Players – 2010

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<th>Primary Pay TV Operators</th>
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<td>Secondary or reseller Pay TV operators</td>
<td>TransACT, Optus; UBI World, SelecTV (ceased English services in 2010)</td>
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<td>FetchTV, TiVo, Telstra T-Box and Bigpond TV, TransACT</td>
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<tr>
<td>Key Gaming and PVR Mfrs</td>
<td>Sony PS, MS Xbox, AppleTV</td>
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6 ASTRA media release, 5/10/10 Subscription TV production figures released for the first time, show solid investment in local content. AUD541m.
7 Australian Bureau of Statistics (ABS), Television Film and Video Production and Post-production Services, 2006/07; AUD1.88b.
8 DBCDE (Department of Broadband, Communications and the Digital Economy) website, AUD375.4m.
9 Optus is a reseller of FOXTEL but will cease the arrangement in late 2010 or 2011. From June 2008 FOXTEL reported Optus TV customers as part of FOXTEL.
10 SelecTV is ceased its English service with roughly 22,000 subscribers acquired by FOXTEL and AUSTAR - and the future of their niche channel service is unknown.
Pay TV - A Late Start

Pay TV Government legislation in Australia was heavily influenced by incumbent broadcast media interests which effectively restricted Pay TV until 1992. Several deals later Australis Media, trading as Galaxy, established a franchise structure with Century (as East Coast Television) United International Holdings (as CETV, later AUSTAR) – both using a combination of MMDS and satellite DTH to provide services to regional Australia while Galaxy retained capital cities. 1997 to 2010 saw the launch and demise of Australis Media, SelecTV (lower cost DTH product started by former FOXTEL CEO Jim Blomfeld) and OptusVision. The failure of these initiatives contributes to a concern about lack of competition in the Australian market however new IPTV entrants and the launch of NBN (National Broadband Network) may reshape this perception.

So the Australian Pay TV industry had a late and very unusual beginning where government legislation and incumbent media control had more to say about the industry than the market itself. These beginnings set the stage for expensive operations and a population resistant to paying for TV – which when coupled with strong FTA has proven challenging for rapid growth.

Slow Pay TV Growth

The industry experienced strong growth in the first part of the decade but remains well behind other developed countries in penetration. The primary operators offer over 200 channels of content with video-on-demand, pay-per-view and audio services. FOXTEL and Telstra have not yet developed an integrated IPTV product apart from the recently announced FOXTEL On-Demand – discussed later.

There are several suggested reasons for the low penetration:

- Late Start (1995)
- Anti-siphoning regulations that limit Pay TV’s access to premium content
- Aversion to paying for TV – strong anti-socialisation campaign from broadcast interests
- Large investment in digital FTA multi-channels (currently >16)
- High content and operating costs leading to high subscription prices
- Lack of low-entry price basic product
- High rates of video piracy

Most recent results put Australian Pay TV homes at 2.379m.

Source: The Sydney Morning Herald, A matchless style, Paul Barry, December 28, 2005
- 29 percent of total homes (34 percent of population).\(^\text{12}\)
This excludes IPTV or PVR on demand operators such as TiVo and Telstra T-box.

**Growing Availability and Breadth of Programming**

The content landscape has grown dramatically in the last ten years in many cases by way of joint venture and local initiatives. Increased satellite and cable capacity will continue to support Pay TV’s growth in niche and HD content. Currently FOXTEL runs over 200 channels including 16 HD channels using 1080i and 720p formats. FOXTEL and AUSTAR also rebroadcast or provide access to most of the FTA channels including digital multi-channels. Despite progress with availability and the resolution of the premium sport battles, access to content remains an issue for newcomers. Operators such as SelecTV, FetchTV and TransACT have demonstrated that a reasonable basic package can be assembled but the lack of premium sports makes it difficult to compete.

For the consumer the last five years have seen a material growth in the capability and breadth of Pay TV programming with a reduction in the routinely criticised repeats of programs and a range of exclusive and premier programs across multiple genres.\(^\text{13}\)

**Regulatory and Market challenges**

The free-to-air interests in Australia have very effectively lobbied the government to take a protectionist stance toward FTA conduct and content. And even without the lobbying many maintain that Australian government legislation is protectionist by nature from its British socialist roots. Many sectors must negotiate complex requirements to ensure the consumer is not disadvantaged in any way. In Pay TV’s case this means protecting content that was previously free from being acquired by new, well funded Pay TV interests.

