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Australia - Pay TV - Industry Overview, Major Players

AN INDUSTRY 20 YEARS IN THE MAKING

After its launch in 1995 the pay TV (or multichannel) industry went through three very turbulent years, when it lost over$3 billion. However, in 1999 the industry has been able to turn itself around, approaching the I million viewer mark (12% household penetration). Profits for Austar are on the horizon and also Foxtel is moving closer towards the black.

Australia was forced, because of Government regulations, to stay out the pay TV market for 40 years. This has prevented the country from obtaining first hand experience in cable and satellite technologies. While reviews were held every couple of years the vested broadcasting, publishing and telecommunications interests were able to stop any development in this market until the 1990s. At the 1984 review the Government received 90 submissions for pay TV licence allocations. The best the Government could come up with at that time was the issuing of narrowcasting class licences in 1986. (Video and Audio Entertainment and Information Services - VAEIS). The only successful ‘public’ pay TV service that came out of this licensing system was Sky Channel, broadcasting sporting and betting events to pubs, hotels and clubs.

Table 1 - Effect of pay TV on free-to-air viewing - 1998

Demographic	Free-to-air viewing as a % of total viewing	% change 1996-1997
Total people	91.8%	-5.5
All Households	93.3%	-3.6
Kids (0-12)	86.7%	-9.6
Teens (13-17)	91.0%	-5.5
Adults (18-24)	88.9%	-7.7

(Source: AC Nielsen, Jan 1998)

Table 2 - Pay TV subscriber demographics

Male	Female	Age in years
17%	20%	14-17
22%	18%	18-24
13%	16%	25-39
18%	17%	40-54
10%	8%	55+

(Source: AC Nielsen, Dec 1997)

Because the Government didn’t allow the industry to develop itself the country now heavily depends on overseas expertise to set up current cable, MDS and satellite systems. In the content and services industry, Australia also depends heavily on, mainly, US expertise and products.

Another missed opportunity has been satellite TV. While Australia could have been a leader in this field, strict government regulations to protect the domestic terrestrial telecommunications operator Telstra in telephony and mandating a digital satellite TV standard, stopped others from developing this technology for pay TV and other public use. Only since July 1997 has this market been deregulated.

Australia’s entry into this market by the mid 1990s coincided with major technological and regulatory changes around the world. There is a global awareness that the future of our telecommunication and broadcasting infrastructure will be one of interactive broadband, based on either fixed or wireless networks. Telecommunication companies will have to change their total infrastructure from twisted copper cables to coax-, fibre optic- or hybrid (HFC) cables. Broadcasters will have to change to ‘narrowcasting’ (addressing much smaller market groups) as the analogue broadcast technology (conveniently forcing them to address very large and broad groups) is rapidly becoming obsolete, both in technical and marketing terms.

Even more important is the urgent need for a change in culture. Telecommunication carriers will have to convert from organisations dictating to subscribers what they can get at what price, to more customer-focussed organisations, managing intelligent networks that can deliver individual services to individual customers. Broadcasters will also have to be far more customer-focussed. Currently they see their advertisers more as their customers, not their viewers.

Advertising will have to change from broad, mass marketing to narrow, personal informercials. The broadcasting technology will be replaced by digital computer technologies, a change the global broadcasting industry has been trying to hold off for many years. This change also will eventually end the monopoly on content. Users will be able to order films, information, entertainment, etc. when *they* want them, they will be able to do so via telephone, over the Internet and through cable TV services. Initially this process will be hampered by the current trading process of programming rights.

While the Hollywood Studios and other major content providers need mass markets. They will recognise this trend and adjust their distribution patterns and distribution windows. Video and pay-per-view distribution windows are the first signs that decades old patterns are changing, these new ways of distribution are going to lead content providers into the new market of narrow casting.

