STRATEGIES OF MEDIA COMPANIES IN ASIA PACIFIC REGION

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## ABSTRACT

The affluence in the Asia Pacific region has attracted new entrants into the mass media markets in the region. This has led to structural changes in the industry, hastened by rapid technological development and changing consumer behaviour. Technological changes stem from the development of digital compression, breaking down the unavailability of frequencies and distribution infrastructure as a barrier of entry, and the convergence of broadcasting, telecommunication, satellite and computer-service technologies, which will bring about new forms of alliances in the industry. Consumer behavioural changes is brought about by the separation of content, context and infrastructure of products, which has particular relevance to the broadcasting industry.

The resulting effect on the television broadcasting industry is that it has become a regional business, and as industry structure keeps changing and getting complex, so are the roles played by its participants. While companies still need to maintain their strategic fit and bargaining positions, the Value Net model by Brandenburger and Nalebuff calls for identification of the five key elements in the industry, namely scope, added value, players, rules and tactics, and setting strategies by changing the five key elements. A terrestrial broadcaster has been used to apply this model and derive recommendations.

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# CHAPTER I

# INTRODUCTION

## Definition of Media

"Media" includes the mass media which provides entertainment and information (for example television and radio telecasting) and the advertising media which acts as marketing tools for advertisers to reach potential customers. The media industry, as we know it in daily life, encompasses the fields of television, radio, the press and related disciplines in mass communication.

## Reasons for Choosing Television Broadcasting

Television is a key service in modern society. The reason for choosing television broadcasting for this study, as opposed to the press or other media, is with its near universal coverage and affordability, and the extent of influence it has over the behaviour and attitudes of the public. Appendix 1 shows the coverage of various media in Hong Kong and their relative share in advertising revenues.

This segment of the media industry has also experienced the most structural changes in recent years as compared to the press or other media forms. Undeniably, the major impetus behind the change in television is the development of new information technologies, especially the digital convergence technologies which bring together broadcasting, satellite communication, telecommunication and computer-based services.

## Hong Kong's Aspiration to become a Broadcasting Hub in Asia

According to McKinsey & Co., Inc., the market value of Chinese-language television, cable television and movie production in Taiwan, Hong Kong and mainland China amounted to US $2.8 billion in 1993[1]. By the 21st century, the Asia-Pacific region will have become the heart of world economic activity as well as a major market for nations around the world. In line with this world economic shift, the Asia-Pacific media world will have greater room for development and a much larger market potential. The function of the media in the 21st century will not just be to provide new information, but will also be a major source of lifestyle advice, business transactions, cultural exchange, new scientific knowledge, sports and recreation, data interaction, and community development. Given the readily trans-national nature of media broadcasting, this industry has already become an important bridge for promoting international understanding and cooperation.

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[1]Taiwan Government Information Office on the Internet : http://gio.gov.tw/info/asia-pacific/media_e.html

Having superior infrastructure in place and a wealth of experienced professional and expertise for the industry, the Hong Kong Government has recently pronounced its aspiration to become a regional broadcasting hub[2]. This will no doubt generate substantial benefits to society.

## Objective, Scope and Methodology of Study

Organizations cannot isolate the effects of the environment. When they formulate their strategies they are matching their capabilities to the environment.

This study attempts to analyze the changes of the competitive environment of the television broadcasting industry with reference to a terrestrial broadcaster in Hong Kong[3]. The challenges facing it under the rapidly changing technological and structural environment will be examined. The study closes with recommendations on possible courses of action on how the terrestrial broadcaster in view of the rapid changes in industry structure. Geographically, the focus is on Hong Kong but because of the nature television broadcasting has evolved and the business development of the company in profile in recent years, issues around the Asia Pacific region will be

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[2] Consumer Council, Ensuring Competition in the Dynamic Television Broadcasting Market, (Hong Kong : Consumer Council, January 20, 1996.) Page 7

[3] For a brief description of the company in profile please refer to page 5.

discussed where appropriate. The study will evolve around commercial issues of the industry and the commercial viability of strategies.

In view of today's fast changing market conditions, Porter reinforced the long term nature of strategic positioning and the importance that firms should be able to distinguish between operational effectiveness and strategies, and the keeping of a firm's strategic "fitness".

A wealth of literature in recent years raised two important issues in relation to industry competitiveness analysis :

1. The interdependencies of firms and the fact that their roles can no longer be static;
2. The migration from "marketplace" to marketspace" in view of the changing consumer/viewership behaviour.

For the purposes of this study, the Value Net model by Brandenburger and Nalebuff[4] is chosen as the framework for competitive analyses of the company in profile because it is considered to be more appropriate in depicting the interdependence of the players in the broadcasting industry. The five forces and the concept of strategic "fitness" (Appendix 2) from Michael Porter will be referred where appropriate to enhance the analysis.

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[4] Brandenburger, Adam M. and Nalebuff, Barry J., "The Right Game : Use Game Theory to Shape Strategy", Harvard Business Review , July-August 1995. Pages 57-71

Brief Description of the Company in Profile

**The Television Broadcasts Limited (TVB)**

Established in November 1967, TVB is one of the two terrestrial broadcasting license holders in Hong Kong. The other terrestrial license holder is Asia Television Limited (ATV). It is also one of the four uplink and downlink license holders in Hong Kong.

TVB has many sources of income from its broadcasting arm, namely advertising revenues, commercial sponsorships, program licensing, video licensing and profits from investments in foreign subsidiaries, etc. The largest of which is undoubtedly advertising revenues. TVB used to enjoy the majority of viewership and account for over 80% of the television share of total advertising revenues of all media in Hong Kong. The latest ratings and advertising rate cards of TVB and ATV shown in Tables 1 and 2 speak of its leadership position.

The last five years saw many challenges : government's intention to allow for additional television operators in the Hong Kong market with alternative delivery methods, the birth of the concept of regional television with the establishment of Satellite Television Asian Region Limited (Star TV) in mid-1991, the granting of cable television license in 1993, inquiries and share acquisition by foreign multinational media groups, its own international expansion plans which included controls of two cable television channels in the United States, cable television in Taiwan and cooperation agreement to launch new terrestrial station in some South East Asian countries, etc.

Being the leader both in Hong Kong and in South East Asia, TVB is an active member of the Asian Broadcasting Union, and co-operate with other member broadcasters in rights acquisition and relaying of international events. TVB is unique in the world, and is very proud of being able to provide over 90% or 3500 hours of original programming in local content in a local Chinese dialect, is reputably the largest Chinese television program producer in the world.

**Table 1**

**Primetime Ratings, Audience Share of Terrestrial Broadcasters in Hong Kong**

| Year | TVB Jade | | ATV Home | |
|---|---|---|---|---|
| | Ratings (TVR points) | Share of Audience | Ratings (TVR points) | Share of Audience |
| 1984 | 43 | 84% | 8 | 16% |
| 1994 | 27 | 75% | 9 | 25% |
| 1995 | 24 | 67% | 12 | 33% |
| 1996* | 26 | 73% | 10 | 27% |

*Weekday Primetime : Monday to Friday 7:00 .m. to 11:00 p.m.*
*1995 : One TVR = 55,170 individuals*
*1996 : One TVR = 56,910 individuals*
*Total terrestrial television (four channels) advertising spend in January to June 1996 US$503 million*
** Figure was for the period January to June 1996*

*Source : People Meter System, SRG*[5]

[5] Ma, Eric Kit-wai (1996) "Television", The Other Hong Kong Report 1996, edited by Nyaw Mee-kau and Li Si-ming, The Chinese University Press, p. 512

## Table 2

## Primetime Advertising Rates (all in HK$)

Basis : 30 second spot

| Day | Time slot | TVB Jade | TVB Pearl | ATV Home | ATV World |
|---|---|---|---|---|---|
| **Mon. to Fri.** | **1855-2255** | From $48,480 to $159,340 | From $4,920 to $15,890, from $6,380 to $ 24,620 | From $18,360 to $64,250 | From $3,530 to $12,340, from $5,430 to $18,980 |
| **Sat. to Sun.** | **1855-2255** | From 40,440 to $132,530 | From $4,920 to $15,890, from $6,380 to $24,620 | From $15,240 to $53,330 | From $3,530 to $12,340, from $5,430 to $18,980 |
| **Mon. to Fri.** | **1745-1845, 2305-2355** | From $25,170 to $82,760 | From $2,040 to $5,490, from $6,380 to $24,620 | From $5,510 to $19,280, from $9,180 to $32,130 | From $1,360 to $4,750, from $5,430 to $18,980 |
| **Sat. to Sun.** | **1745-1845 2305-2325** | From $16,790 to $55,140 | From $6,380 to $24,620 | From $5,510 to $19,280, from $9,180 to $32,130 | From $1,360 to $4,750, from $5,430 to $18,980 |

*TVB Jade and Pearl : Rates are according to Rate Card no. 31 effective from January 1, 1996, volume rebates and super-upfront discounts not taken into account.*
*ATV Home and World : Rates are according to Rate Card no. 8 effective from January 1, 1997*

# CHAPTER II

# INFLUENCES OF CONSUMER BEHAVIOUR AND INTERDEPENDENCE OF PLAYERS ON STRATEGY SETTING

## Introduction

The study of corporate strategies is not a new discipline in business studies, but it was Michael Porter's framework published in the 1980's which is the most widely accepted. Strategy is the creation of a unique and valuable position, involving a different set of activities. Porter's five competitive forces framework[6] has ruled the central thinking of strategic management studies until recent years when it was challenged as too static and unsympathetic towards technological changes and changing consumer behaviour. Porter argues that competitive strategic positions can emerge from one of the three distinct sources[7]. Whatever the basis - variety, needs, access, or some combination of the three - positioning requires a tailored set of activities because it is always a function of the differences on the supply side; that is, of differences in activities. Positioning does not rely on customer differences. Inputs

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[6] Porter, Michael, Competitive Strategy : Techniques for Analyzing Industries and Competitors, (New York : Free Press, 1980)
[7] For details of the three types of positioning, please refer to Appendix 3

are immensely important in achieving a market position, but they are not the position itself, only the means of it.

