

**Innovation and agility
Unlocking opportunities in the digital era**

**Speech by Grant Blackley, CEO Network Ten
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Good morning, ladies and gentlemen. It is both a pleasure and a privilege to be here this morning to share some of my thoughts about our industry – and specifically my views on what it will take to succeed in this digital era.

Every day, all sections of our media are consumed with stories about who will survive what's long been called the 'digital revolution', whether some will survive at all, and what the post-revolutionary world will look like.

There is, without doubt, a significant transformation underway in the world of broadcast, and all forms of media are adapting in order to survive and prosper.

None of this is new. The onus has always been on the media operators to respond to both technological change and increasing sources of competition. We have responded by continually broadening and improving our offering to ensure it remains relevant, effective and appealing.

Free-to-air television – like many other sectors of the media – has fundamentally transformed in recent years. We are already well and truly in that brave new world where, increasingly, audiences are seeking, consuming and expecting delivery of a diverse range of high quality content across multiple platforms and on devices best suited to their individual needs, at any given time.

We are also switching as a nation from analogue to digital. This is happening in both radio and television and it's clear that our audiences are embracing these developments.

In free-to-air television, after a lifetime of living with five channels, there have been six stand-alone new digital channels with unique programming already launched.

Today, more than 60 per cent of Australian homes are watching digital TV, and take-up is accelerating fast.

Against that background, every day we have industry participants making – or staking – claims to have cornered one part of the market or another with a revolutionary new device, service or content delivery system that out-ranks, out-rates and out-performs all that has come before.

And, yes, revolutions can leave a bloody trail in their wake as systems, beliefs and power structures transform rapidly.

However, rather than a 'revolution', I prefer to think of this period as something of a renaissance. In historical terms, the renaissance also began in a period of turmoil and

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upheaval. It was also most certainly a period of great innovation, culminating in a number of significant and far-reaching advancements in many parts of life.

If, as many consider, the renaissance was the beginning of the modern era, then perhaps we in the media should consider ourselves as standing at the gate of a truly exciting era in broadcast. And, in my view, that gate is wide open and the path ahead is beckoning us all.

Today, I want to speak to you about how broadcasters need to be both innovative and agile to succeed in this digital era. I will also discuss the considerable role of free-to-air TV in the digital era, as well as provide what I believe is a realistic assessment of some of the challenges facing us as we make this transition.

I will be giving you some examples along the way, and I know you will understand that they are mostly Network Ten examples. Of course, I realise that all of your businesses are responding to similar challenges and implementing the necessary changes in your operations.

Track record as an innovator

These themes of opportunity, innovation and agility are extremely important at Network Ten, where we have forged a track record as an innovator in the free-to-air broadcasting sector.

It's true that we have been an early adopter in many key developments in broadcasting.

We were the first television network to broadcast in colour in 1975. We were the first broadcaster to turn on digital terrestrial television in January 2001. In 2007, TEN led the way in broadcasting sport in high definition and, in the same year, we became the first network in this country to launch an HD channel with a fully planned schedule.

We invested early and prudently in the right broadcast architecture to ensure we were 'match fit' for the future of digital and a multi-channel world.

We developed a ground-breaking digital content management system with IBM Worldwide that allows us to convert all our content into a digital format that is centrally stored. This means we say goodbye to the format and the manual handling of tapes. It also means we are now able to access, manipulate and use that content faster than ever before, as well as push it across a range of platforms.

Delivering choice and diversity

Those early innovations set us up well to become the first commercial free-to-air network to launch a stand-alone digital multi-channel.

This time last year, we launched our digital sports channel, ONE. Our digital infrastructure was in place, and we had secured over 3,500 hours of sports content to ready ONE for market.

This gave us first-mover advantage. Securing sport as the genre for our multi-channel guaranteed others were effectively locked out of this option. It also meant we were

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selecting a position that gave us clear differentiation from our primary channel, TEN, to help build a broader audience for the Network as a whole and ensuring a long term, sustainable position.

