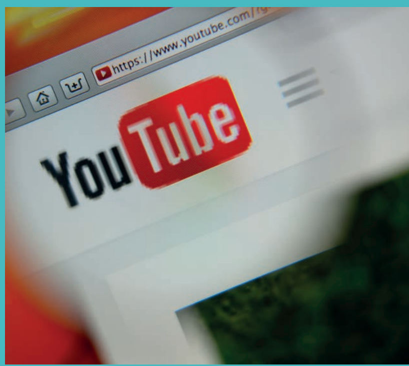
BIGGER PICTURE

The new age of screen content



αlphaβeta
strategy x economics

Online video content services are expanding screen content

100+ hours

of screen content per month is watched by Australians

Over 10 hours more than a decade ago

$6bn

Consumer surplus created by online video

230,000+

Australians are now involved in creating screen content

90%

of the views of Australian videos on YouTube are from overseas viewers

indicating a significant export opportunity

1,000x

more content is added by YouTube each day than shown on all broadcast channels

Over 5 years, use of mobile screens to view content has increased by

240%

This report was commissioned by Google and prepared by AlphaBeta. The information contained in the report has been obtained from third party sources and proprietary research that are clearly referenced in the notes. We are grateful for the analytical guidance provided for this project by Henry Ergas AO. This report also contains input from YouTube content creators and partners.

CONTENTS

1

EXECUTIVE SUMMARY

Screen content is undergoing an evolutionary leap. For sixty years, content was delivered from mostly the same sources, via mostly the same means, to mostly the same device. Each of these has been fundamentally altered by the arrival of online video content ('OVC'). Screen content today is the hobbyist with a phone camera as well as the television personality on set. It is streaming footage directly from the centre of a public event before viewing the edited nightly news. It is a 3-minute YouTube video on the commute home before watching a 30-minute serial on the living room television.

The enthusiastic adoption of new technologies has heralded fundamental shifts in how screen content is produced and consumed. Over the past decade, more than 20 major services providing screen content over the internet have launched in Australia. Where there was once just a handful of television channels providing 100 – 200 hours of free daily programming, YouTube alone now makes available nearly half a million hours of new content every single day. These OVC services have dramatically changed both viewership levels and habits, by freeing screen content from the constraints of traditional broadcast television and providing it via different devices, at different times, and through different services. Australians spend more time watching screen content today than ever before – over 100 hours a month, an increase of 10 hours since 2006. Australians are also choosing to watch different genres through the service best suited to delivering that content: for example, Australians, generally speaking, embrace broadcasters for reality television; subscription services for drama; and sites like YouTube for short instructional, humour and music videos.

What is the function and potential of screen content in this new digital world? And what do these shifts mean for social outcomes? We observe three potential opportunities that are unleashed by the growth in OVC services, which are inspired by the social objectives that have historically underpinned public policy toward the television sector. OVC can help Australia build a bigger content industry with more creators and wider audiences. It can promote civic discourse and diversity. And it can offer greater choice and benefits for consumers.

A bigger industry with more content creators and wider audiences

The growth of online video represents a lucrative opportunity for Australian industry, generating increased demand for new technologies and delivery systems. OVC services create economic opportunity by lowering the barriers to entry for those who want to participate in the creation and distribution of content. The number of content creators in Australia has more than doubled over the last 15 years, providing creative power, employment, and additional income to tens of thousands of Australians. This increase has been nearly wholly driven by the entry of 230,000 new OVC creators. And for producers already in the game, OVC services provide many ways to find new audiences. 90% of the views of Australian content on YouTube is by an international audience, once unreachable by local producers.[1] High profile examples illustrate the ability of shows to be successful by finding an online audience, regardless of their domestic location. In fact there are now more than 30 Australian creators with more than 1 million YouTube subscribers.[2] And conventional broadcasters are joining in by delivering content across multiple channels, as demonstrated successfully by Channel 7's online partnership to extend their Olympics coverage.

Enhanced civic discourse and on-screen diversity

Television has long been a keystone of civic discourse. Online video is amplifying this role. It does so first by providing more content for citizens to inform themselves. For example, daily viewership of news and politics videos on YouTube and news.com's websites are close to the viewership of a major nightly news bulletin. More content also means more editorial diversity and a halving of market concentration over the past 10 years, helping to overcome historical concerns about concentrated ownership in our small news media market. Finally, online video is broadening the range of people represented on-screen. Women, migrants, young people, and those from regional and remote communities can find strong representation in OVC services.

Greater consumer choice and benefits

OVC services represent a significant boost in how screen content is able to serve the needs of viewers. Consumers report that OVC services are providing them with a value surplus of approximately $6 billion. The increased value is primarily driven by the availability of new types of content that once did not exist or could not be viewed due to geographical and time restrictions. The economics and technology underpinning OVC services (e.g. unbundled subscriptions, on-demand access, customised playlists) are also empowering consumers to seek out specific types of content and continue to increase their screen content consumption.

This transformation is not complete. Emerging services and technology suggest that screen content will continue to become more diverse, personalised and immersive. This broad world of screen content looks set to continue, becoming a bigger and more important part of our lives.

1 Screen Australia Media Release (13 May 2015)

2 Felicity McVay, First ever YouTube Pop-up Space Sydney opens its doors at AFTRS, Wednesday, November 2, Google Australia Blog.

2

THE NEW AGE OF SCREEN CONTENT

2.1. Overview and definitions

Over the past decade, more than 20 major OVC services providing screen content over the internet have launched in Australia (Exhibit 1). In this report, OVC services refer to screen content that is accessed over fixed line or wireless internet connections. This includes free video streaming services such as YouTube, Facebook or news.com.au, as well as subscription video on demand ('SVOD') services such as Netflix, Foxtel Go and Stan. OVC services also incorporate the web platforms of traditional free-to-air broadcasters, such as ABC's iView, Plus7, 9's JumpIn and TenPLay.

Screen content delivered the "old-fashioned way", over a satellite or digital antenna connection, is referred to in this report as 'broadcast television'. This includes the set of free-to-air channels available in each region, as well as the suite of pay TV channels that viewers can choose to purchase.

OVC services have generated considerable excitement and concern. It appears that they are growing the screen content industry, allowing consumers to both increase their viewership and choose to watch different genres across the best-suited service.

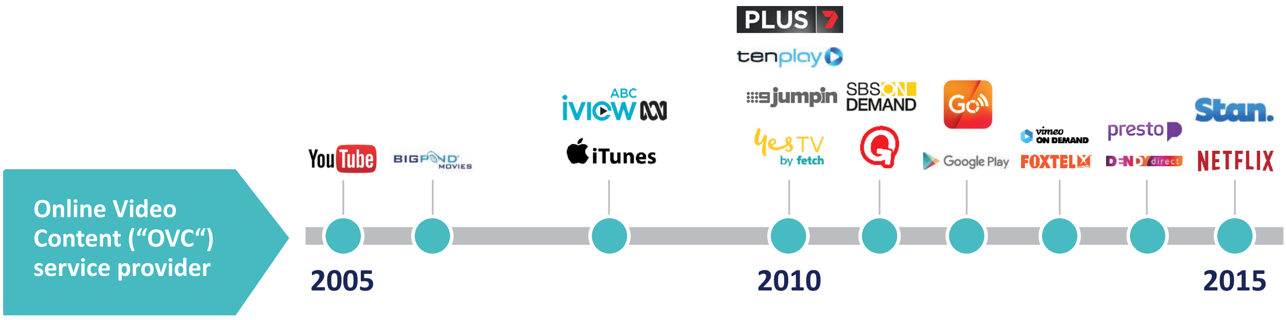
2.2. Even as viewing habits change, screen content is becoming a bigger and more integrated part of viewers' lives

Australians are watching more of their screen content through OVC services, and embracing the availability of screen content on computers, mobile and tablet devices. As screen content becomes available at more times and on more platforms, Australians are watching more screen content than ever before and integrating it into more of their daily routines.