Bala Chakravarthy[8] commented that because of today's dynamic markets and changing technologies, companies can no longer assume static circumstances for finding an appropriate strategy for each industry configuration and erect the necessary barriers for protecting their competitive positions. Nowadays, the traditional sources of competitive advantage - economies of scale, product differentiation, capital investments, switching costs - have lost their importance as barrier to competition.

## Changing Consumer Values

On another dimension, recent literature calls for a more "customer-oriented and driven" marketing viewpoint. Mathur advocates that "what customers choose to buy should be the primary focus of competitive strategy"[9]. Treacy and Wiersema [10] found that companies that have taken leadership positions in their respective industries in the last decade typically have done so by narrowing their business focus, not broadening it.

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[8] Chakravarthy, Bala "A New Strategy Framework for coping with Turbulence", Sloan Management Review, Winter 1997, vol. 38 no. 2
[9] Mathur, S. S., "Talking Straight about Competitive Strategy", Journal of Marketing Management, 1992, vol. 8. Page 199-217
[10] Treacy, Michael and Wiersema, Fred, "Three Paths to Market Leadership : Customer Intimacy and Other Value Disciplines", Harvard Business Review, Jan-Feb. 1993, Pages 84-93.

They have focused on delivering superior customer value in line with one of three value disciplines :

1. Operational Excellence

- providing customers with reliable products or services at competitive prices and delivered with minimal difficulty or inconvenience,

2. Customer Intimacy

- segmenting and targeting markets precisely and then tailoring offerings to match exactly the demands of those niches, combine detailed customer knowledge with operational flexibility so they can respond quickly to almost any need, from customizing a product to fulfilling special requests - customer loyalty, or

3. Product Leadership

- offering customers leading edge products and services that consistently enhance the customer's use or application of the product, thereby making rivals' goods obsolete.

This is largely because the leaders have aligned their entire operating model - that is, the company's culture, business processes, management systems, and computer platforms - to serve one value discipline. This echoed Michael Porter's concept of the value chain (valued activities along the production process, for producing the goods and services to the end customer) and the importance of persistence and dedication in pursuing a long term strategy, and the concept of strategic "fitness" of an organization.

Marketplace versus Marketspace

Rayport and Sviokla[11] discussed the concept of *marketspace* whereby individuals transact in a different content (information about the product replace the product itself), context (how the transaction takes place) and infrastructure (the vehicle which enables the transaction to take place). This was due to the influence information revolution has on the creation and extraction of economic values, and most important, the information about a product or service can be separated from the product or service itself. The traditional sign-posts of differentiation no longer matter - where "content" may not automatically mean "product" and where "distribution" may not automatically mean "physical location". The traditional assignment of customer loyalty and brand equity can rapidly evaporate.

This has significant relevance to the television industry. When content, context and infrastructure are taken separately, any broadcaster can no longer assume habitual viewers loyalty. Programme providers, eager to get the product shown, will shop for available frequencies, be it terrestrial, satellite or cable (pay). The economies in penetration rate of an infrastructure, once pivotal to a broadcaster's attaining superior viewership ratings, will gradually lose its importance as technologies advanced, delievry cost per channel drops and end-receiving equipment becomes more

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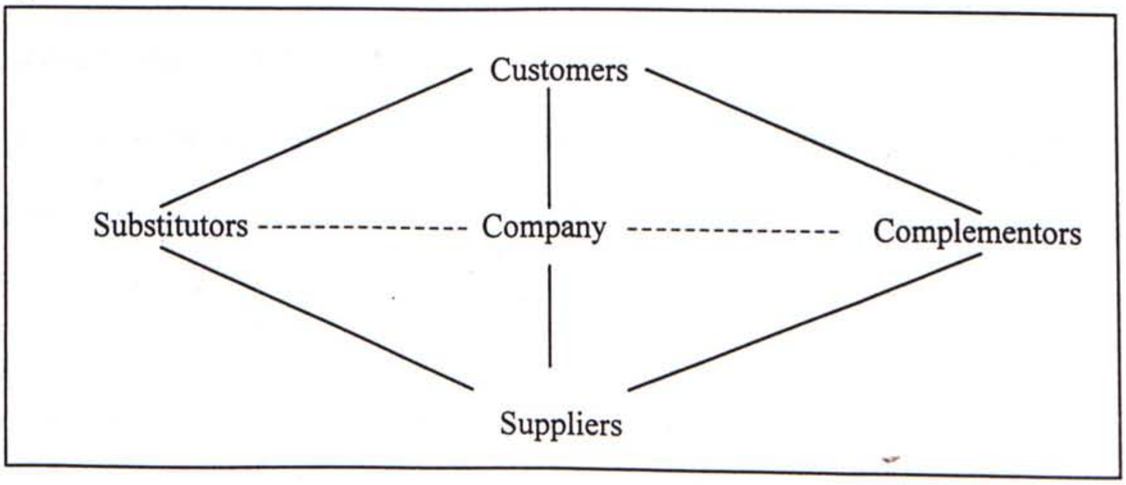
[11] Rayport, Jeffrey F. and Sviokla, John J. "Managing in the Marketspace", Harvard Business Review, November-December 1994. Pages 141-150

affordable. The channel or mode of delivery will only be "just another window of exposition."

## The Value Net

The Value Net (figure 1) is a schematic way designed to represent all the players in the game and the interdependencies among them. Interactions take place along two dimensions. The vertical dimension represents the resources flow and the horizontal dimension are parties with whom the company interacts but does not transacts. Substitutors are alternative players from whom customers may purchase products or to whom suppliers may sell their resources. Complementors are players from whom customers buy complementary products or to whom suppliers sell complementary resources.

**Figure 1 Value Net**[12]




[12] Brandenburger and Nalebuff (1995), Page 60

Along the vertical dimension of the Value Net, there is a mixture of cooperation and competition. The game of business is all about value : creating it and capturing it. It is cooperation when suppliers, companies and customers come together to create value in the first place. It is competition when the time comes for them to divide the pie.

## Essence of the Value Net to Strategy Setting

An organization must be able to draw its own Value Net and identify the key elements in the Net, namely : the players, added values, rules, tactics and scope. These five elements fully describe all interactions. To change the game, one has to change one or more of these elements.

Brandenburger & Nalebuff used the terms "coopetition" to depict the interactions between today's industry players. In today's business, players have dual roles in substituting and at the same time complementing each other. In strategy setting, the interactions among players need not be "win-lose"; it can also be "win-win."

# CHAPTER III

# ECONOMIC ANALYSIS OF MASS MEDIA

## The Good

Duarte and Cavusgil (1996)[13] analyzed mass media products as having a number of characteristics :

### A Public Good

Mass media products are similar to public goods because a viewer's consumption does not reduce the availability to others. That is, although it makes much effort to produce the first copy of a text or programme, it is reasonably inexpensive and easy to duplicate them. In this case, since the additional cost of usage is zero, competitive pricing cannot apply. This means that once such a good is created, the costs of adding new consumers are insignificant, and the profitability is directly proportional to the

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[13] Duarte, Luiz G. and Cavusgil, S. Tamer, "Internationalization of the Video Industry : Unresolved Policy and Regulatory Issues", The Columbia Journal of World Business, Fall 1996, vol. XXXI, No. 3 Pages 88-99

number of consumers. Demand elasticity, which differs among markets, will results in price discrimination for programme licensing.

Moreover, since films are not depleted like the stock of commodities, they accumulate and constitute a valuable inventory, competing with new products. Thus inventory owners need to keep track of a growing library whose value increases with the expansion of television channels. To a varying extent, most mass media products present an intrinsic public good characteristic.

