

What do the key market developments look like?



Patricia Hodgson, part two

Patricia Hodgson, Chief Executive, Independent Television Commission, UK, gave a keynote address on day one of the ABA annual conference in May.

This is part two of a three-part series.

Let's take a look now at what's happening in UK and US markets. It might help to put those markets in context.

Telecoms investment and turnover dwarfs broadcasting. In the UK, telecoms generates around eighty per cent of communications activity. Total turnover, as we saw earlier, is around A\$166bn with broadcasting accounting for about A\$34bn. Much the same is true in the US though broadcasting figures rather more largely. The balance of the markets may be different in the US and UK, but the general direction is the same.

The US is ahead with multi-channel penetration and on-line take-up. It's a more prosperous market. Cable has been established for 30 years and that makes on-line roll-out easier. The UK came later to new services and has been faster, therefore, with new technology in relation to both mobile and digital take-up.

But the pattern in both markets is similar. British consumers are willing to spend significant regular amounts on choice, convenience and personal control of their phone, TV or PC services.

What does all this mean for television markets? Market forces are much the same in the US and UK, but the regulatory response, and so the outcome, have been very different.

Viewing of the US networks dropped markedly as cable took off. This has obviously affected advertising revenues, but not as much as you might expect. The advertisers need the networks, even as audiences fragment. Much the same is happening in the UK, though we're well behind the States with network share just under eighty per cent.

A quarter of the population will still tune in for the main soaps if there's a particularly dramatic story line. As audiences fragment across hundreds of channels this actually makes the main networks even more valuable for advertisers. As a result, even as its overall share declines ITV can charge a growing premium in the advertising market. So, while ITVs overall share of commercial audiences is down to 39%, its share of advertising is 54%.

These factors combine to strengthen the networks and ensure the UK spends a higher share of GDP on television than in other markets.

Strong production values support strong performance in international sales, not huge by US standards, but otherwise a market leader.

Let me finish this section on market developments by reminding you what the UK market now looks like, describing BSKyB's winning strategy and the beginning of a strategic battle that seems to be

developing between BSKyB and the BBC. As we saw earlier, revenues in the UK market are divided roughly three ways between BSKyB, the BBC and ITV, with all the other players a long way behind.

BSkyB's revenues depend on its pay satellite operation.

Now BSKyB is following in Britain a strategy News Corp is rolling out around the world. The core of the strategy is clarity about controlling key inputs (rights) and controlling access to the home through proprietary technology in set top boxes and the EPG.

Just as Bill Gates built Microsoft's dominance on proprietary software in computers, ensuring the service provider got access to customers courtesy of Windows, so Rupert Murdoch's digital dominance is built on proprietary software in set-top boxes, so channel providers get access to audiences courtesy of him. As technologies converge, both are wondering whether and when there will be one operating system across PCs and TVs and who will own it.

Note this battle of the gateways. It's the biggest issue for communications regulators and the key to the future.

Bill is putting resources into Windows Media Center; software that makes the PC TV friendly, and targeting young professionals with a single screen PCTV for

business and leisure. Rupert is seeking to persuade rights owners that his distribution system and PVR receivers will protect their copyright and they should sell only to him. Bill's screen may be the smartest in the world, but it's no good if you can't get the rugby on it!

Note that Rupert Murdoch's business - the most successful globally to date in the communications sector - is a winning combination of caution, strategic drive and buccaneering risk. It's cautious, with its emphasis on the traditional businesses he understands, television, publishing and the press. (Murdoch was late to embrace the internet and did so cautiously. He lost, like others, but with much less effect on his overall business). It's strategic, in its understanding of what the technology makes possible, but with more emphasis on what consumers want. AOL made the classic hi-tech mistake of thinking that because something is possible, people will want it. Murdoch's managers apply technology to delivering what they know the audience wants - films, sport, market choice. Once Murdoch has clarity about the proposition, he'll bet the

farm on it. The original satellite launch in the UK in the late 80s nearly brought down News Corp.

The UK business is rooted in the same strategy. Murdoch's control of the digital satellite gateway is a real challenge in the UK to the free-to-air networks. As Britain goes multi-channel, so the terrestrial platform has a smaller share. More of the BBC's digital viewers tune in courtesy of satellite and their BSkyB subscription than watch free-to-air. So the BBC has been prepared to spend tens of millions on building digital terrestrial transmitters; and ITV, the main commercial network, even tried to launch a digital terrestrial subscriber package competing with satellite. That failed, with £1bn worth of debts, last year, but the BBC couldn't afford to see the platform go down. If it did, the BBC in ten years time would need to rely on its rivals to reach its viewers.

So, in 2002, the BBC, in a joint venture with its old transmission company, now privatised, tendered for half the digital terrestrial capacity in the UK and won - adding it to the capacity it already had. Within months, dinky little 'plug and

play' set top boxes were in the stores for £99 (A\$273 Australian) and were quickly sold out in the run-up to Christmas. Around half a million boxes have been sold in six months.

Encouraged by this success, the BBC has just embarked on a bigger gamble. It has told BSkyB it wants to broadcast its satellite services in the clear, bypassing Sky's encryption and subscription system.

It's a gamble on establishing 'Freesat' as well as 'Freeview' (the terrestrial version) and taking BBC TV into the digital world free-to-every house.

It will be battle fought in the market place and via the regulators. If the BBC succeeds in establishing free-to-air satellite services, it will stand a chance of creating a market for Freesat as well as Freeview boxes and maintaining a free-to-air, network based market alongside the subscription market in the digital world. Not surprisingly, BSkyB argues that it can't be done and the BBC has appealed to the regulator. The complaint is before the Commission on my return.



Temporary community broadcasting licences

Temporary community broadcasting licences allocated in the period 21 May 2003 – 13 June 2003

<i>Area served</i>	<i>Licensee</i>	<i>Frequency</i>	<i>Period</i>	<i>Date allocated</i>
New South Wales				
Blacktown RA1	Blacktown City Community Radio SWR-FM Association Inc.	99.9 MHz	01/06/2003 to 31/08/2003	27/05/2003
Queensland				
Mackay RA2	Townsville Aboriginal and Islander Media Association Inc.	105.9 MHz	06/06/2003 to 05/06/2004	27/05/2003
Bundaberg RA1	Bundaberg Breeze Community Broadcasting Association Inc.	96.3 MHz	10/06/2003 to 09/09/2003	04/06/2003
Victoria				
Horsham RA2	Horsham & District Community FM Radio Inc.	96.5 MHz	30/09/2002 to 31/07/2003	23/05/2003 *

* Variation to licence period