ONE remains the world's only 24-hour sports channel on free-to-air TV. In ONE, we have created an entirely new brand, and that's because we always intended ONE to be a distinct offering to market, rather than an extension of our primary channel. And, in just on 12 months, ONE has already proved itself profitable, as well as having built a distinct audience.

In addition to meeting our regulated local content obligations on TEN, it's worth noting that we already commission and produce a large amount of unique Australian content for ONE. In the past year, locally produced programming accounted for close to 40 per cent of ONE's schedule.

So, we have deployed a very clear strategy with the combination of TEN and ONE providing differentiation for the network, with entertainment and sport giving real choice for viewers. And we look forward to announcing a third digital channel this year, one which will further broaden our offering.

In deploying our third digital channel, we will be further utilising our digital infrastructure. Again, we will ensure we align ourselves with strong content providers that create a profitable and sustainable model. This will allow us to launch our third channel at the time of our choosing.

I am pleased to say that, as a company with relatively low levels of debt and a broad and supportive shareholder base, we do not have any structural or financial impediments to implementing these strategies.

Significant role and contribution of free-to-air television

Let me talk for a moment now about what I firmly believe is the unparalleled experience and influence of free-to-air television.

As an industry, Australia's free-to-air broadcasters make a considerable contribution to our way of life. Yet, with this status of having close to universal reach comes a fair degree of responsibility.

It is hard to imagine many other commercial enterprises that have such a strong community service role as free TV, and the obligations that often confers. In fact, I'd go so far as to say that access to a diverse and high quality free-to-air TV service – over and above the government-funded services – is generally regarded as something of a birthright in this country.

We deliver to all Australians quality broadcasting that runs the gamut of information and entertainment needs. We provide news and current affairs, local and international quality dramas, comedies, movies and big entertainment franchises, as well as the very best of sports coverage and programming from home and abroad. Added to that, we create children's programming and documentaries and present many special events.

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That's why more than 70 per cent of Australian homes rely exclusively on free TV – and virtually all homes, whether they have pay or not, use free TV for at least some of the television services they consume.

Australia has the most successful free-to-air TV system in the world and, as I've suggested, certainly one of the most free TV-reliant audiences.

And that's even after pay TV has been in our market since 1995. That's quite a statement from this community, as Australia is generally regarded as an early adopter of other forms of technology. This relatively low level of pay TV penetration is something that is often remarked upon by our international visitors who have witnessed the pay model achieve a much more entrenched position in their markets, within much shorter time frames than has been the case in Australia.

Free-to-air television delivers mass audiences. We have a large number of programs which regularly deliver in excess of one million viewers at a time. There simply isn't any other form of media with that level of drawing power, on such a consistent basis.

Of course, that is not to say that we should not invest in and partner with other forms of media. We see them as complementary to the broadcast offering and consider them in that broader context when developing opportunities for our audience and advertisers alike.

And, if we keep giving our audience more choice, we are giving them more reasons to keep the TV turned on, or to keep engaging with our content via the web or through a mobile device.

So, while embracing changes in modes of content delivery and the emergence of an empowered viewer with his or her finger poised on the buttons of the PVR, the fact remains that the overwhelming majority of TV consumption follows fundamental patterns that were forged five decades ago.

The free TV offering remains part of the 'common conversation' in a way that is unmatched by any other form of media communication.

You will know exactly who and what I'm talking about if I mention Scott and Charlene's wedding ... and 25 years on, *Neighbours* remains a fixture in our prime time line-up.

More recently, the briefest mention of the names Julie and Poh in the same sentence required no other qualification: they were instantly recognizable in the context of *MasterChef*.

Our viewer reports each morning – with feedback on matters as diverse as a newsreader's outfit, to totally unambiguous comments from our viewers about who said or did what in their favourite show – suggest the relationship is anything but passive.

To maintain this position in community life, we must continually invest in content that is fresh and innovative. For TEN, this often involves taking calculated risks to keep our distinctive position in the market.

