



An Analysis of Competition and Regulatory Intervention in India's Television Distribution and Broadcasting Services

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Objective of the study

- ▶ Trace the evolution of TV broadcasting and distribution services in India with a special focus on the Cable and DTH industry
- ▶ Examine the market structure and level of competition in India's broadcasting and distribution services
- ▶ Examine conduct by service providers and argue for regulatory oversight
- ▶ Analyse recent regulatory interventions in this market in India, underpinning the analysis in economic theory and international best practices

An overview of India's Television Distribution and Broadcasting Services

- With 197 million TV households, India is the second largest television market in the world, next only to China.

Key Facts :

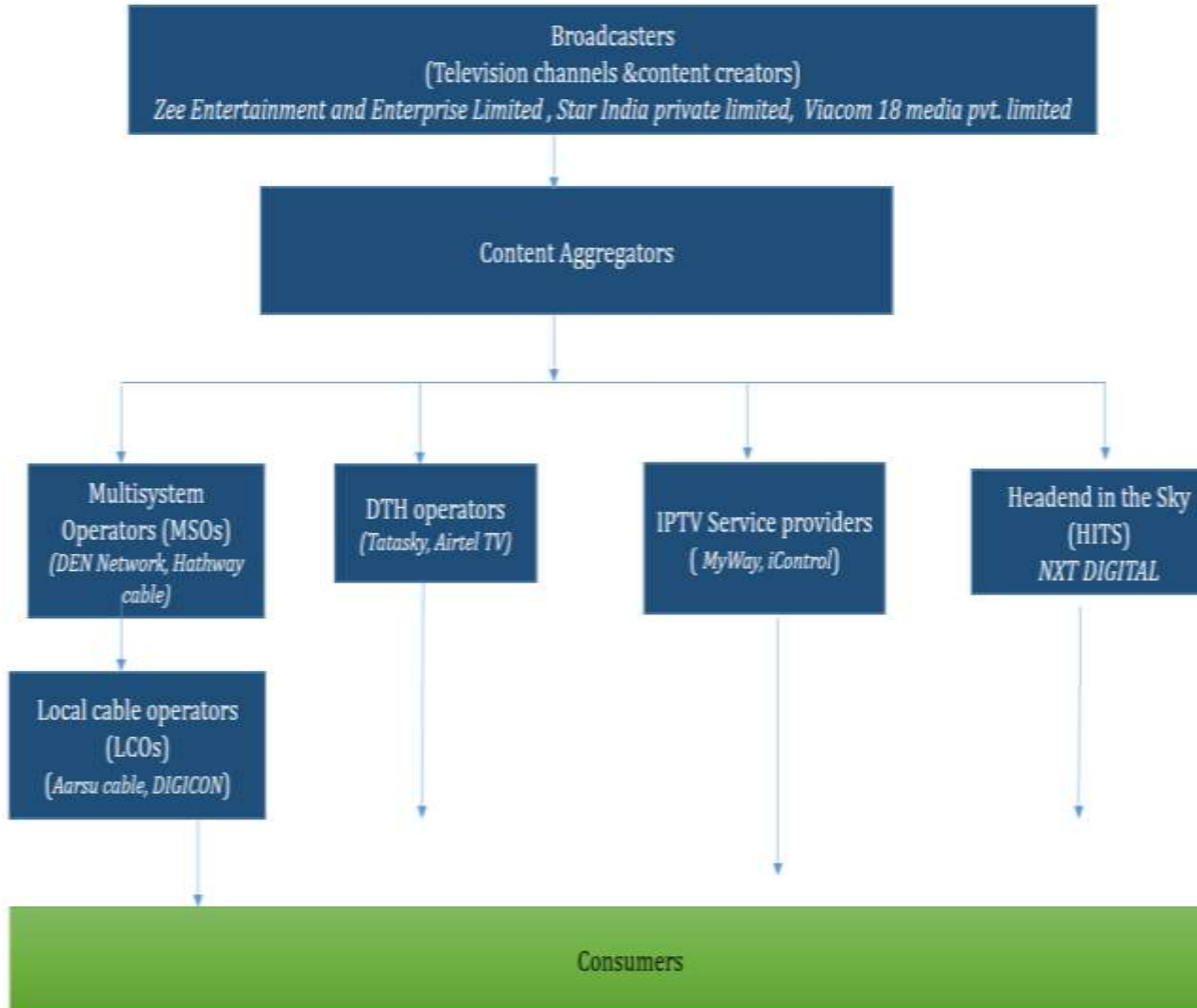
- Revenue of the industry -INR 66,000 crore
- The industry boasts of more than 800 channels across various genres.
- Average time spent by an individual viewing TV content is 3 hours 44 minutes (*BARC*)
- Emergence of OTT and IPTV players.
- India has nearly 30 active OTT platforms and the market is expected to grow further, doubling over the next four years, to reach US\$ 218 million in FY2020 from US \$ 109 million in 2017 (*Deloitte*).

