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Foxtel - Australia's version of Netflix or a Broadband Telco?

Submitted by Gary McLaren on Mon, 10/11/2014 - 08:32

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Last week, Rupert Murdoch, executive chairman of News Corporation, highlighted the growing threat to today?s traditional TV models from the new disruptive media model embodied by Netflix and Amazon.

?As an industry, we need a competitor ? a serious competitor ? to Netflix and Amazon,? Murdoch told [4] a conference in California last week.

This statement, and other developments in the US, will have been heard loudly in the headquarters of Foxtel back here in Australia. What will News Corporation, holder of the management rights and joint owner of Foxtel with Telstra, be planning for the only true new media company in the News Corporation part of the old media empire?

Murdoch?s statement was but one of many recent developments in the US highlighting the momentous changes happening in the traditional pay TV industry.

The new trend of ?cord cutting?

HBO?s CEO, Richard Plepler, rocked the industry in mid-October when heannounced [5] the Time Warner subsidiary would launch an ?over the top? (or OTT) video streaming service in 2015. HBO, the producer of popular TV series such as Game of Thrones, Sopranos and True Detective, has been a mainstay of the traditional pay TV model in the US.

HBO has broken ranks from the standard cable TV bundle lineup for one reason ? increasingly the US TV audience is deserting traditional cable pay TV. This is a new trend with its own catch phrase ? ?cord cutting?!

Over 10 million viewers in the US are now ?broadband only? and HBO wants to ?remove all barriers? to providing its content lineup to ?cord cutters? and new millennial?s who are not even entering the pay TV ecosystem. HBO will now deliver its portfolio of TV drama directly to these customers and bypass the middleman ? cable TV companies such as Comcast and Time Warner Cable (a separate company to Time Warner since 2009).

Indeed the cable TV companies that dominate the US subscription TV industry are now clearly becoming broadband companies. In August this year new research [6] highlighted that the top US pay TV companies have more broadband services than TV subscriptions.

Pay TV companies transitioning to broadband

Companies such as Comcast and Time Warner Cable (who incidentally are in the process ofseeking [7] regulatory approval to merge) now look to broadband for continued revenue growth, with the pay TV model in decline [6].

Another signal came this week when Comcast wasspotted [8] filing for the ?True Gig? trademark. Such a brand statement from Comcast could only mean it is shifting gear to focus on competing with the traditional telcos, AT&T and Verizon, and Google Fiber in the broadband market place for higher speeds. The new DOCSIS3.1 cable broadband standard provides such an opportunity for Comcast and other cable companies to compete with Fibre to the Premise technologies at Gigabit (or 1000Mbps) speeds.

So what does the changing TV and broadband landscape in the US signal for Australia?

Foxtel takeup low and also late to broadband

Foxtel?s takeup is low by international standards ? stuck at around 30% of Australian households for many years. Launched in 1995, Foxtel began life primarily as a defensive play for Telstra against the imminent threat of the Optus Vision cable pay TV network. After winning the highly strategic and costly battle to defend the Telstra fixed line telephony and (future) broadband monopoly, Foxtel settled into the traditional pay TV model of providing subscription TV over cable and satellite networks.

The combination of high startup costs and the restrictive anti-siphoning regime protecting Free to Air TV meant that pay TV did not grow to dominate the Australian TV media as it has in other markets. While still profitable, Foxtel does not have the size or clout of some of its foreign sibling pay TV companies.

On top of this it has been late to market with its broadband offering ? a standard part of most pay TV strategies in other markets. Muted for many years, its launch of a broadband, TV and telephony bundle has beenannounced [9] for ?late 2014?, but at the time of writing no further details are available as to exact timing and product offering.

But if the signals from the US are any guide, the future is now even more uncertain. Competition from the OTT offerings is likely to grow in Australia quickly. Netflix and Amazon have not arrived formally, but subscriptions to the US offerings via Virtual Private Networks (VPN) are growing [10] to significant levels.

Perversely, the recent data retention law fracas could actually see this increase as more consumers explore the use of VPNs to keep their online activities private. Some Australian broadband providers may even find ways to bundle VPNs with their basic service offerings, dramatically lowering the technology hurdles for the average user.

The recent announcement [11] that the Australian Football League (AFL) is planning to retain the rights to stream football matches live via the internet must also be taken seriously. This is becoming the norm in American sport content delivery ? it is only a matter of time before the Australian sport codes follow suit.

