

## MEDIA TRENDS – Q4 2011

While media companies have announced new developments and strategies over the last quarter of the calendar year the majority of these are to be rolled out in 2012.

Economic uncertainty continues to affect consumer decision making in Australia with slower subscriber growth for subscription TV. Economic pressures are also being felt by new IPTV and OTT entrants to the marketplace. In the United Kingdom on demand video streaming company SeeSaw was ultimately forced to close because of a lack of funds and Netflix in the United States is capital raising after shares have fallen by 70 percent.

There was a continued lack of definite legislative or policy changes yet the Australian media and communications sector may get some guidance when the Convergence Review Committee releases its interim report on 15 December 2011.

Major studio content deals with OTT and IPTV service providers continue to develop with Lionsgate and Netflix as well as Disney and YouTube putting in place formal partnerships. The subscription TV industry in Australia announced details of new and returning Australian local productions in 2012.

Technological developments are explored through a focus on smartphones. Increased opportunities are also being realised by media companies who are developing strategies to more accurately target subscription TV audiences for advertising purposes.

### STV DISTRIBUTION

#### UNITED KINGDOM

##### **BSkyB expands distribution platforms with SkyGo app service for on demand films**

British Sky Broadcasting has added on-demand films to its Sky Go app service. The app development means that on-demand movies are now available across multiple distribution platforms including tablets, smartphones, online and via HDTV sets.<sup>i</sup>

##### **BSkyB reports revenue up 16% to £6.6 billion at 2011 AGM**

In November 2011 BSKyB reported double digital growth with group revenue up 16% to £6.6 billion and adjusted operation profit up 23% to £1.1 billion. The company credited part of its growth to the ongoing development of online content distribution.<sup>ii</sup>

##### **Virgin Media revenue growth up 2.2% for 30 September 2011 quarter**

Virgin Media has reported quarterly revenue growth of 2.2% to £1 billion. Strong TiVo growth was also realised in the quarter ended September 30 2011 and continued growth in cable ARPU was up 3.2% to a record £47.86.<sup>iii</sup>

#### AUSTRALIA

##### **AUSTAR Q3 2011 results reflect limited subscriber growth, but also increased churn**

AUSTAR reported that total subscribers increased by 1,328 on Q2 2011 to 765,578. While ARPU levels were maintained over the quarter churn increased by 10 basis points on the second quarter to 1.41%. The benefits of MyStar are being realised by 40% of residential subscribers.<sup>iv</sup>

## **FOXTEL and AUSTAR to provide a multi-channel catch-up TV**

At an industry briefing in November 2011 Anthony Fitzgerald from MCN announced that FOXTEL and AUSTAR would launch a catch up TV service allowing subscribers to access catch-up content on multiple screens in the home and across mobile devices.<sup>v</sup>

## **FOXTEL announces 15.5% earnings growth**

FOXTEL announced a 15.5% growth in earnings (EBITDA) to \$551m for the year to 30 June 2011. Revenue for the year was up by almost 6% to \$2.142 billion due to the continued uptake of FOXTEL's iQ and HD services. Customer retention also improved to the best rate in four years with churn of 12.5% in 2010/11 down from 13.5% in 2009/10.<sup>vi</sup>

## **FOXTEL and AUSTAR merger gains US approval but further delays in ACCC decision**

Liberty Global has received regulatory approval in the United States for their proposed financial transactions relating to the FOXTEL take-over of AUSTAR. In Australia, the latest delay on a ruling about the proposed take-over came as FOXTEL asked for time to make a further submission to the ACCC.