Screen content delivered through internet connections is accounting for an increasing share of total content consumption. Exhibit 2 shows the increasing popularity of OVC services in the total consumption of screen content. The growing share of OVC services includes not only new content providers such as YouTube and Stan, but also the online platforms of traditional broadcasters, such as ABC's iView, Foxtel Go and TenPlay. Exhibit 2 therefore describes a change in the way screen content is delivered, rather than telling the story of who is delivering what content. In 2010, broadcast television accounted for nearly all of viewing, but in the years since has shifted to account for 80% of viewing. Analysis of the rates of take-up of OVC services, combined with demographic shifts, indicates that this shift is projected to accelerate over the next few years, with OVC services accounting for almost half of television viewership by 2020 (Exhibit 2).
This projected growth includes the online platforms of traditional broadcasters.

EXHIBIT 1

Several OVC services have been introduced in Australia since YouTube's launch



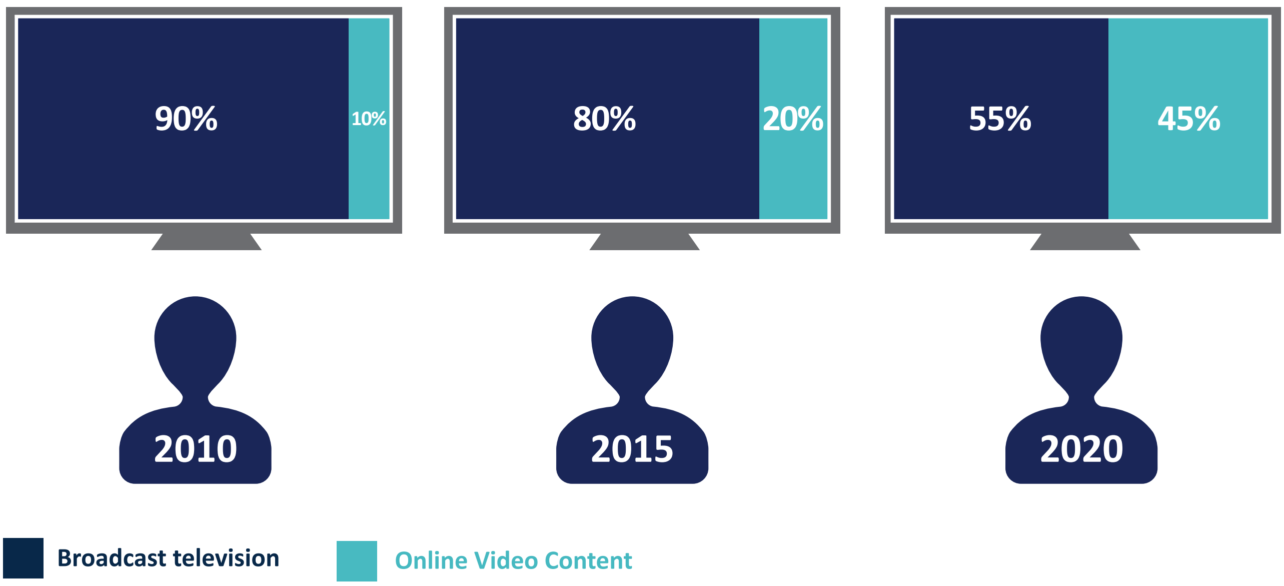
Broadcast television is forecast to decline from 80% of total television viewing to

55% in 2020

EXHIBIT 2

Screen content is increasingly being viewed online

Proportion of screen content viewed on broadcast and OVC services (percentage)

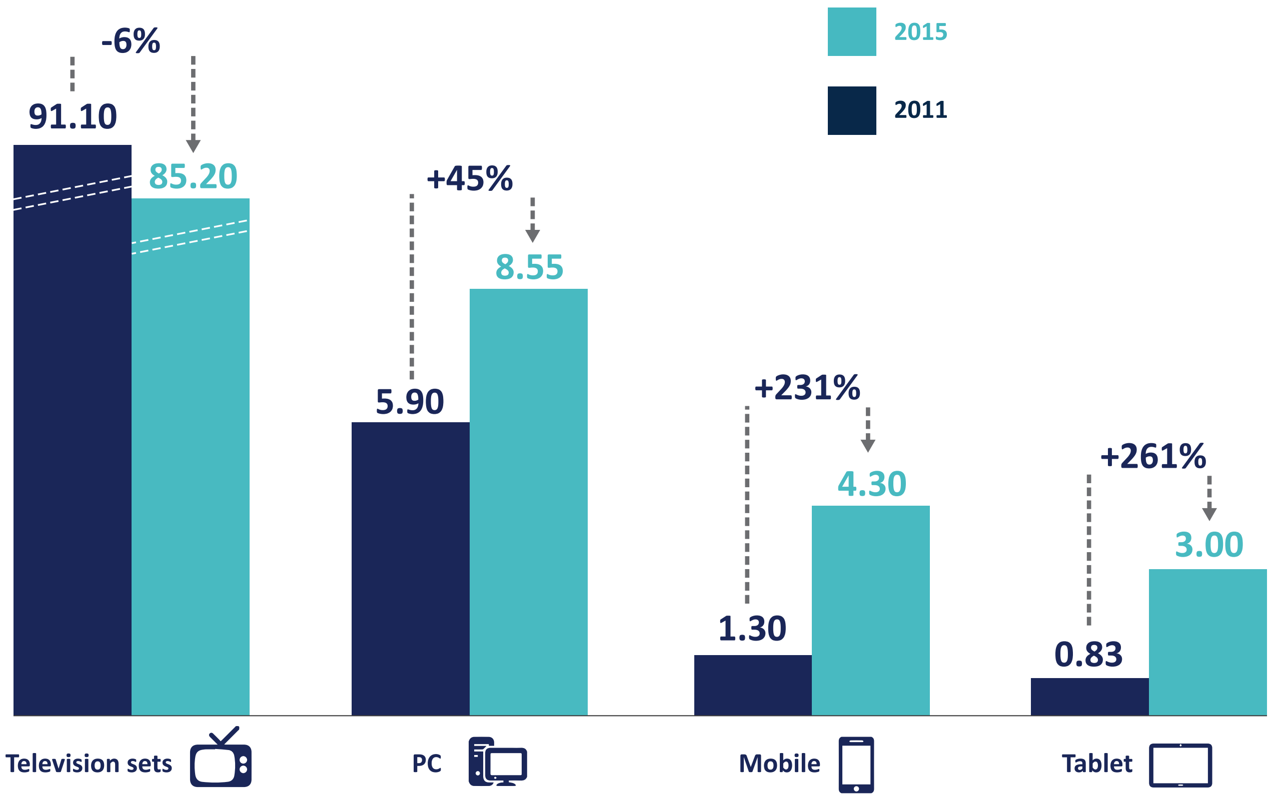


SOURCE: AlphaBeta model; Nielsen (2016) Australian Multi-Screen Report.

EXHIBIT 3

Screen content is increasingly being viewed on portable devices

Time spent watching screens (Hours per month)



SOURCE: Screen Australia, Australian Multiscreen report, 2015 & 2011, AlphaBeta analysis

The arrival of OVC services has helped screen content leap out of the living room and into computers, tablets and mobile phones. Viewers carry screen content with them on their daily commutes and they share it with colleagues at work, look to it in classrooms and for DIY at home – integrating screen content into every part of their daily lives. Exhibit 3 demonstrates the increasing share of viewership occurring on internet-enabled mobile and tablet devices. From just over two hours a month five years ago, Australians now spend approximately 7.3 hours a month on tablets and mobiles viewing screen content. As data packages get cheaper and screens get bigger, this trend looks set to increase. Viewership on personal computers has increased by 45% in the same time, while the use of television sets (including time-shifted viewing) has decreased slightly.

