



# IPTV IN AUSTRALIA

## AN ASSESSMENT OF PROSPECTS AND CONSTRAINTS

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The challenge for aspiring providers of IPTV services is the current high cost of quality video content and high speed and high capacity broadband access. If local consumers are required to pay directly for all or most of IPTV's content and delivery costs, then the take-up and utilisation of such services is likely to be slower and more limited than many have predicted. For there to be more rapid and widespread take-up and usage of services, innovative business models will need to be developed so that such content and distribution costs can be subsidised by, or co-shared with, other parties.

### INTRODUCTION

Expectations in many quarters are growing that significant numbers of Australian households will soon be receiving limitless quantities of Internet delivered, high quality television-like video content on their domestic television sets for little or no cost and that in the very near future this delivery platform will become a significant rival to the established free-to-air (FTA) and subscription (STV) television delivery platforms.

Until now, only a limited number of Australian homes in selective areas around the country have had access to a service which offered even just some of the above-mentioned features. However, many believe that this is will soon change for the following reasons:

- First, that the ever-increasing penetration of high speed and high bandwidth domestic broadband connections will continue;
- Second, and most contentiously, that there will be much faster, much higher capacity and much cheaper broadband access available to every, or most, Australian households after the roll-out of the National Broadband Network (NBN), which many expect to be available in the very near future; and
- Third, that there will be rapid consumer uptake of a number of new services and devices which will facilitate the delivery of Internet Protocol Television (IPTV) and other Internet video content delivery services directly on to domestic television screens.

Even the Federal Government appears to believe that the rapid and widespread uptake of such new services is imminent, with the Minister of Broadband Communications and the Digital Economy citing the impending arrival of such services as a major reason for the Government's recent decision to lower the licence fees payable by commercial FTA television broadcasters for their use of broadcasting spectrum.

While the increasing availability of such enabling services and devices is clearly evident, there is a divergence of opinion as to just what the rates of take-up and utilisation will be for such services. Some key determinants of such take-up and utilisation rates are likely to be:

- The cost of such services and devices;
- The nature and quality of the content which they will offer;

- The future pricing and data quotas of domestic broadband access plans; and
- The competitive responses adopted by the traditional providers of similar video content, especially the FTA television broadcasters, the subscription television service providers and the DVD rental operators.

Of course, many Australians have for some time been accessing video content via the Internet, however much of that content has been user-generated, short form in length and/or free-of-charge and most has been delivered to, and viewed on, computers and other web-connected reception devices, rather than on conventional television sets.

The next step is for high quality, professionally-produced long form film and television content to be delivered directly from the Internet to domestic television sets in a simple, quick and cost-effective manner which will challenge the established and time-tested business models of the local free-to air and subscription television providers.

This article considers some of the key issues relating to the provision of IPTV and Internet video services in Australia at the present time.

A major source of reference for this article was a publication released by the Australian Communications and Media Authority (ACMA) in April 2008 entitled IPTV and Internet video services which is recommended to anyone seeking more detailed information on this subject.

## **IPTV SERVICES**

There are many definitions and interpretations of exactly what IPTV is. Mostly broadly, it can be described as any multimedia service delivered over a managed IP-based network. However, as the focus of this article is concerned with the online delivery of popular television-like mainstream video content to conventional television sets in residential premises, a narrower definition, which is offered by the Open IPTV Forum, is perhaps more appropriate, where IPTV:

“... stands for Internet Protocol Television, where television service is delivered using Internet Protocol over a broadband network ...It can be delivered using a variety of networks, including Managed Networks (end-to-end networks managed by an operator) and the Open Internet.” (Open IPTV Forum 2007)

This type of IPTV service is common in many overseas markets where it is sometimes also referred to as “Telco TV”. Such services are so-named because to the consumer they closely resemble traditional subscription television although they are typically delivered by a telecommunications carrier over a broadband network. According to the ACMA:

“Such a service usually consists of a broadcast-quality television and a video-on-demand service delivered over managed and Quality of Service (QoS)-enabled IP-based networks.” (ACMA 2008, 15)

In many international markets, IPTV or Telco TV services typically are established and operated by either an incumbent or new telecommunications carriers who wish to both compete in the delivery of video content against an established subscription TV operator and also to generate traffic and customer loyalty for its own broadband networks.