Satellite TV has not been making much progress in Australia; after five years only a few thousand people are ‘allowed’ by its operators to use this delivery mechanism, as they find it to expensive to connect users. Some of the problems can be retraced to the government’s foolish decision of mandating an immature digital TV technology and the high costs related to this. Optus eventually will have to pull out of the pay TV business and Telstra has already dramatically curtail its cable TV roll-out from 4 million to 2.5 million households. So much for the government’s policy to provide superhighway access to every Australian.

AUSTAR, FOXTEL AND OPTUS

After the collapse of pay TV operator Australis in May 1998 only three major operators are left:

Exhibit 1 - Major players in pay TV

Service	Shareholders/Strategic partners	Delivery platform
Austar	UIH Asia Pacific Communications (UAP), major cable and MDS operator	MDS mainland Australia, except WA. cable TV in Darwin DBS in rural areas
Foxtel	Telstra, PBL and News Corp	interactive cable TV system DBS in rural areas
Optus Communications	Optus Communications, Continental CableVision and Kerry Packer’s Publishing and Broadcasting Ltd (PBL) has 5% (with option for 20%)	interactive cable TV system

(Source: Paul Budde Communication Pty Ltd)

Other players include Northgate in Ballarat Victoria, Neighbourhood Cable in Mildura and Television & Radio Broadcasting Services, ethnic services and adult channel.

Table 3 - Australian pay TV subscribers - 1995-1998

Operator	July 1995	July 1996	July 1997	July 1998
Austar (Australis)	110,000	40,000	160,000	230,000
Foxtel	4,000	100,000	200,000	300,000
Optus	0	40,000	180,000	200,000
Total Australia	**114,000** [1)]	**286,000** [1)]	**650,000** [1)]	**800,000** [1)]

(Source: Paul Budde Communication Pty Ltd, Telecommunications Strategies Report)
1) Including Australis, ECT, Northgate - they had approx 100,000 in 1996 and 1997, 65,000 in 1998.

- **Austar,** was the only company in the now defunct Australis camp that was able to establish a successful business**.** Its franchise holder Australis' 'own' subscribers dropped from a high of 122,000 in March 1996 to 60,000-70,000 by the time of its collapse in May 1998. Their Galaxy service was carried by, Foxtel, Austar and ECT reached over 470,000 subscribers by July1997. Their initial target was 450,000 by late 1996. By July 1998, Austar had also swallowed ECT. Final arrangement between the three regarding the Australis spoils are still ongoing.

- After a very difficult 18 months during 1995 and 1996, **Foxtel** became the clear winner of the pay TV battle by late 1997. However, the company still falls short of its initial predictions. In September 1995, they forecast 184,000 subscribers (combined with Australis) by June 1996 and 450,000 by June 1997. This significant shortfall is a serious problem for the revenue projections that are connected with these forecasts. At the start of 1997 Foxtel, on its own, was approximately 40,000 short of its target of 175,000. Telstra initially aimed to derive $2 billion in revenues from its cable networks by 1999 but had, by mid 1997, virtually written this off its booksn.

- **Optus Communication's** position is not all that much better and has been getting worse since mid 1997. They only reached 150,000 subscribers of a target of 450,000 in January 1997. They are also faced with increased investment costs without a short-term return on them. As with the other operators, churn is a real killer in this market. Lack of direction since the second quarter of 1997, saw an immediate decrease in subscribers only to be captured back by expensive marketing, and a severe cut in prices. There are serious questions about the future of the Optus pay TV service as it is has a crippling effect on its total business. This could lead to a sell-off or a close-down at a cost of up to $2 billion!

Since mid 1997, we have indicated that a more realistic projection of where pay TV is going would be that by 1998 a total of approx 1 million customers would be connected to the three services. Because of the turmoil in the market we revised the forecast date to early 1999.

Table 4 - Australian pay TV subscribers - snapshot May 1999

Operators	Number of subscribers
Austar	330,000
Foxtel	455,000
Optus Communications	210,000
Total	**995,000**

(Source: Paul Budde Communication Pty Ltd)

Table 5 - Australian pay TV subscribers - by technology 1999

Operators	Cable TV	Satellite TV	MMDS
Austar	n/a	200,000	130,000
Foxtel	365,000	90,000	n/a
Optus Communications	210,000	n/a	n/a
Total	**575,000**	**290,000**	**130,000**

(Source: Paul Budde Communication Pty Ltd)

See also the various company profiles for more information.