Even as people change their viewing habits, screen content is becoming a bigger and more integrated part of people's lives. The increased adoption of OVC services and alternate viewing devices has been supported by increasing viewership of content. Australians currently spend an average of just over 100 hours per month watching content, an increase of ten hours from two decades ago (Exhibit 4).[3]

3 OzTam, TAM, Nielson (2016) Australian Multi-Screen Report Q1 2016; Australian Bureau of Statistics (1997) Time Use Survey.

EXHIBIT 4

Australians are watching more screen content than ever before

Average time spent watching video (Hours per month)

SOURCE: OzTam, TAM, Nielson (2016) Australian Multi-Screen Report Q1 2016; Australian Bureau of Statistics (2006) How Australians use their time; Australian Bureau of Statistics (1996) Time Use Survey

Not only are people increasing their viewing, but this viewing is more integrated into daily routines. Consider some simple examples. Where cooking segments may have previously been a once-weekly component of the variety lifestyle show, recipe clips today can be accessed on demand as people prepare their nightly dinner. Children's education shows which once played in the afternoons can now be viewed in the company of working parents later that evening. Drama and reality television viewed on phones and laptops are readily shared and discussed on online media, becoming a larger social exercise than a family viewing.

2.3. Screen services are specialising in different genres

One of the reasons overall viewership is growing is that OVC services are making it easier for people to watch screen content. These new OVC services are augmenting broadcast television by providing new ways to watch it. As consumers take advantage of these new services, they are also choosing to watch different genres through those services that are best suited to the delivery of that content.

The economic and creative imperatives of OVC offerings are diverse and often a departure from the traditional broadcast television model. For example, some rely on targeted forms of advertising, while others can build a base of subscribers through offering unbundled content. Content may come from traditional production companies, be developed in-house, or be user-generated.

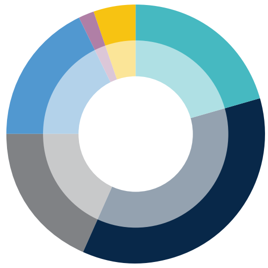
There are lower barriers to entry following the removal of requirements such as access to a licence and maintaining a broadcast network; the ability to access production equipment more affordably and the ability to directly access an audience. This is especially true of user-generated content. OVC services are generally more specialised than broadcast television – allowing the content creators to be independent of those who own and distribute transmission networks and associated technology.

Combinations of these features have transformed the delivery of screen content from "The Box" in our living rooms to a diverse ecosystem of technologies, services and viewing platforms. The different economic and creative imperatives of these offerings have led to the specialisation of screen content into channels that are best suited to the viewing of each genre (Exhibit 5).

EXHIBIT 5

Each content service is specialising in the content best suited to it

Content across screen content services, by share of genre (percentage)

	Popular genres on this platform	Shares of platform views
Free to air Broadcast TV	35% Entertainment and Reality 22% Drama and Comedy	
Pay TV	22% Sport 14% Drama	
S-VOD	58% Drama and Comedy 18% Entertainment and Reality	
Youtube	40% Arts, Performance & Music 25% Entertainment and Reality	

Genres - Average Across All Screen Content

Drama & Comedy	27%	News & Education	13%
Entertainment & Reality	27%	Arts, Performance & Music	12%
Sport	10%	Childrens	11%

SOURCE: Screen Australia (2014) Online and On Demand: Trends in Australian Online Video Use. Nielsen Multiscreen Reports (Quarterly; and Traffic Monitoring and Analysis: 7th International Workshop 2015; AlphaBeta analysis of online video content)

For example, while Drama and Comedy series make up 27% of total television, the genre varies significantly across different channels. Drama and Comedy series make up just 22% of broadcast free-to-air television but 58% of SVOD services. SVOD services such as Netflix and Stan have succeeded in Drama and Comedy series because the format is convenient for consumers who can choose shows on demand at a time that suits them from a catalogue and, if they choose to, watch multiple episodes in a single sitting.

By contrast, other genres lend themselves to different services. For example, content that lends itself to live viewing tends to over-index on broadcast free-to-air and pay television. Sport makes up 11 per cent of total screen content, but 22 per cent of pay television and 14 per cent of broadcast free-to-air television. News makes up 13 per cent of total screen content, but accounts for more than 20 per cent of broadcast free-to-air television and just 2 per cent of SVOD.

In addition to the fragmentation of these genres of programming, OVC services have enabled the provision of whole new genres of screen content that were once not publicly broadcast. Personalised videos, live streaming of events, short animations, gameplay and "unboxing" videos,[4] highlights clips or customised compilations are all relatively new forms of content that have succeeded on streaming websites but are unviable on traditional forms of television because of rigid scheduling requirements and the need to appeal to broad audiences.

So what does this new age of OVC services mean for how people make and watch content? What is the function and potential of screen content in this digital world? We observe three potent opportunities that are unleashed by the growth in OVC services, which are inspired by the social objectives that have historically underpinned public policy for the television sector. OVC services can help Australia build a bigger screen content industry with more content creators and wider audiences. It can promote civic discourse and diversity. And it can offer greater choice and benefits for consumers. This report evaluates each of these opportunities in turn.

4 "Unboxing videos" show the first unpackaging and reviews by retail customers of products, most often newly released technology or toys for children. Presenters will talk through the entire process, from taking the packaged good out of a bag through to revealing and operating the device or toy.

3

OPPORTUNITY:
A bigger industry with more creators and wider audiences

3.1 Overview

The production of screen content is an important industry in Australia, generating billions of dollars of revenue and supporting tens of thousands of jobs across the value chain.[5] OVC services lower the barriers to entry for the producers of new screen content, allowing hundreds of thousands of content creators to join this creative industry.

The screen content industry also plays an important role in shaping our national identity. It affords people the chance to tell local stories and provides an outlet for creative expression. The effectively borderless world of online video is creating more opportunities for this projection of Australian culture to find global markets. For example, 86% of the viewership of Australian online video content on YouTube is by overseas audiences.[6] This offers a tremendous opportunity to export Australian screen content to the world. And not only is Australian screen content popular overseas, but it is also popular in Australia. As of May 2016, 9 of the top 10 Australian YouTube channels were of Australian artists.[7]

3.2 Online video is lowering industry barriers and empowering hundreds of thousands of new Australian content creators

The lowered barriers to entry enabled by the rise of OVC services are allowing more people to produce and distribute their own video content. This facilitates creative expression for individuals, the telling of local stories for our communities, and new sources of local jobs and income for our economy.

Traditional television imposed two key structural barriers which made it difficult for new entrants to produce and distribute screen content. The first is the scarcity of bandwidth: broadcasting technology relied on a narrow spectrum of radio transmission, which required the limitation of suppliers who had access to that spectrum. Even with the advent of digital broadcasting, the number of broadcasters remained at a low level. Second, since broadcast signals could only be received in real time, each distributor could only provide 24 hours of pre-scheduled content on any given day. This meant that the content had to fit into tight programming constraints: content was required to fit in 30 or 60 minute blocks of time, were selected for production in rigid “seasons” of programming, and were required to be of broad appeal.

OVC services have lowered some of those persistent barriers to entry. Transmission through the internet can provide an effectively infinite spectrum of content offering – especially as the costs of data storage falls and the speed of data transfer rises. This lack of scarcity means significantly more screen content providers can participate in the market. In addition, these screen content providers are not required to master the same skills of crafting programmes to a fixed schedule. For example, a regional journalist who produces content irregularly is still able to supply their content to a willing audience, while such programming would have been excluded in traditional television due to the need for a fixed schedule. The dramatic popularity of short clips on content streaming platforms such as YouTube or Facebook attests further to the increase in content that has been facilitated by shifting barriers to entry.

