AUSTRALIAN
ASSOCIATION
OF NATIONAL
ADVERTISERS

AANA Submission

A response to DCITA regarding its Digital Television Review

"PROVISION OF SERVICES OTHER THAN SIMULCASTING BY FREE-TO-AIR BROADCASTERS ON DIGITAL SPECTRUM ISSUES PAPER May 2004"

Including an
Expert independent report by
Peter J. Cox BEc. MBA

July 2004

Prepared by the Australian Association of National Advertisers
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INTRODUCTION

The Australian Association of National Advertisers appreciates this opportunity to offer its views to the Department of Communications, Information Technology and the Arts on the issues raised in the May 2004 Issues Paper.

Standing for open and fair competition in the Australian marketplace the AANA is the peak industry body for the advertising community and represents marketing and advertising interests of a diverse range of manufacturing and service industries, including agencies and other service providers.

The combined advertising expenditure of AANA member organizations totals more than 80% of national main media advertising revenues, now approaching $10 billion.

The AANA has played a significant role in the

- deregulation of the advertising industry in Australia, with particular reference to the disbanding of the media accreditation system which embodied a range of anti-competitive practices including uniformity in the commission-based remuneration of advertising agencies.
- establishment of the *Audit Bureau of Circulation [ABC*] and the *Australian Direct Marketing Association [ADMA].*
- establishment of Australia's advertising industry self-regulation system set up with government encouragement by way of the formation of the *Advertising Standards Board* and *Advertising Claims Board*, a system of self-regulation now viewed as one of the best in the world.

As the peak advertising industry body, the AANA has been a long term advocate of the interests of the advertising business sector and has a history of providing government with submissions on public policy including:

- Productivity Commission's inquiry into the Broadcasting Services Act 1999
- Inquiry into the Broadcasting Services Amendment (Media Ownership) Bill 2002
- AANA Policy Position on Anti-Siphoning
- AANA Policy Position on Advertising to Children and Obesity Issue
- Joint industry submission on alcohol advertising
- Joint industry submission on Trans Tasman Harmonisation of Therapeutic Goods Advertising as part of CER
- ACCC Report on Competition in the pay TV Market

AANA POLICY

The AANA has consistently publicly expounded policy and commercial positions that are particularly applicable to this subject. Our concerns cover:

- The long standing need for more vigorous competition and program and service innovation in the media.
- Television advertising rates which have escalated above current inflation rates, based on an imbalance of supply and demand in the television advertising media market.
- Advertisers need to employ the potential richness and variety of both single medium and cross media strategies to stimulate demand for their products and services.
- Australians being denied the full benefits inherent in digital broadcasting, as they are being experienced overseas.
- The allocation of significant digital spectrum to high definition television [HDTV] for which there is no evidence of public demand, at the expense of additional television channels for which public demand evidence exists.
- The restriction of datacasting to preclude the use of this medium in competition with existing commercial television networks.
- An unwarranted and unnecessary level of protection of the incorrectly labelled 'free-to-air' networks against fair and reasonable competition from additional commercial television enterprises while their protection from competition from subscription television is being perpetuated through 'anti-siphoning' regulations.
- The real cost to society of the 'free-to-air' networks is approximately $400 per annum per household for all homes compared with consumers choosing to spend $650-700 for pay TV subscription and not being able to gain the full benefits because of the ant-siphoning protection to FTA.

EXPERT REPORT BY PETER COX

The AANA commissioned an expert independent economic analysis by a consultant, **Peter J Cox BEc MBA, (Cox Media)** who has many years experience in analyzing the media industry in Australia and Internationally.

The purpose of this report was to examine various aspects of media industry economics to provide a basis for establishing the policy views of the AANA.

The analysis provided by Peter Cox does not necessarily reflect the views of all members of the AANA but is intended as a thought provoking and objective provision of information that we feel is particularly pertinent to both members of the AANA and of value to the deliberations of DCITA.

The political and commercial views of the AANA are clearly identified in the document.

There are many difficult and complex issues raised in the paper on which members of the AANA could offer a range of views.

We believe, however, that the most constructive contribution the AANA can provide is in the form of commercial and political views on the issues in which we have considerable history and knowledge.

In particular, comment was sought on **the impact of multichannelling and additional services on the advertising market and advertising revenue.**

The AANA recognizes the fundamental shift occurring in media audiences under the influence of a variety of societal factors including a wide divergence of cultural, ethnic, spiritual and lifestyle aspirations.

It also anticipates continued emergence of new media seeking to capitalize on these new special interest audiences providing advertisers with challenges and opportunities to connect more personally with their customers.

Multichannelling is part of this consumer-led shift.

The economic analysis seeks to examine:

- The role that advertising plays in the economy and the economic welfare of the media industry.
- The lessons we can gain from the experiences of other countries and from within our own.
- To balance our observations of market behaviour against economic theory and competition policy.
- To apply this to responding to the economic and advertising points on multichannelling in the issues paper.

1. THE IMPORTANCE OF ADVERTISING TO THE ECONOMY

1.1Australia's International Position

Gross Domestic Product (GDP) is the value of production that occurs in a period and is an international measure of economic growth. It does not account for all aspects of 'quality of life' such as environmental and social issues however it does measure the performance of an economy.

Australia is the fourteenth largest nation economy in the world as measured by GDP.

	2003	GDP US$B	Population Milllion
1	United States	10,980	290.5
2	China	6,400	1280.0
3	Japan	3,560	127.1
4	India	3,000	1034.5
5	Germany	2,271	82.3
6	United Kingdom	1,664	60.1
7	France	1,654	60.1
8	Italy	1,552	57.9
9	Brazil	1,379	181.4
10	Canada	958	32.3
11	Mexico	942	104.7
12	Spain	885	40.2
13	South Korea	855	48.3
14	**Australia**	**570**	**19.7**
15	Netherlands	461	16.1

Source: World Factbook

Most of these countries have populations that are many times larger than Australia. When ranked on a per capita basis Australia is in third place with a GDP per head of US$28,900 behind the USA and Canada.

	2003	GDP/Hd US$
1	United States	37,800
2	Canada	29,700
3	**Australia**	**28,900**
4	Netherlands	28,600
5	Japan	28,000
6	United Kingdom	27,700
7	Germany	27,600
8	France	27,500
9	Italy	26,800
10	Spain	22,000
11	South Korea	17,700
12	Mexico	9,000
13	Brazil	7,600
14	China	5,000
15	India	2,900

Source: World Factbook

"Advertising is a crucial engine in the economic development of the nation." AANA

Australia has had a continuous period of high growth since 1992-93 with an average annual real growth rate of 4%, apart from 2000-01 when GDP growth fell to 1.2%.

The countries with the highest GDP per head also have the highest main media advertising (MMA) expenditure per head. The top 11 countries by GDP per head are the 11 highest countries by MMA per head.

The US had by far the highest MMA/Hd of US$512 and GDP/Hd of US$37,800 in 2003.

Canada was in second place on GDP/Hd but only in 7th place on MMA/Hd possibly due to the structure of the economy and the high cross border infiltration of US broadcast television, direct satellite pay TV services and magazines.

	2003	**GDP/Hd US$**	**MMA/Hd US$**
1	United States	37,800	512
2	Canada	29,700	167
3	**Australia**	**28,900**	**316**
4	Netherlands	28,600	238
5	Japan	28,000	266
6	United Kingdom	27,700	257
7	Germany	27,600	209
8	France	27,500	152
9	Italy	26,800	122
10	Spain	22,000	186
11	South Korea	17,700	131
12	Mexico	9,000	11
13	Brazil	7,600	41
14	China	5,000	6
15	India	2,900	2

Source: World Factbook

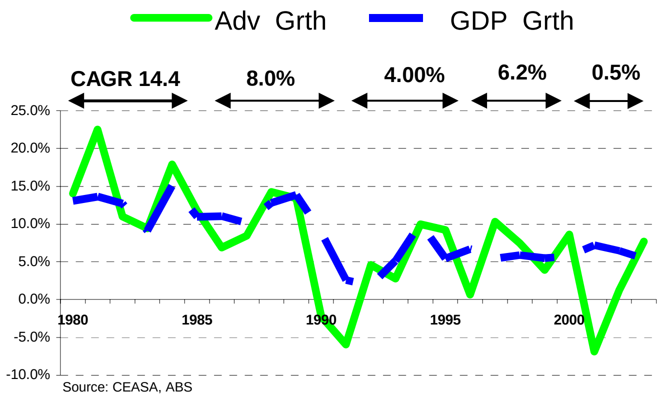
Australia is the second highest MMA/Hd country in the world but on a par with the Netherlands and the much larger nations of Japan, the UK and Germany.

The US, UK and Australia, each had growth of over 30% for the last ten years. Canada, a high GDP country with a low advertising ratio, struggled with low growth and Japan actually had a fall in GDP over the period.

1.2Relationship Between Advertising and the Economy

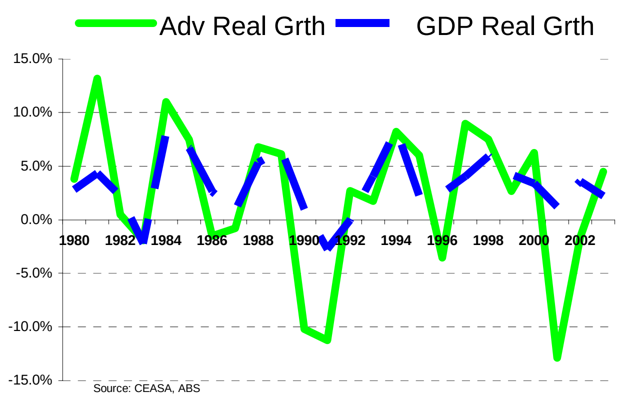
Growth in advertising is related to the growth in the Australian economy.

The Relationship of Advertising to GDP



The regression analysis above for the years 1980 to 2003 between Main Media Advertising growth and GDP growth gives a high r-squared correlation coefficient. This means that the movements in growth for both GDP and the economy are very closely related.

