

The ever-changing pay TV story

The first signs of industry rationalisation hit the pay TV business a couple of months ago with the demise of Australis Media/Galaxy. If there is more to come as the industry attempts to recover from its \$4 billion cumulative losses, who will be next?

Structural and programming changes within the pay television industry during the past few months have changed the look of the landscape forever. Gone are the Australis Media/Galaxy service, regional operator East Coast Television (ECTV) and Ballarat broadband cable network Northgate Communications. From six networks using a variety of distribution platforms and serving several geographic areas, the industry has been reduced to three: Foxtel, Optus Vision and Austar. Australis Media/Galaxy went into liquidation in May 1998, ECTV was bought by Austar for \$10 million in July 1998, and Northgate Communications' network, in which its Los Angeles-based investors put \$20 million, is up for sale.

According to an Optus Vision spokesperson, the basic premise of industry rationalisation is two-pronged - the removal of content-driven competition and the introduction of competition driven by price, service and marketing. "This situation is occurring gradually but consumers are still in a position whereby pay TV operators are only able to offer about half of their major programming needs. There will be some content differentiation but we argue that what is best for the consumer is a market driven by factors other than content."

But the rationalisation, if the changes that have happened can be classed as such, doesn't seem to have slowed forecasts of future growth. Industry analysts still predict that pay TV subscriber numbers will triple by 2001 - from 750,000 to 2.2 million, or roughly 30 per cent of Australian households compared to the current 12 per cent.

And there is more change to come as the two cable operators, Foxtel and Optus Vision, begin to offer direct-to-home (DTH) satellite services to complement their existing networks.

If Optus Vision stays in the industry, and statements from the company indicate that it is committed to pay television's future in Australia, then the nation's pay TV watchers will have a choice of three major services: the News Limited/Telstra joint venture broadband cable network Foxtel; United International Holdings' satellite and microwave Austar service; and Optus Vision's broadband cable operation. Austar currently services the Northern Territory, regional and northern NSW, Queensland (not Brisbane), Victoria (not Melbourne), and South Australia (not Adelaide). The two cable services are available in major metropolitan centres in the country.

But if Optus Vision chooses to concentrate on its telephony business and exit from the high-costing pay television industry, then Australia may be heading for the kind of monopolistic situation which it was always the intent to avoid. "The problem if Optus goes is that we will be left with only one program supplier and

one infrastructure so there will be a monopoly," says Peter Cox, principal of his own media consultancy in Sydney.

"From the beginning, the argument was that it was too expensive to build competing infrastructures, that it would have been better to have auctioned off infrastructure capacity so that the government could make revenue and put stricter conditions on the licences. Instead, we ended up with four infrastructures, two of which were the same.

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"You can add to this infrastructure overbuild the fact that subscription prices in Australia are too expensive compared to other countries. Here, \$49.95 only buys you half the available programming, if you want the premium services you have to pay extra. What should have happened is a situation where there were competing program suppliers so that consumers could choose what program or package they wanted to buy. It is

Australian pay TV operators: channels offered

CHANNEL	AUSTAR	OPTUS VISION	FOXTEL
Movies:			
Encore	•	•	•
Showtime	•	•	•
World Movies	•	•	•
The Movie Network		•	
The Movie Network 2		•	
TNT & Cartoon Network*	•	•	•
Movie Greats		•	
Hallmark			•
News:			
BBC World	•	•	•
CNBC	•	•	
Sky News		•	•
CNN		•	•
Asia Business News			•
Bloomberg Information TV			•
Entertainment:			
Thecomedychannel	•	•	
Arena	•	•	
TV1	•	•	
TVSN (TV Shopping Network)	•	•	•
The Preview Channel	•		
UK TV		•	
fx		•	
Disney Channel		•	
Ovation		•	
CCTV (China Central TV)		•	
ART (Arabic Radio TV)		•	
RAI (Radio Italia TV)		•	
NHK (Japanese programming)		•	
Mega (Greek programming)		•	
Lifestyle Channel	•	•	
Nightmoves		•	•
Fox Soap & Talk		•	
Antenna (Greek programming)		•	
Showcase (channel highlights)		•	
Education:			
Horizon Learning		•	
Pay-per-view:			
Main Attraction		•	
Event TV		•	
Sport:			
Fox Sports 1	•	•	
Fox Sports 2	•	•	
Sports Australia		•	
ESPN International Sports		•	
AFL Channel		•	
Sports Australia II		•	
Children's:			
Cartoon Network	•	•	•
Nickelodeon	•	•	
Fox 8		•	
Music:			
CMT (Country Music Television)	•	•	•
Channel V	•		

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CHANNEL	AUSTAR	OPTUS VISION	FOXTEL
MTV		•	
Documentary:			
Discovery	•		•
National Geographic Channel			•
Odyssey	•		
Weather:			
Foxtel Weather			•
Weather Vision	•		
Channel Information:			
Electronic Program Guide			•
Channel Vision		•	
Video Wall		•	
Customer Information Channel		•	

* Austar includes TNT & Cartoon Channel as one channel (cartoons in the daytime and movies in the evening). Foxtel and Optus Vision include TNT & Cartoon Channel as two separate channels.