One result of these lowered barriers is that over the past 15 years, the number of Australians involved in content creation has doubled, primarily driven by growth in creators of online video content. While 15 years ago, in 2001, just over 200,000 Australians created performance content in film, theatre and television, analysis of the latest figures shows that in 2015 nearly 500,000 Australians created performance content in film, theatre, traditional television and online video.[8] The growth was driven by online video, where 230,000 people became new content creators (Exhibit 6). This figure comprises a broad range of creative engagement, from amateur vloggers building YouTube channels to curators on online news websites and animators or film crew working to produce original content for online distribution.

5 Australian Bureau of Statistics, cat. No. 8155.0 Australian Industry, Australia.
6 Annual summary of performance (Internal Briefing), (2015) YouTube.
7 This is based on SocialBlade data.

8 ABS Series 6273.0 ‘Employment in Culture, Australia, 2001 - 2011’, Industry Trends Fact Sheet (2015) Screen Australia.

While the quality of this content creation will vary widely, the broader point remains: more local stories are being told by more local people. An actor on a national television show will often have tremendous creative impact and economic gain. There are also many examples of creators for online video who have found sustained economic prosperity and cultural impact.

For example, the leading Australian content channel on YouTube is FluffyJetProductions – which contains short humorous videos designed for young children and their parents.[9] Each video reviews or features popular toys and is produced predominantly by parents who began as amateur content creators. With over 2 billion views of their 1,000 videos, the channel is estimated by third-parties to earn the creators in excess of $35,000 per month.[10]

Creators who build a more modest online presence remain able to practice their craft, build an audience, and secure other sources of income. For example, The Katering Show was a comedy web series launched on YouTube by Australian comedians Kate McLennan and Kate McCartnery, who had made appearances on broadcast television but had been yet to find a sustained presence on that platform. The strength of their content helped them find an audience in the millions on YouTube, which led to the distribution of the show on ABC. However, for a new generation of online content creators getting picked up by a television broadcaster is not necessarily an end goal. For example, the creators of the Mighty Car Mods YouTube channel, which is the number one independent auto show in the world - with over 2 million subscribers and 300 million video views - continue to release their weekly program on YouTube before it is replayed on FOXTEL's Discovery Channel.

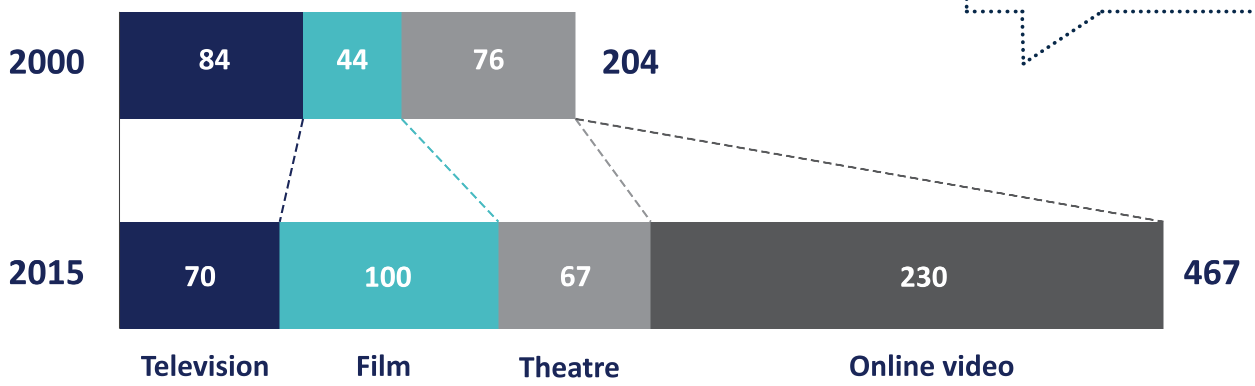
9 https://www.youtube.com/user/FluffyJetProductions
10 SocialBlade, http://socialblade.com/youtube/user/fluffyjetproductions

EXHIBIT 6

More Australians are involved in the creation of performance content

Number of persons, '000

The emergence of online video has enabled twice as many Australians to create their own performance content



FluffyJetToys

2.4 billion views

- Children's toys are unboxed and reviewed by a baby and its parents
- The chanel was launched by Adelaide-based parents in their spare time, while maintaining full-time jobs at call centres
- Emerged in 2014 as one of the Top 100 most viewed channels worldwide

How to Basic

1.2 billion views

- Provides a comic subversion of simple instructional videos, featuring visual gags and recurring characters
- The male presenter has remained anonymous, fueling a community of speculators attempting to identify him
- The channel is managed by an American agency, Fullscreen

The Katering Show

8 million views

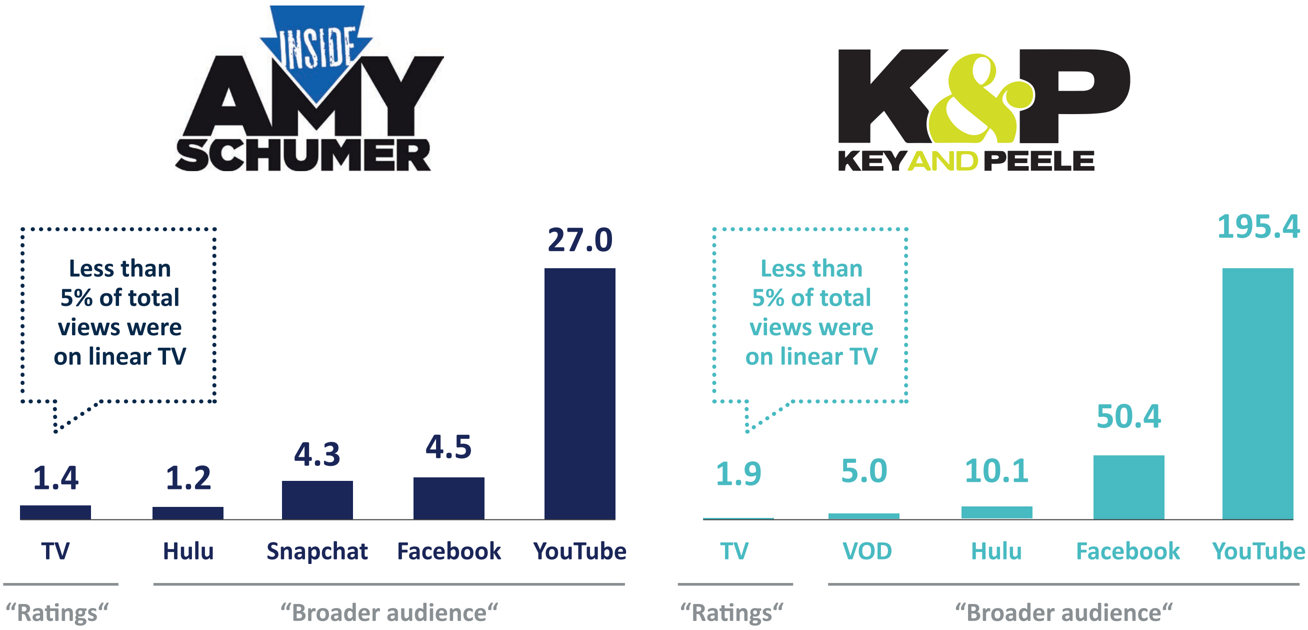
- Satirical cooking show hosted by comedians, who previously built a career performing in various sketch and comedy TV shows
- The show's success on YouTube resulted in ABC television funding a second season for its broadcast channel and internet platforms

SOURCE: ABS, Screen Australia, YouTube, AlphaBeta

EXHIBIT 7

OVC services are offering content creators new ways to find an audience

Total views by platform. Inside Amy Schumer and Key & Peele, millions



SOURCE: Inside Amy Schumer Season 3 Episodes 1 - 7, from airing to June 2015, Key & Peele Season 4A to June 2015, New York Times Magazine

3.3. Australian content is able to find bigger and more global audiences

Freed from the constraints of geographical distribution and scheduling, OVC services allow content creators to find larger and more dispersed audiences. OVC services can provide a supplementary audience to existing broadcast television content and a vehicle for all types of content to seek out international audiences.

