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Emerging Trends in Content Creation and Consumption and Implications for the Australian Communications Sector

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Introduction

In this short essay I will focus on audio and audio-visual content as this is the purview of the ACMA. Additionally I will apply an economic lens to the question, that is, focus on costs, distribution and market participants, rather than address issues of changing content formats or genres.

The “Australian communications sector” is taken to be the Australian broadcasters (television and radio) as well as the telecommunications sector.

Content creation trends in Australia

1) The middle disappears.

Content creation is polarizing between increasingly expensive, high quality content, produced by traditional television and radio broadcasters and production houses (but not limited to traditional distribution channels) and inexpensive, internet-delivered content created by enthusiasts and non-professionals, sometimes described as “user-generated content” or UGC.

In the former category, increasing costs are driven by talent fees, high production values and rights costs, such as sports rights. Content costs for free-to-air television have increased from 43 percent of revenue in FY10 to 56 percent of revenue in FY14[1]. Subscription television’s expenditure on Australian content increased from $578 million in 2010 to $796 million in FY15, a 6.6 percent compound annual growth rate[2].

In the latter category decreasing costs are driven by cheaper and ubiquitous filming and editing tools, including smartphones and the ability to defray costs by receiving props and other on-screen products from advertisers who are starting to embrace user-generated content as a direct way to access audiences.

It should be noted however that not all internet-delivered content is inexpensive to create. Subscription Video on Demand (SVOD) services such as Netflix, Foxtel’s Presto and Nine Entertainment Co’s Stan offer expensive professional content that previously (pre-internet) would only have been seen on television.

It should also be noted too that the vast majority of creators of UGC or non-professional content uploaded on platforms such as YouTube are not getting rich from their content. The business model of these aggregator platforms is to not provide financial support to creators for production and to take a significant (approximately 45%) share of any advertising revenue created. Christiaan Van Vuuren, a successful Australian YouTube and television performer (creator of the Bondi Hipsters) says:

“The internet is a wild west in terms of a financial model. Creators aren’t being paid enough for what they do but the distributors are making a lot of money. We used YouTube to build an audience to show our appeal to traditional producers such as the ABC (TV). On those [traditional platforms] we could spend more on the production values of the content.”[3]

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[1] “The Value of Free TV”, Venture Consulting, May 2015

[2] Data supplied to PwC by ASTRA, the Australian Subscription Television and Radio Association, 15 October 2015. CAGR calculation by PwC.

[3] Christiaan Van Vuuren to PwC, 11 August, 2015

2) Funding for traditional content creation is diminishing.

Free-to-air television and broadcast radio are expected to receive diminishing returns from their content as advertising revenue migrates to online channels, with the majority of that revenue moving to global platforms that do not create content, for example Google and Facebook. PwC forecasts that free-to-television will have a zero compound annual growth rate to 2019 and that traditional broadcast radio will have a 2.2 percent compound annual growth rate over the same period[4].

While there has been much hypothesising that time spent consuming television and radio is dropping, in reality the declines are negligible. In the second quarter of 2015 Australians spent on average 91 hours a month watching live television, down from 97 hours the year before[5]. Some of this drop can be explained by an increase in time-shifted viewing, enabled by personal video recorders (PVRs) which are in 57 percent of Australian homes now[6]. In radio, time spent listening has dropped only slightly from 19 minutes 21 seconds per week in 2012 to 18 minutes 8 seconds per week in 2014[7]. For broadcasters, the near term challenge is lack of revenue growth to support the creation of content and a mid-term challenge is the shift by young people away from traditional broadcast content[8].

3) The growth in "native" or brand-funded content means brands and advertisers are commissioning and creating content.

As the use of ad-blocking software becomes common (four million Australians are estimated to use ad-blocking[9]) and ad-skipping becomes prevalent, (enabled by personal video recorders) the nature of advertising is changing to become more embedded and "content-like". Brands and advertisers are creating short films and editorial-style content to engage consumers with content on their own digital assets, for example their corporate sites or their Facebook page. While the size of this market is not known, PwC research shows that two-thirds of marketers are taking advertising budget from traditional channels (such as television) to spend on making content, mostly text-based and video[10].

Publishers are reporting a growing proportion of their advertising revenue comes from native advertising, for example, Mama Mia, Australia's largest and most popular independent women's site reports that 60 percent of their revenue is now from brand-funded content[11].

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[4] Advertising revenue forecasts from PwC's Australian Entertainment & Media Outlook 2015-2019, published June 2015

[5] Australian Multi-screen Report for Q2, 2015, OzTAM, Regional TAM and Nielsen

[6] Australian Multi-screen Report for Q2, 2015, OzTAM, Regional TAM and Nielsen

[7] Data supplied by Commercial Radio Australia (CRA). Radio listening refers to all radio, not just commercial radio.