## **UNITED STATES**

### **Comcast Q3 profit increases by 4.7%**

Comcast's growth occurred in its core cable services with decreases in video subscribers for the fourth consecutive quarter. In a bid to sustain subscriber numbers Comcast increased its advanced TV services. Combined video, voice and data customer additions increased 13%. Comcast reported profit of \$908 million up from \$867 million in the previous year.<sup>vii</sup>

### **Online TV grows but 77% of TV streamers still subscribe to cable TV**

A report from Interpret, 'Online TV: Competitor or Complement to Traditional TV?' found that

over the last 2 years just over 61% of people aged 12-65 watched at least one hour of online video per week, up 50% on 2009. At the same time households watching at least one hour of TV per week fell by 11% for network TV and 13% for cable. 77% of TV streamers still subscribe to pay TV services because of convenience factors.<sup>viii</sup>

## **DEVICE TRENDS**

### **UNITED KINGDOM**

#### **Tesco and Blinkbox enable customers build their digital library**

Tesco customers who also have a Blinkbox account can now purchase any DVD or Blu-ray from Tesco and the same movie will automatically appear in their Blinkbox video library for viewing on PC, Mac, PS3, LG and Samsung Smart TV.<sup>ix</sup>

### **AUSTRALIA**

#### **FOXTEL on Telstra T-Box begins rollout to ADSL customers**

While originally launched to cable customers FOXTEL on T-Box has been extended to ADSL connected users for the first time. Telstra has indicated that one in nine Telstra cable customers had switched to the FOXTEL on T-Box service following its launch in June 2011.<sup>x</sup>

### **UNITED STATES**

#### **65% of US-based weekly Xbox users under 25 access content primarily via games consoles**

US firm Strategy Analytics estimates that 12% of US homes are using devices such as the Xbox 360 and PlayStation 3 to watch online content. The study also found that 65% of US-based weekly Xbox 360 users under the age of 25 access online TV shows and movies primarily via games consoles - even more than they do on PC screens (desktop or notebook).<sup>xi</sup>

**TiVo subscriptions have risen for the first time in four years**

In Q3 2011 TiVo subscribers rose for the first time in four years. While TiVo reported a 33,000 subscriber drop last quarter it reported a 117,000 subscriber gain this quarter. One of the key breakthroughs for TiVo has been via Virgin in the UK, where in a single quarter it has jumped from 50,000 installed TiVo customers to 220,000.<sup>xii</sup>

**BOXEE to introduce a Live TV dongle in January 2012**

Boxee has announced that it will introduce a Live TV dongle in January 2012, which will allow North American users to connect an antenna to their Box to watch channels like ABC, CBS, Fox and NBC in HD with no monthly fee.<sup>xiii</sup>

**INNOVATION  
A FOCUS ON SMARTPHONES**

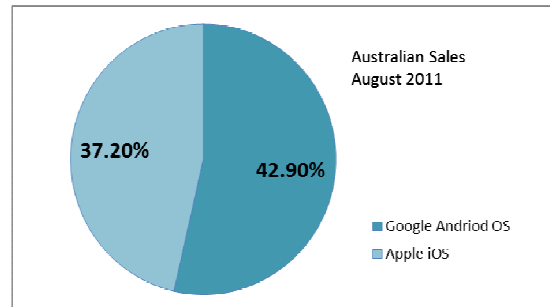
In March 2011 research from IDC Australia reported that there were 12.74 million mobile phones sold in Australia in 2010. Of that figure about 57% of mobile phones sold were smartphones with sales of smartphones up from 36.4% in 2009.<sup>xiv</sup>

There is a clear growing consumer preference for smartphones with research company GfK commenting that ‘the smartphone market is now unquestionably the single largest category within the Australian technical Consumer Goods industry’ with the top three selling models accounting for over half of the total value of the category.<sup>xv</sup>

Coupled with greater sales mobile content consumption is also increasing substantially. Morgan Stanley reports that video already accounts for 69% of mobile data traffic globally.<sup>xvi</sup> In addition, research company Telsyte predicts that by 2015 nearly 90% of all mobile phone users in Australia will own a smartphone.

While Apple had previously cornered the market with the iOS operating system on the iPhone, Google’s Android operating system, which was first launched on the HTC Dream in 2008, has quickly built a worldwide following.