The Relationship of Real Advertising to Real GDP

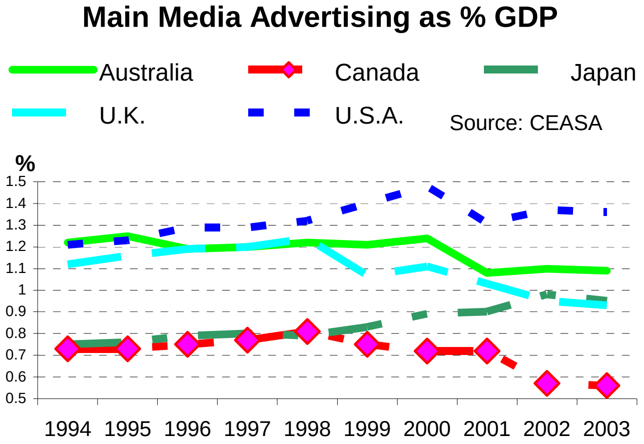


When the effects of inflation are removed to give real rates of growth the r squared coefficient is even higher.

In periods of high economic growth and corporate profitability companies increase expenditure on advertising in newspapers, magazines, television, radio and outdoors. In periods of low growth advertising budgets are often reduced. It can be seen in the graph that advertising tends to be an exaggeration of the economy particularly in down periods when advertising demand is more heavily reduced thus bringing down price and advertising revenue.

"The battle for American's disposable time –among a vast proliferation of entertainment products and media channels- is becoming even more pitched than the battle for their disposable income"

Martin Peers
Wall Street Journal
January 26, 2004



Main media advertising expressed as a ratio of GDP for the major economies is in a range from 0.5% for France to 1.36% for the US. However, the graph shows that the ratio of MMA to GDP has been falling or static at best for the economic superpowers of the US, Japan and the European countries.

This is in contrast to the economic growth of most of those countries over the last 10 years.

The reason for this paradox has been a seismic shift in total advertising expenditure away from the traditional main media or what is alternatively called Above The Line (ATL) categories to the Below The Line (BTL) segments.

The cause has been the change in the structure of the post war society. This has happened in several ways.

- As the fear of war receded and the economy exploded there was a great desire to be normal to "keep up with the Joneses'.
- Increasing divorce, the delaying of marriage and child birth, single parenthood, longer life expectancy and the aging of the baby boomers has led to the break up of the traditional family into many more smaller units.
- The increased economic expectations led to an increase in work hours as women increasingly joined the workforce and the two income family grew.
- The result has been a decrease in the number of hours available for leisure and increased demand on people's time.
- A movement away from an amorphous of sameness to societies with a wide divergence of cultural, ethnic, spiritual and lifestyle aspirations.
- The desire by consumers to achieve status by wanting to be 'special' and different.
- The proliferation of new products, often nearly identical, has made the marketing task more difficult and the identification and targeting of the consumer more essential.

In describing advertising's role in the current 'Age of Discontinuity'Hugh Mackay comments "There has been renewed enthusiasm for the commercial market place. Consumers understand the concept of 'retail therapy' and they welcome the opportunity for a 'bit of harmless self indulgence, for nurturing their relationships with reliable brands. In the context of media saturated with bad news, they welcome advertising that stimulates, entertains and reassures them."

- The development of data bases, new technologies and new mediums has provided the ability to identify and address the customer on a one-to-one basis.

1.3 Challenge to Above The Line (Main Media)

The marketing function has been of paramount importance in developing products, companies, countries and global companies that are sometimes bigger than nation states.

The four P's of marketing; product, price, placement and promotion are still taught in business schools and are the backbone of the marketing function.

Promotion is often divided rather arbitrarily into above the line and below the line.

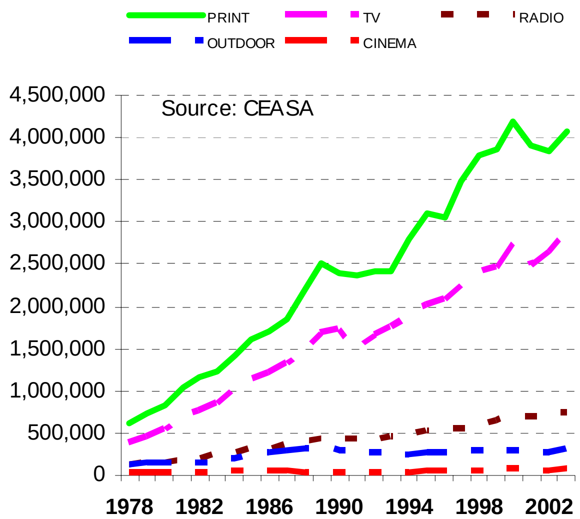
In the post war period, where supply greatly exceeded demand in many countries, marketing became an essential element in creating demand to drive production and the economy. As the parents of the 'baby boomers' created the growth of the urban sprawl the invention of radio and then television in particular provided the perfect medium to reach these families.

Mass communication, the ability to communicate inexpensively from one to many, created entertainment and products that were to become world wide names and the development of global brands.

The chief executive of J. Walter Thompson, the largest US ad firm, told Reuters he expects the share of dollars spent by advertisers on network TV could decline by half over the next five years "I think companies that now spend 70-80% in network TV, in five years I think you could see it go down to 30-40%"
Bob Jeffrey
CEO
J. Walter Thompson

USA Today
June 25, 2004

Advertising by Main Media (ATL)



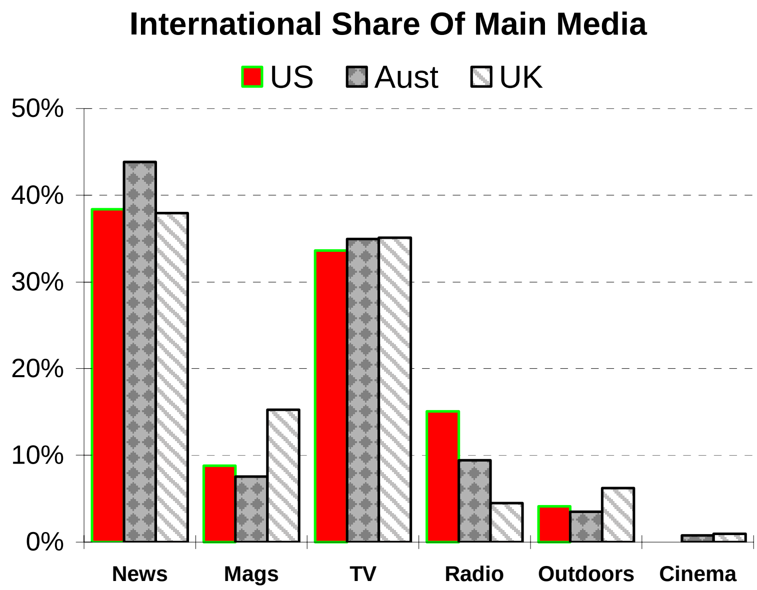
The advertising segments that are normally included in ATL are

- newspapers,
- magazines,
- television,

- radio
- outdoor (out of home)
- cinema.

Hugh Mackay on consumers changing views on advertising….
"In the current political climate, advertising also strikes consumers as being more trustworthy than a great deal of political rhetoric and much current affairs reporting …. consumers know that there is no hidden agenda with advertising; its motives are transparent to the point of naivety"

These industries tended to be dominated by relatively few companies and the advertising revenue was fairly easy to measure even if the benefits were not. ATL was measured in many countries and allowed comparison between the sectors and the different markets over the last 40-50 years.



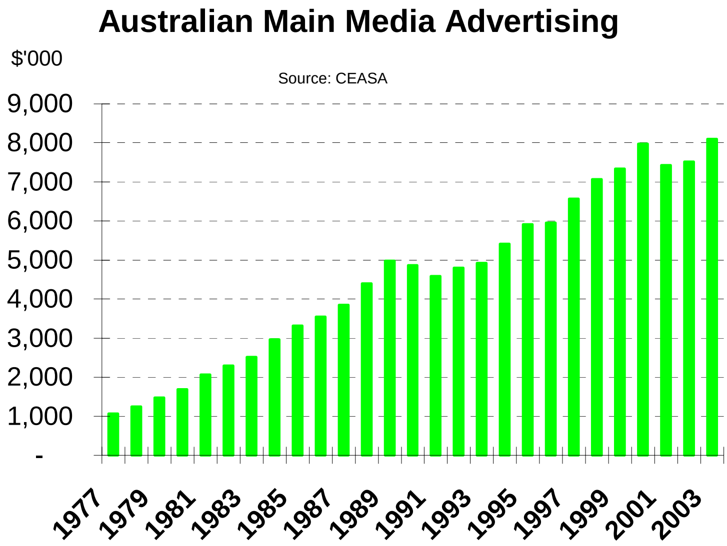
The share of main media by the traditional media are very similar in the US, UK and Australia.

The print sector, including newspapers and magazines, is over 50% in each country.

Magazines are stronger in the UK and television share is consistent across all countries at about 34%.

Out of Home was traditionally Outdoors and consisted mostly of billboards but it is an increasingly competitive segment.

Markets do differ to some degree for example with traditionally no advertising in the Cinemas in the US though it is now beginning to grow..



Bernhard Glock, Manager Global Media and Communication, Procter & Gamble Santiago de Chile, 06 May 2004: One of the world's biggest advertisers, speaking at the Annual General Meeting of the World Federation of Advertisers (WFA)

" The explosion of media channels, media fragmentation and the consequent need to tailor messages to a newly empowered consumer requires 'holistic, welcomed communications' in order for companies to be effective in communicating with the consumer of the future."

Total ATL has grown very strongly particularly in the late 80's before the recession of 90-91 and again in the 90's before the hiccup of 2001.

As a result ATL has been the favoured form of measurement for not only the analysts but the industry itself which until recently treated 'new media' and BTL as relatively insignificant.

The exception to this was possibly direct mail and catalogues which have a deep history in the US, in particular, and in the UK.

The development of new technologies such as cable TV, satellite TV, the internet, telemarketing and the mobile phone are changing the face of advertising.