SUCCESS STORY DESPITE FINANCIAL LOSSES

HIGH PENETRATION RATES

Despite the financial losses, the roll-out and penetration of pay TV is one of the greatest success stories in the history of broadcasting. No other country in the world has taken up pay TV in such a short period of time. After 2 years of operation the combined pay TV operators reached 13% penetration in TV households in March 1998 (8% penetration - January 1997). Penetration in Sydney and Melbourne is around 16%. This is a good omen for the industry, as this will see a smooth ride to the 20%-25% penetration level. It was first expected that this would happen in 1998. However, due to the turmoil in industry it is now more likely that this will have to wait until 1999. In comparison, pay TV operator BSkyB in the UK reached the 25% penetration level eight years after its start.

Growth however, is severely hampered by the exorbitant high level of churn, without that 1997 could have been finished off with a 18% penetration rate.

Table 6 - Pay TV penetration - October 1998

	Foxtel	Optus Communications	Austar
Subscribers/homes passed:	13%	9%	10%

(Source: Paul Budde Communication Pty Ltd)

ROLLING OUT THE SERVICES

The following overviews should be seen as an indication only. Rolling out pay TV networks is an expensive operation connection cost:-

- around $1,000 per house for above ground cables,
- around $600 for MDS
- starting from $1,500 for underground cables.

Set-top boxes vary from:-

- $200 for analogue cable TV;
- $1,500 for digital cable TV;
- $250 for analogue satellite TV;
- $1,000 for digital satellite TV.

Bulk orders will of course attract higher discounts.

Table 7 - Pay TV roll-out statistics - homes passed - 1996-1998

Operator	July 1996	July 1997	July 1998
Austar	1.5 million	1.7 million	2.2 million
ECT	755,000	755,000	Defunct
Foxtel	850,000	1.7 million	2.4 million
Optus Communications	850,000	2.1 million	2.1 million

(Source: Paul Budde Communication Pty Ltd)

Table 8 - Pay TV roll-out plans by State

Pay TV company	State / town	Time frame
NSW & ACT		
Austar	Newcastle, Northern NSW, Wollongong	finished
Foxtel	Sydney, Canberra	current
Optus Communications	Sydney	finished
VIC		

Austar	Bendigo, Shepparton, Mildura, Wangarrata, Gippsland Cities, Ballarat, Warnambool, Broken Hill	Finished
Foxtel	Melbourne/Geelong	current
Neighbourhood Cable TV	Frankston City	current
Northgate Cable TV	Ballarat	current
Optus Communications	Melbourne	finished
Tasmania		
Austar	Hobart	finished
Queensland		
Austar	Gold Coast / Cairns	finished
Foxtel	Brisbane, Gold Coast	current
Optus Communications	Brisbane	finished
South Australia		
Austar	Murray Bridge, Mt. Gambier, Whyalla, Port Augusta, Pt. Pirie, Port Lincoln, Alice Springs	finished
Foxtel	Adelaide	current
Optus Communications	Adelaide	abandoned
NT		
Austar	Darwin	finished
Western Australia		
Foxtel	Perth	current
Optus Communications	Perth	n/a

(Source: Paul Budde Communication / company data, 1997/1998)

REORGANISATION OF THE INDUSTRY

OPTUS BACK IN THE RACE

Shortly after Cable & Wireless (C&W) took over BellSouth's shareholding in Optus, the company indicated that from now on it would take the lead in the reorganisation of the pay TV industry.