[8] Teens and 18 to 24 year olds spend less than half the time watching television than the average Australian and up to seven times as much time watching online video on their smartphones. Data sourced from Australian Multi-screen Report for Q2, 2015, OzTAM, Regional TAM and Nielsen

[9] "Ad-blocking warning as take-up soars," Paul McIntyre, Australian Financial Review, 10 August 2015

[10] PwC's Australian Entertainment & Media Outlook 2014-2018

[11] "Mamamia: there is no church and state with branded content," Sarah Homewood, AdNews, 2 October 2015

Content consumption trends

1) ***Content is consumed on-demand.***

   A growing trend is for viewers and listeners to choose content "on demand", that is, to consume content from a stored library of content at a time that suits them, as opposed to when it is scheduled by a broadcaster. "Catch-up" television, podcasts, YouTube and subscription video on demand (SVOD) services are all examples of non-linear content, delivered online.

2) ***Content is consumed "on the go" via mobile internet-connected devices.***

   While some media has always been mobile – notably radio and newspapers – there is an increasing trend to watch video and listen to streaming music (delivered via the internet) via connected mobile devices. More than 10.7 million Australians are using video and streaming services on their smartphones and 5.2 million are consuming these services on their tablets[12]. Additionally, mobile devices generate more sessions, of shorter duration[13]. The prominence of this trend to mobile internet usage for bandwidth-hungry services such as video streaming has led telecommunications operators to offer more public WiFi hotspots to relieve pressure on their mobile network infrastructure.

3) ***Social and algorithmic recommendations replace the schedule.***

   Due to the on-demand nature of much media consumption, deciding what to watch or listen to will be strongly influenced by recommendations – either driven algorithmically by the platform used by the consumer or by the consumer's social networks. Facebook is the number one referrer of news stories now[14]. On demand platforms' recommendation engines are so important to sustaining demand for their content that they attract considerable development funding. For example, Netflix, arguably the world's best-known subscription video-on-demand service, spends US$350 million per year on improving its technology, including its recommendation engine[15].

4) ***Content is consumed via multiple screens simultaneously.***

   Television is the screen *least likely* to attract a consumer's full attention according to IAB research[16]. Typically a consumer is using an internet-connected mobile device while watching or listening to broadcast content. Sometimes their

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[12] IAB Nielsen Mobile Ratings Report October 2015

[13] IAB Nielsen Mobile Ratings Report October 2015

[14] According to online traffic analytics firm pars.ly, Facebook refers 43 percent of all traffic to media sites as reported in "Facebook has taken over from Google as a traffic source for news," Mathew Ingram, Fortune.com, 15 August 2015

[15] "Is OTT TV the digital turning point for the TV Industry?", PwC Outlook Special Report, July 2015

[16] Only 5 percent of television viewers watch television without using another screen simultaneously and 60 percent of viewers report that they "frequently" use a second screen simultaneously, most typically a laptop computer. IAB Multi-screen Research, 2013.

online activities relate to the broadcast content – they may be tweeting about the show or looking up additional information about the presenters or characters – or they may be doing something entirely unrelated to the broadcast content.

If the consumer is using their connected device to create or consume content related to the broadcast, this is an advantage for broadcasters as it encourages "live" viewing – in which ads are watched - and deeper engagement. Tweeting about live television shows while watching them is becoming so common that measurement company Nielsen has developed a Twitter TV ratings metric to convey a program's level of audience engagement.

5) ***Content will be consumed via walled gardens or apps.***

Apps have been with us for a long time however audio and audio-visual content is increasingly being delivered by apps downloaded to smartphones, tablets or internet-connected televisions or gaming consoles. Much of this content will be streamed, i.e. a duplicate of the linear broadcast, for example the Seven Network has announced it will stream its three channels 7, 7Two and 7mate from December 2015. Some radio broadcasters also stream their content via apps, for example Australian Radio Network (ARN) via its partnership with iHeart Radio. As part of this trend, app aggregators are emerging – Telstra's Roku box, Fetch TV and a number of the connected television manufacturers are doing deals with content companies to have their content streaming apps pre-loaded.

6) ***Piracy increases as more content is consumed online.***

According to the Intellectual Property Awareness Foundation's research, the percentage of Australian adults engaging in online content infringement is growing, having increased from 25 percent in 2013 to 29 percent in 2014. Piracy activity is highest amongst 18 to 24 year olds where 54 percent are active pirates[17]. The ease with which content can be downloaded illegally is often cited as one of the drivers of piracy. IPAF's survey showed that 73 percent of pirates said they would view content legally (via the cinema, legal online sources or DVD) if a pirated version was not available.

7) ***Consumer payments for content shift from content makers/owners to telecommunications providers as distribution moves online.***

As content digitises and is increasingly delivered over IP platforms, payments made by consumers to content makers/owners for content generally reduce. Digital music – streamed or downloaded – is much less expensive than traditional physical albums. Subscription television delivered via cable or satellite is more expensive than IPTV. For example, Foxtel's overall average revenue per user (ARPU) was $93 a month in FY15[18] while its IPTV service Presto costs only $9.99 per month, clearly a lower return. Digital books are less expensive than physical books and films sold via transactional video on demand (TVOD) are less expensive than traditional DVDs.