Further, the advertisers have become far more sophisticated increasingly wanting:

- Psychographic as well as demographic data.
- Measurement and accountability for advertising expenditures.
- One-to-one relationship with the consumer with interaction that goes well beyond mass broadcasting.

1.4 Growth of Below The Line

The major company in Australia that surveys and compiles industry expenditure is the Commercial Economic Advisory Service of Australia (CEASA).

A major component of BTL is Direct Marketing and CEASA includes the following categories under Direct Marketing; Direct Mail, Call centre, Telemarketing, catalogues, stuffers, internet, online classifieds, mail order and directories. CEASA further includes in BTL estimates promotion marketing, promotional products, door-to-door sales, ambient media and guerrilla marketing.

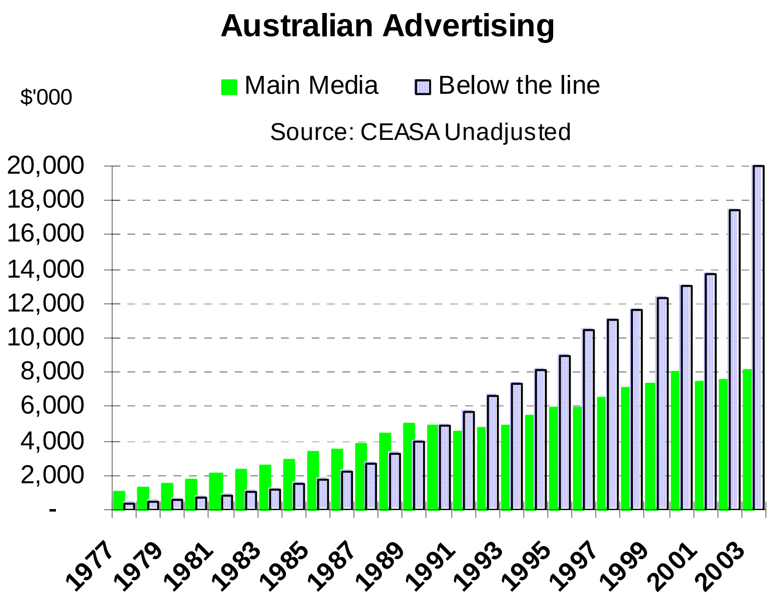
Not included at this time is e-mail marketing, mobile phones, exhibitions, shopping dockets, public relations or market research.

Whilst the main media had been happily experiencing high rates of growth and growing profitability the BTL sector had been growing even faster.

Period	**ABL**	**BTL**
1976-1980	17.9%	21.6%
1981-1985	14.4%	22.0%
1986-1990	8.0%	22.0%
1991-1995	4.0%	13.1%
1996-2000	6.2%	7.7%

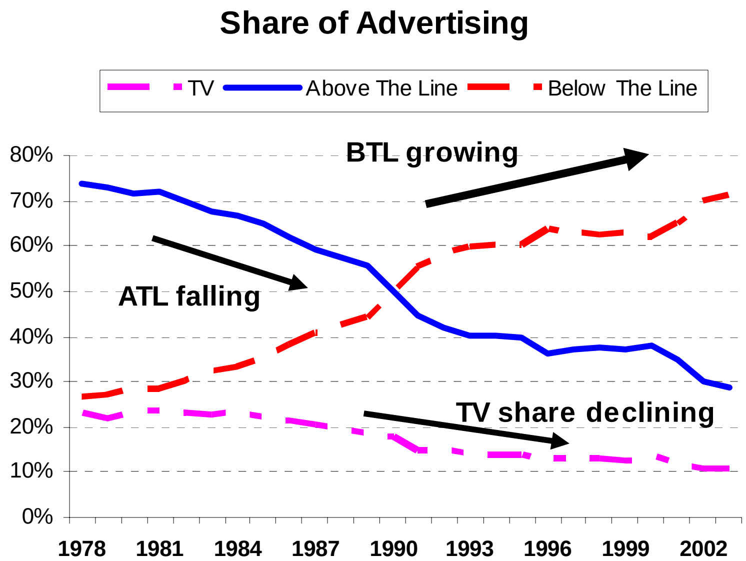
The period from the 70's to the mid 80's was one of huge growth for ATL media sectors that exceeded 20% on two occasions and averaged 14-18% annual rate of growth.

In this same period BTL was growing at a compound rate of growth of 22% into the early 90's. Meanwhile the growth rates for the ABL including television had been slowing down.



In about 1990-91 BTL became larger than ATL and by 2003 is up to twice the size of ATL.

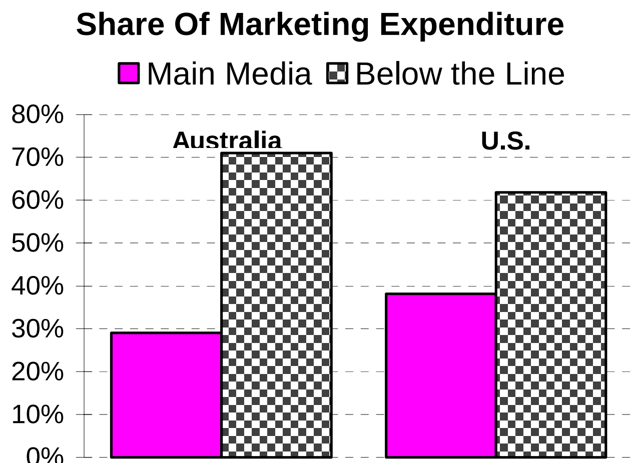
The figures for BTL are only estimates as both the methodology and measurement methods differ between segments and between countries.



Source: CEASA

The bottom line is that ATL share has fallen over the last 25 years from 75% to 30% of total advertising, and it is continuing to decline.

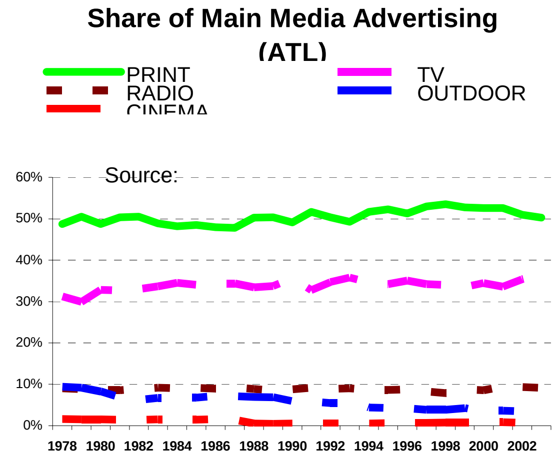
The international experience is similar to Australia with BTL becoming significantly larger than ATL. The difficulty in determining which categories to include in BTL and the methodology for measurement makes the estimates very imprecise. The estimates for Australia are in a state of flux with some categories such as telemarketing being reassessed downwards to only include cost of calls, exhibitions excluded and new categories such as email and mobile phones yet to be included. The US figure for BTL is as used by the Television Bureau of Advertising which is perhaps conservative. Some other estimates are far higher for BTL in the US.



Source: CEASA, TVB

2. THE IMPORTANCE OF ADVERTISING TO ATL (MAIN MEDIA)

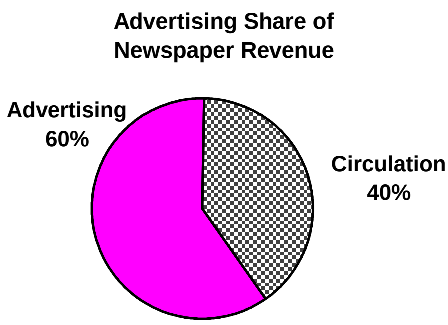
Print advertisements and television were the major communications mediums for mass marketing in the post war period. They had the ability to assemble mass audiences but this is now being fragmented by new technologies and media at an accelerating rate.



2.1 Newspapers

Newspapers circulation has been falling for decades leading to the closure of many newspapers in Australia and in other markets, particularly the US. The competition from television in the evenings resulted in many markets now not having an evening paper at all. Most markets in Australia and the US do not have competitive daily papers with only the largest cities having a competing broadsheet and tabloids and, perhaps in the future, only tabloids.

In the newspaper industry the price of failure to meet the competition from television was death.



Newspapers have tried to compete in a number of ways, some would argue by dumbing down, by creating thematic newspaper sections. This has been an attempt to meet the lifestyle interests of the modern society with sections devoted to entertainment, property, investments, holidays, motoring and computers.

Newspapers are increasingly publishing separate magazines as inserts on weekends or for particular interests such as television guides or investment magazines in business newspapers.

The other area of intense competition is the revitalisation of the community newspaper, more related to the actual community in which people live and with high property and retail advertisements.

Newspapers are heavily reliant on advertising for revenue and profitability. The cost of the product, the actual newspaper, is expensive, bulky and costly to distribute with a low sales price. The cost of paper and printing, especially a Saturday broadsheet with classifieds, can exceed the cover price.

With falling circulation per capita and increasing advertising prices Newspapers have lost main media advertising market share to 40%.

In the US the same combination of falling circulation and increasing advertising prices has resulted in Newspaper share of main media falling to 36.5%.

National advertising forms 23% of total advertising, retail 30% and classifieds 46% though these ratios would differ between tabloids and broadsheets.

The total share of revenue from advertising for newspapers is believed to be about 50-60%.

With high fixed costs of paper and printing, further reductions in advertising share could affect the profitability of newspapers.

In particular, if the internet was to take significant classified advertising share for jobs, motor vehicles and real estate away from newspapers viability could be further threatened.

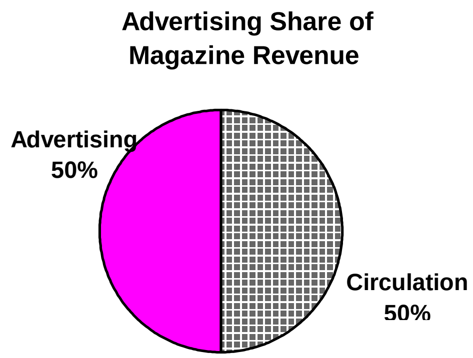
2.2 Magazines

The magazine market has had to face fragmentation to survive. The days of the Women's Weekly reaching every woman in the country with circulation well over a million are gone. Magazines are increasingly targeted at specific market segments with over a thousand tiles available in the average newsagency. Even the mass circulation magazines are becoming more targeted to try and cut out a segment for themselves.