Broadcast television has been quick to recognise the potential of OVC services to provide a game-changing supplementary audience. All the major free-to-air and pay-TV providers now make a substantial portion of their programming available online. This has proved successful, with viewers tuning into more than 10 million hours of programming per month from these sources.[11]

Australian television broadcasters are also beginning to experiment with providing their content across multiple services, following the success of overseas broadcasters. As part of its Olympics coverage in 2016, Channel 7 formed a partnership with Google to distribute highlights, clips and compilations on its YouTube channel. Not only did this provide Channel 7 with a supplementary source of revenue by further monetizing its content and an opportunity to advertise its daily coverage, but it also gave its viewers increased flexibility to access the content they wanted on-demand. And its results indicate that viewers embraced the new channel of distribution: Channel 7's YouTube platform gained 35,000 subscribers, received more than 15 million views and had a total watch time of almost 40 million watch minutes, during the Olympics fortnight.[12] High profile examples in America illustrate the potential value of leveraging this online audience. Comedy programs which struggled to find success in traditional rations nevertheless found great cultural relevance online. For example, Inside Amy Schumer and Key & Peele have both become household names in America despite less than 1% of their views coming from broadcast television (Exhibit 7). These artists are using OVC services as an important channel to reach a wider audience.

11 Screen Australia (2014) Online and on demand – Trends in Australian online video use.

12 Data provided by Channel 7.

EXHIBIT 8

Australian content has used OVC services to become an export success

Where Australian YouTube videos are being watched (% of views)

297 million views

Mighty Car Mods

- Run by two Australian friends, this channel is now the world's number one independent online DIY automotive show
- The show is also featured as in-flight programming on international Qantas services

17 million views

Aunty Donna

- Australian comedians producing a series of light entertainment and sketch comedy shows
- Global exposure has led to a successful international live shows, including in New Zealand and the USA

NOTES: Consumption is measured by the amount of time spent watching content.
SOURCE: Screen Australia, SocialBlade.

Boosting domestic consumption of video content is one thing, but Australia now also possesses the game-changing opportunity to overcome its small market and seize global audiences. Approximately 90% of the views of Australian screen content on YouTube comes from international audiences (Exhibit 8). This is a demonstration of the ease and effectiveness with which screen content can be distributed overseas, making screen content a powerful export opportunity. What this tell us is that screen content distributed through online platforms is competing for a global audience, and Australian content is more than holding its own on the world stage. Online streaming services have proved relatively indifferent to borders, with global audiences flocking to their preferred content regardless of where it comes from.

There is evidence that this is leading to some content specialisation even within individual OVC platforms. For example, YouTube Australian channels are disproportionately popular in the 'Education' and 'How To' genres, while American channels are predictably overrepresented in the 'Arts, Performance & Music' and 'Entertainment' genre.[13] The automotive repair and DIY channel Mighty Car Mods, hosted by a pair of Australian friends, is a high-profile example of this success. This channel is now the world's number one DIY automotive show and finds most its success from an international audience. The success of this genre of screen content relies on some of the unique features of OVC services such as on-demand delivery. However, the high profile success stories of Australian content on YouTube have not been limited to the "Education" and "How To" genres. Humour, entertainment, and lifestyle screen content that advertises Australian lifestyles, cultural attitudes, and creative talent is finding international success.

13 This is based on an analysis of the content of the Top 100 most viewed YouTube channels in each country. The viewership ranking is based on SocialBlade data.

The YouTube channel Aunty Donna provides a compelling example of this. The channel hosts comedy and variety entertainment content made by a set of young Australian comedians. Their success on YouTube, especially following their web series “1999”, was enabled by their popularity overseas, with a large share of views of Aunty Donna content coming from the United States. This allowed the entertainers behind the programme to build a following in America, which enabled them to perform in Los Angeles. Their major sold-out show attracted people who travelled from across America. A similar form of success would have been more difficult and more expensive to replicate in a world where screen content could not be distributed online.

These export opportunities also allow screen content producers to develop innovative content. For example, YouTube formed a partnership with Australian game developer Halfbrick (maker of Fruit Ninja) to develop original content themed around its successful games.[14] The ability to generate a web series so rapidly based on the success of a popular mobile game perhaps perfectly epitomises the opportunities afforded to screen content producers in this new environment.

Online video helps share Australian culture with the world, as demonstrated by one example of an Australian YouTube channel that has found international success. Natalie Tran’s CommunityChannel has found over 500 million views[15] for her short, pithy videos that project the cultural attitudes and identity of a young, suburban Australian to an international audience.

14 HalfBrick Media Release (2015) ‘YouTube and Halfbrick announce production of an animated fruit ninja series’ Available from: http://halfbrick.com/press/youtube-and-halfbrick-announce-production-of-an-animated-fruit-ninja-series/
15 https://www.youtube.com/user/communitychannel

4

OPPORTUNITY:
Enhanced civic discourse and on-screen diversity

4.1. Overview

Screen content plays an important role in our democracy. It is indispensable for civic discourse, sharing information on events, politics and ideas. Recognising this role in our democracy, governments have long sought to ensure that the television industry provides a plurality and diversity of views, that smaller voices are heard and minority audiences are catered for.

OVC services are changing the role of screen content in our democracy. The growth of OVC services are empowering more voices, offering more views and extending the reach of consumers into new markets.

4.2. More content to inform civic discourse

OVC services have proliferated new sources of political and civic content. A decade ago, Australians had access to just five free-to-air television stations, while a minority of Australians had access to additional channels through pay TV. Today, Australians have access to an immense supply of video news, commentary, and culture: from the user-generated content of the likes of YouTube and Facebook to the content of news websites.

OVC platforms are increasing the amount of news services that are available, and viewers are adopting these in large numbers. Daily views of news videos from each of YouTube or news.com.au alone are comparable to the viewership of leading nightly news broadcasts, once the sole source of video news (Exhibit 9). For example, Channel 7 leads the ratings, with over a million views recorded daily. SBS' world news commands 137,000 viewers. By comparison, news and politics videos on YouTube and video content on news.com.au draw in daily audiences of 658,000 and 464,000 respectively.[16] These view counts are based on videos watched for a minimum of 30 seconds, and do not include "autoplay" videos that are scrolled past by the audience. While these views are often of shorter videos, this count excludes the entertainment, sport, weather and other content that comprise a substantial part of nightly news bulletins on free to air channels.

OVC services are also able to provide coverage of issues relevant to a relatively small audience. While a major nightly news bulletin is competing for an audience of millions in a general metropolitan or major regional area, OVC providers are able to host video channels catering to a highly local or specialised audience.