Foxtel has launched a number of services to keep abreast of the online content delivery market. Foxtel Play and Foxtel Presto have been launched for internet delivery of content.

But should it continue down this path and attempt to compete with the disruptive players that Murdoch is so concerned about? If the US media industry is feeling threatened by the growth and takeup of Netflix and Amazon, then Foxtel should be terrified.

The alternative is to follow in the footsteps of Comcast and Time Warner Cable and focus on broadband much like a traditional telco. We have even seen Verizon join forces with Netflix [12] and start bundling a Netflix subscription with new fixed broadband services in New York.

Foxtel and the Coalition?s NBN ? threat or opportunity?

Foxtel could become a Retail Service Provider (RSP) under Australia?s National Broadband Network (NBN) model. Its relationship with Telstra may complicate such an arrangement, but in principle such an approach could be quickly achieved.

But the NBN is not necessary a safe path given the uncertainty of key elements of the Australian Government?s policy on the NBN. The Vertigan Panel has recommended a split and eventual divestment of NBN Co?s technology assets, including the Hybrid Fibre Coaxial (HFC) network used by Foxtel in the major metropolitan areas. NBN Co has responded by splitting its HFC team into a separate business unit reporting to the CEO, a move supported [13] by the Minister of Communications.

In order to get a head of the game and grab control of the situation Foxtel could offer to ?buy? the HFC network from its partner Telstra. This would effectively short cut a risky government acquisition of the HFC network and later divestment process that would throw it open to wider potential bidders.

Telstra may or may not consider such a re-structure as to its advantage. It will depend on the future preference Telstra has for a post Vertigan style split of Australia?s NBN technology assets. Would it prefer to own and control the HFC or the Fibre to the Node / Premise networks? It is unlikely to be able to own and control both for competition reasons.

A strategy where Foxtel competes with Netflix and Amazon is unlikely to be comfortable for Telstra. Its recent sale of the Yellow Pages business Sensis highlighted the dangers of hubris in respect of local brands in today?s global online market. Telstra?s current CEO, David Thodey, may think twice about following the ?Google Schmoogle? [14] strategy of his predecessor by backing the local Foxtel against the global disruptors.

In any case Foxtel is facing an uncertain future. Its core market of being a pay TV service provider is facing disruptive change from Netflix, Amazon and other OTT video streaming entrants along with the likely delivery of premier sports directly over the internet. The recent 50% price cut [15] to its basic package is testament to the threat on the horizon.

Comparable cable companies overseas such as Comcast and Time Warner Cable in the US, Vodafone owned Kabel Deutschland in Germany and Ono in Spain, and Liberty Media owned Virgin Media in the UK are all becoming first and foremost broadband companies.

Will Foxtel follow their international counterparts and become a broadband telco or will it compete with the disruptive OTT media streaming players? It?s a tough choice ? but an important one!

Topics: Netflix [16] TV [17] Foxtel [18] NBN [19] Broadband [20]

Comments

Very good contribution, Gary. [21]

Graham Shepherd

- 10/11/2014 at 14:12 (last edited 1 minute ago)