Like a traditional subscription television service, such IPTV services usually comprise a comprehensive suite of thematically grouped linear video channels, which are offered on a subscription basis, combined with a video-on-demand (VOD) capacity, which is priced on a pay-per-view (PPV) basis. Often such IPTV services form part of a bundled double, triple or quad play product offering by a telco to existing and/or new customers.

The ACMA describes the benefits of IPTV as follows:

“IPTV combines the quality of the broadcast services with the interactivity and user choice offered by Internet video. It provides PayTV-like quality and additional interactive services...the benefits of traditional broadcasting delivery and the Internet are both present in the provision of IPTV.” (ACMA 2008, 16)

Technical factors are what differentiate such an IPTV service from a traditional subscription television service. With IPTV, the linear channel content is IP multicast over a broadband network, while the VOD content is IP unicast over the same network which is a managed closed network which guarantees Quality of Service (QoS). Being delivered by, and connected to, a broadband network, IPTV services have a distinct advantage over traditional subscription services when it comes to the provision of interactive and individualised content.

Leading international telco-supplied IPTV services of this type include: AT&T’s U-verse and Verizon’s FiOs services in the United States; PCCW’s now TV in Hong Kong, and France Telecom’s orange, Neuf Cegetal’s neufbox TV and Iliad’s freebox services in France.

In Australia, at present, there is arguably only one international-standard subscription television-style IPTV service on offer. That service comes from Canberra-based regional telecommunications carrier TransACT Capital Communications (TransACT), which offers to its telephony customers an IPTV service, branded as TransTV. This service comprises about 50 digital television channels, plus the locally available free-to-air channels, together with a video-on-demand offering, which are distributed via TransACT’s open broadband network to the domestic television sets of its customers via a set-top box

The TransTV service is only available to the 90,000 households in the Australian Capital Territory and adjoining areas in Southeastern New South Wales which are reported to fall within the current coverage area of TransACT’s broadband network. The company does not publicly disclose any details pertaining to the take-up or utilisation of its IPTV service.

Another second-tier telecommunications carrier, TPG Telecoms Limited (TPG), also offers what the ACMA would term a “limited content” IPTV service. That service is limited in four respects:

- First, its linear video channel offering is modest and generally non-mainstream;
- Second, it does not include a video-on-demand offering;
- Third, it is only offered to TPG’s ADSL2+ customers on a free-of-charge basis; and
- Finally, it does not, as yet, include a set-top box (STB) and therefore is only distributed to customer computers, rather than to their television sets, although the company has recently stated that it plans to provide a STB which it hopes will drive wider acceptance and uptake of its IPTV offering.

In contrast to the situation in many international markets, at present neither of Australia's two largest telecommunications carriers, Telstra and Optus, has a subscription television-style IPTV offering. This presumably reflects Australia's somewhat unique market structure where each of the top two telcos was instrumental in launching competing traditional subscription television services in 1995 and where each has been offering such a service to its respective customer base since that time, with each currently offering the Foxtel service as a bundled product.

Foxtel is Australia's largest subscription television provider. It leases Telstra HFC cable capacity and Optus satellite capacity to deliver its service to customers in the five metropolitan markets and on the Gold Coast, which are markets which collectively accommodate for about two-thirds of the national population. Telstra, the nation's incumbent and largest telco, has held a 50 per cent equity interest in Foxtel since its inception. As at 31 December 2009, 459,000 of Telstra's customers subscribed to the Foxtel subscription TV service as part of a Telstra bundled package offering. That number represented 32% of Foxtel's total subscriber base at that time.