During August it was reported that sales of smartphones with Google’s android mobile operating system accounted for 42.9% of Australian sales compared to Apple’s 37.2% share.<sup>xvii</sup> In October 2011 Android also overtook Apple in relation to the global number of mobile apps being downloaded with 44% of all apps downloads to Android when compared to 31% for Apple iOS.



Source: Kantar August 2011

To meet the demand for new and evolving content - subscription TV, commercial broadcasters and telecommunications companies are developing new products and services to expand their service offering via smartphones. Content on mobile phones has also followed technological development, for example, FOXTEL via mobile was originally launched in 2006. FOXTEL on the iPhone became available on 2009. As well as streamed content, FOXTEL now offers a TV guide and remote recording through iPhone and Android and AUSTAR offers the same services through an iPhone app.

A recent Orange Exposure report indicated that while tablet computer usage may draw people away from television screens, smartphones appear to complement TV consumption in some markets. They found that in France for example, 19% of users say they watch more TV as a result of their mobile media usage.<sup>xviii</sup>

Nielsen conducted a survey to determine how people are using their smartphones and tablets while watching television. They found that 60% checked emails during TV programs, 45% surfed for unrelated content during commercial breaks, 42% visited social networking sites during programs, 29% looked up information related to the TV program and 19% looked up product information related to an advertisement.<sup>xix</sup>

## NEW DEVELOPMENTS IN PROGRAMMING

### UNITED KINGDOM

#### **Sky Sports launch HD Formula 1 channel in 2012**

Sky has announced it will launch a dedicated Formula 1 channel in March 2012 which will be provided free of charge to subscribers of the HD Sky Sports 1 and Sky Sports 2 channels. Live coverage will also be available to subscribers via online, mobile or tablet devices at no extra cost.<sup>xx</sup>

#### **Netflix signs content deal with Lionsgate in preparation for UK launch**

Netflix and Lionsgate UK have announced a new multi-year licensing agreement that will make Netflix the exclusive subscription streaming service in the UK and Ireland for first-run feature films from the studio. Lionsgate UK titles will be available for Netflix members in the UK and Ireland to watch instantly in the pay TV window on their televisions, tablets, game consoles, computers and mobile phones, for a low monthly price.<sup>xxi</sup>

### AUSTRALIA

#### **New channels launch on FOXTEL in 2012**

FOXTEL Channels Group has announced it will create a tenth channel launching early in 2012 which will feature non-scripted series aimed at men 25-40 years, in high definition. New

programs include *Pawn Stars*, *Storage Wars*, *Ax Men*, *Swamp people*, *Ice Road Truckers* and *Dog the Bounty Hunter*.<sup>xxii</sup>

FOX International Channels (FIC) announced the expansion of its Australian operations with the launch of FX, a new high definition general entertainment channel that will feature the world's best stories and characters in the latest drama, comedy, action, thriller and sci-fi series. The first big properties to launch on the channel will include *The Walking Dead*, *The Transporter* and *Hell On Wheels*.<sup>xxiii</sup>

FOX SPORTS has announced the launch of new channel FOX FOOTY which will provide AFL fans with unprecedented LIVE coverage commencing with the exclusive broadcast of the NAB Cup pre-season competition, followed by every game of every round of the home and away AFL season live in high definition and uninterrupted.<sup>xxiv</sup>

### UNITED STATES

#### **YouTube and Disney sign streaming deal**

Google has confirmed that YouTube has partnered with Disney to distribute rental titles on the service. With this signing Disney joins other major studios including Sony Pictures, Universal and Warner Bros who are all distributing through the site. Movies from Disney, Pixar and DreamWorks Studios will be available through the streaming deal.<sup>xxv</sup>

#### **Charlie Sheen to return to FX in 2012 in new sitcom *Anger Management***

FX has announced that they have acquired the new sitcom which is loosely based on the 2003 movie starring Adam Sandler and Jack Nicholson of the same name. FX ordered 10 episodes and production will begin early in 2012.<sup>xxvi</sup>

