

Pay TV in Europe: Lessons for Australia

Mark McDonnell examines the European experience and draws lessons for the emerging Australian industry

A brief survey of Europe reveals a few key points about pay TV. First and foremost, Europe has not opted for any one technology for pay TV. Canal Plus successfully uses all available distribution networks to maximise audience reach.

Some countries have a strong cable orientation, such as Germany, the Netherlands and Belgium; others such as Ireland have a strong cable MMDS mix, and still others, notably Britain, largely rely on satellite although there is also a great deal of activity in British cable as well.

Is satellite the best choice?

It is very hard to see direct broadcasting satellites as the best choice for pay TV. Firstly, a pay TV network must get as many customers as possible, as quickly as possible. The largest DTH satellite network in Europe is Sky Television. At present, Sky TV is reported to be connecting up to 20,000 customers a week, amounting to just over 1 million new customers to their service per year if this rate is maintained. This is the best satellite operation in Europe.

By comparison the best German cable operator, in 1988, increased customer connections in 1990 by 1.78 million new customers. On this comparison cable is better than satellite for rapid customer connection. The margin is quite large: cable is going at a 40 to 80 per cent faster rate than DTH satellite.

I do not say that these findings prove that cable in Australia will get as high as the German connect rate; it is also theoretically possible that an Australian DTH operator might better the world in its network roll out. Nevertheless, the probabilities are that DTH will not perform as well as some other technologies in the all important issue of audience take-up.

Furthermore, most of the pay TV disasters relate to satellites. The best known example is British Satellite Broadcasting. Production delays were a major contributing factor to the delay of BSB's launch, causing the loss of valuable months in competing against Sky TV. BSB eventually started its service in March 1990 by transmitting to cable networks only, since it did not have any

DTH product at that stage. Before long it was taken over by its rival. This illustrates that use of proven technology is a critical success factor in this business.

Satellites in Europe are used mainly for feeding cable head ends, rather than direct reception. Even the most enthusiastic operators in the DTH market, such as Sky TV, rely on cable networks to reach a sizeable number of their viewers. The most recent independent figures show that at mid 1991, just over one third of all Sky TV subscribers were on cable systems, watching the service via cable, not direct from the satellite. Furthermore, 10 year growth forecasts from James Capel London project a much higher rate of growth in cable connections, so that at the end of the decade around 60% of Sky TV viewers will be on cable.

Satellite pay TV right

Some quick points should be made about the status of satellites in Australia, as there seems to be a good deal of confusion about the so-called "satellite pay TV right".

Firstly, a "right" is not an obligation. Auctioning the pay TV right involves a payment to the Government only by the successful bidder. No part of that payment is for carriage of the service by satellite, or any other technology. That is an entirely separate commercial negotiation, and one that can only be successfully concluded by the pay TV licensee.

Pay TV in focus

Secondly, the only obligation arising in relation to the "satellite pay TV right" is an obligation on Optus, not on the pay TV right-holder. The licence granted to Optus is already in force and requires it to reserve capacity until 30 June 1994 for up to six national pay TV channels. There is no reference to DTH whatsoever. But just as importantly, the licence states that the capacity to be provided by Optus shall be "by the use of satellite-based facilities, or equivalent services". In my view this phrase leaves the technology for transmission and distribution as a

reasonably open question. This is consistent with the wording of the Government's Information Paper on pay TV.

Non-satellite technology such as MMDS could be used to deliver the services. MMDS is being used mostly in Ireland, with considerable success. More generally it is reasonable to speak of terrestrial broadcast distribution. Canal Plus, the most successful pay TV operator in Europe, has built its business on scrambled, over the air transmission. This path has also been taken in New Zealand. VHF, UHF and MMDS are all variations on the same theme of terrestrial radiated service. The simplest, low cost solution for pay TV delivery is conventional, over the air broadcasting, with encryption added.

Cost of technology

Finally, just a brief remark about the question of cost in making the technology selection. The financial models for pay TV are incredibly sensitive to a change in decoder price. Australia has a television household market of five million. Accordingly a unit price difference of \$200 in the decoder would result in an extra cost of reaching all homes using the more expensive decoder of \$1 billion. Even if a very modest level of market penetration is assumed, such as 10 per cent, an extra \$100 million is required to finance the more expensive decoder.

The decision embodied in the Broadcasting Services Bill to award the subscription TV licence by means of an auction provides a further incentive for selection of a low cost delivery system. The applicant with the lowest cost of operations can afford to bid the most for the pay TV right.

In summary, the technology decision is vital to the commercial success of pay TV and should therefore be left to the operator. It necessarily follows that the Government should be completely neutral regarding the delivery system, be it satellite, cable or MMDS. Equally, the encryption system is essentially a matter for the operator. Once a satisfactory level of security has been achieved, there are three other commercial "fundamentals" that apply to the distribution system. They are rapid connection, proven technology and low cost.

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