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We develop and launch big entertainment franchises into this market. I remember all too clearly this time last year when we were at the launch of our franchise, *MasterChef*. Let's just say, at that time, not too many people shared our confidence in the format. How much can change in just one year!

We invest in developing quality local drama, telling Australian stories for our audience. We also have a reputation for offering innovative new forms of programming, such as *The 7PM Project*, which offers something unique in news and current affairs, and clearly reflects TEN's distinctive brand values.

Our US studio relationships provide a consistent pipeline of quality international drama and comedy – delivering top-rating programs like *NCIS*, *The Good Wife*, which is currently airing to critical acclaim and strong audiences, and hit new programs like *Modern Family*, which is yet to move into our schedule.

Tellingly, we enjoy a first-to-market window with our US studios, recognizing the key role of free-to-air television, which is their primary source of income.

As an industry participant supporting the Government in its goal of switching all Australians to digital TV, we are releasing what's become known as the 'digital dividend'. We are also helping to educate Australians about the benefits of digital with initiatives like Freeview, which the free-to-air broadcasters have established and independently fund to help drive digital take-up.

Building audiences and engagement across multiple platforms with our unique content

We can never be complacent about our relationship with our audience – we must constantly understand and continually refresh our understanding of what viewers want.

Our audience, increasingly, seeks choice and diversity.

Our business model – our sustainability – relies on maintaining the required levels of innovation and creativity to deliver this choice. This demands continued investment in services and content to remain relevant to so many, on such a broad scale.

The emergence of catch-up TV, time-shift viewing and other cross-platform delivery modes, including internet-protocol TV (IPTV) and mobile, offer ever-expanding opportunities for viewers and advertisers alike to engage with our unique content.

Network Ten has taken a distinct approach in digital media. Our digital media assets are being deployed to deepen viewer and advertiser engagement by providing online and mobile extensions of our own unique content and successful program brands, with premium video at the heart of this. The demand is increasing and we continually build our catch-up TV offering.

Our hit international property, *Glee*, has already notched up more than two million video views online between September and February.

The official website for the first season of *MasterChef Australia* certainly captured – and extended – the immense appeal of the show. The online environment provided a range

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of opportunities for viewers: through catch-up TV, celebrity chef interviews, food trivia quizzes, fan forums and a very popular recipes section as well as exclusive on-line cooking demonstrations.

The numbers for the website were in the same stratosphere as those for the broadcast show: close to 36 million page views and almost 9 million video views.

For advertisers, it is no longer about simply trying to reach big generic audiences online. It is about delivering attractive environments that reach targeted audiences and drive engagement.

It's fair to say that, only a couple of years ago, people might have thought we were a little late for the digital media party. Our competitors had locked into portal arrangements with online operators.

We believe our company culture and our approach is better suited to a model that allows us to remain nimble as we focus on unlocking the value of our content. Of course, the challenge is ensuring access to online rights – and we are unambiguous in our intentions in this respect in each deal we undertake for entertainment and sports content.

We also have the opportunity to leverage our existing assets and to pursue horizontal development, such as our investment in the dating site Oasis Active – and we will continue to assess, and invest in, emerging opportunities in this important part of our business.

This must work hand in glove with our broadcast model. The US experience has been that, while we have seen the computer and the mobile phone taking on a significant role, their emergence has not been at the cost of TV viewership.

In the United States, CBS recently announced it had completely sold out its ad inventory for March Madness On Demand, its upcoming live streaming of all 64 games of the national college basketball tournament.

Besides Web streaming, CBS is delivering live games to Apple iPhone and iTouch devices, as well as a free 'lite' app, which features video highlights, news updates and scores from tournament games.

CBS described this as "...a great case study for cross-platform selling. The ... tournament is unique — our success comes from when TV is not available."¹

And that's the key: TV is the preferred viewing platform for the majority of our audience, but – when it's not available – viewers will seek out content on 'the next best screen' and in the place they want it, whether online or via mobile.