Advertisement and Subscription revenue from Pay-Tv industry

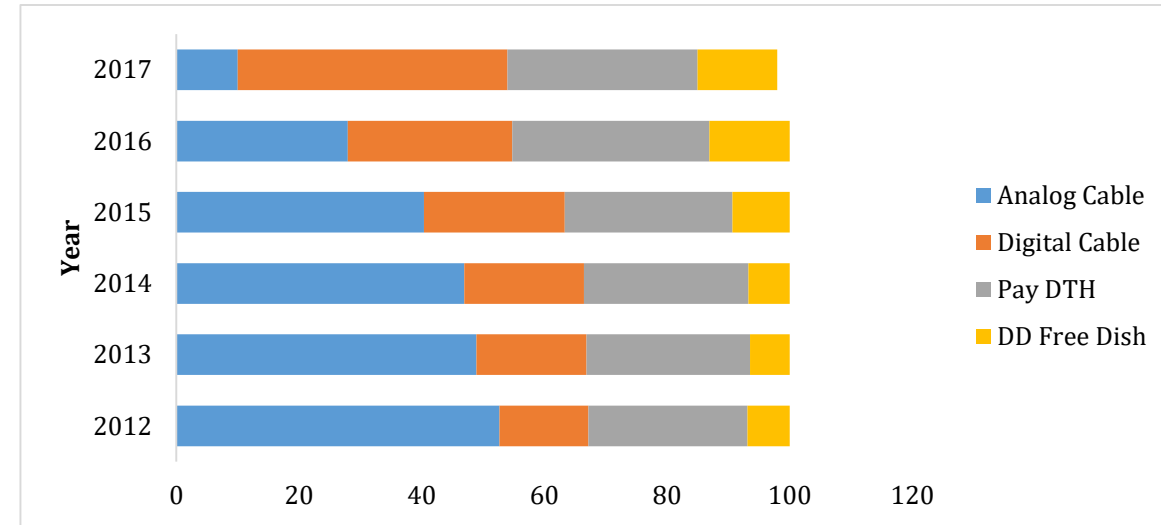
Countries	Advertisement Revenue (US \$ billion)	Subscription Revenue (US \$ billion)	Ratio of Advertisement Revenue to Total Revenue	Ratio of Subscription Revenue to Total Revenue
China	8.36	19.50	0.30	0.70
India	5.50	3.74	0.60	0.40
USA	70	98.90	0.41	0.59
UK	4.91	8.06	0.38	0.62
Indonesia	2.80	0.80	0.78	0.22