Very good contribution, Gary. And very pertinent toGraeme Samuel's presentation at the CTO[22].
Regarding content:
All of the players, telcos, cable TV providers or OTT providers are now in the game of content. Relying on your access network for your customers is no longer good enough even for the biggest players. For Telstra, having lost its access monopoly, it is now seeking to lock in unique content. Foxtel likewise has to deliver content over any access medium. The proposed Comcast Time Warner merger is just another example of the same transition.
Every player is trying to secure their long-term market share and profitability. Unfortunately few put themselves in the position of the end consumer. In the process they put trust in their own brand at risk.
Content bundling is a particular example of creating distrust in consumers. It's an old autioneer's trick - one attractive item in a box of junk, take it or leave it. Possibly it has been the biggest blocker to Foxtel's growth in Australia. Telstra and Optus stopped rolling out HFC when they experienced churn rates of 30% plus and realised that profitability was going to be years off. The churn was not customers switching between providers but customers switching off. Remember that Telstra built and owned the HFC network for Foxtel but it is not clear that it ever recovered its investment.
Foxtel's price cuts are perhaps just a recognition that their content model stinks as far as consumers are concerned and perhaps it is a transition away from bundling.
The consumer ideal might be of old-style video stores with access to all content competing on price and ability to browse and stream at the highest quality of service. However, it is hard to imagine Amazon, Netflix, Foxtel, Telstra, etc, operating to this model. They are locking up content to keep their customers locked in and their competitors locked out. Mr Regulator, please step up to the mark!
Regarding access:
HFC still remains an enigma to me as a long term (even medium term) access technology.
To achive gigabit speeds NBNCo needs to invest both in continuing DOCSIS upgrades (relatively cheap) but also deploy many more network nodes (expensive). Managing both HFC and FTTN when the nodes are both approaching a couple of hundred metres to the home seems to me to be a massive duplication of resources and will result in operational headaches. Vertigan has an answer to this but it doesn't stack up to me when FTTP or FTTdp is the obvious end game for both HFC and FTTN. And I believe that the end-game, ie, gigabit access, is much nearer than the current government's advisors suggest.
For FTTN and HFC fibre is going to be deployed deep into the access network, passing most homes. In the final analysis the most expensive part of the deployment of the NBN is the customer lead-in whether by coax or by fibre. Since almost every residence has copper pair lead-in now, FTTdp would provide a low cost access to everyone without incurring a high lead-in cost. Customers who want more can pay for it. This might be the best way for NBNCo to slash costs and accelerate project completion.

HFC Exploitation... [23]

Craig Watkins
- 26/11/2014 at 11:18

I appreciated many great points both in the original article by Gary, and in the above comment by Graham. Ultimately we must be fully aware of the long-term trends in video content that dictate directions that our communications systems take.
Globally the cable industry has become an important player in the provision of broadband services.

There is even reason to suggest it has a valuable role already in the Australian context, despite comparably low penetration rates. In the US market it is easy to see how competitive forces coupled with high Cable TV take up rates from 20+ years ago have led to strong cable broadband offerings today.

The outlook is clearly for access technology of any flavour to be the means for delivering IP broadband service, and other video content services being over the top of this. Of course the larger companies can be expected to flex their 'monopoly' power to the extent that this is allowed. Some companies will certainly attempt to lock up popular content and maintain regular monthly subscription services. However, many consumers are also likely to source content from a large range of disparate sources. The popularity of YouTube is unlikely to wane in the near future, and there is additionally an enormous wealth of "special interest" content that exists beyond YouTube.

The issue with HFC content delivery would seem to be ensuring that the access network component is up to the task of this continued rapid increase in throughput. The headline speeds of 100 Mbps is obviously not the problem. The amount of sharing on DOCSIS nodes is the concern. If the HFC NBN lives up to any sensible expectations, then we must assume that a significant number of new cable lead-ins will need to be constructed. There is a cost associated with these lead-ins. Bill Morrow when recently speaking with Phil Dobbie, has suggested that for aerial lead-ins the cost is tiny. Whatever the reality is on that score, the fact is that the cost of such lead-ins extends beyond the lead-in itself. With the addition of more premises on any physical HFC node area, there quickly becomes a need to split nodes (in excess of that which might be necessary only due to organic demand growth).

We have not yet seen any detailed discussion of HFC and these types of issues from NBN Co. With luck we will see something before long (it is almost 12 months since the Strategic Review document was published). The concern is obviously, as Graham has suggested, that the real cost of HFC use as part of the NBN is likely to be significantly higher than indicated as part of the Strategic Review.

What is the alternative? Is it economic to exploit both the HFC infrastructure and the twisted pair copper infrastructure in the same area? A priori this sounds like a bit of a nightmare, locking in duplicate and disparate infrastructure forever. The rationality of FTTN in 2014 is not particularly compelling for non-HFC areas if you contemplate sensible demand growth projections. FTTN in contrast to HFC offerings would seem even less appealing. If small nodes were used (maximum of a couple of hundred meters from premises), then the performance offered by Vplus (recently announced by Alcatel-Lucent) represents close to the maximum we can expect. This might be a good level of capability for today, but the picture is unlikely to be quite as bright in even 5 years.

A perhaps similar investment compared to the small node Vplus option, is likely to deliver a significant number of HFC aerial cable lead-ins and associated node splitting. The questions here would seem to be what size of HFC node is going to serve the longer-term data throughput requirements, and how many rounds of node-splitting are needed to get there (over what period)? Certainly the economics of having trucks and crews in the same area two years after they were first there would seem a bit foolish. On the other hand a single-step upgrade to the 'end game' is likely to be much higher initial investment than prudent.