A major problem in Australia is that the magazine publishers do not know who actually buys their magazines as this retail information is held, if at all, by the newsagents. In the US, where subscribing to publications is more established and hence on a data base, experiments have been made in publishing targeted editions of magazines to individuals.

New magazines are a regular occurrence, where there is seldom a new newspaper, most are targeted rather than general and the failure rate is high.

Though there are many magazines in Australia there are only a few major publishers. Despite their huge resources, expertise and the popularity of the product, magazines only have a static 7% share of the main media advertising market which is lower than in the UK with 15% and the US with 10%.



About 50% of magazine revenue is from advertising with the other 50% being provided by the high cover prices.

There are substantial economic barriers to entry in the newspaper and magazine industries with the high costs of printing, distribution and promotion to establish a brand.

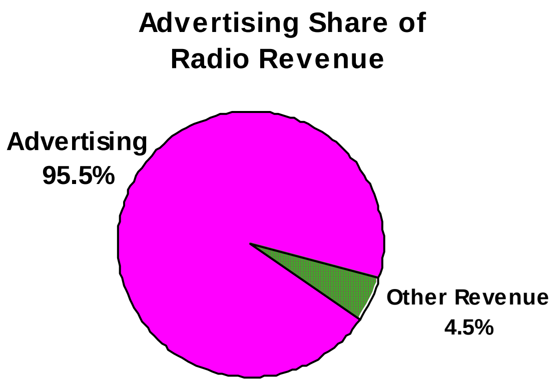
The whole print industry is highly reliant on advertising for its financial viability.

2.3 Radio

The radio industry has a unique history from its earliest days when it was a truly revolutionary technology able to reach people over vast distances and to bring the outside world to Australian homes.

The introduction of television in 1956 in Australia provided a very powerful competitor that invaded the living rooms of people's homes in the evenings. Protected by limited licences due to a shortage of frequencies the radio industry survived the TV onslaught and provided a largely local source of news, information and entertainment.

The launch of the commercial FM licences progressively from 1979 in the capital cities and later in regional areas greatly increased the level of competition in the industry.



Source: ABA

The radio industry is nearly totally reliant on advertising for revenue and the new entrants provided competition for the existing revenues. Only one traditional commercial talk station could survive in each market and the two FM licensees took up to 50% of the advertising revenue with their music formats.

In recent years governments have introduced more competition with the conversion of some existing AM operators to FM, the removal of foreign ownership restrictions and most recently a further round of new FM licences.

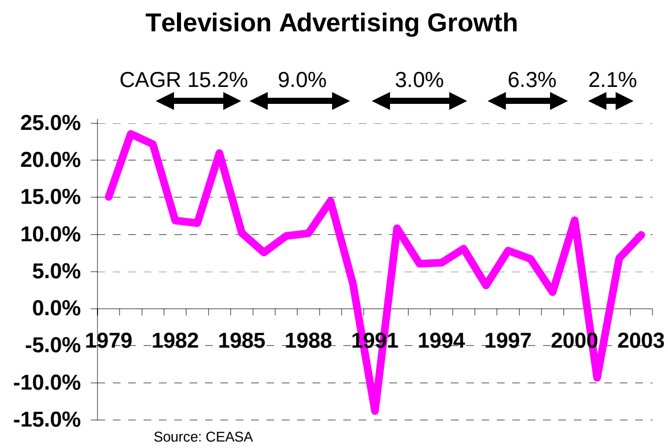
The industry faces an uncertain future with the introduction of digital radio and the decision has not yet been made as to whether these will go to existing or new operators.

Radio is a mature market that has maintained its advertising share of main media of 9%. The introduction of new competitors continues to vitalise the industry. However, the similarity of formats of many radio stations all largely chasing the same 18-39 demographic has not led to much programming diversity or an increase in target markets for advertisers. As a result radio has only maintained its share of main media and lost overall advertising market share to BTL competitors who are more aggressively targeting the younger listeners in other media.

The radio industry is nearly totally dependent on advertising for its survival with advertising having a share of revenue of 95.5%.

2.4 Television

Television has enjoyed many golden years in Australia. With high quality transmission available to about 96% of the population combined with the most popular US, UK and local production, FTA television has dominated the media landscape.



Mr Falloon admitted that FTA networks such as TEN were steadily losing "eyeballs" that is viewers, to alternative forms of entertainment
AFR

The late 70's and early 80's had been periods of dramatic television advertising growth exceeding 21% for three years and averaging 15.2% for the years 1980-85. In 1987 media ownership rules changed forcing media groups which had holdings in television, newspapers and radio to choose one sector. The ownership limits were changed to allow audience limits of 60% and the development of national networks. This period also coincided with deregulation of the financial system and ready availability of credit allowing debt funded acquisitions at high prices by new owners.

However, the new owners did not appreciate that the rate of growth of television advertising had slowed in the late 80's to only 3.4% in 1990. Under inexperienced new owners the combination of high expenditures and low revenue growth placed two networks in the hands of receivers.

"The TV market is fragmented, but that increases the value of FTA, given its ability to deliver mass audiences and to build brands"
Nick Falloon
Executive Chairman
TEN Network
In the AFR

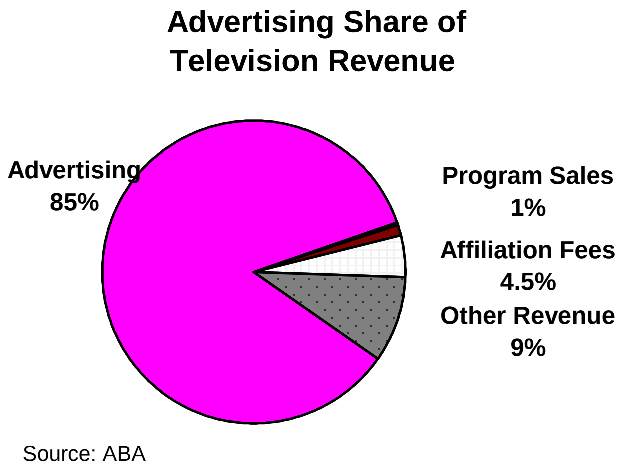
During the 90's advertising revenue continued to grow but more slowly. In the recession of 1990-91 television revenue actually fell by -13% and again by -9.3% in 2000-01.

For most of the period advertising grew by about 6.0%, twice the level of inflation. As there was no increase in advertising time on television, or inventory, the increase in advertising was due to price increases.

Television share of main media advertising has increased over the last 25 years from a low of 29.9% in 1979 to 35.3% in 2003.

Over the last 7 years FTA audiences have declined by over 10% and yet television advertising has increased by 35%.

Advertisers are obviously paying more for less.



In 2003 the television networks rely on the advertising industry for 85% of their revenue or nearly $3 billion.

This is a decline from 97.5% in 1978-79.

Only 1.1% of television revenue is from sale of programs, 4.5% from affiliation fees from regional stations and 9.2% from other revenue.

Television is trying to increase additional advertising opportunities through sponsorship of programs or events and through the use of product placement within shows. Though this will provide additional revenue it will not be a significant proportion in the short term and the television stations need to be careful not to hurt the credibility of the programs.

"This is not about the death of TV. Its about the slow death of the 30 second commercial" …from a survey of homes with TIVO

Rishad Tobaccowala
Exec VP
Starcom Mediavest

The television industry and the advertisers need to address the growth of personal video recorders (PVR) which can delete the advertising spots.

At this time PVRs only have a 5% penetration but are growing. The explosive growth of DVDs to over 60% and climbing demonstrate that when you have a product that catches the imagination of the public with the right price, take up can be very fast. The VCR took less than a decade to go above 70% penetration.

The conclusion is that all the main media rely predominantly on advertising for their financial survival.

3. THE IMPORTANCE OF ADVERTISING TO BELOW THE LINE

The largest categories of BLT advertising are not even new media but actually well established.

Directories, are a $1.3 billion business, the same size as magazines and radio combined. Yellow Pages is the major component of directories and Telstra seem to have only come to fully appreciate its value and potential in recent years.

Many areas of **Direct Marketing** are well established business sectors with revenue of about $9.4 billion, larger than the total of traditional ATL with $8.0 billion.

The largest component is **Telemarketing** and the explosion of **call centres** over the last six years. This is one sector where the method of measurement is an issue. CEASA is believed to have traditionally included the cost of the people making calls, which has become a high growth employer particularly in regional areas, with an estimated revenue of over $10 billion in 2002. However, CEASA is understood to have revised its figures to now only include the cost of the calls in line with international practices, reducing the expenditure to $2.8 billion in 2003.

Direct mail and catalogues total $3.1 billion, which presumably only includes the cost of paper and printing on the same principle, which is a similar size to newspaper advertising in Australia.

Sponsorship of sports and the arts is a highly visible form of advertising with annual expenditure of several hundred million dollars.

Public Relations, and increasingly investor relations, are an important part of the marketing mix for most major advertisers.

Market Research is a growing sector as advertisers want to better understand and identify potential clients and their behavioural traits. Other major areas of BTL available to marketers include:

- Promotion Marketing $5.8 billion
- Promotional Products $3.2 billion
- Door to Door sales $1.6 billion
- Exhibitions $1.4 billion
- Ambient Marketing $26 million
- Guerrilla Marketing $25 million

The Internet is the new media area that has most grabbed the interest of the public with a penetration rate of 67% of the population as at June 2004.

"The Australian online advertsing market should be pulling about $1 billion a year from advertisers, four times its current value"

Rex Briggs
US Media ResearchGroup
Marketing Evolution
SMH July, 2004

Online Advertising revenue is broken into 3 categories by the Audit Bureau of Verification, a division of the Audit Bureau of Circulations:

- General advertising – banner ads, partnerships, affiliate marketing programs, sponsorships and emails.
- Classified Advertising – ads placed to buy or sell items or services.
- Search and Directories Advertising – online directory and search engine listings.