## An Intangible Good

Unlike commodities, mass media products are ideas which ignore national boundaries and elude counting, especially with technological development ideas can be delivered via satellite or internet. The convergence of mass media systems whereby ideas can easily be transformed from print to films, to television, or to internet, and vice versa, has further lessened the importance of the "hardware". It has been quoted by Duarte and Cavusgil (1996) that about a dozen movie theatres in Los Angeles now displayed films without reels. The new process "involves converting the film to digital format, zapping it using fibre-optic lines to a video server which doctors it up for feeding high definition film projectors in the local theatre. Digital technology means that information can be converted to various formats and travel distances without any loss of quality. Text, images and sounds can be equally digitized, dispensing with the "movement of goods".

### Cultural Value

Mass media products could constitute a serious threat to the local culture, since they convey the very ideas, values and lifestyles that embody foreign cultures. Some Asian governments traditionally have been wary of foreign influence, striving to maintain national sovereignty over mass communication policy at the same time they pursue venues for the free exchange of information with other countries.

## Demand & Supply of Television

### Interest Groups

Similar groups in every society have an interest in the provision of television to the consuming public :

1. the consumers themselves, as the viewers;
2. the advertisers who wish to sell goods and services to the public. They see the entertainment media as the medium of choice by which to inform consumers about their products;
3. the government, who wish to channel messages of an informational, educational, cultural, and propagandistic nature to their citizens;
4. other assorted groups who wish to propagate some sort of cause or ideology;

5. the suppliers themselves, who create, produce, and distribute the programmes[14].

## The Economics for Free Television

Watching television may be without price but it is certainly not without cost to the viewer. Even where the consumer watches a free show at no monetary cost, he must sacrifice the opportunity of doing something else with his time. Television is a time-intensive activity and it competes for the limited time in the day with other activities, e.g. work, studies, sports, reading, social gatherings, rests, etc. The opportunity cost of free television, therefore, is the next best alternative use of that time. All entertainment media compete for an individual's leisure time.

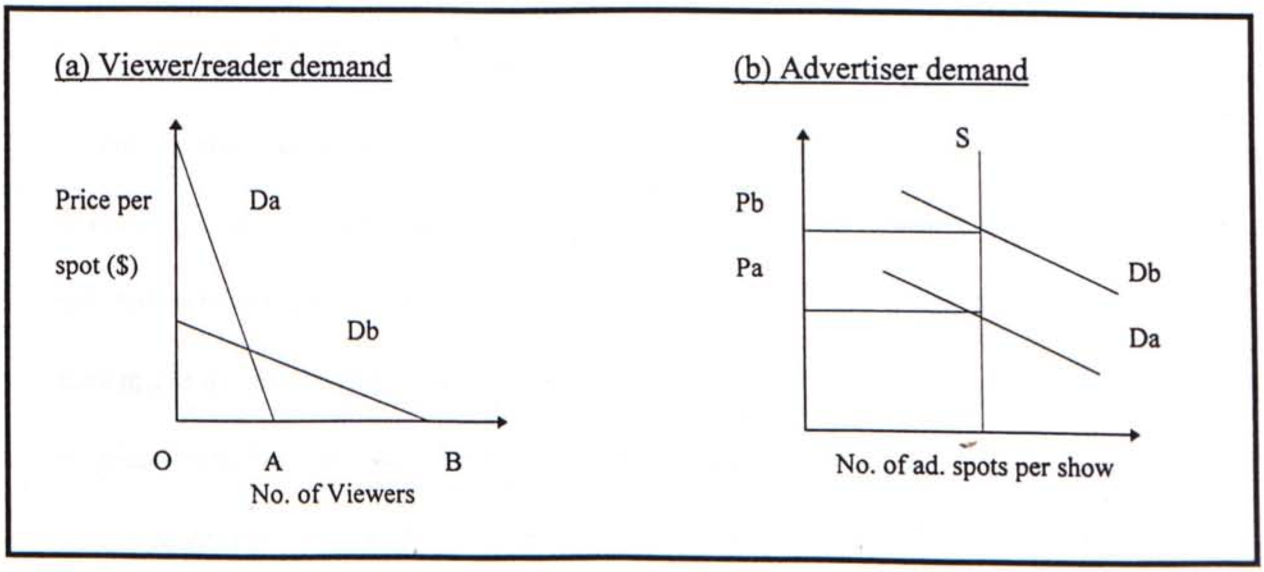
## Ratings and Advertising Revenues

Advertising on television is not just a matter of exposing viewers to a few commercial messages each hour. Advertising is the major worldwide source of television revenue, exceeding revenue from programme licensing, grants, subsidies, etc.

[14] Dunnett, Peter J. S., The World Television Industry - An Economic Analysis, (UK : Routledge Press, 1990) Pages 18-59.

The link between the number of viewers and advertising revenue are illustrated in figure 2. Diagram (a) of figure 2 shows how Program B, although it generates less consumer surplus than Program A at zero price, attracts more viewers/readers. Now OA viewers can be sold for a price of $x per thousand and OB is likewise can be sold for $x per thousand. The price per thousand is determined by competition between all advertising vehicles, both television and non-television. Consequently in diagram (b) the demand for an advertising spot in Program B is given by Db and for Program A by Da, assuming a fixed supply of advertising spots per program and that advertisers regard viewers for each program as of equal value. Pb will be OA/OB greater than Pa (an increase in the number of advertising slots will shift the supply curve to the right). Clearly, to the program distributor, Program A is more preferred.

**Figure 2. The Link between Viewership Demand and Advertising Revenue**



## The Paradox of Viewership Maximization and Non-maximization of Societal Welfare in Commercial Television

The demand curve for entertainment media is downward sloping. These are elementary but important considerations for both publicly organized and commercially organized television suppliers. Commercial systems must maximize the average number if viewers/readers at zero price to make the channel attractive to advertisers. Their message must reach as many consumers as possible. For publicly run channels the failure to maximize viewers at zero price many not be failure. Often their goal is to maximize the benefit to society. Viewer maximization is unlikely to achieve this. For a public station which does not wish to force viewers to watch culture, education, or propaganda against it will - in other words, which accepts the notion of consumer sovereignty - then the goal of maximizing the benefit to society means maximizing the consumer surplus from the public channel. There is a strong case for channels which may have to be publicly funded or publicly owned, to meet the intense desire of some minority groups for special interest programming. Their demand schedule is therefore steeper. The case for free television is that the free programs may face a demand schedule which is much flatter because if their consumers were asked to pay a price, they might quickly defect to watching another program which was also free. The implication is that a system which requires every channel to maximize the number of viewer at zero price is unlikely to maximize the welfare of society.

The preference option explains the fundamental weakness of a purely commercial system. A commercial system cannot take account of minority demands or intensity of preference. Each household has a unique set of tastes, reflected by difference preference ranking of programs. A household may be assumed to turn to another channel or turn the set off if the program falls below, say, the fourth rank of preference. A commercial television station faced with such preferences by viewers and intent on maximizing the number of viewers so as to maximize advertising revenue makes its selection of shows to keep as many aggregate number of households watching as possible. The ironic outcome of the preference option is that nobody feels particularly strongly about a program that is on offer, however, the best and the worst shows may never get shown because the average number of households to watch them may fall below the other programs which are ranked second or third places by most viewers.

Advertisers want mass audiences. The preference option shows the consequences of this on programming by commercial stations. Special interests will not be served. While this reduces social welfare when other means of satisfying demand for those special interests are not available, in the 1980's new alternative video delivery methods, particularly video cassette recorders, have helped reduce the welfare costs of this market failure.

## The Under-served Segments by Free Terrestrial Television

To advertisers, not all viewers are alike. The greater the spending power of viewers the greater their attractiveness to the advertisers and the more advertisers will pay to reach them. This creates an incentive for television stations to discriminate in favor of households with a higher income or with a particular characteristic that appeals to advertisers, and to offer programs to which they can relate. Hence some television operators see the niche segments in special interest programming that are underserved by terrestrial broadcasters.

## The Nature of Television Supply

Supplying television requires producing, distributing, and determining the means by which program exchange takes place. The new technology has complicated the supply side of the television industry. New methods of distributing programs have vastly increased the total supply of programs to the viewer. With increased ability to supply television to the viewers, together with the growth in demand, the derived demand for programs and the raw materials of television have also increased dramatically.

The new distribution vehicles for delivering television are satellites and cable. In short, the important point is that the product. By and large, the consumers are indifferent to how the programs are delivered. New technology has led to a lowering of costs in infrastructure set up in two ways. First, there are more efficient production and distribution methods available. Second, with more competition in the industry, inefficiency has been lowered.

# CHAPTER IV

# STRUCTURAL CHANGES TO THE INDUSTRY IN THE REGION

## Overview

The erosion of barriers to entry made possible by technological progress has been critically important for the change in the structure of this industry. Revised approaches to public policy dealing with media in many countries also facilitated entry. The major change in industry structure has been the increase in supply. Digital broadcasting and compression techniques expand the number of channels networks can carry and improve the picture quality immensely. Satellites permit a multifold increase in the number of channels to be transmitted, close distances and defy national boundaries. Meanwhile, on a regional basis the demand for advertising has been on the rise. Growth in incomes, population, and incentives to spend, such as easy credit and credit cards, combined with rising nominal wealth in the form of rising share prices and property values, was accompanied by advertising revenues rising faster than inflation[15]. Many multinational media groups want to share in the economic boom of

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[15] Television advertisement spot rates have increased more than 6 times from 1986 to 1995 whereas the Consumer Price Index has only doubled. Source ; Ogilvy & Mather Hong Kong, Pocket Guide to Media 1996, page 12.

the region. The last five years saw a dramatic increase in number of programme and network providers in the region.