Key legislative issues for the Pay TV industry include:

- Anti-siphoning and anti-hoarding legislation remains complicated and restrictive \(^\text{14}\)

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\(^{12}\) Operator data compiled by Screen Australia, excludes IPTV products, includes FOXTEL, Optus (as part of the FOXTEL number), AUSTAR, TransACT, and recently ceased English services of SelecTV.

\(^{13}\) Operator programming information; The Australian, *Future shock*, Graeme Blundell, September 11, 2010

\(^{14}\) Anti-siphoning refers to legislation that prevents Pay TV from purchasing some content before FTA broadcast. Anti-hoarding refers to a provision of the same legislation that compels FTA broadcasters to share unused rights with one another and with the public broadcasters.
• FTA Multi-channel policy
• Ad revenue limitation (less than 50 percent of total revenue)
• Access Regimes
• Foreign Ownership

The anti-siphoning list expires on December 31, 2010 and the Government began a review of the regime earlier in the year which was interrupted by protracted federal election activities. Potential changes are reportedly before cabinet and may include a “use it or lose it” provision for live sports and a possible reduction of the list. (The NBN section below describes some of the emerging media pressures that are influencing the Government’s view towards anti-siphoning).

Advertising Growth

Pay TV advertising has experienced a long hard slog to generate substantial ad dollars however today Pay TV Channels are serious contenders for eyeballs and ad dollars. Growth in Pay TV ad spend has been substantial from 2000. Pay TV has enjoyed growth in market share and advertising dollars while FTA has experienced modest declines however FTA still dominates the advertising landscape with $3.33b FY2010 revenue (29 percent of main media spend)\(^\text{15}\).

Pay TV commands 25 percent total share of viewing and 60 percent in Pay TV homes. This denotes two important aspects of viewing 1) Pay TV share of viewing is growing and 2) FTA channels are a staple of the media diet on and off Pay TV.

\(^{15}\) CEASA (Commercial Economic Advisory Service Australia), Advertising Expenditure in Main Media 2010, compiled by Free TV Australia

FTA vs. Pay TV

The most unique aspect of the Australian market is the historical, abject lack of cooperation between media entities. Australia was once described as the “Middle-East” of media with key players duplicating infrastructure. This situation has vastly improved in the last five years with cross media ownership yet FTA and Pay TV do not enjoy the collaboration on distribution that exists in other evolved markets like the US. In many markets FTA values the distribution provided by Pay TV and Pay TV values the local content of FTA – often without any money changing hands. Australia, however, displays elements of the 1980’s dynamic of FTA vs Pay TV which stifles distribution and increases the cost of operation for both sides.

New Opportunities

IPTV and PVRs

IPTV in Australia has been gated by slow broadband speeds and a reluctance to install expensive exchange infrastructure without guarantees of content access. While several products offer broadband downloads only three offer true streaming IPTV with linear channels – FetchTV, Telstra T-box (7 channels) and TransACT (local to ACT and Victoria).

All of the operators have PVR capability. This includes FOXTEL, AUSTAR, FetchTV, TransACT, TiVo and Telstra T-box. Additionally gaming and entertainment platforms (Sony PS3, Xbox, AppleTV) and DTTB (Digital Terrestrial Television Broadcasting) box manufacturers have built in PVR functionality however the value of a PVR play is linked entirely to the content available. The high price of premium Pay TV may push viewers to these packages in the short term but without a broader content offering these packages could also be an upgrade path introducing consumers to pay TV, who then move to FOXTEL and AUSTAR with broader content.

IPTV is the single largest opportunity in Australian Pay TV particularly when arrival of the National Broadband Network removes the speed issue – both from a premium on-demand and streaming channel standpoint.
**Digital Terrestrial**

Digital terrestrial is currently 74 percent penetrated (% of TV Homes) with a range of multi-channels that promise to deliver more targeted ad spend than traditional analog FTA.\(^{16}\) While the switch off of analog in 2013 looks achievable there may be unrealistic expectations for digital ad revenue, which may turn out to comprise smaller slices of the same size pie.