The total Online advertising revenue for 2003 was $236 million, a growth of 41% on 2002 (CEASA).

2003	$M	Growth
General	$80	30%
Classifieds	$86	44%
Search and Directories	$69	53%
Total	$236	41%

The methodologies of measuring BTL can be argued and the valuations differ widely, however, it can be seen that many of the BTL sectors are individually greater than traditional radio or magazines and in some cases larger than television or newspapers.

Most of these industries are completely dependent on advertising expenditure.

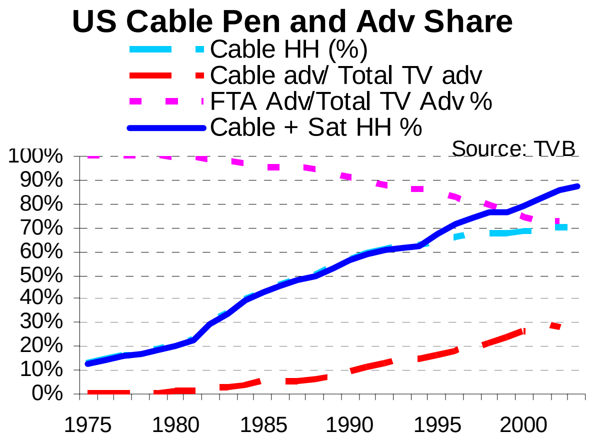
In return they provide advantages over ATL as means of reaching niche audiences, are often driven by data bases, measurable and aimed at the one-to-one relationship.

The fact that they have enjoyed such high rates of growth and are now in total up to twice the size of traditional ATL media is proof of their success and importance.

4. INTERNATIONAL EXPERIENCE OF MULTICHANNELLING

4.1 Multichannelling in the US

STV, or Pay TV, is certainly not a new product in the US where it is generically known as cable TV and started in the 1940's. However, it did not get national programming until the launch of HBO on satellite in 1975. Most of the cable systems were limited to less than 30 channels until the mid 90's which were also used to carry the FTA networks and local stations.



Though Cable and satellite TV have been partially driven by the need for improved reception quality it has been the demand for increased choice of programming, multichannelling that has driven the service.

The US had a structure of 3 major networks, ABC, CBS and ABC until Rupert Murdoch created the Fox network in 1990, plus a number of local broadcasting channels in each market. In recent years two smaller networks have been added, WB and UPN.

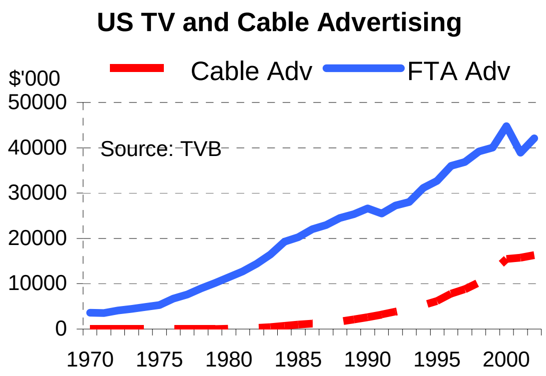
Despite having the 6 national networks plus local FTA broadcasters, viewers have demanded and been willing to pay for more and more channels.

Cable penetration had exceeded 70% penetration but faced growing competition from new satellite systems with smaller less expensive dishes. Satellites and other smaller distribution systems such as SMATV and MMDS could reach regions where the cost of rolling out cable was too high and have added another 20% penetration. The combined penetration by multichannel services is at least 90% of US homes.

Cable advertising revenue was slow to build in the US. Subscriber penetration reached the same level as currently exists in Australia in 1980 and had a share of total television advertising of 1% compared to Australian share of 3.2%.

It took until nearly 1990 before penetration reached 50% of

US homes and then total revenue was 7% of total television revenues.



Advertising supported cable TV in 2003 reaches 70% of US homes and commands a 30% share of combined broadcast and cable advertising revenue, a total of US$16 billion

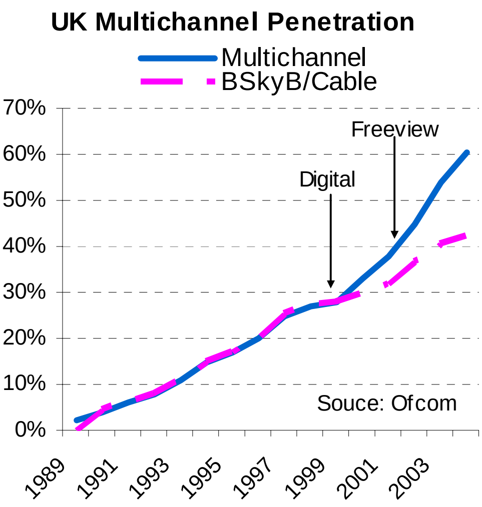
Cable subscription revenues in the US are approximately $40-45 billion and satellite, MMDS and SMATV a further US$11 billion.

Advertising on satellite, MMDS and SMATV is unknown but will be substantial with a market of nearly 20 million homes.

Advertising is responsible for about 25% of the revenue of the cable industry.

4.2 The UK Experience

4.2.1 BSkyB and Cable



Multichannelling was launched in 1989 and after 8 Years the combination of BSkyB and the cable companies found that multichannelling penetration had plateaud at 25-27% of homes.

From the UK experience 'an immense increase in the available channels through digital technology and the challenge to revenue from spot advertising coming from DVRs.'

Dawn Airey
Managing Director
Sky Networks UK

ABA Conference
July 2004

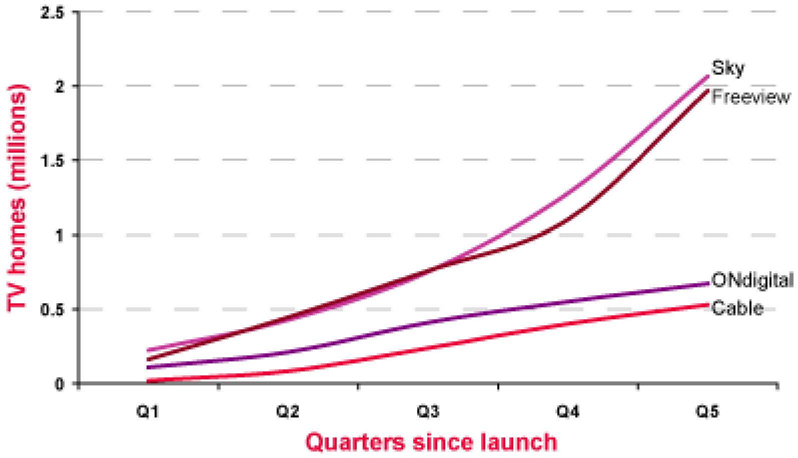
The introduction of digital in 1998 spurred growth in BSkyB.

Digital terrestrial broadcasting was launched under the ONdigital name which changed to ITV Digital in 2001. ITV Digital collapsed from technical, programming and financial problems with one million subscribers.

4.2.2 Freeview

A new BBC led consortium was successful in gaining the digital licences and they launched a free digital multichannel service called Freeview.

Freeview offers 30 channels including all the FTA BBC channels and some Sky channels. A digital set top box offer for a once off £99 was a great success and subscribers have quickly grown to 2.8 million subscribers. In under two years the Freeview service has grabbed over 20% of multichannelling subscribers and over 10% of all households in the UK.



The growth in Freeview has been extraordinary. At the end of 2003 Freeview had nearly 3 million homes, up from 1.2 million a year before. In the first quarter of 2004 Freeview homes increased by 500,000 and are growing at the rate of 100,000 per month. At the end of March 2004 Freeview penetration was nearly 15% and is growing at the rate of nearly half a per cent each month.

Ofcom believe that there are a number of reasons for this phenomenal growth including;

- Demand for greater choice without a monthly subscription
- Increased number of channels
- Greater channel appeal and promotion
- Wider distribution including supermarkets
- Falling equipment process to around £80
- Word of mouth
- Improved coverage

4.2.3 Multichannelling Impact

"The BBC has embarked on a bigger gamble. It has told BSkyB it wants to broadcast its satellite services in the clear, bypassing Sky's encryption and subscription system. It's a gamble on establishing 'Freesat' as well as Freeview (the terrestrial version) and taking BBCTV into the digital world free-to-every house."

Patricia Hodgson
Chief Executive
Independent Television Commission - UK
May 2003

The combined digital multichannelling services have a penetration rate of all homes of 53%. Combined with the remaining 4% share of cable analogue multichannel services results in a 57% penetration as at March, 2004.

The level of viewing of multichannel services in homes with multichannels is about 42% so the effect on viewing of traditional broadcast channels is a dramatic 25% reduction.

The multichannel market is very fragmented with the largest rating channels being Sky One with a 0.35 share of one per cent , Sky Sports 1 a share of 0.23 but most of the more than 140 channels average 0.028, a quarter of one per cent.

As the average audience at any time for a multichannel is relatively small in comparison to the commercial ITV stations with 17.7%, or the smaller Channel 5 with 5.7%, the share of advertising is lower.

Even though ITV share of viewing is reduced by the success of Pay TV and Freeview it is the only channel with a mass audience and therefore gets a premium share of the advertising.

ITV has a share of commercial audience of less than 30% but receives most of the £2.3 advertising and Channel 5 with 8% a small share.

The subscription channels and Freeview, with a combined 70% of commercial ratings, share the other 50% of advertising or £2.3 billion.

The policy of making multichannelling available to all the population though fragmenting the market does not prevent the major FTA broadcasters from receiving a premium share of advertising.

BSkyB continued to grow during 2003 adding 603,000 customers and in the first quarter of 2004 added 66,000, a lower rate of growth than in 2003.

Cable homes are growing slightly and two thirds are digital.

As a result of the BSkyB satellite service, Freeview and most of cable homes being digital, the digital penetration in the UK is well over 50%.