Chakravarthy[16] summed up the causes of the breakdown of traditional static view of industry structure with falling entry and mobility barriers, increasing returns to scale and frequent innovations. The new dynamic environment saw rapid creation and erosion of competitive advantages because of dynamic strategic interactions in four areas of competition :

1. cost and quality,
2. timing and know-how,
3. strongholds, and
4. deep pockets.

This is particularly true to the regional broadcasting industry in the last five years. Impressive technological advances have torn down many traditional barriers of availability of frequency spectrum and distribution methods. The growing trend of governments in the region is towards deregulation and market liberalization, more multinational media companies enter the regional market with their human resources and expertise and their vast inventory. These companies brought with them international and regional cooperation plans and large capital investments. Advantages due to low-cost position or superior features are constantly challenged.

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[16] Chakravarthy (1997) Page 75

Technological innovation allows features to improve constantly even as costs drop. Frequent technological innovation quickly makes obsolete competitive advantages accruing from specialized know-how. Increasing returns to scale is also present due to the building up of programming inventory, the multiplication effect on the expansion of the supporting industry segments and the increase in viewer and advertiser demand towards higher programme quality and effectiveness in reaching target audience.

## From Local to Regional

The television broadcasting industry in Hong Kong, as in other Asia Pacific countries, used to enjoy high barriers to entry. This was due to the limited supply of frequency spectrum and the licensing administration, and the formidably high level of initial investment[17]. This is particularly true to some countries where governments implement stringent legislation on programme contents and licensing procedures.

The growth in Asian broadcasting markets in the 1990's has had the effect of dramatically increasing the number of broadcasters creating programming and the number of channels distributing this programming to viewers around the region. Partly responsible for the broadcasting boom has been the liberalization of television

[17] The Hongkong Government granted a third terrestrial broadcasting license to Commercial Television in 1970's but it was closed down in 1978 due to financial problems. This was about the only new entry to the market in the last thirty years.

markets in a number of Asian countries, which in turn has spurred national, regional and international broadcasters to compete with state-owned or state-sponsored broadcasters in these newly opened markets. Essentially, the full or partial dismantling of national broadcasting monopolies in may Asian countries has attracted new competitors to markets that once had few or none at all.

The pan-regional concept of television broadcasting came with the establishment of Star TV in 1991 by using AsiaSat I which had a footprint covering 38 countries. Before it, all broadcasters were confined to their geographical areas either because of licensing limitation or technological limitation. Nowadays, industry players cannot afford to ignore the regional nature of the industry.

# CHAPTER V

## TVB's Value Net

### Scope

TVB started off and still is a terrestrial broadcaster in Hong Kong. Having its major broadcasting activities and facilities based in Hong Kong, its business has developed to other countries both within the Asia Pacific region and in other countries where there is significant presence of Chinese population. The evolution of the industry from a local to become a regional business has increased the regional effects on the television broadcaster's operating environment.

### Strategy and the Added Values

TVB's strategy is broad-based because of its terrestrial licensing requirement that it has to provide information and entertainment to the general public. TVB's positioning is variety-based and access-based, with a penetration of over 90% of households in

Hong Kong with little equipment adaptation required to assist reception. Table 3 below shows the variety of programmes it offers :

**Table 3**

**Breakdown of Programming by TVB (Jade Channel)**

| Type of Programme | % |
|---|---|
| Drama | 24.6 |
| Feature Films/TV Movies | 16.4 |
| News/Weather Reports | 12.0 |
| Children Animation | 9.5 |
| Education/Enrichment | 7.9 |

Sources : Hong Kong Broadcasting Authority 1993-94[18]

TVB's major source of revenue is selling advertising air-time. It has been able to command premium prices because of its dominating viewership ratings (please refer to Tables 1 and 2). With its pre-emption system in place whereby advertising spots will be available to the highest bidding advertiser, pre-empting any bookings made previously, a prime-time thirty-second spot can costs over HK$100,000.

[18] Consumer Council (1996) Page 59

Going hand-in-hand with premium pricing is a quality programming strategy by producing own original programming in order to maintain high viewership ratings. Michael Porter's three orders of fitness in a company's activities is present in TVB's value creation activities. Value creation in TVB starts from the inception of ideas and realizing these ideas into television programmes. TVB has a policy of breeding and training own production and programming personnel. Having own production facilities and engineering personnel in production and broadcast control is an assurance to viewers of the quality of programmes and hence the high viewership rating of its programmes. Advertisers find a high number of viewers per advertising dollar of its spots. This is first order fitness, whereby activities are consistent to the strategic intent. TVB is also investing heavily in satellite news gathering and electronic field production technologies in order to improve the quality of its news programme and hence strengthen its competitive position in the market. In addition, it has a policy in place for production facilities renewal and replacement, so as to make it difficult for competitors to match its state-of-the-art facilities. This account for its second order fitness to its strategy.

High sustainable viewership ratings is the value guarantee to advertisers and overseas programme licensees. The quality of its production has earned many international awards, which further enhance the brand value of TVB. As an international expansion strategy, TVB cooperates with overseas terrestrial broadcasters and members of the Asian Broadcasting Union in purchasing and relaying international events. By forming alliances and maintaining good international reputation, TVB has been able to negotiate favourably on exclusive programme rights. This further reinforces the quality and value of its programming to viewers and advertisers. This is third order fitness to its strategy.

TVB is also exploring other distribution technologies, for example the Direct-to-Home satellite technology in Taiwan for its subscription television subsidiary there and interactive television programming in terrestrial broadcasting in Hong Kong, so as to increase the value of its air-time.

## The Players

### Customers

Viewers tastes are changing. That was due to the exposure to Western culture and changing life style of the younger generation, and the more sophisticated consumers have become when competition gets keener. Advertisers have grown more demanding as well, on the profile of viewers they can reach at a particular air-time. Terrestrial broadcasting has been confined to general interests programming catering for the public at large. Some advertisers find that it would be easier for them to reach their target audiences via special content channels than via terrestrial channels.

## Substitutors

For the last couple of years, TVB experienced slow growth to its advertising revenues as more media companies entered into the market. First, it was the government's decision to let in more choices to consumers. This has led to the establishment of Star TV and Wharf Cable, and later Hong Kong Telecom's Video-on-Demand service[19].

Second, the influx of multinational programming and media companies into the region in the last five years, taking advantage of the economic boom in the region and expecting a handsome advertising revenue, or taking advantage of deregulation of the television broadcasting sector in many neighbouring South East Asian countries, accounted for TVB's static revenue growth from its video licensing operation. Therefore, other than the traditional competitors in Hong Kong, TVB faces tough substitutors from other regional television operators such as CNNI, Discovery Channel, Home Box Office, Asian Business News Network, etc. whose programming feeds are spilt over from neighbouring countries and all compete for viewership ratings/hours and advertising budgets. These contenders also relax the barriers to entry to some of TVB's substitutors. They enable newly set-up channel operators to secure programme supply, human resource support and distribution infrastructure. TVB used enjoyed advantages in the first two categories because it has its own production facilities to train and breed professionals, and one of its strongest asset is the library of

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[19] Scheduled to service the public in October 1997.

75,000 hours original Chinese programming. These multinational programming companies brought with them a vast tape library of quality programmes and their expertise and experience in the industry, further reduced TVB's advantageous position.

Third, since the regional concept of television is relatively new, sometimes an advertiser's selection of media to employ is based on arbitrary or intuitive criteria. There has not been any creditable or comprehensive viewership research done for the overall regional satellite and subscription television sector. Hence, advertisers find it difficult to apportion their budgets among the many media available.

## Suppliers

TVB produces over 90% of original programming. Its major supplier, therefore, is its own staff and talent. As the industry sector gets overheated by more participants, so is the competition for resources. There has been a high staff turnover rate and imitation of similar programming styles on other channels.

In addition, some of the new comers into the industry are multinational programme suppliers from whom TVB used to purchase programmes. They now have a second role as substitutors as they sell programmes to a competing channel or operate a network of their own.