Given Foxtel's dominant market position and its steadily increasing customer base and profitability, it is doubtful that Telstra would willingly divest itself of its investment in that business. And for as long as it retains that investment, it is unlikely that Telstra would initiate or actively support a subscription television-style IPTV service which competed directly against Foxtel.

Optus, the second largest local telco, initially established its own HFC cable-delivered subscription television service in 1995. But when it finalised a content sharing agreement with Foxtel in 2002, Optus terminated its own loss-making subscription television service in favour of reselling the Foxtel service.

However, the marketing by Optus of what is currently branded as Optus TV Featuring Foxtel Digital has been rather half-hearted in recent times and this has resulted in a steadily diminishing percentage of the Optus customer base subscribing to that service.<sup>1</sup> Thus, Optus may be more willing than Telstra to consider giving support to a subscription television-style IPTV service which competed directly against Foxtel. However, Optus is unlikely to be a major initiator of, or investor in, such a service in the absence of an extremely compelling business case supporting such a venture.

In summary, given their existing arrangements with Foxtel, it is unlikely that Telstra, and perhaps also Optus, will aggressively support a directly competitive IPTV service, at least in the near future. This means that the success of any nation-wide subscription television-like IPTV service in the immediate future is likely to be dependent upon the active and perhaps coordinated support of a number of Australia's smaller telecommunications carriers and Internet service providers (ISPs) and/or a content aggregator.

In mid-April 2010, after much market speculation, an aspiring local content aggregator branded as Fetch TV announced the introduction of a subscription television-style IPTV service. That service will offer all of the local FTA digital television channels, a selection of subscription television channels, new release movies in high definition on a pay-per-view basis, interactive and social networking applications and a personal video recording device and will be priced at below \$30 per month. Reportedly, it is in the process of seeking to consolidate the support of a number of second-tier telecommunications carriers and ISPs for a new subscription television-style IPTV service, with iiNet having been identified as its inaugural ISP partner. It is not known

at present whether the selection of subscription television channels which it plans to offer will be comprehensive enough to enable it to compete directly with the established subscription television services offered by Foxtel in Australia's metropolitan markets and Austar in regional areas, which currently offer about 100 unique, high-quality television channels packaged in various configurations.

Its inaugural partner, iiNet, the nation's third largest ISP, has stated that trialling of the new service is expected to occur over the next few months..

In seeking to compete with the local FTA and subscription television platforms for the delivery of mainstream television-like content, aspiring operators of subscription TV-style IPTV services will be looking to capture a share of a market which has the following key characteristics:

Number of National Households (HH)	8 million
FTA TV HH Penetration Rate at January 2010	100%
STV HH Penetration Rate at January 2010	29.3%
Foxtel & Austar Subscribers as at 31 December 2009	2.364 million
FTA TV Advertising Revenue in Year End June 2009	\$3,504 million
STV Advertising Revenue in Year End June 2009	\$317 million
STV Other Revenue in Year End June 2009	\$2,100 million
Foxtel ARPU at End December 2009	>\$90 per month
Austar ARPU in Quarter Ending December 2009	\$82.90 per month

Constraints which may inhibit the establishment or development of subscription television-style IPTV services, as well as other Internet video services in Australia are considered later in this article.

## INTERNET VIDEO SERVICES

Internet video services, for purposes of this article, are defined as professionally produced long-form video content of a quality similar to that currently offered by free-to-air television broadcasters and subscription television providers, which, in the words of the ACMA, is delivered, usually on an on-demand basis as an IP uni-cast, over the public Internet without any network management or QoS provisions to a computer browser or media player rather than to a set-top box linked to a television set. (ACMA 2008, 17)

In Australia, at present, there are no free online video services such as the popular hulu branded service in the United States which are operated by a content aggregator and which stream free high quality film and television content sourced from major production studios and are supported by an advertising funded business model. However, a number of potential operators, including hulu itself, reportedly are currently considering the establishment of such a service locally.

Two of the more common types of currently available local Internet video services which deliver television-like content are the catch-up and promotional preview television services which are offered by the FTA television broadcasters and the various websites which sell film and television content on a download basis.