**Mobile TV**

Mobile TV has long been the clarion call for 3G mobile services in Australia. Prior to the recent surge in mobile social networking and “apps”, Mobile TV was the poster child for 3G service uptake, providing a clear differentiator between low-bandwidth 2G services and the faster, multimedia enabling 3G networks. For telecommunications companies, it held the allure of both an aspirational product (working best on more capable, exclusive handsets), and a mass consumer proposition, being available on an extensive range of 3G handsets. However, with a few notable exceptions (e.g. YouTube), Mobile TV has yet to meet business and consumer expectations. Despite considerable growth in online video consumption (41 percent of internet users are streaming or downloading videos), Mobile TV penetration is relatively low amongst the Australian 3G consumer base.\(^{17}\)

**Role of Telstra**

FOXTEL and Telstra have yet to collaborate on an integrated, streaming IPTV solution that leverages the content and branding of FOXTEL and the capabilities of Telstra. There are a number of reasons for this:

- Telstra has pursued several of its own content initiatives independently including the T-box.
- Telstra and FOXTEL have to mind the “government’s 3rd line forcing” rules, under which a consumer cannot be forced into buying Telstra’s broadband to receive FOXTEL’s IPTV service.\(^{18}\)

\(^{16}\) DBCDE (Department of Broadband, Communication and the Digital Economy, Digital Tracker Report on Quarter 2, April to June 2010. Measures access to digital FTA tv via any main television integrated tuner device.

\(^{17}\) Australian Mobile Phone Lifestyle Index (AMPLI) 2010, Mobile Experience, Sydney http://tinyurl.com/22vql2

\(^{18}\) “3rd line forcing” is a form of exclusive dealing that is expressly prohibited by the Trade Practices Act where a supplier will only supply goods on the condition that a consumer buys goods from a 3rd party.

**NBN**

Despite Australia’s reputation as a product test bed and technology adopter, the market has been disappointingly slow in establishing first world levels of broadband infrastructure and IP content products; hence, the government’s initiative to fund an upgraded National Broadband Network – NBN. NBN is a government funded, wholesale-only, open access broadband network that will see the country effectively wired for improved service at a total estimated cost of $42.14b. Part of the impetus for the project is the lack of commercial viability in provision of ubiquitous high speed broadband to all parts of Australia. NBN will have profound effect on capabilities and related provider based business models such as IPTV. It may also squeeze traditional models such as Satellite DTH, however FOXTEL’s recent On-Demand product cleverly straddles both cable and satellite customers. Surprisingly NBN has also helped push along legislative reform as the Government has realised outdated regulatory mechanics such as anti-siphoning hurt the utilisation of NBN.
CASBAA

The Cable & Satellite Broadcasting Association of Asia (CASBAA) is an industry-based advocacy group dedicated to the promotion of multi-channel television via cable, satellite, broadband and wireless video networks across the Asia-Pacific. CASBAA represents some 130 Asia-based corporations, which in turn serve more than 3 billion people.

Among the highest priorities for CASBAA are the promotion of free and fair markets and the protection of intellectual property rights, as well as the development of thriving and competitive domestic communications industries.

The Association is also dedicated to the development of regulatory best practices which assist the interests of both domestic and international participants within the multi-channel and communication communities.

CASBAA undertakes a number of initiatives including the pursuit of copyright enforcement, promotion of cable and satellite as a key advertising medium, lobbying activities, the promotion of regional technical standards, regulatory roundtables, and educational seminars.

Trident Media Partners

Trident Media Partners and its affiliates provide management consulting services to government and tier-one media clients in North America and Australasia – with a focus on media product, infrastructure and operational planning. TMP’s experience spans 60 years across broadcast, pay-tv, advertising and emerging platforms. Trident brokers industry specific intelligence and resource to help companies plan and articulate products and navigate the challenges of technology and a fragmenting consumer environment.

CASBAA Executive Office
802 Wilson House,
19-27 Wyndham Street,
Central, Hong Kong
Tel: +852 2854 9913   Fax: +852 2854 9530
Email: casbaa@casbaa.com
www.casbaa.com

Trident Media Partners Office
Suite 610 Eastpoint Tower,
180 Ocean Street
Edgecliff NSW 2027
Sydney, Australia
Tel: +61 2 8005 6288   Fax: +61 2 9032 6831
Email: info@tridentmediapartners.com
www.tridentmediapartners.com

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