## Complementors

The explosive growth experienced by the region's broadcasting markets is augmented by the growth of supportive industries such as the fixed satellite communication industry. Since 1995, a dozen new satellites, including AsiaSat 2, have been placed over Asia to provide more than 800 potential TV channels for broadcasters[20]. As a matter of fact majority of the satellite operators' revenues come from broadcasting customers. The increased use of C-band satellites as a means of gaining penetration when the "pan-regional" broadcasting race first took place a few years back was to take advantage of their wide footprints. Peripheral equipment is also getting cheaper due to scale economies in manufacturing and as technologies become more available. There are also other delivery methods under application or research, e.g. optical-fibre cable network, MMDS (microwave multipoint delivery system), Direct-to Home satellite (by use of encrypted signals) etc. These technology and equipment providers are complementors to other industry players as well as to TVB, who owes them to the high penetration rate of its cable channels in Taiwan. It has been noted that as technology improves, smaller dishes can be used for signal reception and prices and installation costs will become more affordable. For viewers, it will mean better-quality transmission and cheaper set-up costs.

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[20] Ma, Eric Kit-wai, "Television," The Other Hong Kong Report 1996, (Hong Kong : The Chinese University Press, 1996) Page 508

## The Rules

Digital compression would further improve on the analogue form of transmission, as well as increasing number of signals or frequency spectrums available. Viewers will eventually be able to buy digital decoders to decompress the signals and these would be as affordable as TV sets. Digitization also enables more complex signals to be carried on the present telephone network. Not only text and data, but also video and graphic images, and two-way interactive communication can possibly be done via this technology.

Technological development has redefined the competitive edges of the industry and made legislation of many countries redundant and inapplicable to the current technologies. In Hong Kong, the current licensing legislation covers terrestrial, satellite and cable broadcasting only. The government now faces considerable difficulties in granting a license for Hong Kong Telecom's video-on-demand service. For public interests and the future of Hong Kong to become a regional broadcasting hub, the current legislation needs to be revised to be technology neutral and to encourage competition in the industry.

The present policy limitation on foreign ownership has deterred TVB in forming alliances with multinational media companies[21]. Foreign ownership of over 10%

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[21] This was believed as the reason behind News Corp.'s choice of Star TV instead of TVB. The requirement applies to satellite uplink license holders as well, which has prevented News Corp. from purchasing HutchVision (HK) Ltd., the uplink license holder of Star TV.

needs special approval from the Governor-in-Council, with maximum ownership capped at 49%[22].

Countries like Malaysia, for example, review its broadcasting legislature to take into account the rapidly changing technology convergence so as to facilitate the country's future development in telecommunication and broadcasting. Indonesia, on the other hand, has finished drafting a comprehensive broadcasting bill which attempted to let the public sponsored channel carry advertising and discourage direct foreign participation in programme production. In short, the rules of game in the industry has to be redefined in light of the technological changes and has to be technology neutral so as to provide a level playing field for all.

TVB's present terrestrial broadcasting licenses are due in 2000, and with the government's aspiration to become the Asian broadcasting hub, the pressure from interests groups, the changing operating environment, and the pace of technological and market convergence, it is clear that the policy review which is planned to be in 1998 will encompass both telecommunication and broadcasting.

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[22] The residency requirement is set by defining 'unqualified voting controller'. To qualify as a voting controller, an individual must be ordinarily resident in Hong Kong and have been so for at least one continuous period of not less than 7 years , and in case of a corporation, it must also be ordinarily resident in Hong Kong. Increases in foreign voting control below the 49% are subject to approval by the Broadcasting Authority at trigger points up to 10% and by the Governor in Council between 10% and 49% : Consumer Council (1996) Page 51

## Tactics

TVB's tactics are three-fold : policy lobbying, financial and programming.

TVB has lobbied the government in an untiring manner to reduce its royalty burden. Royalties are paid on its gross advertising revenues independent of its income tax burden. TVB has successful lobbied to reduce the royalty payment from 12% in 1988 to 10% in 1993, and 9% recently. This was in view of the much lower royalty requirements on satellite and cable operators and the loss of revenues anticipated from the introduction of alternative viewing choices. Over the past years, TVB has also successfully lobbied the government to relax its language requirement on the English language channel to offer services in other languages, and the permission to broadcast overseas property commercials and classified advertisements on the Cantonese channel.

To gain its share of advertising revenues from its competitors, TVB has used special packaged rates, for example the Super Upfront Scheme for 1997 advertising rates whereby advertisers can enjoy up to 17.5% savings if they book in advance in 1996, and price cutting. Special packages were also offered for important events or featured programmes, for example the Olympics, the World Cup, Miss Hong Kong Pageants. In May 1995, ATV lodged a complaint against TVB for its anti-competitive behaviour. TVB allegedly slashed its advertising rates by 38% for a limited period in their "One

Station Buy Campaign" but made this discount conditional on companies not advertising on ATV's Chinese Channel during that period.

TVB's major programming tactic is innovation and originality. The introduction of Nicam (multilingual broadcasting technology) is one example. Recent programming tactics being interactive television contents. TVB has been a trend setter in programming contents. Occasionally when close competitors get particularly high ratings, TVB would adopt a "me-too" programming strategy by purchasing the programme license of the same series or produce programmes of similar themes of its own, which has met unfavourable criticisms in 1995.

# CHAPTER VI

# FUTURE TRENDS

## From Regional to Local

Localization, digitization and a reduction in the number of broadcasters are the upcoming trends for regional satellite and cable TV operators. The regional TV industry has "changed and moved quite fast" since pioneer Star TV was launched five years ago, said a senior executive of a multinational television network operator in the Asia Pacific region in a recent speech to the American Chamber of Commerce in Hong Kong. However, television is largely a cultural and language-driven business. Communicating to audiences in India, the Middle East, Japan and Greater China may need different techniques. Viewers will want television shows which they can relate to and understand. Specialized content has grown in importance as competition from an increasing number of channels has led operators from being pan-Asian to catering more fragmented and local audience, offering more niche programming to a narrowed target viewership.

Many experts and professionals in the industry foresee the collapse of the "pan-Asian" television concept[23]. The means of signal delivery by use of stronger frequency Ku-band signals and smaller dishes has gained popularity as channels catered to smaller, more splintered markets and therefore will utilize intense, specialized satellite beams. This is evident in the types of satellites planned to be launched in the near future (Table 4). Most of these satellites are either domestic or regional base, covering a smaller footprint. To viewers this will mean better-quality transmission and smaller receiving dishes, about the size of a dinner plate - but this will also require many Asian governments to change their restrictions on private ownership of such dishes.

However, while digital compression technology and the anticipated launch of more satellites may potentially bring an overwhelming array of channels to the public and lowering transponder lease costs per channel for network providers, keen competition will help bring forth a rationalization of the industry.

[23] Chan, Yvonne, "Localization to be key factor in survival of satellite TV networks", Media (Hong Kong : Media & Marketing Ltd., December 13, 1996) Page 10

## Table 4

### Current and Planned Satellite Operators Over Asia[24]

| Satellite Operator | Country | Type | No. of Satellites (1) Current | Planned | Total |
|---|---|---|---|---|---|
| Intelsat | International | Global | 6 | 3 | 9 |
| Intersputnik | International | Global | 10 | 0 | 10 |
| PanAmSat | USA | Global | 2 | 2 | 4 |
| Columbia Comm. | USA | International | 1 | 0 | 1 |
| Comsat | USA | International | 2 | 0 | 2 |
| Intersputnik 8 | International | International | 0 | 1 | 1 |
| Orion Network Systems | USA | International | 0 | 1 | 1 |
| Sovcan Star | Canada | International | 0 | 1 | 1 |
| APT Satellite | Hong Kong | Regional | 2 | 1 | 3 |
| AsiaSat | Hong Kong | Regional | 2 | 2 | 4 |
| Global Info. Systems | Russia | Regional | 0 | 2 | 2 |
| Land Economic Group | PRC | Regional | 2 | 2 | 4 |
| Network & Space Tech. | USA | Regional | 0 | 1 | 1 |
| Binariang | Malaysia | Domestic/ Regional | 1 | 1 | 2 |
| China Orient Telecomm. | PRC | Domestic/ Regional | 0 | 1 | 1 |
| Japan Satellite Systems | Japan | Domestic/ Regional | 3 | 2 | 5 |
| LaoStar | Laos/Thailand | Domestic/ Regional | 0 | 2 | 2 |
| Mabuhay Philippines | Philippines | Domestic/ Regional | 0 | 1 | 1 |
| P. T. Pasifik Satelit | Indonesia | Domestic/ Regional | 2 | 1 | 3 |
| P. T. Satelindo | Indonesia | Domestic/ Regional | 2 | 1 | 3 |
| P. T. Telkom | Indonesia | Domestic/ Regional | 2 | 0 | 2 |
| Papua New Guinea PTT | Papua New Guinea | Domestic/ Regional | 0 | 1 | 1 |
| Philippine Agila Satellite | Philippines | Domestic/ Regional | 0 | 2 | 2 |
| SCC | Japan | Domestic/ Regional | 2 | 1 | 3 |
| Shinawatra Satellite | Thailand | Domestic/ Regional | 2 | 2 | 4 |
| STT | Singapore/ Taiwan | Domestic/ Regional | 0 | 2 | 2 |
| Bimentra Citra | Indonesia | Domestic | 0 | 2 | 2 |
| BSat System | Japan | Domestic | 0 | 2 | 2 |
| China Tel. Broadcast | PRC | Domestic | 5 | 1 | 6 |
| ISRO | India | Domestic | 4 | 2 | 6 |
| Korea Telecom | South Korea | Domestic | 2 | 0 | 2 |
| National Science Council | Taiwan | Domestic | 0 | 1 | 1 |
| NHK | Japan | Domestic | 1 | 0 | 1 |
| NTT | Japan | Domestic | 2 | 0 | 2 |
| Optus Communications | Australia | Domestic | 4 | 0 | 4 |
| SinoSat Telecomm. | PRC | Domestic | 0 | 2 | 2 |
| TAO | Japan | Domestic | 4 | 0 | 4 |

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[24] Deutsche Morgan Grenfell, "Regional Telecom Review", Pacific Rim Telecom Research, September 1996. Page 61

## Converging Technologies

Liberalization coupled with a variety of technological innovations is fueling a convergence of television and telecommunications technologies in Asia. New players, new alliances, and new technological solutions for transmission and programme distribution have begun to develop. The trend towards convergence will also lead to new strategies for sector reform.