A substantial amount of usually shorter form video content is also available from a variety of portal, search engine and social networking sites. However, that type of content is not here considered to be directly competitive with the content of FTA and subscription television, and therefore is given no further consideration in this article.

### **CATCH-UP TV SERVICES**

Over the past couple of years, each of the five local FTA television networks have developed or upgraded online services which offer access to sizeable amounts of video content from their home websites. Some common key features of those services are:

- Each offers free streamed video content which cannot be downloaded or otherwise copied;
- Each offers a catch-up tv function which allows the viewing of full episodes of certain television programs for limited periods, usually of up to 28 days, immediately after such programs having been broadcast on a FTA channel;
- Each offers promotional video previews of certain forthcoming programs and/or select highlights from certain other programming which has already been broadcast on FTA television;
- Most offer “extra features-style” video content, such as interviews with cast and crew members of certain television programs;
- Each service, apart from that of the Australian Broadcasting Corporation (ABC), carries video and banner advertising;
- Each requires a reasonably high speed broadband connection (eg ADSL+ or higher) to function on a reasonable basis; and
- Only the ABC appears to have arrangements with some local ISPs for the delivery of all ABC video content to their broadband customers on an unmetered basis.

Generally, the provision of such Internet video content is regarded by the FTA television networks as being complementary to, rather than competitive with, their core broadcast television services, because such content is considered to generate greater viewer interest in, and involvement with, the programming and also because it is only available for certain programs, for a limited period of time. Moreover, given that such content at present is usually viewed over a computer and requires the usage of a fair amount of relatively expensive broadband capacity, it is not considered to divert too much of the typical television viewer’s time away from conventional FTA television. Brief profiles of the catch-up and preview video services currently on offer from the five local FTA television networks are considered below.

Arguably, the ABC’s iView service, which was launched in July 2008, is the most comprehensive of the local catch-up TV services currently available. The service is described as being a free Internet broadcasting service which offers full-screen video, streamed on-demand at a high resolution designed for people with a high speed broadband connection (1.1 Mbps and above). The video programs on offer are full-length and most are streamed for 14 days after their broadcast on one the ABC’s three FTA television channels.

The iView website lists 9 local ISPs who allow their broadband customers to download iView content on an unmetered basis. Those ISP’s are: AAR Net, Adam Internet, Apex Internet (TransACT customers only), Cinenet, Comcen/SPIN, inet, Internode, iPrimus and Westnet. The

ABC also notes that it is in on-going negotiations with other unspecified ISPs for them to offer the iView service to their broadband customers on an unmetered basis in the future. The iView program menu advises users of the duration and bandwidth utilisation of each program on offer.

The Special Broadcasting Corporation (SBS) offers what it brands as the SBS Video Player service from which three types content can be viewed free-of-charge. The three types of television content are: Full Episodes, Web Extras, and Sneak Peek TV. In contrast to the ABC's iView service, the SBS Video Player carries advertising in the form of banner ads and pre-show video advertisements. The SBS does not report having any existing arrangements with ISP's for the unmetered delivery to their broadband customers of streamed SBS video content.

The Seven Network has the PLUS7 catch-up TV service which is available on the Yahoo7TV website. It offers free video streaming of full-length episodes of television programs which have appeared on the Seven and 7TWO channels. The programs are available for streaming immediately after their FTA screening and they are available for between 7 and 28 days after listing. There is also a Sneak Peaks branded preview service. The site is funded by video and online banner advertising.

The Nine Network's video content offering comes via the ninemsn website and its catch-up program offering does not appear to have a distinct brand. Instead, it is accessed via a CLIPS heading on the Nine Network section of the site and the content on offer at present appears to be more orientated to the provision of short clips rather full episodes of the network's FTA programs. However, the Nine Network reportedly is in the process of significantly expanding the current content offering of its catch-up service. .