Pay TV services operating in Australia

SERVICE	AUSTAR*	OPTUS VISION	FOXTEL
OWNERS	United International Holdings	Optus Communications (Cable & Wireless; Mayne Nickless)	Telstra; News Corp
SERVICE AREAS	Regional NSW, QLD, VIC, SA & NT	Melbourne, Brisbane, Sydney	Gold Coast, Brisbane, Sydney, Perth, Melbourne
DELIVERY SYSTEM	Satellite; microwave	Cable	Cable; satellite
SUBSCRIBER NUMBERS	230,000	180,000**	300,000
NUMBER OF CHANNELS (INCLUDES ADD-ONS)	19	33	31
MONTHLY CHARGE	Microwave: \$42.95 - 17 channels Satellite: \$46.95 - 17 channels World Movies as add-on to basic 17 channels costs \$6.95; Nightmoves as add-on to basic 17 channels costs \$6.95 per night or \$19.95 a month.	\$39.95 Deluxe: all channels \$29.95 Movie Magic: First Choice plus three movie channels \$29.95 Super Sport: First Choice plus three sports channels \$19.95 First Choice: Gateway plus Disney, MTV, Ovation and Odyssey \$9.95 Gateway: 10 basic channels \$6.95 for World Movies as add-on to all packages \$6.00 for AFL Channel as add-on to Super Sport & Deluxe	Cable: Gold Pack \$56.85: all channels Entertainment Plus \$52.90: Basic Pack plus five premium channels Basic Pack \$42.95: 23 channels World Movies as add-on to Entertainment Plus & Basic Pack costs \$6.95; Nightmoves as add-on to Entertainment Plus & Basic Pack costs \$19.95, and \$14.95 as addition to Gold Pack. Satellite: \$49.95 (for ex-Galaxy customers)

* East Coast Pay TV is owned by Austar

** The Age newspaper, July 21, 1998, p.5

Note: Data correct as of July 28, 1998

no great surprise to me that pay television in this country is heading for rationalisation."

The winners for the time being are Foxtel, Austar and Optus Vision, the loser Australis Media/Galaxy. The latter's satellite and microwave network was the first subscription service in Australian homes but also turned out to be the first to topple as the bubble burst three months ago. Australis Media/Galaxy was best remembered for its programming deal with four Hollywood studios signed in December 1994, a month before its launch, which saw Foxtel persuaded to pay \$4.5 billion to Australis over 25 years for the chance to screen the studios' libraries and output of films. But Australis Media/Galaxy incurred huge losses. Start-up costs were high and it was charging subscribers a fraction of the total cost of decoder equipment. When it closed on May 18, it had already racked up a deficit close to \$1 billion.

And in only six months' time, the pay television landscape will probably be different again. There will have been more subscriber price wars, more churn, more new channels and at least one DTH service in operation. But whether there will still be three networks is another question.

Australis' major assets, its 121 microwave licences and transmission equipment, were quickly snapped up. Foxtel bought 65,000 satellite dishes and decoders from the receivers. Some 50,000 of the set-top decoder boxes were in the homes of former Galaxy subscribers. Foxtel's plan was to provide an interim satellite service using Foxtel programming to former DTH Galaxy customers then offer the service to new customers. But its ability to do so relied on its gaining transponder capacity on a satellite capable of reaching them. Instead of signing with Optus for capacity on its B3 satellite, Foxtel has been running digital satellite transmission trials of 20 channels (less channels are available than on cable because of bandwidth limitations) using the facilities of the PanAmSat 2 satellite (PAS 2). News Limited's joint venture partner in Foxtel, Telstra, is already a PanAmSat customer and the PAS 2 satellite has a footprint large enough to provide DTH signals to most Australian households in competition against Optus' B3 satellite.

Optus took Australis' demise as the signal to secure satellite distribution deals with two of its franchisees, Austar and ECTV (ECTV was later bought by Austar). In fact, Austar became the first company to take advantage of the newly defined pay TV landscape, breaking new ground with its deals with Foxtel and Optus to carry both of their programming. From the Optus satellite, Austar offers its subscribers some movie and sports product including the Disney channel and the AFL programming from the Optus Vision pay TV service but its core movie and entertainment programs are acquired from Foxtel (**see charts on pages 5 and 6**).

Austar's joint venture with Optus has also seen it buy into a

shared satellite platform which the two partners say they will make non-exclusive and available to other operators.

It's unclear at this stage the implications of Austar's purchase of ECTV on the programming deal between ECTV and Optus, which would see ECTV's 10,000 subscribers receive the entire Optus line-up of programming plus the Foxtel programming they already get. In July, Austar absorbed ECTV's subscribers and its infrastructure which passes 750,000 homes in Wollongong, Newcastle and Tasmania. At the same time, Austar parent company United International Holdings Asia Pacific (UAP) bought ECTV parent Century Communications Corp's 25 per cent stake in pay TV programmer XYZ Entertainment for \$40 million. ECTV has a 25 per cent stake in XYZ which means that UAP now has a 50 per cent stake in the program producer. The remaining 50 per cent is held by Foxtel. XYZ is the single largest program provider in the pay TV industry. It produces five channels: The Lifestyle Channel and arena which it owns; and Nickelodeon, Discovery and Channel [V] for which it holds the Australian distribution and packaging rights. All five screen on Austar (including ECTV) and Foxtel.

In the meantime, Austar is close to securing an increased syndicated bank loan facility to fund subscriber expansion. It has already used \$100 million of a total \$200 million loan facility led by the Chase Manhattan, Toronto Dominion and Paribas banks. A public offering is likely in future though probably not until positive cashflow is achieved and that won't be for at least two years.

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Karen Winton