With 50% of the content and 40% of the subscribers, the company initially left its position on the fence and tried to be instrumental in bringing essential changes to the industry. An initial focus would be on sports programming. Optus initially indicated that it was not interested in 'financing' the ARL (Australian Rugby League) so that it could get access to the pay TV rights for the football games. (However, in July 1997 they did renew their contract with the ARL for another year). Optus wanted to use its leverage in the market to force Foxtel to come to the party in sanitising the unsustainable business of two competing leagues. It wants News Corp to get out of Super League, write off the costs and clinch a deal regarding the Rugby League sporting league on a non-exclusive basis.

Styling themselves as the champions of pay TV reform didn't go down too well with the other players. They would not necessarily like to see Optus become the leader in the debate – despite, or perhaps because of, the strong backing from C&W. At the same time, Optus cannot make the necessary money available to demand a leading position.

While Telstra and Foxtel were initially eager to leave Optus out of the deal they now had to come back to them. As mentioned above, Optus has good range of programming, while Foxtel heavily relied on programming supplied by Australis. Optus had always argued for an elaborate programming restructuring. This would also include renegotiating existing deals with the Hollywood studios. They proposed the so-called 'contentco' organisation that would combine the programming rights from Optus and Foxtel and sell these to any of the parties involved.

The ACCC (Australian Competition and Consumer Commission) accepted the Optus-Foxtel arrangement as an interim solution. It is expected that the ACCC will want Optus and Foxtel to extend 'contentco' to also include other operators, to make sure that the combined giant would not be able to monopolise the content market.

AUSTRALIS – THE FINAL CURTAIN

After three years and $800 million in losses – the final curtain has fallen. Initiated by action from Telstra (7% shareholder in Australis), the company finally went into liquidation in May 1998.

They haven't given up without a fight, but for the last two years the company has been an obstacle in the pay TV market, rather than facilitating competition, growth and innovation. All their energy went into financial survival, mainly concentrated around the $4.5 billion programming deal with Foxtel/Telstra. They were able to get into this position in 1995 when both Telstra and Optus could not make up their minds about their role in the pay TV market. When they finally made the decision to move, most programming deals were sewn up by Australis and both Telstra (Foxtel) and Optus had to negotiate with Australis for interesting content. However, Australis concentrated on these programming deals and didn't use its position in the market to build up sufficient critical mass in the form of subscribers.

In the end their subscriber numbers had dwindled from the 125,000 of their heyday (1995/1996) to between 60,000 and 70,000 at the time of liquidation. Australis has only itself to blame. As we have said before, we absolutely do not subscribe to their contention that the liquidation can be blamed on the ACCC, who disallowed the merger between Foxtel and Australis. Such a merger would have created a total monopoly on pay TV, controlling price setting on both the buying and selling side of the business. What a surprise that such a merger was disallowed!!

In this report, we will provide updates on how the spoils will be divided between its competitors, Optus, Foxtel/Telstra and Austar (a former Australis franchisee). The way this will evolve will be crucial for the future of pay TV in Australia as it provides the industry with an opportunity to restructure itself so it will be able to operate more effective and efficient.

So far the major wins for them have been:

- Foxtel has terminated its crippling programming deal and obtained access to the 65,000 Australis subscribers through a deal to buy all the set-top boxes;
- Optus finalised its deal with Austar, greatly expanding the reach of its satellite platform, it also bought Australis call center operation in Adelaide;
- Austar can now expand beyond its previous franchise borders and also swallowed ECT.

BEST DEALS WENT TO FOXTEL

The largest financial beneficiary is, of course, Foxtel. This company will finally be able to implement a new programming supply deal with the Hollywood studios, saving them around $17 million per annum.

What will happen with Australis is not yet certain. First of all their assets are to be sold. Kerry Packer's PBL has the first option, but I believe he would benefit very little from becoming involved in bidding for this.

Optus is a more likely candidate as they have expressed their interest already; however, they only want the goodies at a discount. It is very unlikely that the assets will fetch more than $50 million. Optus are mainly interested in the customer (software) side of the Australis operation, as Optus has not yet developed or bought its own system for this. As a first purchase the conditional access platform was bought by the new Optus/Austar joint venture for approximately $5 million.