The Ten Network's video content offering is accessed through the Video heading on its website. It includes a catch-up TV service where full episodes of many of the network's locally produced FTA programs are on offer. Considerable extra feature-style video content is also available for a wider range of the network's FTA programming, including its overseas sourced content. The site carries video and online banner ads.

## **DOWNLOADS OF FILM AND TELEVISION CONTENT IN AUSTRALIA**

High quality film and television video content is also available for purchase as downloads from a growing number of sources. Two high profile providers of such services in the local market are Apple Inc and Telstra's BigPond.

These two online content providers are of particular interest because each also has recently introduced STB-type devices, branded as Apple TV and T-Box respectively, which have Internet connectivity and personal video recorder-style functionality thereby enabling the transfer of downloaded video content from a Internet modem to a television set while by-passing the home computer.

A considerable amount of film and television content in either DVD or download formats can be rented or purchased online from the BigPond website. The standard download rental prices currently are: \$1.95 for an episode of a TV show, \$3.95 for a classic movie and \$5.95 for a new release movie. Downloading of such content is done on an unmetered basis for BigPond's broadband Cable and ADSL customers. The BigPond site provides the estimated size of each download and the estimated time to download.

Downloads from Apple's iTunes Store are similarly priced with short films priced at \$2.99, library title movies at \$3.99 in standard definition (SD) and \$4.99 in high definition (HD) and new release films at \$5.99 in SD and \$6.99 in HD.

Access to, and usage of, Internet video content such as catch-up TV and downloaded films and television shows should also be greatly facilitated as a new generation of television sets with built-in Internet connectivity come on to the local market. Such television sets should be able to easily access video content sourced from the Internet via a wireless connection linking the set to a household's Internet modem or wireless router.

In late February 2010 Sony launched 26 new models of its BRAVIA LCD TV set range, of which 21 models will be Internet-enabled. Concurrently, Sony also announced the launch of what was branded as BRAVIA Internet Video, a free service offering 15 channels of Internet-delivered video content, including catch-up TV and made-for-the-Internet content. Other major set manufacturers, including Samsung, reportedly are planning to introduce similar products in the near future.

While hardware products like Apple TV, the T-Box and Internet-connected TV sets like the Sony BRAVIA range will all contribute to making it much easier for consumers to view Internet-sourced video content on their televisions, none of these products addresses the principal obstacle to the wide-spread usage of television-like video content delivered via the open Internet in Australia. That obstacle is the high cost of, and relatively low capacity limits placed on, many local household broadband access plans, and this is an issue considered below.

## **CONSTRAINTS ON THE DEVELOPMENT OF LOCAL IPTV AND INTERNET VIDEO SERVICES**

In its April 2008 report on IPTV and Internet video services, the ACMA observed that the market in Australia for such services was less developed than in many other overseas markets. Arguably, that assessment remains relatively unchanged today.

The ACMA's research suggested that supply side factors were the major barriers to the development of such services locally, with three of the main factors being:

- The prevalence of capped broadband plans;
- The substantial capital and other up-front costs required to establish a subscription TV-like IPTV service; and
- The lack of content acquisition expertise on the part of aspiring IPTV service providers.

### **CAPPED BROADBAND PLANS**

The structure of the Australian broadband market with the prevalence of capped plans and the high price of downloads was, according to the ACMA, the prime barrier to the development of local IPTV and Internet video services. This is a significant constraint because the downloading of video content is very bandwidth intensive and the price of high speed and high capacity broadband access locally is, at present, relatively expensive and likely to continue to be so, at least in the short to medium term.

Video content has a ravenous appetite for bandwidth. For example, according to the ABC, a 30-minute episode of its popular *At the Movies* program involves 125 MB of data, while a

one-hour episode of Dr Who involves 300 MB. Similarly, according to the Seven Network, in the commercial FTA television sector, a 22 minute TV show (that is a 30 minute FTA show without its advertisements and promotional material) will consume between 45 and 160 MB of data, while a 42 minute show (ie a one hour FTA show stripped of ads and promos) will consume between 90 and 370 MB.