Source: Statista 2017

Broadcasting Services and the Distribution Value Chain



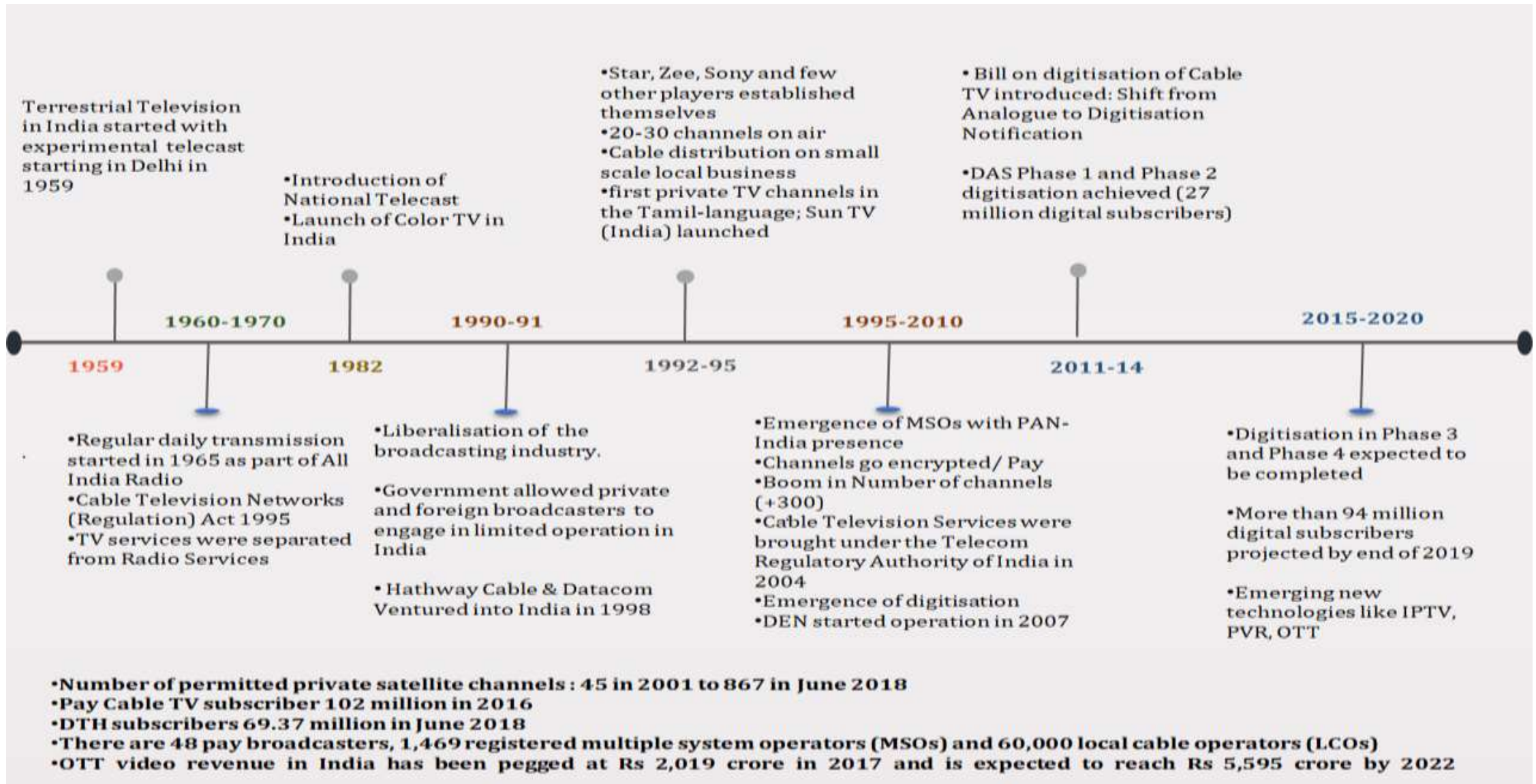
Market Share for DPOs in India Over Time



Source : TRAI & FICC Frames 2017

- According to MIB there are 1,469 and 60,000 registered MSOs and LCOs respectively.
- The DTH sub-sector comprises of 5 operators
- As of June 2018, the reported number of active DTH Pay-TV subscribers were 69.37 million. According to Ernst & Young, DTH service providers and the top 10 MSOs served around 66% of the Pay TV homes in 2018.

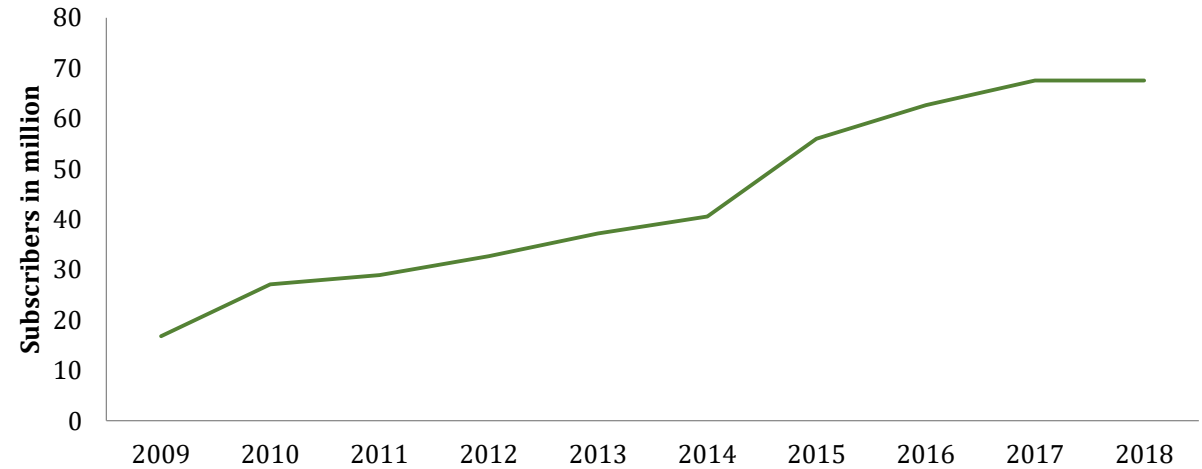
Evolution of India's Television Broadcasting and Distribution Services