In Korea, cable television operators are limited to two companies. In Thailand, the market has been highly active with two telephone companies moving into cable television and a variety of new entrants in the cable television market who are interested in telecommunications. Many of the new entrants in Thailand are international media groups, hoping for successful results as in the UK[25]. In Hong Kong, the convergence of cable television, data communications, and telecommunication will be managed with an eye towards maximizing - not limiting - competition. The license requirements of Wharf Cable in providing a second telephone network was the first step towards convergence. The licensing of Hongkong Telecom's video-on-demand service is an example of telecommunication companies going into television.

[25]Nynex CableComms has successfully provided access to 604,000 homes or over 24% of the 2.5 million homes in its 16 franchise areas in the UK. Customers grew from 1993 to 1994 was 110% for cable television operations and 186% in residential telephony. The operator now has nearly as many telephony subscribers as cable television subscribers.

Given the rapid intertwining of these two services, this is a logical step for a single set of policy guidelines for both broadcasting and telephony, so that the industry and the networks develop in a rational and efficient manner. Regulators must walk a fine line, encouraging competition while ensuring that the television and telecommunications markets do not become dominated by a few strong providers.

Liberalization encourages the construction of additional lines, the development of new advanced services and more innovative programming, and the lowering of prices. New strategies will inevitably come along the line, extending beyond cable television to pay-per-view, video-on-demand, home shopping, interactive television, etc. There are opportunities for economies of infrastructure and increases revenues.

Finally, the convergence of networks will also lead to large-scale consolidation within the industry itself, as operators find it advantageous to team up, combining their expertise and network infrastructure[26].

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[26] "Converging Technologies", Asian Communications, February 1996, vol. 10 no. 2. Pages 15 to 19.

# CHAPTER VI

# RECOMMENDATIONS

The industry has grown particularly fast during the past years, and many industry veterans predicted a consolidation period with localization (on programming content and focused distribution) and "survival for the fittest". Financially speaking, many satellite and subscription television operators suffer huge losses because they cannot gain much penetration and creditable viewership statistics to attract enough advertising revenue. Tables 5 and 6 at Appendix 4 show the relative penetration rates of terrestrial television (VHF/UHF), and other delivery methods (wired and DTH). For example, there are only 6% households in Hong Kong (average household size 3.4 persons[27]) that are accessible by non-terrestrial television. Given the average weekly viewing hours per person is 20.2 hours (from Table 6), non-terrestrial television can attract only 21 minutes viewing per person per week.

Television broadcasting has gradually become a regional business with local programming contents and focused distribution, and is more technological sensitive

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[27] Ogilvy & Mather Hong Kong, Pocket Guide to Media 1996, page 6. Source : Hong Kong Government 1991 Census

now than before. The influx of media operators attracted by the affluence of the Asian economies and the lucrative advertising and subscription revenues potential, the advancement in technologies, and the changing consumer tastes, all have accounted for the state of affairs it has become.

In view of the Hong Kong government's intention to aspire as the regional broadcasting hub and the policy review in 1998 to accommodate technological changes, TVB can take this opportunity to lobby the government to consider interests of all players in the policy review, to relax the limits on service provision, and to raise the maximum foreign ownership limit in mass media companies and relax cross-media ownership control.

On another front, TVB can be more proactive in finding alliances and cooperate with international media groups so as to reduce competition and at the same time, increase own bargaining power and market position.

## Lobbying : Changing Rules of the Game

TVB has paid persistent efforts in lobbying the government and maneuver within the limited boundaries available for terrestrial broadcasting license holders. In the United States, recent policy amendment on the relaxation on cross-media ownership and the launching of a comprehensive bill covering both telecommunication and broadcasting, was responded with telecommunication companies providing cable television service. Triggered by the US experience, TVB has expressed concerns on the future direction of the government's policy review and redrafting. One of the aims for the policy review is to increase competition so that the industry will not become dominated by a few players. With Hongkong Telecom being granted a license for video-on-demand service, TVB can possibly lobby the government on the following directions :

- relaxation on cross-media ownership so that TVB can have more diversified investment plans, either for programme distribution purposes or to internalize the brand value and ideas, hence an additional source of revenue;

- relaxation of the limit on foreign media ownership in local media companies, so as to foster the development of the industry and improve Hong Kong's competitiveness to become a broadcasting hub in Asia;

For all the history of terrestrial television, license holders are required to provide general interests programming for the public, largely in Cantonese and English. A recent viewership profile research (Table 7 of Appendix 5) showed that special interest and imported programming attracted viewers with higher income and professional or management occupations. These groups of people have higher disposable incomes and would be a favourable target for advertisers. Therefore, it pays for TVB to lobby the government to allow services for special content/premium channels.

## Alliances : Changing Roles of the Players

With the good reputation earned both regionally and internationally, TVB has always been approached by foreign media groups for cooperation, whether on business operational levels or equity purchases. The 10% shareholding by Pearson Plc has brought TVB advantages in its expansion into India to produce local language programming.

International alliances generates mutual benefits and help improve the international image of Hong Kong's television industry. As many regional broadcasting networks are teaming up to combine their expertise and resources, TVB should not lag behind in this consolidation process, so as to maintain its leadership position in the region.

To enhance its bargaining power in programme licensing and for better staff training and development, TVB could consider joint productions with other reputable international networks. Bilateral programme distribution or broadcast agreements can be set up with selected regional and international programme or network providers in order to gain more "windows for showing", and for previewing market conditions before investing in a foreign country. This also help laying the groundwork for a regional network concept where a programme supplier which has gained good viewership response during preview stage on TVB's regional network will be more likely to sign on it should it decide to start business in the region for longer term.

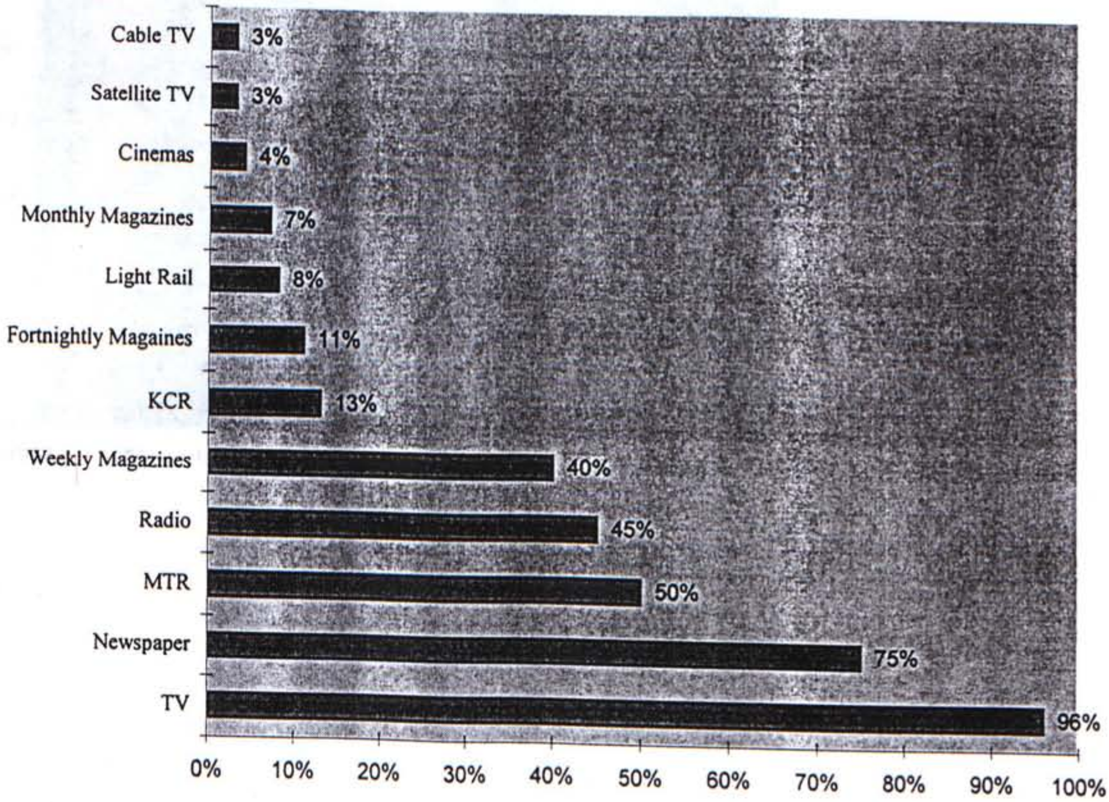
## Conclusion

Considering the financial and operational strength of TVB, it is not difficult for it to aspire into a regional broadcaster by setting up networks and forming alliances. The overall strategy of TVB, however, should not change, being a premium product provider charging a premium price. This strategy has helped TVB gained its leadership position, and that the organization is internally fit for maintaining this advantageous position.