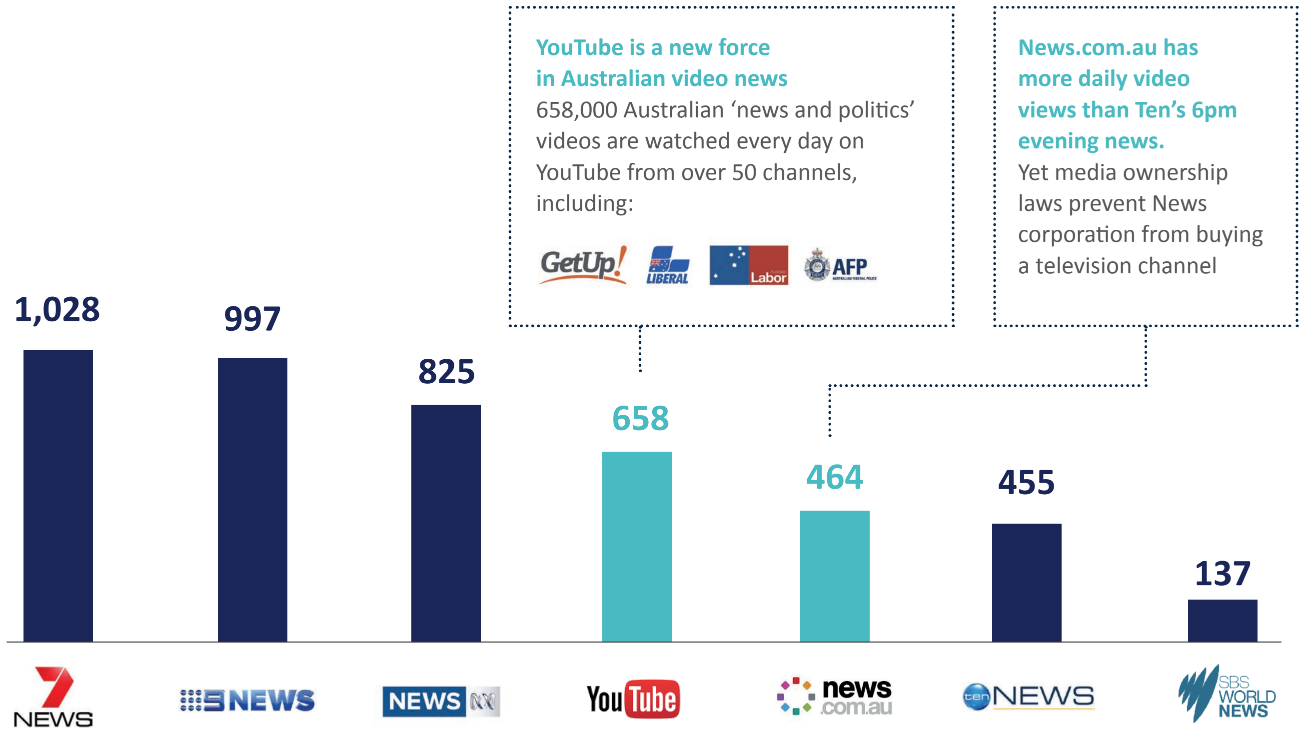
To take a specific example, Behind The News, a long running news initiative of ABC aimed at young students, use their YouTube channel to make available short reports by student journalists in regional areas.[17] These videos are often viewed by just several hundred people in that region. Thousands of similar channels and outlets allow regional communities and groups with special interests to connect to relevant news that would not otherwise be produced or distributed.

16 Nielson (2016) Online Streaming Report.
17 https://www.youtube.com/user/behindthenews

EXHIBIT 9

OVC services provide a popular source of news content

Average daily viewers of news bulletins, '000s



SOURCE: Data from Febuary - March 2016. Television viewer figures are from Oztam ratings for major bulletins (capital cities). YouTube data from SocialBlade and covers the 500 channels which are located in Australia and part of the "news and politics category. Note this is a conservative estimate - it does not include news videos posted from channels not categorised as "news and politics" or news videos watchied in Australia on channels located abroad.

4.3. Editorial diversity is increasing as more people supply news content

OVC services have increased the fragmentation, plurality and diversity of news content producers. As online video services have proliferated, especially in the past decade, Australians have had access to a larger array of voices than they did in the era of traditional television. Over the past 10 years, new entrants into the television industry including catch-up, streaming, and SVOD services, have diversified screen content.

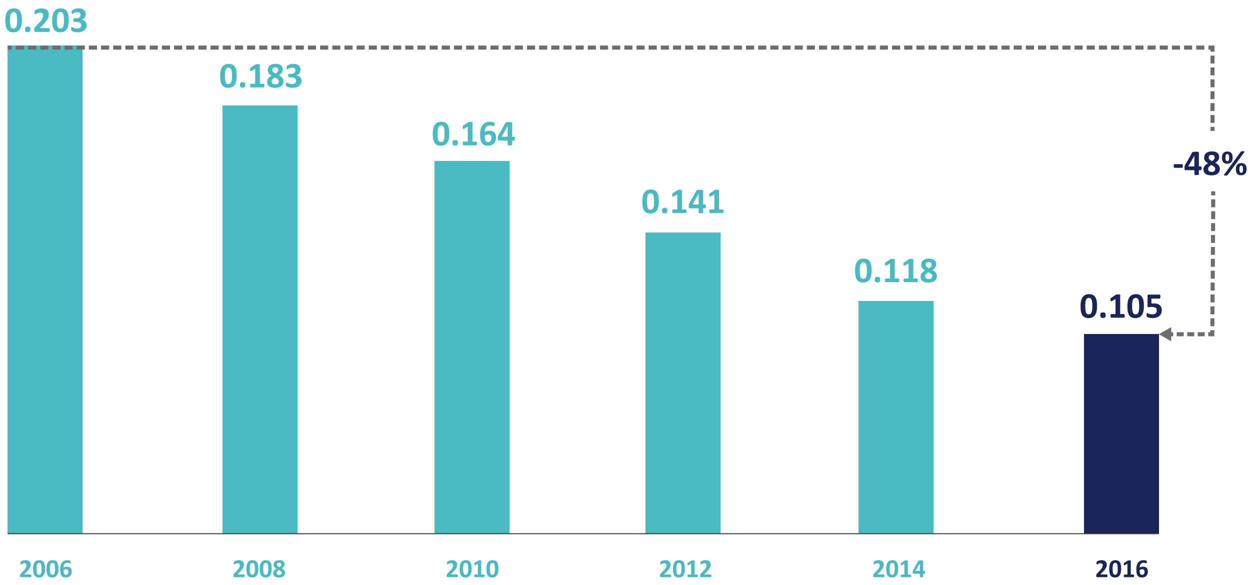
Exhibit 10 demonstrates that the screen content industry is half as concentrated today as it was 10 years ago, prior to the boom in OVC. The last decade of data in the Herfindahl Index demonstrates the increased number and fragmentation of providers. This index is a standard economic measure of the competitiveness of an industry and is based on the number of available providers and their respective market shares. The lower the index measure, the more competitive the industry.[18]

18 The data measuring the market share of differing video content services is a composite of available data from Neilson (2010 - 2016), Screen Australia (2015), Oztam and TAM (2015). The Herfindahl Index for an industry is calculated by summing the squared market share (as a percentage) of each service provider in an industry.

EXHIBIT 10

The market concentration of screen content has halved

Industry concentration (Herfindahl-Herschmann Index)



SOURCE: Neilson (2010 - 2016), Screen Australia (2015), Oztam and TAM (2015).
NOTE: The Herfindahl-Herschmann Index is a common measure of industry concentration. It is calculated by adding together the squares of the market share of each competing screen content provider. The large reductions in recent years are driven by the expansion of platforms offering user-generated content, which leads to an effective market share of 0 for each content provider.

The increase in competitiveness is due to a shifting industry structure which requires fewer "gatekeepers". Television has traditionally been vertically integrated – with broadcasting licence holders (the "TV Channels") also acting as major funders of content creation, marketers, and operators of transmission equipment. Vertical integration in the production and distribution of video content, and media more broadly, has long been recognised as one of the limits on effective freedom of expression.[19]

In contrast, OVC services are generally significantly less integrated, even though the level of segmentation varies across services. For example, most streaming platforms allow users to generate and upload content without pre-authorisation from the distribution platform. This means that those wishing to distribute video news to a national audience need no longer be the holder of an expensive broadcasting licence, nor maintain a large transmission network. Nor do they need their perspective to be accepted as relevant by one of a handful of news producers in a given region. Citizens can directly video and make available eyewitness accounts of news events. Commenters can post their opinions, analysis, or original composite footage to advocate for certain perspectives.