Cable and Direct-To-Home (DTH) Markets in India

- Cable TV is managed and run by various business houses in India. Some of the prominent national MSOs are Siti cable, Digicable, Hathway Datacom, IndusInd Media & Communication Ltd. and DEN Networks Ltd.
- There are also a large number of small-sized MSOs. More than half the subscriber base for cable subscribers is shared among the top ten MSOs

Number of Active Pay Subscribers for Private DTH Operators (in Million)



Source : Compiled from TRAI performance Indicator Report

Share of Revenue Collection before and after Digitisation for cable TV

	Before Digitisation	After Digitisation
Consumer ARPUs	100%	100%
LCOs	65%-80%	45%-55%
MSOs	10%-20%	15%-25%
Broadcaster	10%-20%	20%-30%

Source: FICCI-EY, 2018 report

HHI and Subscriber Market Share for DTH Operators

	Market Share for 2018	Market Share for 2017	Market Share for 2016	Market Share for 2015
Tatasky	25	23	23	21.52
Reliance	1	2	2	3.19
Sun Direct	10	9	10	10.18
Airtel	21	21	20	20.26
Dish TV		25	25	24.92
Videocon D2H	43	20	20	19.93
HHI	3016	1680	1658	1608.39

The Relevant Market for Cable TV and DTH

- From the *product market perspective*- DTH services were very different from cable services. In terms of the quality of signal transmission, picture quality, gaming and educational services offered as part of the package, DTH seemed to ostensibly cover many more areas as compared to the narrow base covered by cable services
- From *the relevant geographic market* perspective, cable TV networks operate on a state/regional basis and can choose specific channels to be supplied. On the other hand, DTH services operate on a national basis and transmit the same channel throughout the country, irrespective of variations in demand
- Despite the segregation of markets, DTH continues to be a competitive threat to cable TV operators and vice-versa. Consumers have the option to buy either DTH or a cable connection.
- The consumer's preferences are then based on the quality of service, affordability, breadth of content and the convenience of customer services.

Tariff Regulation in India

- ***In addition to the*** Telecommunication (*Broadcasting and Cable*) Services (*Eighth*) (*Addressable Systems*) Tariff Order, 2017, seven other order tariff orders have been implemented in India

To address market failure

- Issues related to transparency, non-discrimination and level playing field continued even after introduction of digital addressable system
- Broadcasters provided incentives to distributors of television channels for carrying all their channels in a particular bouquet. As a result some MSOs end up getting signals only on RIO rates, which are very high resulting in discrimination and non-transparency

Guidelines of the Order

- i. Broadcasters should declare their MRP (excluding taxes) per month for individual Pay channels
- ii. DPOs are entitled to a “Distributor Fee” of 20% of the MRP for Pay channels or a bouquet of Pay channels.
- iii. The network capacity fee is regulated - for the first 100 SD channels a DPO could charge Rs 130 and for each additional 25 SD channels, an extra Rs. 20 can be charged
- iv. A ceiling of 20 paise per subscriber per month has been prescribed for SD channels and 40 paise per subscriber per month has been prescribed for HD channels. Further a maximum discount that can be offered by a DPO to a broadcaster has been capped at 35% of their entire channel carrying capacity.
- v. A bouquet of channels should not be priced at less than 85% of the sum of their *a` la carte* pricing.
- vi. The maximum Retail Price (MRP) per month for a bouquet of Pay channels shall be uniform for all distribution platforms
- vii. A bouquet shall not include any free-to-air channel
- viii. A bouquet shall not contain both HD and SD variants of the same channel

Argument For and Against the New Tariff Order

Arguments favouring the New Order:

- The Order has made it compulsory for the broadcaster to disclose package rates and channel prices offered to all DPOs bringing in more transparency
- Under the new regime, the pricing by broadcasters will become more uniform.
- The MRP declared by the broadcasters will be available on the electronic programme guide (EPG) of each distributor
- The order will lower cost for price-sensitive consumers who watch limited genres