Based on these data rates, a somewhat simplistic calculation indicates that a typical Australian household would consume about 26 GB of data each month of streamed video content if it chose to consume all of its average 180 minutes per day of FTA prime time evening television viewing using one or more of the catch-up TV services offered by the five local FTA networks (at an assumed data consumption rate of 300 MB per hour). Alternatively, as the download of a typical feature length film consumes about 1 GB of data, the downloading of just one movie per night, on a metered basis, would lead to the consumption of 30 GB of data per month for that same household.

Such online consumption of video content would require a household to be subscribed to a broadband plan which would offer a minimum of about 30 GB of peak time usage per month and a typical plan which supplied this amount of capacity would probably cost the household between \$30 and \$40 per month simply to satisfy its demand for television-like entertainment content. And such a data requirement would be in addition to that household's requirements for all other types of Internet-delivered content and services, which would further increase its monthly data demands and therefore also its monthly broadband access charge.

For an average Australian household, an additional \$30 to \$40 per month is a not insignificant recurring expense and it is one which easily can be avoided simply by limiting one's delivery platform for entertainment content to terrestrially-delivered FTA digital television with its expanding multi-channel offerings, perhaps supplemented by the occasion visit to the local video shop.

Many commentators suggest that this impediment soon will be removed following the commencement of the National Broadband Network (NBN), however such an expectation may be premature for a number of reasons, including the following:

- The final structure and cost of the NBN has yet to be finalised; and
- Given its estimated 8 year roll-out schedule, it is likely to be many years into the future before most households have access to NBN-delivered broadband; and most importantly
- Even when available, NBN-delivered broadband access may not be priced substantially below the current pricing levels for existing residential broadband access plans, because any wholesale access price to the NBN will need to take account of the sizeable amount of capital expenditure which will have been made to establish the network on which a reasonable return on investment presumably will need to be earned through wholesale access charges.

In view of the above, until such time as there is a substantial increase in broadband plan data quotes and a significant reduction in residential broadband pricing, the development of local streamed or downloaded Internet video services is likely to continue to be retarded.

It is worth noting that these pricing and data limit concerns need not adversely impact on the uptake of subscription TV-style IPTV services because such services are typically delivered

over a separate and discreet portion of a broadband network and the cost of accessing that part of a network would be factored in to the subscription price of such a service.

### **SIGNIFICANT UPFRONT COSTS**

Significant capital expenditure and other upfront costs are required to establish a viable subscription TV-like IPTV service. The major upfront costs associated with the establishment of such a venture were cited by the ACMA as including:

- Network build, upgrade or rebuild costs;
- The provision and maintenance of consumer premise equipment; and
- The cost of content acquisition and licensing.

In relation to such up-front costs, it is important to distinguish between a subscription TV-like IPTV service provider, such as TransTV, for whom the above-mentioned costs are relevant, and an Internet content service provider, like Sony's BRAVIA Internet Video service, for whom all or most of the above-mentioned costs are unlikely to be applicable.

While a subscription TV-like IPTV service provider acts as both a "content provider" and a "content deliverer", an Internet content service provider is usually just a "content facilitator". As a content facilitator, it will simply direct a consumer to free video content available on the Internet and it may often also provide that consumer with a device which enables the viewing of that content on a consumer's TV set. A content facilitator will not pay for the cost of having the content delivered to consumers over the Internet. Such an Internet delivery cost is to be paid for by the consumers themselves.

### **NETWORK COSTS**

It is difficult to be specific about the likely magnitude of network-related capital expenditure costs without first knowing the existing structure and characteristics of an aspiring IPTV service provider's network and also the profile of the targeted market for its service. However, it is not unreasonable to expect that such costs are likely to be substantial.

### **CPE COSTS**

The need to provide and maintain consumer premise equipment (CPE), can also lead to substantial capital and operating cost outlays for an aspiring provider of a subscription TV-style IPTV service. Assuming that \$250 of CPE is required to connect each subscriber, an aspiring IPTV service provider targeting 100,000 subscribers would need to spend \$25 million on the acquisition of such equipment.