5. THE AUSTRALIAN EXPERIENCE

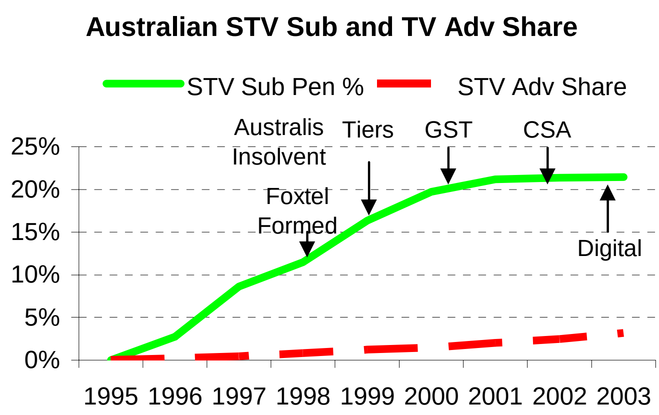
5.1 Subscription Television

Subscription television (STV) was launched in Australia in 1995 by Australis Media and AUSTAR in some of the regional areas. Soon after the two major telcos, Telstra and Optus commenced rolling out cable systems past 2.5 million homes in the capital cities.

Foxtel was formed in 1998 to acquire the US movie rights and subscribers of the liquidated Australis and Foxtel launched a satellite service in 1999. Foxtel is owned by Telstra 50%, News Corp 25% and PBL 25%.

Most channels had been included in the basic service from the beginning except for The Adult channel and ethnic services which required additional payment.

In 1999, the movie channels became separate paid tiers along with a few other premium services. GST was introduced in July 2000 increasing the prices of the services and the publicly discussed possibility of future programming mergers all combined to increase churn and slow the rate of growth in 2002 and early 2003. Foxtel entered a content sharing agreement in December 2002 with Optus to acquire the programming rights of the 240,000 Optus subscribers and to obtain further satellite capacity. The content sharing agreement between Foxtel and Optus did not give the expected boost to subscribers.



Foxtel launched its digital service in April 2004 increasing its basic package from 25 channels to 66 channels, adding 10 time shifted channels and introducing 27 PPV channels. The total service has more than 130 channels including 30 music channels and 100 video channels.

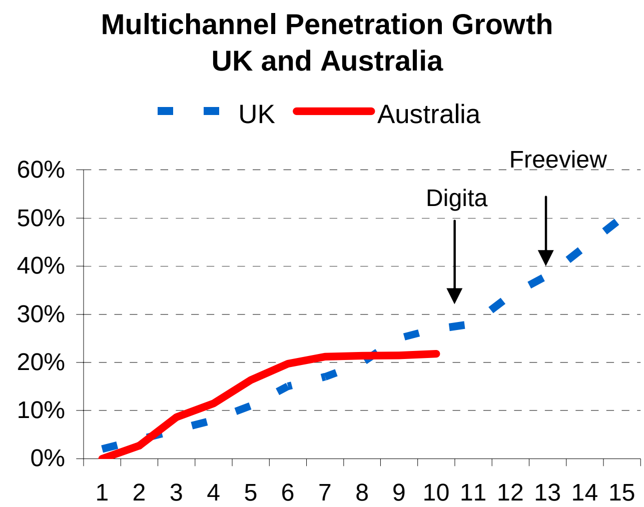
The basic cable service increases in price to the satellite price of $48.94 per month, basics plus a movie service to $73.90 and all channels to $94.95 per month.

The penetration of STV in Australia had stalled at 1.5 million households or 21% of total households. The STV industry hopes that the digital service will re kick start penetration growth and reduce churn. Foxtel claim orders for 250,000 digital set tops but the majority of these are for existing subscribers.

The $600 million question is will the increased number of channels on the digital service drive growth and increase ARPU or did the existing 50 odd channels satisfy that need.

The anti siphoning legislation in Australia takes away the main driver of penetration in the UK, sport.

The high take up of rate of DVD in homes beyond 60% in Australia may reduce the attraction of movies on STV.



Peter Cox was commissioned in 1990 by DOTAC to write a report on the effects that Pay TV would have on the commercial networks. He forecast that "Pay TV would have no effect for the first five years on FTA advertising and minimal effect in the subsequent five"
The report was part of the submission to cabinet that brought about the introduction of Pay TV.

Foxtel argue that the Australian subscription market has achieved a similar penetration level to that experienced in the UK over the same period.

The digital launch is expected to increase the growth rate.

The great success of STV has been the very high levels of viewing of STV channels in homes with the service of over 50%. As a result 10% of all viewing on television is of STV reducing the share of viewing of FTA television.

The advertising industry has given support to STV with revenue in 2003 of $93 million. Though this is only 3.2% of total television advertising against a share of 10% of viewers it is well beyond the US experience which was only 1% of revenue with the same penetration rate.

Advertising of nearly $100 million is more than 10% of the subscription revenue of $900 million.

It is estimated that about half the Australian households have tried STV at some stage over the last 8 years demonstrating that there is definitely a demand for multichannel services in Australia.

Foxtel believe that they are on roughly the same part of the penetration curve after 8 years as was BSkyB and that digital will drive penetration to possibly 35-40%.

However, even if this was to be achieved at least 60% of Australian households would not receive a multichannel service.

This would fail to satisfy the proven demand by the public for multichannelling.

It would fail to give the advertising industry the ability to target market segments with the most popular medium.

Finally, the economic laws of supply and demand would keep the price of advertising artificially high.

5.2 Digital Television

Digital television was launched in Australia on January1, 2002 and is now broadcast to all the metropolitan and most regional markets. The Government has specified that the broadcasters must provide a SDTV and an HDTV signal which combined with the analogue makes a triple play transmission system.

The Government has specified that each broadcaster must transmit 1,040 hours per annum of high definition.

It is not our intention to discuss the technical arguments but to recognise that transmitting in a full HDTV version plus the SDTV transmission required will use most of the 7 MHz spectrum available to each broadcaster.

On the other hand if programming was to be transmitted in SDTV then there is sufficient spectrum for 4 to 5 SDTV channels.

The major objective of the Government, besides more efficient spectrum allocation, seems to have been to provide the highest quality picture to the viewer technically possible, along with high quality audio and 16:9 aspect ratio.

The Australian analogue transmission system is of a high technical standard and certainly the SDTV signal quality is exceptional.

There seems to be no evidence of a major difference in the quality between SDTV and HDTV that is readily discernable to the viewer.

There is absolutely no evidence, either Internationally or in Australia, of consumer demand for HDTV rather than SDTV.

In the multichannel environment of the US HDTV is being pursued by some broadcasters to try and distinguish themselves from the huge competition.

In the UK, a country also with high transmission standards, the Government decision was made not to persue HDTV but instead to provide what they believed the public actually wanted, more choice.

The success of Freeview would appear to completely justify this decision.

In Australia, the public has shown little interest in digital television let alone HDTV.

At the end of June 2004, after three and a half years of digital transmission, only 400,000 digital tv receivers have been supplied to retailers.

Even if all of these were sold to consumers, and did not include any multiple installations, this would only be 5% of homes.

And this has been in a period when the sales of widescreen receivers, plasma and LCD screens have been the highlight of electronic equipment sales.

There is no indication that the take up rate of digital television is going to grow appreciably in the future solely on the basis of improved picture quality.

At the current rate of growth of digital television the penetration rate is likely to be very low at the end of the initial simulcast period of 8 years.

The Government will either need to extend the period of simulcast, which at this point could be a very long period, rather defying the objective of freeing up the existing analogue spectrum for other uses.

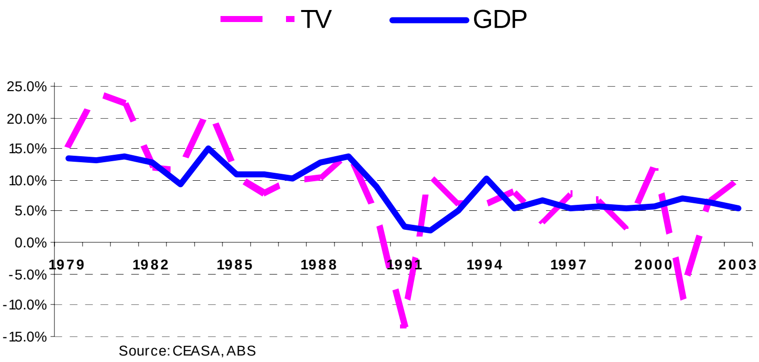
The alternative would appear to be to drive demand through

- the introduction of a multichannelling environment or
- heavy subsidisation by the Government of Australia's 7 million homes and well over 10 million television sets.

6. THE ECONOMIC ISSUES

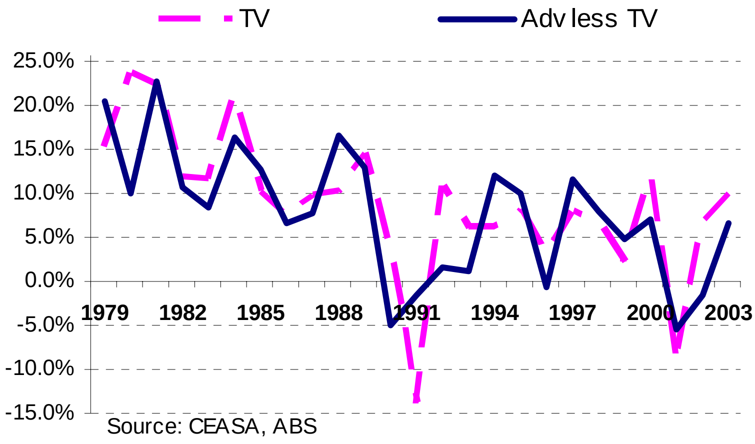
We began this analysis looking at the close relationship between advertising and the economy. Now we need to examine if this applies to television advertising as well.

The Relationship of Television Advertising to GDP



It can be seen that television revenue is related to the state of the economy but with a higher volatility. Television revenues are dependent on advertising revenues that are related to corporate profits which are dependent on the state of the economy.

The Relationship of Television Adverting to Non TV Advertising



If a comparison is made between the growth rate of television and of other main media advertising there is again a close relationship. However, television advertising is more volatile than other advertising with higher peaks and lower troughs.

Why is this the case?