Foxtel, now free to start its own satellite service, is a bit of a dark horse in the scramble for cheap Australis assets. However its position became clearer when it acquired the 65,000 set-top boxes for an estimated $10 million used for Australis DTH service. This effectively provides the company with access to the 65,000 satellite TV homes (the other 15,000 set-top boxes are in stock). For this Foxtel is using the Optus B3 satellite transponder, the only DTH services available in Australia. The company started to migrate the customers from the Galaxy service to the Foxtel service in September 1998. At the same time the company tried to use the PanAmSat 2 and 8 for the delivery of satellite TV services to the former Australis customers. However, it made far more sense for Foxtel and Optus to share the (Optus) satellite platform, because that is much better suited for DTH. This finally happened at the end of 1998. Foxtel started its satellite service in February the following year.

Further negotiations will depend on how the two major players plan to continue. Will they use the current situation to restructure the market or will they focus on dominating the market? The first scenario will eventuate if both parties decide to strike non-exclusive programming deals. As we have argued before on many occasions this makes perfect sense, as it will give pay TV customers maximum access to programming and the players will have to compete on service rather than on exclusive (and expensive) programming deals. The sports channels would be the first candidates to merge under such an arrangement. Austar became the first pay TV operator to offer both Foxtel and Optus programming, a very tangible result of the rationalisation process.

In the pay TV wheeling and dealing of the mid 1990s Kerry Packer's Publishing and Broadcasting Ltd obtained an option to split the News Ltd shareholding in two and receive a 25% share in Foxtel. This right was exercised in October 1998.

EAST COAST TV SWALLOWED BY AUSTAR

Within weeks after the collapse of Australia East Coast Television (ECT) – the 'non-event' pay TV operator in Tasmania and the East Coast (excluding Sydney) – was brought directly into the Australis vault. During the Australis fall-out ECT swapped its defunct Australis franchisee contract for a new one under the Optus banner.

This was nullified only one month later when the company was sold by its parent Century Communications (cable TV operator in the USA) to UIH Asia (Austar's parent company) for $10 million. In its latest financial details Century Communications had already written down its Australian US$126 million investment in ECT and xyz Entertainment to US$67 million. For close to a year Century has been trying to sell its investments in Australia. Its xyz share was at the same time sold for $40 million to UIH as well

Through its joint venture arrangement with Austar, Optus now delivers its programming to a total of 470,000 subscribers. A more aggressive roll-out from Austar in other areas, including those of ECT is expected to further boost Optus's position in the market. However, all details have not been finalised yet.

MESSY FRANCHISING RIGHTS

Under the very messy arrangement that were made, there was a difference between franchising rights based on the technology used, eg satellite distribution and on content rights. This created a situation whereby eg Austar could install the satellite dish, but couldn't provide the content or visa versa. The ABS indicated in late 1998 that it wanted a quick solution for this ridiculous situation.

This was followed by an announcement from Foxtel that it is to take over broadcasting to former East Coast satellite subscribers in Newcastle and on the Central Coast of NSW from 5 February.(when its satellite service is in place) East Coast subscribers will get 17 of Foxtel's channels, roughly the same quantity as Austar was supplying.

TELEVISION AND RADIO BROADCASTING SERVICES (TARBS)

In July 1998, the last landlord of Australis, Mike Boulos, purchased for $3 million the company's MDS remaining equipment, together with the R-rated Nightmovies channel. A further $12 million was spend on Australis MDS licences and equipment, including 120,000 decoders, of which 70,000 have already been installed. The company launched the country's 4th pay TV network in December 1998.

Under the name Television and Radio Broadcasting Services the company plans to broadcast its ethnic programs TeleItalia and World Television (Chinese) via direct to homes satellites. The company plans to expand its ethnic programming, with channels in Greek, Filipino, Arabic and Spanish. In total there are 680,000 ethnic households in Australia.

The company is also in the process of getting access for its channels on the three other pay TV operators. They have been unsuccessful in this and have asked the regulator ACCC to investigate the matter.