This is why it is important to measure editorial diversity with reference to the entirety of an industry, rather than the diversity of content or perspectives on any given channel. While large broadcasters are capable of, and often successful at, representing niche interests and minority viewpoints in their programming, it has been authoritatively argued that a 'menu of options' does not guarantee freedom of expression as well as low barriers to entry and a multitude of providers.[20]

19 Owen, B. (1977) Economics and Freedom of Expression.

20 Owen, B. (1977) Economics and Freedom of Expression.

4.4. On-screen participants and characters are more diverse

The creative talent and on-screen personas of OVC programming are helping to improve the diversity of Australia's media.

It has been recognised that television can suffer from a lack of diversity in programming and on-screen personas. A report released by Screen Australia demonstrated that over 85% of characters in the drama productions of broadcast television are Anglo-Celtic, in comparison to just under two-thirds of the general population.[21] And there continues to be an underrepresentation of women, including in positions of editorial and creative authority. Traditional broadcasters continue to face work to address this problem.

There are early indications that online video is chipping away at the problem and representing more diverse on-screen talent. While a comprehensive analysis of the millions of hours of online video is impractical, two factors point to OVC services addressing diversity.

The first is that OVC services allow content makers to access audiences directly, with significantly less structural inequality in how their content is found and consumed. This allows even those who are unable to access resources early in their career to build up experience in finding and navigating their audiences.

A count of the highest viewed YouTube channels in Australia suggests that close to a third of the most popular screen content on YouTube are primarily created or presented by women. [22] This kind of analysis is difficult to compare to the numbers in broadcast television, as programming is of different lengths and formats. However, anecdotal evidence suggests that those from historically underrepresented demographics are finding greater representation through online platforms. The female comedians behind The Katering Show, now airing on ABC, built their audience first through their YouTube channel. SBS Australia currently airs RocketJump Videos, a 'behind-the-scenes' look at the videos distributed by Asian-American Freddie Wong. And shows like Netflix's Master Of None are notable for its first-generation migrant cast and diverse perspectives. Here and overseas, OVC services allow more people to disseminate their content.

Additionally, representation is a much bigger problem in a limited market where viewers have no choice but to watch the presented content. Underrepresented groups face significant hurdles seeking out opportunities to participate or find faces that speak to their life experience and stories. In contrast, in a world of near infinite content, where specialised audiences and programming can be matched, those who are looking for their identity to be represented generally find such content. This was recognised in Screen Australia's report: of the six challenges they identified for increasing on-screen diversity, only two of them were relevant to the structure and economics of OVC services. The remainder (e.g. high fixed cost of production, the requirement for broad-base audiences) were peculiar to the economics of broadcast television.[23]

21 Screen Australia (2016) Seeing Ourselves: Reflections on Diversity in Australian TV Drama.
22 Top 50 YouTube channels as accounted for by SocialBlade (2016).

23 Screen Australia (2016) Seeing Ourselves: Reflections on Diversity in Australian TV Drama.

5

OPPORTUNITY:
Greater Consumer Choice and Benefits

5.1. Overview

Viewing screen content remains a major leisure activity of most households across the country, and a socially-shared means of entertainment and community building. Online video is expanding the consumption and enjoyment of television. A survey of approximately 400 consumers conducted for this report indicates that online video is producing a $6 billion surplus for consumers. The survey also reveals that consumers are willing to increase the time they spend consuming screen content, especially if more diverse content is made available to them.

5.2. OVC services are supporting $6 billion in consumer benefits and fuelling demand for screen content

Online video supports a substantial consumer surplus. The consumer surplus of a service is the benefit that consumers get in excess of what they have paid for that service. In a survey of 400 consumers conducted for this report, screen content viewers nominated the surplus value that their consumption of online screen content gives them (beyond what they pay for it).24 Respondents were asked to identify the dollar amount they would need to be paid in order to abstain from all consumption of online video content for one month. The question was formulated in this way to avoid the overestimation bias that has been identified when respondents are asked to simply pick the dollar amount that a particular service is worth to them. A weighted average of this valuation amounts to a total annual consumer surplus of around $6 billion per year (Exhibit 11). This figure takes into account those people who do not consume OVC services as it is a weighted average of all survey respondents.

The $6 billion of surplus value that OVC services generate for consumers can be attributed to a range of features unique to screen content delivered through the internet. The survey measured the relative value of these features by asking respondents to evaluate the main reasons that they opt to consume online screen content. Exhibit 11 shows the contribution of each feature: the fact that consumers can watch content of their choice whenever they wish ("On-demand accessibility"), the availability of different and original content ("New Content"), the ability to watch on screens that can be carried around ("Portability"), and the lower price that many OVC services come with in comparison to alternative ways to consume screen content ("Affordability").

The most highly valued feature of OVC services is that they provide new content (making up $2.5 billion of the total consumer surplus, see Exhibit 11). We examine this in greater detail in Section 5.3. On-demand accessibility and Portability, features unique to OVC services, make up the majority of the remaining surplus value. Consumers attribute just $0.5 billion of surplus value to the affordability of OVC services – this is significant because it reinforces that OVC services do not simply provide a cheaper substitute service. Consumers believe it adds something new to their cultural experience, and it is these novel features which are driving the popularity of online video content.

The high value that consumers place on OVC services is also apparent in their stated willingness to further increase their consumption of screen content if certain features of OVC services are enhanced. The survey conducted for this report asked viewers if they wished to increase their current screen content consumption, and if so what factors stopped them from doing so. Our analysis of their responses indicated that viewers were willing to increase their consumption by as much as five hours per week. The factors of greatest concern to consumers were access to more suitable internet services and availability of more content (Exhibit 12). Concerns regarding safety standards to screen out inappropriate content, and the availability of more local Australian content provided significantly less incentive to spend more time on screen content.

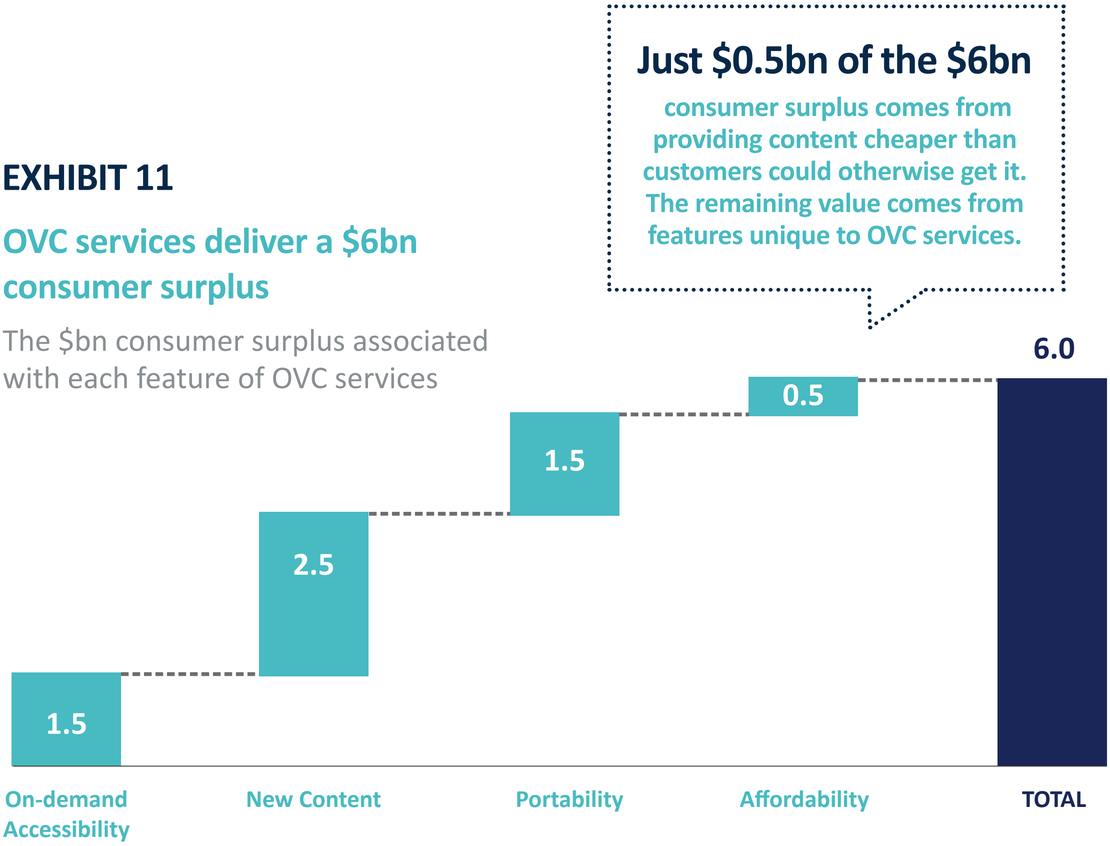
This desire to spend more time viewing screen content is supported by the increased accessibility of that content. Take, for example, the portability of screen content delivered online. Screen content was once mostly reserved to be consumed when viewers had leisure time at home. Now more and more portions of their day, such as the average 50 minutes that Australians spend commuting on public transport each day, could potentially be used to view screen content.