In an efficient market the products are near identical and each company is small in relation to the total industry and operations have little effect on price or quantity supplied.

However, television is not a perfect market.

Demand is volatile as it is probably the easiest marketing expenditure to turn on and off. In periods of high economic growth and profits the demand for television increases as advertisers try to increase sales and market share. When the economy seems to be falling it is also the easiest to turn off with short lead times and in the short term, little loss of jobs.

On the supply side television is an oligopoly market with only three major competitors.

The supply of advertising time or spots is further limited by regulations broadly limiting advertising to 13 minutes in prime time and 15 minutes in other periods. As the networks use about 2 minutes per hour for station promotions this leaves 11 minutes available for sale to advertisers.

In an oligopoly structure the availability of close substitutes may affect the pricing and supply of itself and other firms in the industry.

In the advertising industry there are not many close substitutes for television that provide the mass audiences and brand image that advertisers seek.

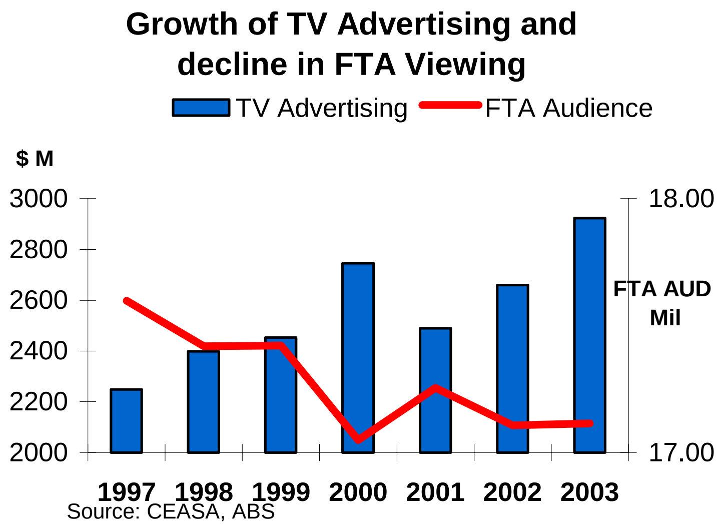
In periods of high demand radio benefits by gaining some of the excess demand that the television networks are unable to satisfy.

However, the radio industry is also subject to the same economic pressures and in periods of high growth has higher than normal demand.

Radio has a limited ability to increase supply but will benefit by taking the excess television demand at higher prices.

We saw earlier that the long term growth of television revenue is at a much higher rate than the general economy.

It can also be seen that television advertising is growing at a faster rate than the population.



Further, the level of viewing of FTA has declined about 10% over the last 7 years but television advertising has continued to grow.

The result is that advertisers are paying more to reach less viewers.

Ford experimented with a road block campaign on major US online portals that delivered 40% of all American men aged 25 to 54 in one day.

The clincher was the car maker's declaration that its online blitz was 10 times cost-effective than network TV to reach the same numbers.

SMH July 24, 2004
July 22, 2004

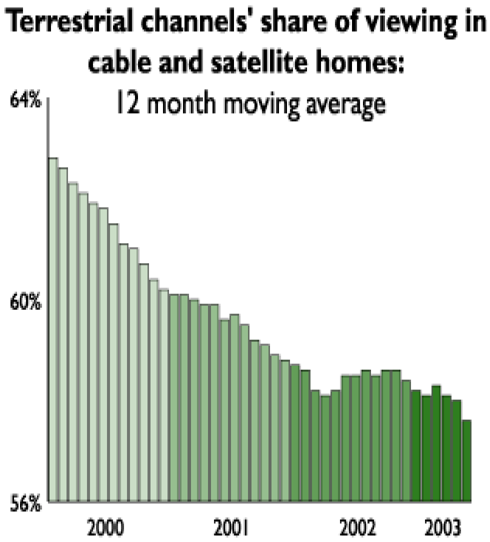
Analysis in the US by the Television Advertising Bureau showed that in the decade 1994 to 2004 that television cost per thousand (cpm) increased by 160% compared to newspapers 117% and magazines about 100%.

The cable and satellite industry has increased penetration to at least 90% of homes, reduced broadcast television share of viewing by 50% but only has a share of total television advertising of less than 30%.

An ABN-Amro report 'FTA Television: Time to face the FACTS' showed that in the US FTA advertising growth had been similar across the decades to Australia. In the period 1990-2000 Television revenue grew at a CAGR of 7% against advertising growth in total of 6%. Despite Pay TV penetration reaching 90% FTA continued to experience above industry growth rates and about three times the rate of inflation

In the UK analysis by Alex Pollak at Macquarie Equities shows that despite pay TV penetration growing to 48% in 2002 and a subsequent fall in viewing of FTA that FTA CPMs grew at 5.2% between 1992 and 2002 and yet revenue grew by 3.6% compound over the period.

The ABN: Amro report showed television advertising growth for 1990-2000 in the UK to be 6.7% compared to advertising 6.2%. Despite the growth of BSkyB and cable FTA experienced high rates of growth.



The chart above from UK regulator Ofcom demonstrates how terrestrial viewing has fallen in cable and satellite homes.

Cable and satellite channels have 70% of commercial viewing but only 50% of advertising revenue.

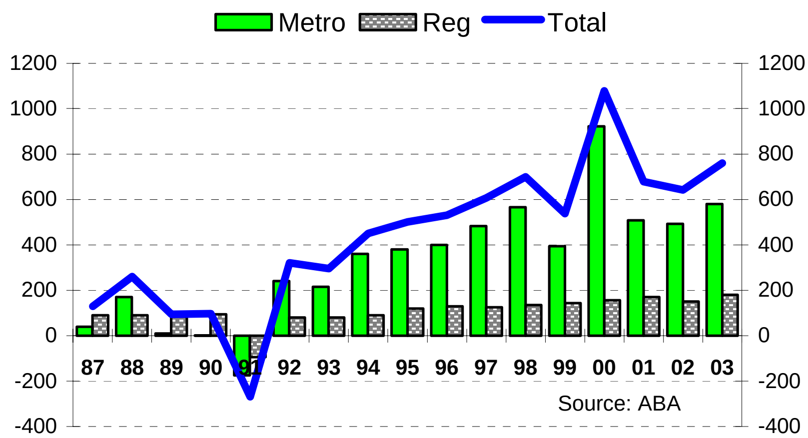
The ITV channels with 30% of commercial viewing get the lion's share of the other 50% of advertising revenue.

"Three leading US networks are tipped to secure upfront advertising rate rises ranging from 8 per cent to 15 per cent"
Australian
July 25, 2004

The experience in Australia, the US and the UK demonstrate that in each market FTA viewing levels are falling and that television advertising is growing.

In each market television revenue is growing at well above CPI levels.

Television Earnings Before Interest and Tax



Television profitability has continued to grow in Australia with operating income, profit before interest and tax, of nearly $600 million split between the 3 commercial networks in

2003. As revenue has grown at a rate of between 7-10% in 2004 operating profits can be expected to grow even further in 2004.

The three television networks have very healthy operating margins of over 20% of revenue.

Despite the threat of subscription television, falling audiences, multichannelling, a fourth commercial television licence and the potential of the PVR, the stock market has faith in the future of Australian television companies.

The three networks are all trading at Price earnings ratios that are above the market average. This means the stockmarket believes that the networks will continue to generate earnings that are above the average of the market.

It could be argued that the legislative barriers to entry in the television market are artificially causing a shift in economic value from advertisers to television operators.

In summary:

- Television is not a perfectly competitive market
- Competition is limited by government regulations
- There is not a high degree of substitution
- The flow on effect to substitutes is limited
- Demand is largely determined by the economy and is highly variable
- Inventory is fixed
- Prices will fluctuate significantly
- Advertising revenue will be determined by price
- Price elasticity is high

In other words a change in demand will lead to a change in price and revenue greater than the movement in the underlying economy.

7. THE COMPETITION ISSUES

Economic reform, competition law and deregulation of the markets in Australia brought about great changes in a number of industries reducing prices, increasing the range and quality of goods and services and established a much more competitive market place.

Deregulation and reduction of anti competitive practices have occurred in traditional monopoly and oligopoly markets such as banking, telecommunications, aviation, electricity, gas, insurance, petrol and rail.

National competition policy has been one of the major contributors to the remarkable growth of the Australian economy over the last several decades and Australia's increasing international competitiveness.

One must ask why the media industry remains the last major oligopoly that has not been opened up to competition and whose position is entrenched and protected by Government policy.

The argument as pursued by the other industries of investment in infrastructure has been overcome and with the development of technology no longer applies to television either.

There is adequate spectrum, not only to provide multichannelling on both the FTA and National services but also a spare full channel in each of the major markets to provide a number of services.

The need to provide agreed levels of service, such as in telecommunications with the universal service agreement, or in the utilities does not preclude having an open and competitive market place.

In television the requirement to provide levels of Australian content or children's programming should not be an impediment to competition.

This issue has been addressed in Pay TV by mandating expenditure levels of Australian drama production which are being met by the industry.

7.1 Free-To- Air defence of anti-competitive protection

The Nine and Ten networks made a joint submission to DCITA in July 2003 on the ACCC report on 'Emerging Market structures in the Communications sector'.

This submission argued that multichannelling would lead to a decrease in programming on FTA in Australia and prohibition should be maintained to protect the 'public interest'.

The major arguments were:

"Quality programming is expensive and would no be funded in Australia's small market without the advertising revenue only mass audiences can provide"

- There is no evidence to support this contention and to the contrary the experience with multichannelling in the US and the UK and pay TV in Australia is that advertising revenue exists and in all cases is growing

"Fragmentation of the mass FTA audience would lead to a decline in quality across FTA broadcasters"

- Much of the product on FTA could hardly be titled quality with inexpensive reality programs (in comparison to drama), quiz shows, talk programs and US sitcoms dominating the schedules of FTAs.
- Quality programs such as Seven Wonders of the Industrial World and the acclaimed Walking with Dinosaurs rated very well but on the ABC.