The operating environment

As an industry, it's fair to say that free TV is nothing if not resilient.

While commercial free-to-air TV in particular is exposed to the vagaries of the advertising market and economic cycles, we continually weather the storms while consistently providing high levels of service and meeting our regulatory obligations.

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However it is true that, as a sector, free TV operates in a heavily regulated environment. We have far greater levels of regulation than other parts of the media generally, and many of our current competitors – and new entrants are largely unregulated.

At the same time we pay hefty licence fees – in addition to our normal company taxes – for the broadcast spectrum we use. The commercial free-to-air broadcasters paid \$3.8 billion* in licence fees over the past 15 years. The closest we've seen in the telecommunications sector was ten years ago when four telcos paid \$1.8 billion* for mobile spectrum; that is, collectively and as a one-off.

It was not entirely unexpected that the Government's announcement of licence fee relief for the free-to-air networks elicited some fiery debate.

Amid all the claim and counter-claim of what the licence fee relief is or isn't intended to do, I would like to briefly share Network Ten's view of what this measure is designed to achieve, in the broader context of the digital switchover package.

Australia's free-to-air television sector has been involved in a comprehensive program of work over the past two years to assist Australians switch to digital TV – and we will continue to drive this program for some years to come.

Put simply, switchover involves the free-to-air broadcasters relinquishing about half the analogue spectrum they currently occupy.

This spectrum will be sold to other commercial entities, many of which will become direct competitors. The proceeds of its sale – the 'digital dividend' – will directly benefit Australians. The value of the spectrum 'block' being relinquished has been estimated to be worth no less than \$1.5 billion and possibly up to \$4 billion. That's quite a large range.

In the United States, only two years ago, a 'digital dividend' of US\$10 billion was expected. As competition among the bidders – which included Google – came into play, the eventual outcome was US\$19 billion. I note that was for a smaller amount of spectrum than we are relinquishing here in Australia.

While the Government understandably seeks to maximise the proceeds, its desired 126MHz dividend will quite literally limit the free-to-air platform in its future options.

As we are readying to hand back this spectrum, the free-to-air TV sector is funding a range of projects to ensure Australia makes a smooth transition to digital.

The projects include the resolution of reception issues for viewers in 'black spot' areas and a major project to efficiently manage the 'restack' of the spectrum. This restacking will allow the Government to offer the spectrum for sale as one contiguous block, making it more commercially valuable.

This 'restack' means broadcasters will in future occupy different frequencies, and thus require every household as well as commercial and community premises to re-tune all sets.

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Let's not underestimate the potential disruption inherent in a situation involving some 11 million sets in the metro markets alone, plus PVRs and other devices, and viewers who expect to continue to enjoy all of the free-to-air services they currently have.

Without doubt, the switchover process will be a costly process for our businesses. We wouldn't willingly place such burdens on our business model but this has been a negotiated outcome with the Government of the day, so we are committed to ensuring the process is as smooth and efficient as possible.

It should also be noted that Australia's free-to-air broadcasters have already invested more than \$1 billion over the past decade in converting to digital television and we continue to build on this infrastructure.

As Freeview, our sector has also invested in marketing our new channels to provide an incentive to viewers to switch over to digital, as well as educating consumers about how to do so. While understanding this is a long term task, Freeview members are committed, at our cost, to help inform and transition consumers to digital in a timely and effective manner.

Seen together, these aspects of the digital switchover package represent a significant commitment, and the initial two-year licence fee relief does go some way in recognising that.

Even with the announced rebate, however, there is far from a level playing field for Australia's commercial broadcasters – both on a domestic and international comparison.

Domestically, our competitors in this market – like pay TV – do not have any annual licence fees, access their cable for free, and have minimal Australian content obligations. Other market entrants pay no licence fees. At another point in the scale there's SBS, which is largely taxpayer funded, yet has a highly commercialised model.