It seems that to properly exploit the HFC infrastructure we need solid answers to these sorts of questions. The chance of us obtaining sensible answers is not strong if we follow flawed demand growth logic as the Communications Chambers report appears to have done in relation to video compression technology misunderstandings. In any event, there have been a lot of clock ticks since 2009, and many in the last year. We need to see some evidence that there is a sensible plan for the HFC infrastructure.

The cost-benefit equation of HFC investment should be compared to a baseline of deep-fibre FTTdp, as this promises network capability effectively identical to full FTTP (fibre drops able to be added on demand by individual premises as required in the future, and very high DSL-based connectivity demand by individual premises as required in the future, and very high DSL based connectivity today), at a reduced cost by avoiding the expensive fibre drops. For aerial fibre distribution the FTTdp approach is unlikely to offer a positive cost-benefit equation to full FTTP, so this might be expected to be the baseline comparison there. The point to having a systematic baseline is that we can properly assess HFC investment opportunities and make rational determinations on the optimal way forward. HFC clearly offers the ability for the NBN to cobble something together quickly (and perhaps cheaply depending on negotiations with asset owners). The option must be properly assessed in comparison to the long-term evolution plan and the total investment of cost and time to deliver that over HFC versus other baseline options.

I know there are some really great minds at NBN Co, but it does concern me that we see little evidence of progress. A number of comments made by senior executives in Senate hearings appear to strengthen such concerns. The nation needs a first-class NBN outcome. Most importantly we need to know we are heading towards such an outcome.

Links

[1] https://www.addtoany.com/share#url=https%3A%2F%2Ftelsoc.org%2Fblog%2Ffoxtel-australias-version-netflix-or-broadband-telco&title=Foxtel%20-%20Australia%27s%20version%20of%20Netflix%20or%20a%20Broadband%20Telco%3F [2] https://telsoc.org/printpdf/663?rate=GUf1YX9pJqRZJxMAQfFiIRgzVJQTP0qDBxRJLtl1STs [3] http://www.mclarenwilliams.com.au/2014/11/04/foxtel-future-australias-version-netflix-broadband-telco/ [4] http://www.theguardian.com/media/2014/oct/29/rupert-murdoch-media-firms-unite-streaming-rivals-netflix-amazon [5] http://variety.com/2014/tv/news/hbo-to-launch-over-the-top-service-in-u-s-next-year-1201330592/ [6] http://online.wsj.com/news/articles/SB10000872396390443792604577574901875760374 [7] http://www.washingtonpost.com/business/economy/comcast-time-warner-agree-to-merge-in-45-billion-deal/2014/02/13/7b778d60-9469-11e3-84e1-27626c5ef5fb_story.html [8] http://www.multichannel.com/blog/bauminator/comcast-goes-true-gig-trademark/385086#.VFCF0VChvdY.twitter [9] http://www.foxtel.com.au/about-foxtel/communications/foxtel-to-launch-triple-play-of-television-broadband-and-fix-223504.htm [10] http://www.lifehacker.com.au/2014/07/how-many-people-use-netflix-in-australia/ [11] http://www.abc.net.au/news/2014-10-28/afl-streaming-plan-good-for-fans-says-club-president/5847300 [12] http://www.multichannel.com/blog/bauminator/verizon-fios-offers-gift-netflix/385144 [13] http://www.malcolmturnbull.com.au/media/speech-to-ovum-conference-a-competitive-framework-for-australias-telco-sect [14] http://www.zdnet.com/telstra-traces-decline-of-golden-egg-sensis-to-gfc-and-google-7000025056/ [15] http://www.theaustralian.com.au/media/foxtel-gambles-on-price-drop-lifting-marketshare/story-e6frg996-1227048167214 [16] https://telsoc.org/topics/netflix [17] https://telsoc.org/topics/tv [18] https://telsoc.org/topics/foxtel [19] https://telsoc.org/taxonomy/term/36 [20] https://telsoc.org/topics/broadband [21] https://telsoc.org/comment/676#comment-676 [22] http://telsoc.org/event/national/2014-11-05/charles_todd_oration_2014 [23] https://telsoc.org/comment/691#comment-691