Arguments Against the New Order:

- The Order has regulated every aspect of the DPO business including margins on the price paid by subscribers.
- The Order may disincentivise development of innovative and premium content that have relatively low viewership
- Implementation of the Order would involve massive compliance costs. There still remains a significant chunk of analogue connections, implementing the order within this cohort will be very challenging
- For consumers with viewing preferences that are inelastic or vary across genres, the cost could in fact increase

A Comparison of Channel Pricing Before and After the New Tariff Order

Channel Name	Genre	MRP per subscriber per month	Old A-la-carte Rate for addressable systems as offered by broadcasters to DPOs as of June 2018	Difference in the rates (% increase/ decrease)
Colors SD	General Entertainment	19	8.99	111.35
Colors HD	General Entertainment	19	30.00	-36.67
Zee TV SD	General Entertainment	19	5.83	225.90
Zee TV HD	General Entertainment	19	30.00	-36.67
Sony SET	General Entertainment	19	8.99	111.35
Star Plus	General Entertainment	19	7.87	141.42
Zee Cinema	Movies	19	5.83	225.90
Star Movies	Movies	12	7.42	61.73
Set Max	Movies	15	7.64	96.34
TEN 1	Sports	19	6.74	181.90
Star Sports HD 1	Sports	19	14.89	27.60
Star Sports HD 1	Sports	19	35.00	-45.71
Cartoon Network	Infotainment	4.5	5.62	-19.93
Fox Life	Infotainment	1.0	1.0	0.00
National Geographic	Infotainment	2	2.58	-22.48
National Geographic HD	Infotainment	10	16.00	-37.5
Disney Channel	Infotainment	4	4	0.00
NDTV 24*7	News	3	3.82	-21.47
Aaj Tak	News	1	3.15	-68.25
Discovery	Infotainment	4	6.74	-40.65

- The average price for SD channels before the Order was Rs. 5.56 and has now increased to Rs. 6.05.
- Channels with inelastic demand, such as those providing general entertainment, movies and sports content have increased by over 100 percent in several cases
- The average price of HD channels before the Order was Rs. 48.2 and has now declined to 30.60
- Since the announcement of the new Order broadcasters have revised the rate for 83 individual channels and 33 bouquet packs. 132 new bouquets have been added by broadcasters

Price list for base value pack by Broadcasters for DTH operators

	Pack Name	Number of Channels in Bouquet	MRP of Bouquet (in Rs.) (excluding taxes)	Average Price per channel	A-la-carte MRP of Channel (in Rs) (excluding taxes)	Discount on Bundles (ala carte MRP of Channels - MRP of Bouquet/ MRP of Bouquet)
Star India	Hindi / Star Value Pack	12	49	4.08	73.00	48.9%
Zee Entertainment	Zee Family Pack Hindi SD	24	45	1.88	76.60	70.2%
Sony Pictures Network	Sony Silver Pack	9	31	3.44	63.00	103%
Disney Broadcasting India Limited	Universal Bouquet	7	10	1.43	27.00	170%
Discovery Networks	Basic Infotainment Pack	8	8	1.00	18.00	125%
Times Network	Bouquet 1	4	5	1.25	8.50	70%
Turner International Pvt Ltd.	Turner Kids Pack	2	4.25	2.13	8.50	100%
NDTV	NDTV ULTRA	4	3.50	0.88	6.50	85.7%
TV 18	Hindi Budget	17	22	1.29	34.50	56.8%
Total		87	177.75		315.6	

- In a comparison of bouquet packs, the average price per channel has not changed significantly under the new regime.
- The discount on bundles continue to be in the range of 50 percent upwards and for smaller packs the sum of individual channel prices is 1.7 times of the pack.
- Packs continue to provide a mix of popular channels with high impressions and those which are relatively unknown.
- Under the new regime, If the consumer chooses to buy all basic value packs it will cost them Rs. 178 for 87 additional channels offered by 9 broadcasters.
- *For every 20 additional channels, a network fee of Rs 25 will be charged. As a result, consumer would have to pay Rs 130 (FTA) + Rs.178 (87 Pay Channels) + Rs. 109 (Network Capacity Fee). This accrues to a total of Rs 420 per month excluding taxes*

Early Trends

TRAI has extended the deadline for roll out of the Order to March 31st. This is on account of the challenges faced by DPOs, especially the smaller LCOs.