"The total amount spent on FTA advertising stays relatively constant"

- This would not appear to be supported by evidence and is actually the opposite.
- We have shown in this report that television advertising revenue has increased at a rate in excess of the economy and greater than other main media despite increased competition from Pay TV and SBS advertising.

"Experience in the US and the UK indicates that new FTA channels will not lead to an increase in FTA advertising to offset their cost"

- The experience in these two countries is exactly the opposite
- Growth higher than the economy and competing media by television has also been experienced in the US and the UK with very high rates of multichannelling penetration.

- This means that there is growth in advertising for both FTA and multichannelling to offsets the costs to both segments

"New FTA channels will have to be delivered at the same cost as existing FTA channels leading to a decrease in quality"

- The multichannels would be targeting niche audiences not requiring the same expenditure as a mass audience.
- By not having to cater to the drive for a mass audience they can better satisfy the requirements for all levels of programming quality.
- Some of the successful channels on pay TV include Discovery, National Geographic, the History channel and Sky News which have quality programming.
- The Movie channels provide all types of movies including blockbusters and quality ahead of FTA and at times convenient to the viewers.
- The most popular channels on pay TV are Fox 8, TV1 and UKTV which show programs that were hits on FTA and that people want to see and at a more convenient time.

"The networks admit that they charge a premium to advertisers to assist them in reaching a mass audience but argue increased fragmentation would make it more difficult to reach a mass audience."

- The advertisers would be perfectly capable of reaching the same collective audience and would have the choice of being able to buy at a more competitive price with economic efficiencies.
- The charging of a premium price for scale would appear to go against the practice of most other industries and economic efficiency.

"New channels will contain inexpensive but inferior overseas material, time shifted programs, archival material and excess programs from overseas that are not currently considered of a high enough standard for analogue FTA. It is very likely that FTA multichannels would be channels more like those provided by the multichannel pay TV industry dominated by overseas material and repeats."

- This is being argued by the Nine network whose major programming strengths include US dramas

CSI, CSI: Miami, Without a Trace, ER, Friends and TEN by Law & Order SVU and Law & Order: Criminal Intent, Becker and the Simpsons just to name a few.

- To make the criticism even less valid is that both of these networks regularly repeat these programs in prime time. Nine evens runs repeat episodes of Frasier on week nights at 7.00pm. Nine heavily promotes when they actually put new episodes to air of US programming.
- The role of programmers would appear to be not as arbiters of taste but of popularity. This is borne out by the great success of reality programming such as Big Brother, Australian Idol, The Block, My Restaurant Rules and Popstars. No one would claim these programs as quality television but certainly cost effective and popular.
- The public interest is not best served by parallel programming with news and current affairs services at the same and often identical genre such as drama at the same time. This is similar to the pre deregulation practice of the two airlines scheduling identical flight times.
- Criticising the Pay TV channels on the basis of quality of content would seem illogical when the viewers are choosing to watch more pay TV than FTA TV in subscription homes.

"Rare instances of conflict in broadcasting live sport do not justify the introduction of new channels."

- The real issue is about showing sport live and in full
- Fox Sports claimed (which is 50% owned by the Nine Network group) that the commercial FTA channels telecast less than 22% of total hours and less that 18% of live hours protected by anti-siphoning in 2001
- The total number of hours of sport protected is over 6000 hours per year
- The FTA channels could provide those sports on multichannelling, servicing the public and not have to provide them to pay T V
- As the sports channels are some of the highest rating on pay TV this would give the FTAs good ratings with multichannelling and compete with pay TV.
- The anti-siphoning regime is anti-competitive and protectionist of the commercial television networks. The policy on which the anti-siphoning

regime is based, namely that the public should be able to access major sporting events 'for free' is totally spurious.

"Decline in quality from competition is a concern to broadcasters."

- In the US the introduction of a fourth commercial network led to new and innovative programming that also became popular in Australia including Ally McBeal, Beverley Hills 90210, Married with Children, the Simpsons, X-files, American Idol, Boston Public, Melrose Place.
- The cable channel HBO has introduced outstanding new programs including The Sopranos, Sex in the City and Six Feet Under.
- HBO leads the Emmy Awards nominations each year and in 2004 had 124 nominations against NBC 65 and CBS 44.

"If one broadcaster provided additional FTA channels competitive pressures forces would lead to all broadcasters following suit…"

- Welcome to the competitive world

TEN would appear to have subsequently changed their position on multichannelling as they have recently advocated using the extra spectrum available in each market for multichannelling.

The Seven Network already support multichannelling which only leaves the Nine Network opposing it and they have a 25% beneficial interest in the existing multichannel service Foxtel, a 50% interest in providing the sports service and a lesser interest in Sky News.

The interests of the public and the demand for choice by the consumer is completely neglected by the FTAs.

The arguments against FTA multichannelling are by a party with market power to impede entry into the market.

8. CONCLUSIONS

1. The advertising industry is a very important component in developing strong economic growth.
2. The media industry is fundamentally reliant on advertisers for its financial viability.
3. There has been a major shift in the structure of the media industry in response to societal change and this is continuing.
4. Advertisers have been lessening their reliance on broadcasting to mass audiences in favour of identifying and establishing one to one relationships with consumers.
5. The traditional Main Media share of advertising has fallen to between half and a third of advertising expenditure.
6. The movement has been to below the line media which now receive up to two thirds of advertising spending.
7. The fragmentation of the market and new technology have provided advertisers with opportunities to more effectively target audiences.
8. The traditional main media, and television in particular, has been losing audiences while increasing prices at well above economic growth.
9. The predicted increase in television advertising prices in the US and Australia for 2004 is at least 7-10%, well above inflation and the growth of the economy.
10. The average viewing of FTA channels in homes with multichannelling in Australia has dropped below 50%.
11. Though advertisers are often forced in the short term to pay higher rates, in the longer term it encourages further movement away from FTA television.
12. The ability to charge a premium for advertising on broadcast television is due to the free to air operators having Government protection from competition.
13. The original scarcity of broadcasting spectrum no longer exists and sufficient spectrum is now available to provide 20 to 30 additional terrestrial FTA channels.
14. The mandating of HDTV is wasteful of spectrum resources and prevents the provision of multichannelling.
15. It has been shown overseas, particularly in the US and the UK, that there is huge public demand for increased choice in television programming.

16. Over 90% of US homes pay to have multichannelling. 57% of UK homes have multichannelling and the penetration rate is growing by up to 10% per year.
17. The UK's FTA digital terrestrial Freeview service is proving a huge success with consumers with 3 million customers in less than two years demonstrating a great model for multichannelling.
18. Australians interest in multichannelling is shown by half the homes having sampled subscription television but cost would appear to be a continuing restriction.
19. STV in Australia has a penetration rate of 21% which with the rollout of digital is anticipated to rise to 35% of homes.
20. Even at that level 65% of Australian homes would not have multichannelling and it may remain at 70-75% of homes.
21. The provision of advertiser supported terrestrial FTA multichannelling would allow advertisers to use the medium that the consumers most prefer.
22. This would allow advertisers to take a more targeted approach to reach the 75% of the population currently not wanting to pay for subscription multichannelling.
23. Substantial Australian companies, including the Seven Network, would be prepared to provide FTA digital multichannelling service.
24. A "use it or lose it' regulatory regime could be considered for multichannelling. This would afford established broadcasters the opportunity to compensate for audience fragmentation by operating more channels.
25. The digital policy of the Government needs to be recognised as having failed with less than 5% penetration after 3 years. Multichannelling would provide the better driver to convert Australian homes to digital.
26. The impact of multichannelling in the US, the UK and Australia has been to generate additional advertising with the existing FTA networks still enjoying advertising revenue growth greater than the growth in the economy.
27. The economic rationale is that as multichannelling, with its very small individual audiences, is not a close substitute for an established channel, the effect on their revenue would be minimal.
28. Subscription television, after nearly 10 years, has a penetration rate of 21% of homes and share of all

AANA position as stated at the Productivity Commission during its Inquiry into Broadcasting

"Quite simply, the AANA advocates that our media should be operating in an open and competitive market subject to the same market dynamics experienced by much of the commercial sector."

viewers of 10% only has a 3% share of television advertising revenues representing no threat to the businesses of the FTA networks.

29. Subscription TV after nine years is well established, generates over $1 billion in revenues annually, has only two major operators which are not in direct competition, and does not need protection in the future from competition.
30. Advertising revenues are in line with this authors report to DOTAC in 1990 that forecast that Pay TV would only attract up to a 7% share after 10 years.
31. Because of the lack of competition in the FTA market an increase in inventory (advertising spots) from multichannelling would not necessarily cause prices to fall directly in line with the increase in supply.
32. On the basis that alternative media (even SBS, STV and radio) are not a close substitute for mass audience channels, the impact of multichannelling on established broadcaster revenues can only ever be minimal.
33. Whether subscription elements could ever be used in multichannelling models should properly be an economic decision for the operators.
34. The UK experience with subscription multichannelling (ITV digital) and Australian experience with STV, demonstrates a consumer reluctance to pay to subscribe.
35. The application of additional requirements, such as including levels of Australian content should be kept to a minimum to obtain maximum benefits of free enterprise.
36. If the set top box could be supplied at a low enough price, that nearly all the population could afford (as in the UK) there would be no need for anti-siphoning protection.
37. FTA broadcasters should not be allowed to use the spectrum allocated for any other purpose than multichannelling but should be able to compete for additional spectrum on equal terms with other potential service providers.
38. Growth in advertising expenditures warrant a minimum of restrictions on multichannelling and related services going forward.
39. National competition policy has brought great benefits to the Australian public and the economy.
40. The television industry is the last major oligopoly whose position is entrenched and protected by Government policy.

41. There is no technical, economic or public interest reason to prevent increased competition in the future.
42. The defensive arguments by principally the Nine Network are spurious, unsupported by facts, against public interest and are the actions of an entrenched market power protecting their anti-competitive position.
43. The Seven and TEN network support the concept of FTA multichannelling but in different implementation.
44. Multichannelling is an opportunity for the Government to provide increased competition and television services that exist in other major economies in the public interest of Australians.