### **CONTENT PRICING AND ACQUISITION**

Content is critical to the success of any subscription TV-like service and its acquisition and licensing could be the most substantial up-front and on-going cost item for any aspirant IPTV service provider wishing to offer mainstream sport and entertainment content of similar quality to that offered by the local subscription television operators. As high quality and compelling content is not cheap, any aspiring IPTV service provider seeking to acquire such programming should plan on this being a very substantial cost item.

By way of illustration, Austar's programming costs for calendar year 2009 were \$263 million, which represented 57% of its total operating costs and which were also equivalent to 41% of its total subscription revenues. This meant that Austar paid about \$30 per month per subscriber just for programming last year.

The ACMA noted that content acquisition was a specialised function and one which smaller local telcos and ISPs were unlikely to possess. However, such a deficiency could be overcome by that function being sub-contracted out to an experienced content aggregator.

### **SUBSCRIPTION TELEVISION SERVICE PRICING METRICS**

If they are required spend substantial amounts to acquire quality content, then the aspirant providers of subscription TV-like IPTV services will need to charge monthly fees to their subscribers which allow for the recovery of such costs.

TransTV appears to charge its customers between \$27 and \$35 per month for its existing offering of about 50 video channels. This compares with the \$42 per month fee which Foxtel and Austar currently charge customers to their entry-level offering, which includes access to 35 unique video channels.<sup>2</sup>

### **LIKELY RESPONSES OF INCUMBENT SERVICE PROVIDERS**

An extremely important factor which is likely to impact on the take-up and ultimate success of any new subscription TV-style IPTV services will be the competitive responses of the incumbent providers of similar services, particularly the two major subscription TV providers.

Foxtel and Austar can be expected to vigorously protect their existing customer base, which comprises about 30% of all Australian households. They are also likely to aggressively contest the larger potential market of the 70% of Australian households who to-date have chosen not to sign up to a subscription television service and appear to consider fees of about \$40 per month too high a price to pay for additional television-like content.

These two large, experienced and increasingly profitable STV operators are likely to continue to expand their traditional service offerings to include new services built upon interactive capabilities of an IPTV network, which would be accessed through their next generation of set-top boxes.

This does not mean that new IPTV and other Internet video service providers will not succeed. However it does suggest that it probably will be more difficult and take longer for most of them to establish viable and sustainable businesses than has recently been suggested by some enthusiastic media commentators.

The new IPTV and Internet video services likely to do best in the near future will probably be those which do not seek to compete directly against the established subscription television providers. Thus, it could be some time before such services come to seriously rival the established FTA and subscription television operators.

## **CONCLUSION**

Television is very popular and most Australians undoubtedly would like to have greater and more flexible access to television-like content. However the majority of Australians do not appear to want to pay directly for such additional content. After all, subscription television has been

available in Australia for 15 years now but, to date, no more than 30% of all Australian households have exhibited a willingness to pay subscription fees.

So herein lies the challenge for aspiring providers of IPTV and other Internet video services. Quality video content and high speed and high capacity broadband access are both critical for the success of IPTV. However quality content is very expensive, as is access to the broadband networks over which such content is delivered in an IPTV world.

If local consumers are required to pay directly for all or most of IPTV's content and delivery costs, then the take-up and utilisation of such services is likely to be slower and more limited than many have predicted. For there to be more rapid and widespread take-up and usage of services, innovative business models will need to be developed so that such content and distribution costs can be subsidised by, or co-shared with, other parties.

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## ENDNOTES

- <sup>1</sup> Based on information provided by Foxtel, it appears that only 106,000 Optus customers subscribed to the Foxtel service through Optus as at 31 December 2009.
- <sup>2</sup> The 35 unique video channels are in addition to any: FTA TV channels, time-shifted channels, HD versions of SD channels, access and preview channels for pay-per-view services and audio only channels which may also provided in the entry level packages.

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