On an international comparison, even with the fee reduction, we outstrip fees paid elsewhere by a significant margin. This contrasts dramatically with other markets around the world undertaking digital switchover. In the UK, for example, not only were licence fees reduced by a far greater extent but content quotas were also decreased. I note that the free TV industry in Australia did not lobby for a reduction in content quotas.

It's true that our sector is facing considerable structural change.

Along with fragmentation of the audience across other forms of content delivery – such as the internet, pay TV, games consoles and DVDs – digital switchover and the roll-out of the NBN will deliver new and unregulated television-type services. These are game-changing events. We are heading into a very different media environment, with even more sources of competition.

Having given up the spectrum, the free TV sector will be quite literally constrained by the limits of the spectrum that we are to retain – meaning, we will have no capacity to launch further channels than those currently planned, or to increase our existing level of services in a structural sense.

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We believe the Government should retain a small portion of spectrum to enable all audiences to continue to receive the latest technological developments in broadcast for free.

This would allow for the transition to new standards – whether for the next generation of digital transmission being DVBT-2, or for more efficient coding systems such as MPEG-4 or, indeed, to consider emerging technologies such as 3D TV. The key in a public policy sense is whether Australians will be required to pay for any such enhancements as they become the norm over time.

Let me make it perfectly clear: we do not shy away from competition – and we never have. However, we do seek to compete on equal terms and currently we do not have anything near a level playing field.

Broadcasters are committed to working with the government of the day to ensure a smooth transition. In this context, there are strong public policy grounds for the licence fee reduction announced by the Government and for a review of the level of fees on an ongoing basis.

We also believe there is merit in a high level reassessment of the regulatory framework which applies across the media sector as a whole and, increasingly, is relevant to a broader group of industry participants.

What will the future look like?

The future for all participants in the broader media sector is not yet entirely clear – and it will continue to evolve.

It is fair to say that our industry is responding well to what needs to be done: and we're implementing these changes. If we look back 10 years, there was widespread uncertainty about how to proceed. Today, digital TV is live. Equally, digital radio is now a reality. We have launched new channels, we are all extending our online offerings, and we are seeing more broadcasting in mobile. We're no longer talking about these things, we are actively implementing them.

In my view, due to its inherent strengths, free-to-air TV is well placed to lead the changes.

Despite the revolution in forms of delivery, broadcast television remains the overwhelming staple of any media diet. On a daily basis, our fundamental appeal and strength lies in our ability to reach and engage so many people with fresh and relevant programming, creating an impact that is quite simply unparalleled. We will always have big events like sport and entertainment with mass appeal – and they will always be experienced best on broadcast TV.

While the 'big screen' undoubtedly offers the premium experience, the key is to take our content and apply it in the myriad ways that viewers seek.

We will add new multi-channels and we will fully exercise our spectrum. And we will continue to embrace new formats and opportunities, as we deliver our content via multiple distribution networks – on-screen, and via the web and mobile.

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We know that we cannot simply rely on legislation to protect us, and any form of media that tries to maintain a narrow operating silo is quite frankly putting their business at risk.

Some structural changes are being driven by technology and other changes are being driven by Government policy.

Regardless of the source of the changes, all forms of media need to remain alive to the operating environment and to the needs of our audience. We must respond to this through innovation – and at the same time we must have the necessary agility to execute our plans quickly at the right time.

Network Ten has invested early and prudently over a number of years so that we would be in the position we are today: ready for a fully digital environment and perfectly poised to deploy ideas and strategies quickly.

While change is unrelenting, the free TV model is a critical element of our media landscape. We are committed to being a significant operator in the future of broadcasting and continuing to embrace the opportunities.

Renaissance quite literally means 'rebirth' and, in many ways, our sector is embarking on a stage that is fresh and new, and undeniably exciting.

For us, success in this future will come from innovation paired with agility – and Network Ten is well placed to be a strong participant in that future.

[ends]

¹ Jason Kint, CBSSports.com svp and general manager, 9 March 2010

* CPI adjusted