A new cost for consumers is emerging however, the cost to access the content over the internet. This cost increases significantly if the content is bandwidth-hungry, such as streamed audio-visual content.

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[17] "Online behaviour and attitude of Australians to movie and TV piracy", IPAF, 2014 research.

[18] Telstra FY 15 Results Presentation 13 August 2015

A way to illustrate this is to look at internet access costs (both fixed and mobile) as a proportion of overall consumer expenditure on entertainment and media products and services. Since 2010, access has increased as a proportion of total expenditure and PwC expects this trend to continue, as the table below demonstrates:

	2010	**2015**	**2019**
What % of total consumer spend is internet access?	39%	46%	50%
What % of the total consumer spend is film (home entertainment), music and STV subscriptions?	26%	23%	21%

Source: PwC Entertainment & Media Outlook 2015 to 2019

Implications for the Australian Communications sector

1) ***Structural headwinds for traditional broadcasters.***

   Increasing costs and growing competition for advertising revenues and/or audience from over-the-top competitors (YouTube, Netflix, Facebook, Pandora and Spotify) is creating a pincer movement of structural challenge for the Australian television and radio industries. While all traditional broadcasters are investing in their digital platforms to recapture some of the migrating ad dollars, the more crowded online advertising market does not deliver the same returns as traditional broadcast advertising.

2) ***Diversified business models are emerging.***

   Diversifying their business models is critical and underway for most of the broadcasters which are investing in adjacent businesses e.g.: NEC's stake in youth news site, Pedestrian.tv and ARN owner, APN News & Media's acquisition of branded content agency, Emotiv. Additionally, the Seven Media Group and the Nine Entertainment Company have invested – with partners - in subscription video on demand offerings, namely Presto and Stan respectively. Australia's small domestic market, competition from global player Netflix and low price points for the offerings (sub $10 per month) suggest that these businesses will be marginal in terms of replacing lost advertising revenue.

3) ***Significant technology investment is needed by broadcasters to compete for both consumer interest and advertiser revenues.***

   Delivery of audio and video content online, often on-demand and often via apps (internet walled gardens) means broadcasters need to develop discovery or recommendation engines to prompt viewers and listeners to find and consume more of their content. These engines are expensive to develop, refine and maintain. Additionally, other technology investments will be required to compete with online advertising giants such as Google and Facebook, for example in automated advertising sales.

4) ***Demand for online video puts investment and infrastructure pressure on internet access providers.***

   As the delivery of audio and audio-visual media shifts to internet delivery, the telecommunications sector is expected to experience significant growth in demand. Cisco forecasts that globally, consumer internet video traffic will be 80 percent of all consumer Internet traffic in 2019, up from 64 percent in 2014[19]. Optimising networks for video distribution – including building in capacity and video-related technologies such as caching – will be critical. One significant

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[19] Cisco Visual Networking Index, 2014-2019, published 27 May 2015

challenge will be developing business models to ensure the investment in video-related costs receives a return.

Broadcasters shifting delivery to the internet will be challenged by the different levels of quality in broadband infrastructure across the country, although the National Broadband Network rollout will smooth out over time some of these variances between regional and metropolitan areas.

5) ***Telecommunications providers get more involved in content as an investment and a differentiator.***

We expect telecommunications companies to take a deeper interest in media assets to differentiate their offering, either through partnering or as sole online rights owners. Telstra in Australia has been involved in content for a considerable time, via its 50 percent stake in Foxtel, its Bigpond media assets – including the online rights to AFL and NRL football - and now its Roku streaming media box. The acquisitions of Ooyala, an online video delivery and analytics platform and Globecast, a broadcasting services business are other examples of Telstra's ongoing media interests. Optus and iiNet have partnerships with subscription video-on-demand player Fetch TV so they can offer bundles of services that include content. Such bundles, referred to as a "triple play" (phone, internet and subscription television content) are common ways for telecommunications companies to improve retention rates amongst their customers. This is a worldwide trend with new content deals reported regularly. For example, China Telecom has recently announced it will deliver a financial news and information service to its subscribers, sourced from *Ta Kung Pau* newspaper content[20].

6) ***Continued tensions regarding the best way to tackle piracy.***

The audio visual industry and the telecommunications industry are at odds regarding how piracy should be curbed and who should pay for providing the constraints. Television participants such as Foxtel argue strongly that internet service providers should take responsibility for curbing copyright infringers through a graduated response starting with warnings and ending with terminating their internet access. Telecommunications providers such as iiNet and Telstra argue that such a scheme would be a large cost imposte. At this time there has been no resolution to the debate.

[20] "China Telecom to launch financial news service," Dylan Bushell-Embling, Telecom Asia, 22 April 2015