The group will continue to make its facilities available to Fox Sport and try to salvage some of the programming contracts with program companies TV1 and Showtime. However, it was stopped in its tracks by Foxtel as they didn't provide them access to the network. This issue was brought to the attention of the ACCC, as the Foxtel and Optus Vision networks are so called deemed services under the Telecommunications Act cable TV operators can be enforced to provide access to third parties. An investigation is currently under way *see Pay TV Regularly Issues.*

In May 1999 the ABA allocated seven subscription television broadcasting licences to the company. TARBS has indicated that the licences will be used to provide a range of services with news, cartoons, sport, music videos, and fashion programs. The services will be provided using satellite and microwave frequencies.

THE SATELLITE DEAL

A major breakthrough occurred just before the end of 1998. After years of painful negotiations a first important step was taken in May 1998 when Optus and Austar formed a 50/50 joint venture to own and operate a satellite distribution platform. All three main operators have now agreed on using this one platform for their satellite operations. Cable & Wireless Optus will use its satellites to deliver the programming for all three players into the market. Austar will bring its satellite assets into the operation. Foxtel will not take equity in the joint venture but the jv will provide Foxtel with certain satellite services that will allow it to deliver pay TV by satellite.

Sharing the satellite platform will make it possible to select services based on their content, rather then on the technical platform on which they are delivered.

FOXTEL – THE CRACKS ARE STARTING TO APPEAR

Since its formation in 1995 we have predicted that problems would arise from the deal that Telstra and News Limited clinched regarding the development of cable TV. *For background details see company profile Foxtel.*

The reasons for this are simple – from the start both Telstra and News Corp had totally different business goals regarding Foxtel:

- Telstra's goal was a defensive one, making life as difficult as possible for Optus
- News Corp's was an aggressive one, creating as much long-term business profit as possible from the Foxtel business.

The Foxtel deal between a media company and a telco is perhaps the only one that has survived out of many similar deals formed during 1994-1996. All the rest have, as far as I know, been abandoned – not because of financial problems but because of the enormous differences between the business goals and the business cultures of such organisations. So it is only a matter of time before the Foxtel arrangements collapse, amicably or otherwise.

Foxtel is a media company, not a telco and should therefore be run as such. So far the company has been run at arms' length from Telstra and has been more successful than its telco-run competitor, Optus Vision. However, broadcasting is rapidly moving away from its traditional boundaries – technology and markets.

On the technology side, the Foxtel contract precludes that company from operating multimedia services. That is the exclusive domain of Telstra. However, soon broadcasters will be multimedia companies, as their technologies are rapidly becoming digitised and Internet, datacasting and digital TV are merging the lot into one big technology pool from which new innovative content will be created.

At the same time customers are demanding choice and the content monopolies from Optus and Foxtel are hampering growth in the market. Customers reject this and media companies know that it is wise to listen to the customers. They can't afford to have the same arrogant customer approach as the telcos, whose empires are built on monopolies. Foxtel, therefore, in order to satisfy customer demand, wishes to make content arrangements with all players including Optus – something Telstra (because of its different business goals) totally rejects.

The sad fact is that Telstra is in a pretty strong contractual position, and this will make a change or transition to a more open market far more difficult than would be the case if the original deal had been based on sound business principles.

While I have not seen any indication of it as yet, Optus could use Telstra's stubbornness to propel its lagging pay TV service into action and rapidly change its broadband policy. As a telco they will simply be unable to do this –you need a media company for this, not a telco.

If Optus had the courage to bite the bullet and make the necessary company changes it could well profit from this. However, I think I would put my money on Rupert Murdoch rather than on Optus in this instance. If he really concentrates on Foxtel I am pretty sure that he will outfox both Telstra and Optus and get his own way. His company has made the first move by saying that it wants change, so let's sit back and watch the tale unfold.