## REGULATORY DEVELOPMENTS

### UNITED KINGDOM

#### **UK may abolish the Press Complaints Commission with future complaints to be handled by a new body**

Culture Secretary, Jeremy Hunt, has commented that newspapers are likely to come under a new regulatory body that can better enforce standards of accuracy. Hunt commented that the phone-hacking scandal meant that most people agreed that regulatory processes for accuracy need to change.<sup>xxvii</sup>

### AUSTRALIA

#### **Convergence Review submissions close and interim report due for release 15 December 2011**

Submissions to the Convergence Review closed in October and the Committee has announced that it will release an interim report on 15 December prior to presenting a final report to Government in March 2012.<sup>xxviii</sup>

#### **Review of additional commercial TV license and future use of BSB delayed**

On 2 November 2011, the Government introduced legislation to defer a statutory review into whether to allocate one or more additional commercial television broadcasting licenses until 1 January 2013. The scope of the review will also be broadened to taken into account alternative use of broadcasting services bands spectrum.<sup>xxix</sup>

### UNITED STATES

#### **US net neutrality rules commence on 20 November 2011 but not without ongoing controversy**

The net neutrality rules mean that ISP's can still monitor and even slow down broadband speeds on their networks, but can't restrict access to

web sites based on specific content. It is expected that a number of ISP's and wireless carriers will take legal action as a result of the implementation of the rule.<sup>xxx</sup>

#### **FCC proposes to leave ownership rules in place for local TV and radio**

The Chairman of the FCC has circulated a rulemaking proposal recommending that the FCC remove the radio-TV cross ownership rules but leave in place local market caps on radio and TV ownership.<sup>xxxi</sup>

## ADVERTISING

#### **Virgin Media set to launch addressable advertising in 2012**

Virgin Media has announced it will launch addressable advertising in Q2 2012. Targeted advertising will apply to Virgin's 3.8 million TV customers in the UK. It will initially be rolled out with video on demand content and linear content will follow shortly after. Prior to launching the product Virgin has been conducting trials with Honda, Gillette and Blackberry using its TiVo interface.<sup>xxxii</sup>

#### **Viewer data to provide competitive advantage for STV**

Anthony Fitzgerald from MCN recently announced that STV's MultiView audience panel of 10,000 pay TV viewers would be dramatically expanded within the next two years due to technological developments that would enable STV to demographically profile particular programs to determine audience numbers.<sup>xxxiii</sup>

## TIPS & TRENDS

- Netflix has launched a \$400 million capital raising bid after a poor quarter where shares have fallen by more than 70%.
- A Red Bee survey in the UK found that 71% of adults wanted the ability to consume broadcast content whenever they want and 45% wanted to play back all episodes of their favourite show.
- Bain & Company have predicted that internet connected TV's, consoles, OTT boxes and tablets could be present in 60% of US homes by 2014.
- Video on Demand service SeeSaw has closed after its majority shareholder failed to provide new funding.
- Vivid Entertainment, the adult entertainment provider, will launch an app for the Google TV platform.
- Futuresource Consulting estimates that the consumption of free and paid video online will exceed 770 billion views across the USA, UK, France and Germany in 2011.
- Advanced Television has reported that more than 20 members of the European Broadcasting Union (EBU) have agreed to collaborate to unlock the full potential of Hybrid TV for a European roll-out of the technology in 2012.
- After coming under pressure from Hollywood movie studios the UK on-demand streaming player LOVEFILM has confirmed it will stop showing movies in Flash and will instead deploy Microsoft's Silverlight platform.
- Microsoft has purchased the California-based video discovery technology specialist VideoSurf, as part of its plans to launch its upcoming Xbox TV service.
- IPTV news has reported a new app for Google TV that brings its online music streaming service, Google Music, to the platform. The app is now available for download and it integrates with a user's Google Music account, enabling users to stream their music library through their television.
- Time Warner has announced the release of a service that enables consumers to watch movies on any device.
- Variety reports that the demand for content from online streaming services has created a potentially lucrative situation for Hollywood studios looking to monetise libraries.

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