24 This survey was conducted by SurveyMonkey over the period of one week. Basic demographic information was collected in order to ensure a representative sample.

EXHIBIT 11

OVC services deliver a $6bn consumer surplus

The $bn consumer surplus associated with each feature of OVC services

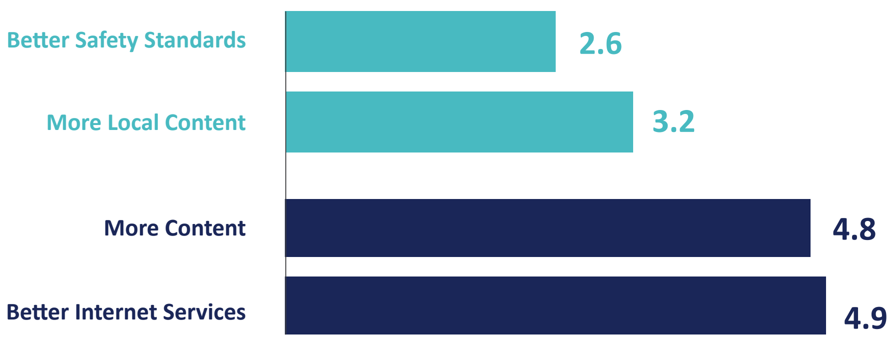


SOURCE: AlphaBeta consumer survey

EXHIBIT 12

Better internet and more content is most likely to increase the consumption of screen content

Number of additional hours of OVC Australians would watch if the serviced improved, (Hours per week).



SOURCE: AlphaBeta consumer survey

EXHIBIT 13

OVC services are rapidly increasing the amount of available content

New programming made available daily (Hours)

NOTES: * Figures for select major video streaming websites in Australia.
^ Time watched per month is the average figure for viewers of the relevant site.
SOURCE: Nielsen Australian Online Landscape Review (December 2015 & December 2013).

5.3. Content variety has boomed and consumers value this variety

Australians have eagerly taken up new sources of content, through both free and paid OVC services. Australians spend over 100 million hours per month on the most popular free streaming services, excluding the broadcast television platforms.25 In addition, over 6 million users have adopted SVOD services, excluding pay-TV platforms like FoxtelGO.26 Survey respondents identified the availability of unique content as being the key source of value in these new OVC services.

Exhibit 13 provides an indication of the expansion of content that has attracted this large audience. It is unsurprising that surveyed viewers identified new content as the most valuable contribution of OVC services (see Section 5.2). With 400 hours of new video added to YouTube every minute, over one thousand times more content is added to YouTube each day than can be accessed on broadcast television in a 24-hour period. And every moment of that diverse online video content is available to viewers at any given moment.

There are two inter-related reasons why this increase in content diversity is especially valuable for consumers. To begin with, consumer preferences are inherently diverse — in other words, viewing screen content is an activity characterised by what economists refer to as 'horizontal' rather than 'vertical' product differentiation.27 That is, rather than all consumers preferring "better" content, viewers have dramatically different requirements of what they want screen content to be. This means that expanding diversity allows a far closer fit between the product range and consumer valuations. Additionally, there is an inherent unpredictability to consumer preferences: no one knows before the fact which content will be most successful. Greater variety therefore provides for a richer selection environment, with consumers (rather than solely broadcasting executives) guiding that selection, thus increasing the probability that the content which is most highly valued will be produced and recognised. Together, these features unleash a dynamic process, in which greater variety encourages experimentation, selection rewards the creators who best anticipate consumer preferences, and data such as viewing statistics and consumer referrals allow those creators to attract funding sources, further expanding supply.

25 Nielson (2016) Streaming Report; OzTam, TAM, Nielson (2016) Australian Multi-Screen Report Q1 2016.
26 Roy Morgan Findings January-December 2015.

27 Vertical product differentiation refers to situations in which consumers have similar rankings of attributes and products are primarily differentiated along a scale related to those attributes: for instance, price aside, all consumers prefer high quality cars to low quality cars. In contrast, horizontal product differentiation occurs when consumers place different valuations on attributes: some prefer period dramas, while others prefer action videos.

CONCLUSION:
Looking Forward

Screen content is evolving at a rapid pace, as viewers embrace new channels and devices to suit their personalised viewing habits. This report has highlighted the ways in which screen content production and consumption has expanded due to the new features and flexibility introduced by OVC services.

More producers are able to enter the market as the barriers to production fall. Consumers can find more of the content they want and watch it on the most appropriate platform and screen. The combination of this has led to screen content viewership being higher today than ever before. These shifts have opened up key opportunities. They are creating a bigger industry with more creators and a wider audience, enhancing civic discourse and on-screen diversity, and creating greater consumer choice and benefits.

This story is not over. What this report describes is not the conclusion of a shift. Rather, it has identified the direction of that shift. There will continue to be rapid change – with more people empowered to watch more content through ever-evolving service and device offerings.

The technological trends that have fuelled the expansion of OVC services are likely to persist into the future. More Australians are switching to mobile phones as their primary internet and viewing device. With phones providing faster, more reliable and cheaper internet access, and web service providers optimizing their products for mobile phones, 1 in 5 adult Australians rely on phones exclusively for internet access.[28] And screen content viewing on mobile devices has grown at 45% annually over the past three years.[29] Similarly, internet speeds, camera quality, video editing software, and computing power are all continuing to advance. As more people adopt more advanced technology, it becomes possible to both supply and consume new types of services.

These shifts in technology will continue to make radically new forms of screen content a reality. Screen content will continue to attract services that specialise in different genres. Already, over 45 million people use a service called Twitch, which broadcasts live feeds of computer game contests, just as traditional television has broadcast sports contests.

Screen content could become more personal and interactive. For example, Periscope is a mobile-based app that allows users to broadcast video live from their phone, and be viewed and interacted with by any other Periscope user across the world.

Screen content may also become significantly more immersive and available on wholly new devices. Content providers have long been aware of “multi-screen” viewing, whereby consumers watch a show at the same time that they are responding to the show on another device. Social media services designed around television usage, such as GetGlue and TunerFish, can take advantage of this and make TV viewing less passive. Meanwhile, the growing availability of virtual reality headsets reminds us that technology and screen content may rapidly go in fundamentally new directions. Technological change is the new normal, but to date the importance of Australian screen content in our social and cultural lives - and the amount of it being produced and consumed - has only expanded as a result of it.

28 ACMA (June 2015) Australians Get Mobile.
29 Oztam, RegionalTAM, Nielson (2011 – 2015), Australian Multi-Screen Reports (Quarterly).

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