## Appendix 1[28]

Base : People of 9 years old and above

**Figure 3. Media Coverage Summary**

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[28] Ogilvy & Mather Hong Kong, Pocket Guide to Media 1996. Figures 3 and 4 : pages 13-14, Figure 5 : page 10

**Figure 4. Coverage Trends - Audio Visual**

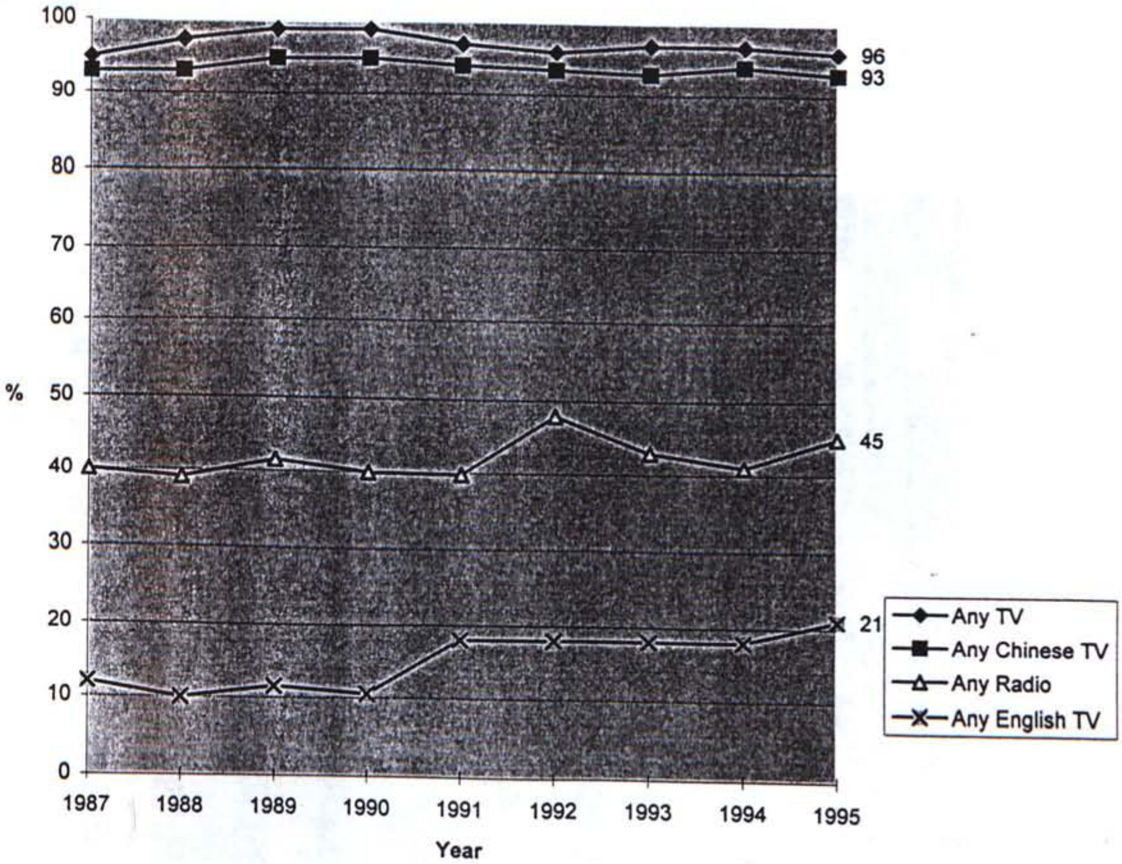
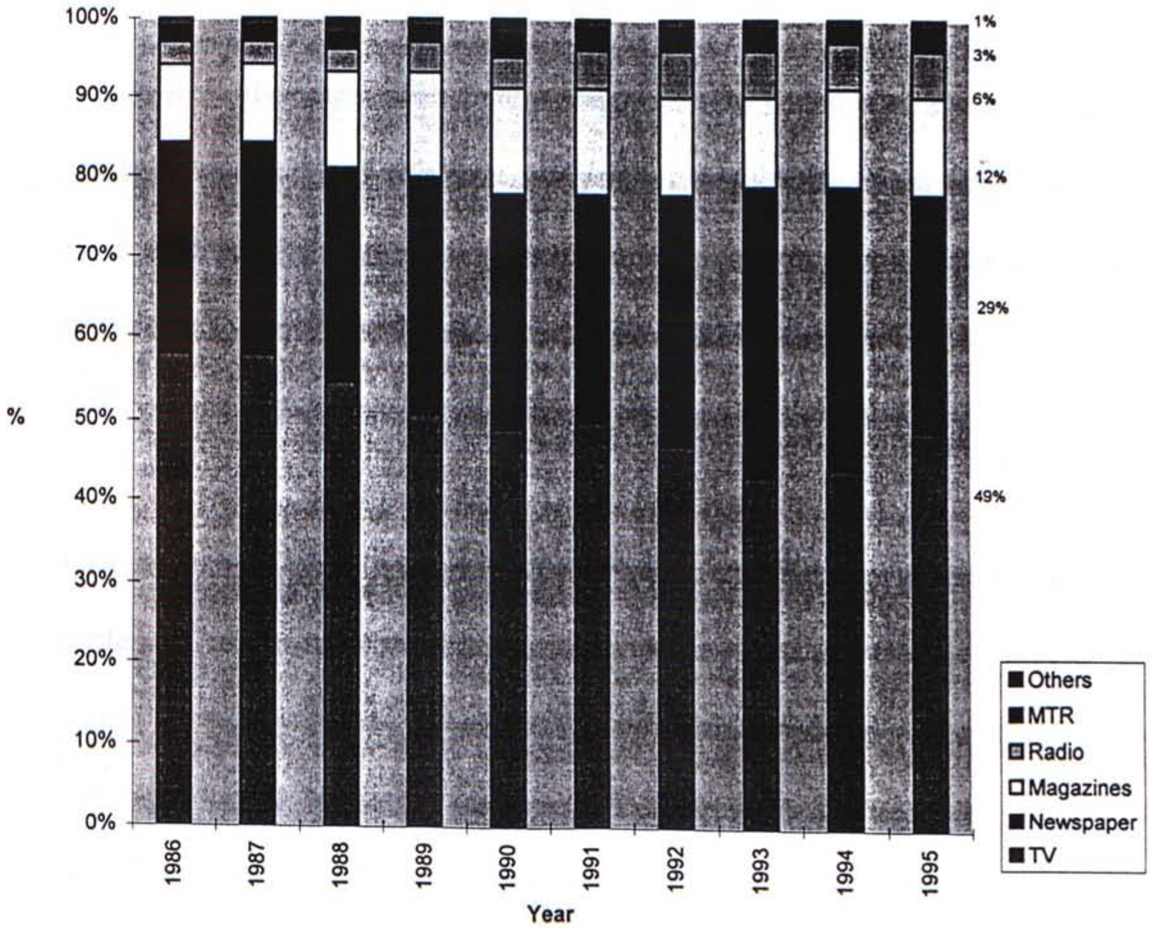


**Figure 5.**
**Advertising Expenditure by Medium**

Source : Hong Kong Adex



## Appendix 2

### Three Types of Fit and the Importance of Trade-offs[29]

Competitive advantages come from the way activities fit and reinforce one another. The importance of fit among functional policies is one of the oldest ideas of strategy. Fit is important because discrete activities often affect one another. The most valuable fit is strategic specific because it enhances a position's uniqueness and amplifies trade-offs. There are three types of fit, although they are not mutually exclusive.

First-order fit is simple consistency between each activity (function) and the overall strategy. Consistency ensures that the competitive advantages of activities cumulate and do not erode or cancel themselves out. It makes the strategy easier to communicate to customers, employees, and shareholders, and improves implementation through single-mindedness in the corporation. Second-order fit occurs when activities are reinforcing. Third-order fit goes beyond activity reinforcement to what is called optimization of effort. Co-ordination and information exchange across activities to eliminate redundancy and minimize wasted effort are the most basic types

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[29] Porter, Michael (1996) "What is Strategy ?" Harvard Business Review, November-December 1996, p. 61-78

of effort optimization. In all three types of fit, the whole matters more than any individual part.

