

# Emerging competition dynamics in regional pay-tv markets

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The recent public outcry in Zimbabwe, Zambia and Nigeria over a decision by Multichoice to increase its subscription fees points again to the competition issues that characterise the pay-tv market in the continent. Due to high prices, subscribers in Zimbabwe have resorted to buying decoders and paying their subscription in South Africa, which is relatively cheaper.<sup>1</sup> In Zambia, Multichoice (DSTV) subscribers launched a campaign on social media calling on subscribers to boycott the new prices.<sup>2</sup> The federal High Court in Lagos Nigeria ordered Multichoice not to effect the increase in its subscription fees in April 2015 following two cases submitted against it by subscribers.<sup>3</sup> Multichoice is by far the largest provider of pay-tv in the continent.

We first highlighted issues in the pay-tv market in an article titled *'Exclusive agreements in the pay-tv market'*.<sup>4</sup> This article presents new developments in the region, including the expansion and entry of new players in the pay-tv market across the continent. The article also analyses what the International Telecommunication Union deadline of 17 June 2015 on switching from analogue to digital migration means for competition in the broadcasting environment in the continent. The impact of the change from analogue to digital is that more TV content can be squeezed into the same amount of spectrum than is possible under analogue transmission. For instance, where a single analogue channel requires a whole frequency, digitalised signal can allow for up to ten TV channels to use the same frequency.<sup>5</sup> Last, the article provides an assessment of the likely effect on competition considering the experiences of the United Kingdom (UK) and United States of America (US).

## *Changing market structure and new entry*

The pay-tv market has been changing in the continent, characterised by new entry and expansion of existing service providers. Zuku TV from Kenya continues to expand its operations across the continent having set up in Malawi in June 2014.<sup>6</sup> Zuku has also given rights to Zambia's My TV to broadcast its content in the Zambian market.<sup>7</sup> In terms of content, Zuku TV has differentiated itself from Multichoice, offering a combination of a very strong Asian package and African soaps, along with lower prices for its bouquets.

StarSat, a Chinese firm which is a subsidiary of Star Times, has made inroads into the pay-tv market in the continent. It recently entered the Malawi market in January 2015.<sup>8</sup> The coming on board of Zuku and StarSat TV now means Multichoice no longer has a monopoly in the pay-tv market in Malawi. StarSat, also set up its home satellite TV service towards the end of 2014 in Kenya, increasing competition to Multichoice and Zuku. Star Times has recently acquired the

rights to broadcast Germany's Bundesliga football games across the continent starting in August this year.<sup>9</sup>

Similarly, US internet-based content provider Netflix has announced its entry into South Africa and is expected to start broadcasting in 2016.<sup>10</sup> The entry of Netflix is likely to challenge Multichoice which currently holds exclusive rights to broadcast some top American TV shows which are also screened by Netflix. Although Netflix is entering the market using an internet-based model, its proven ability to provide some of the top content means that consumers are presented with an alternative which is potentially more tailored to the specific needs of customers who prefer to only watch certain programmes and not a bouquet of channels. However, their ability to compete will be constrained by the availability of internet and also sporting content. By 2011 only 35.2% of South African households had access to internet, which may be an overstatement in the census data.<sup>11</sup>

The Independent Communications Authority of South Africa has licensed five new pay-tv companies. Of the five, Siyaya was given the green light to commence broadcasting in August 2014 and the company had already secured a R1-billion deal for the rights to broadcast Bafana Bafana football games (which were due to start in May 2015).<sup>12</sup>

The existence of exclusive content agreements continues to be the norm in the pay-tv sector and may have the effect of reducing the ability of new entrants such as Siyaya to compete effectively.<sup>13</sup>

## *Convergence*

Convergence, which is becoming a feature of regional markets, is defined as the coming together and interaction of consumer devices such as the telephone, television and personal computer such that different network platforms can effectively carry the same kinds of services.<sup>14</sup> The implication of this development is that it can facilitate new entry. Mobile telecommunications operators in the region are entering the pay-tv market. Safaricom, a mobile operator from Kenya recently entered the pay-tv market through launching 'The Big Box decoder' which allows users to access both TV content and internet.<sup>15</sup> MTN South Africa also launched 'MTN FrontRow' Services which provides customers access to movies and series on mobile phones.<sup>16</sup> Econet Wireless Group from Zimbabwe has also expressed its intention to launch pay-tv.<sup>17</sup>

The increase in entry of firms in the television market has largely been driven by convergence in information communication technology, which has reduced some barriers to entry in the sector, particularly those related to access to content

and infrastructure. Migration from analogue to digital terrestrial TV could bring further benefits in that it frees up more spectrum for broadcasting. A number of SADC countries are working on meeting a new June 2016 deadline they have set.<sup>18</sup> Migration creates spectrum space which acts as a barrier to entry to new players. There are several countries that have completed migration such as the UK and US which can provide some lessons for developing countries.

### *International experience in the UK and US*

In the UK, digital terrestrial TV was introduced in 1998.<sup>19</sup> The switchover from analogue television to digital was regulated so as to allow for more TV channels in order to stimulate competition, expand choices and provide a more efficient use of frequency spectrum.<sup>20</sup> After digitalisation, the audience of UK's four main television companies fell.<sup>21</sup> However, the market shares of these companies shows that they have started offering a new portfolio of digital channels delivered through both pay-tv and digital terrestrial platforms in response to competition, and their total audience has grown subsequently.<sup>22</sup>

In the US, digital TV was implemented with a view to preserving the essential characteristics of the analogue TV service.<sup>23</sup> The US TV market has been characterised by fluctuations in concentration as a result of multiple entry of TV channels and

regulatory changes which encouraged mergers and acquisitions.<sup>24</sup> The American experience shows that diffusion of new technology can be slow due to high prices of receivers and low uptake from consumers who still largely subscribe to pay-tv services.

### *Conclusion*

Competition in pay-tv markets in the continent remains limited, although there are encouraging signs in terms of the entry of new rivals. Despite the lowering of barriers to entry brought by digital migration and new technologies, and the dynamic effects of convergence, traditional incumbent players are able to retain their position in the market as characterised by the UK experience. The experience shows that traditional incumbent firms have been forced to be more innovative and become conscious of their pricing strategies in an increasingly competitive environment. Digitalisation alone cannot be expected to end the challenges of the pay-tv market in the continent, particularly where exclusive content agreements remain a feature of national markets. Competition authorities will need to be aware that due to technological advancement and greater convergence, application of competition law in terms of delineating relevant competition markets will become more complex as rivalry in the pay-tv sector takes on new and changing dimensions.

### *Notes*

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21. See note 19.
22. See note 19.
23. See note 19.
24. See note 19.