REVENUES AND LOSSES

It is obvious that all of the above cost lots and lots of money, especially in a start-up infrastructure industry. Furthermore it is important to understand the J-curve nature of the business as well. Realistically speaking there are no significant profits before the year 2000. However, by that time a range of new services should emerge to earn the companies and their investors good returns on their money. Of course, the question remains if the current players will have the right stamina to sit through an extended period of pain. We predicted in 1996 that it would be easy to panic in a market where the media are sensationally reporting on the losses that inevitably occur over the 1996-1999 period. This is exactly what happened

- Australis and ECT stopping adding new (net) customers, they subsequently both collapsed in 1998
- Telstra abandoned their roll out
- Optus Vision scaled down their operation.

After the official results were published in August/September 1996 the following data was made available:

Table 9 - Net losses pay TV industry - 1996-1997

Company	Loss 1996	Cumulative loss 1997
Australis	$251 million	$662 million
Foxtel	$165 million	$658 million
Optus Communications	$159 million	$539 million
UIH (Austar)	$22 million	$60 million
Century	$51 million	$135 million
Total	**$648 million**	**$2 billion+**

(Source: Paul Budde Communication / company, ASC and SEC data)

Not included in the above figures are losses generated by Telstra in its cable TV roll-out. $342 million was written of in their 1996/1997 results and further provisions of $476 million were made for rationalisation of their pay TV operation. This brought the losses for 1997 to well over $1 billion. By 1998 losses and write-offs had accumulated to a staggering $3.5 billion.

While losses were expected for the first few years, the extent of it is much higher than expected. A total loss that is getting close to $4billion for the cable and pay TV industry is high in anyone's books. It is obvious that the expensive competition battle can't go on for much longer, after all Australia is a small market and simply can't afford such losses. However, totally abandoning the broadband roll-out will have long term implications for both Telstra and Optus, with declining revenues in traditional telecommunications services they need new revenue sources to survive and flourish in the future. We stick to our prediction that the pay TV industry will reach the $1 billion revenue mark in 2000.

Table 10 - Revenue and subscribers forecasts 1997 - 2005

	1997	1998 (e)	1999 (e)	2000(e)	2005 (e)
Subscribers (mill.)	0.5	1.0	1.6	2.1	3.5
Revenue (A$mill)	230	450	750	1,000	1,400

(Source Paul Budde Communication, estimates)

Table 11 - Revenue per operator 1997 - 1999

A$million

Operator	1997	1998 (e)	1999 (e)
Austar	80	135	250
Foxtel	100	190	300
Optus Vision	50	125	200
Total Industry	**230**	**450**	**750**

(Source Paul Budde Communication, estimates)

PAY TV STATISTICS

After having reached the level of un-met demand (approx 25% level), the operators will have to initiate new activities and new services in order to entice new subscribers to the services. While the operators predict bold penetration rates of 55%-60% for pay TV we don't believe that this will happen. We predict that 25% will prove to be an extremely difficult barrier to break. As a matter of fact we predict that it will not be possible to break this barrier by the traditional pay TV products alone, even the addition of cable telephony will not be sufficient to do so.

Those people who are now linked to pay TV services are spending more time watching pay TV channels than free-to-air broadcasting. This very much proves a point that I have been making over the years. *"The only reason people were watching more of the same on the commercial TV channels* *was that there was no choice, not because we had the best free-to-air broadcasting system in the world, as was claimed by the government and the broadcasters*." Both Foxtel and Austar research shows that 70%-75% of watching time in pay TV households goes to pay TV. XYZ research showed that 43% of pay TV viewers spend more than 15 hours a week watching pay TV.

Foxtel concluded that by 1998 pay TV had taken a 10% share of the total TV viewing market, growing to 20% by the year 2000.

Slowly more information is becoming available on viewing behaviour. AC Nielsen produced interesting results from their TV measurement survey in March 1997.

Consequent research from AC Nielsen revealed that a typical pay TV household has more than five family members, an income of more than $70,000 per annum, several TV sets and often a PC. They are also more likely to have a mobile phone and an Internet connection and they travel more often than non pay TV subscribers.

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