"TRAI chairman said that the initial data they have received from the broadcasters show that bills have gone down by 10-15% in metros and 5-10% in non-metros

According to a direction by TRAI - subscribers who do not exercise their options shall be migrated to a 'Best Fit Plan' (DPOs shall convert their 'Best Fit Plan' into the desired pack (channel/Bouquet) within 72 hours from the time choice exercised by the Subscriber)

The Best fit Plan:

Is to be based on consumer's usage pattern

Is to be based on consumer's language spoken

The payout should not exceed that of the existing tariff plan

Responses from stakeholders

According to Live Data provided by Chrome LIVE, pay channels witnessed a drop of 24 per cent from week 4 to week 9 in 2019. On the other hand, FTA channels saw a spike from 21 to 26 percent.

CRISIL indicates a varied impact on monthly TV bills. Based on current pricing, the monthly TV bill can go up by 25% from Rs 230-240 to ~Rs 300 per month for viewers who opt for the top 10 channels, but will come down for those who opt up to top 5 channels.

Technologically under prepared local cable operators are losing customers to MSOs and DTH operators. Users have complained of higher monthly payouts as LCOs have expressed their inability to adjust to the change in regime

Cable TV subscribers are more affected than DTH subscribers. DD Freedish has been negatively impacted. Some Pay Channels (General entertainment offered by Star, Zee, etc.) have been pulled out of DD FreeDish

(Telecom Live 2018)

Cross – Country comparisons on Bundling versus a` la carte Pricing

Media Bureau of the Federal Communications Commission (FCC) in 2004 studied the efficacy of 'à la carte'

- The report concluded that if the average household purchased channels under an *à la carte* regime, it was likely to face a monthly increase of payments between 14% -30%

Needham Insights, in its 2013 report titled Valuing Consumers' TV Choices estimated the consumer value destruction from TV unbundling:

- Their study on Latin America revealed that *à la carte* pricing could drive approximately \$80-\$113 billion in consumer value at risk from loss of channel choice Valuing Consumers' TV Choices '.

Oliver Wyman examining impact of *à la carte* on Canada

- In a 2014 report by Oliver Wyman found that consumers would experience higher bills (up to 12%) with *à la carte* . As many as 26% of the current channels could be at a risk of becoming commercially unviable in one of the modeled scenarios

The Growth for Knowledge (GfK) research bureau in Netherlands

- Conducted survey to test the consumer preference for an *à la carte* mandate. The respondents indicated their preference for choosing their own channels using an *À la carte* menu, the majority would drop out if the prices of the package were to increase as a result.

Economic Theory on Bundling

- Bundling is a popular selling strategy for many television, telecommunications and information products in India. When fixed costs of production are high and consumers prefer varieties of a product, bundling can improve economic efficiency. While a service provider may practice bundling to its own advantage, the use of bundling in an increasingly competitive market may produce advantages for both buyers and sellers

For instance, let there be two TV channels, “sports” and “news” and each costs INR10 to produce.

Let us assume:

If each of the channels is offer/ Consumer 1 is willing to pay INR7 and INR4 for the sports and news channels respectively, and consumer 2 is willing to pay INR4 and INR7 for the sports and news channel respectively.

If each of the channel is offered at INR10, none of the consumers will buy the channels.

If each is offered at Rs 7, revenue would be INR7 for each channel and loss accrued would be INR3.

If each is offered at INR4 and purchased by both consumers, revenue would be INR8 and each channel would lose Rs 2.

The producers are unlikely to adopt any of the pricing strategies illustrated above. However, if bundling is allowed, both channels could be offered in a bundle for INR10 and both consumers, willing to pay a total of INR11 will purchase. Revenue for the producers would be INR 20, covering costs for both channels, and consumers gain INR1 as surplus.

Conclusions

- The limits on bundling and negotiating contracts may burden broadcasters and distributors with inefficiencies, while also increasing the cost of complying with new regulatory requirements.
- While competition authorities must examine anti-competitive uses of bundling and guard against any abuse of monopoly power, the outright restrictions on bundling in a competitive market may be unnecessary
- An approach of light touch regulation may naturally nudge the industry towards the optimal equilibrium. Over regulation in a competitive market may force consumer choices towards a particularly technology.
- Regulators must place trust in the *invisible hand* for the industry to achieve its maximum potential.

Thank You !