Competitive advantage grows out of the entire system of activities. The fit among activities substantially reduces cost or increases differentiation. Strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular approach. Positions built on systems of activities are far more sustainable than those built on individual activities.

Porter insists that trade-offs are necessary for a company to determine its strategies. Compromises and inconsistencies in the pursuit of growth will erode the competitive advantage a company had with its original varieties or target customers. Attempts to compete in several ways at once create confusion and undermine organizational motivation and focus. Too often, companies' efforts to grow blur uniqueness, create compromises, reduce fit and ultimately undermine competitive advantage. The prescription is to concentrate on deepening a strategic position rather than broadening and compromising it. One approach is to look for extensions of the strategy that leverage the existing activity system by offering features or services that rivals would find impossible or costly to match on a stand-alone basis. Deepening a position involves making the company's activities more distinctive, strengthening fit and communicating the strategy better to those customers who should value it. Globalisation often allows growth that is consistent with strategy, opening up larger markets for a focused strategy. Unlike broadening domestically, expanding globally is likely to leverage and reinforce a company's unique position and identity.

Companies seeking growth through broadening within their industry can best contain the risks to strategy by creating stand-alone units, each with its own brand name and tailored activities.

## Appendix 3

## The Three Types of Positioning[30]

### Variety based positioning

Positioning is based on producing a subset of an industry's products or services. It is based on the choice of product or service varieties rather than customer segments. Variety-based positioning makes economic sense when a company can best produce particular products or services using distinctive sets of activities.

### Need-based positioning

Serving most or all the needs of a particular group of customers. This comes closer to traditional thinking abut targeting a segment of customers. It arises when there are groups of customers with differing needs, and when a tailored set of activities can serve those needs best. Some groups of customers are more price sensitive than others, demand different product features and need varying amounts of information, support, and services.

[30] Porter, Michael (1996)

A variant of need-based positioning arises when the same customer has different needs on different occasions or for different types of transactions. One has to note that differences in needs will not translate into meaningful positions unless the best set of activities to satisfy them also differs.

Access-based positioning

Segmenting customers who are accessible in different ways. Although their needs are similar to those of other customers, the best configuration of activities to reach them is different. Access can be a function of customer geography or customer scale - or anything that requires a different set of activities to reach customers in the best way.

## Appendix 4

### Increase in TV Penetration Rate in Asia Pacific

Higher household income around the region has been one of the key underlying factors driving demand for television programming in Asia. Television sets, for one, have become increasingly affordable for a larger number of Asian households as sustained economic growth has created higher levels of disposable income. For instance, the number of Asia-Pacific TV households (those with access to one or more of the following : VHF/UHF, DTH, or some form of wired television distribution, such as cable television) grew at a compound annual growth rate in excess of 11% between 1991 and 1995 to reach 419 million as of the end of 1995. This represents a TV penetration rate of 65% of all Asia-Pacific households. Moreover, indications are that the growth in TV households wilier remain strong through the remainder of the century, expanding to over 660 million households by the end of the year 2000 (a five year compound average growth rate of nearly 10%), and likely surpassing 1 billion in 2005. As the number of TV households expands, the potential market size for broadcasters operating in Asia-Pacific region will continue to grow.

# Table 5

## Television Household Density Rates in Asia-Pacific (1995)

All figures stated in thousands ('000)

| Country | Total House-holds | TV House-holds | %TV Density | VHF/ UHF House-holds | % VHF / UHF Density | Wired House-holds(1) | % Wired Density | DTH House-holds | % DTH Density |
|---|---|---|---|---|---|---|---|---|---|
| Australia | 6,489 | 6,000 | 92.5 | 5,910 | 91.1 | 70 | 1.1 | 20 | 0.3 |
| China | 332,532 | 255,000 | 76.7 | 219,751 | 66.1 | 35,000 | 10.5 | 250 | 0.1 |
| Hong Kong | 1,767 | 1,600 | 90.5 | 1,494 | 84.6 | 100 | 5.7 | 6 | 0.3 |
| India | 166,370 | 48,500 | 29.2 | 36,225 | 21.8 | 12,000 | 7.2 | 275 | 0.2 |
| Indonesia | 45,037 | 25,500 | 56.6 | 24,625 | 54.7 | - | N/A | 875 | 1.9 |
| Japan | 43,992 | 43,000 | 97.7 | 20,475 | 46.5 | 13,400 | 30.5 | 9,125 | 20.7 |
| Korea | 13,781 | 11,300 | 82.0 | 11,480 | 83.3 | 270 | 2.0 | 550 | 4.0 |
| Malaysia | 3,985 | 3,000 | 75.3 | 2,995 | 75.2 | - | N/A | 5 | 0.1 |
| New Zealand | 1,250 | 1,200 | 96.0 | 1,200 | 96.0 | - | N/A | - | N/A |
| Philippines | 13,294 | 7,200 | 54.2 | 6,900 | 51.9 | 250 | 1.9 | 50 | 0.4 |
| Singapore | 825 | 800 | 97.0 | 770 | 93.3 | 30 | 3.6 | - | N/A |
| Taiwan | 5,750 | 5,600 | 97.4 | 1,925 | 33.5 | 3,475 | 60.4 | 200 | 3.5 |
| Thailand | 12,803 | 10,240 | 80.0 | 12,000 | 93.7 | 300 | 2.3 | 400 | 3.1 |
| Total | 647,875 | 418,940 | 64.7 | 345,750 | 63.4 | 64,895 | 10.0 | 11,756 | 1.8 |

Source : CIT Research; DMG[31]

(1) Wired households include those with access to cable television, master antenna television, or MMDS (multipoint microwave distribution systems)

VHF/UHF - frequencies commonly used by terrestrial broadcasting

DTH - direct-to-hone satellite broadcast services by use of a small-diameter dish to pick up signals

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[31] Deutsche Morgan Grenfell "Regional Telecom Review", Pacific Rim Telecom Research, September 1996. Page 55

# Table 6

## Regional Television Profile[32]

## (as an advertising medium)

| Country | Ad Spend Period : Jan - Jun. 1996 US million | Source | Television and Cable Penetration Have TV set Household ('000) | Have TV set % | Have Cable % | Source | Average Daily Viewing Hours Week-days | Week-ends | Total Weekly hours | Source |
|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 719 | CEASA | 6,026 | 99 | N/A | AC Nielsen Australia, population Projections May 96 | 3.2 | 3.2 | 22.5 | AC Nielsen Australia Jan - Dec. 1995 |
| China * | 423 | SRG China Index, cable not included | 236,000 | 80 | 14 | Nielsen SRG | 2.9 | 3.2 | 20.4 | SRG China Media Index 1995, base : urban population |
| Hong Kong | 503 | SRG Adex, four channels | 1,752 | 98 | 11 | SRG 1995 establishment survey | 2.9 | 2.9 | 20.2 | SRG Research Services (HK) |
| India | 339 | HTA, for 14 Doordarshan and 5 satellite channels only | 47,000 | 25 | 7 | Nielsen SRG | | | | |
| Indonesia | 434 | SRI Adex | 25,452 | 55 | N/A | SRI 1996 Media Index | 3.1 | 3.1 | 21.7 | SRI Telescope 1995, main urban areas |
| Japan | 8,933 | Dentsu | 41,947 | 99 | 24 | Nielsen Japan | 3.3 | 4.1 | 23.9 | Dentsu, Jan - Jun. 1996 |
| Malaysia | 149 | SRG Adex | 3,031 | 91 | 8 * | Survey Research Malaysia, * FSA estimate, households in market centres | 1.9 | 2.4 | 14.3 | Survey Research Malaysia |
| New Zealand | | | 1,129 | 95 | N/A | Nielsen SRG | | | | |
| Philippines | 362 | Philippine Monitor Services | 7,582 | 61 | 2 | Nielsen SRG | 2.1 | 2.2 | 15.0 | PRG Peoplemeter Service, Metro Manila, Jan - Jun. 1996 |
| Singapore | 119 | SRS Adex | 779 | 100 | 5 | AC Nielsen Singapore | 2.2 | 2.5 | 16.1 | AC Nielsen Singapore, Jan - Jun. 1996 |

[32] "Research", Asian Advertising & Marketing (Hong Kong : A&M Publishing Ltd.) November 29, 1996, vol. 10 no. 23, page 20-21

| Country | Ad Spend Period : Jan - Jun. 1996 | | Television and Cable Penetration | | | | Average Daily Viewing Hours | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | US million | Source | Have TV set Household ('000) | Have TV set % | Have Cable % | Source | Week-days | Week-ends | Total Weekly hours | Source |
| South Korea | 1,017 | Korea Advertising Data | 12,890 | 100 | 2 | HRC Media Index 1996; household from National Statistical Office | 2.1 | 3.3 | 17.0 | MSK Media Services Korea |
| Taiwan | 431 | Rainmaker Industrial | 5,784 | 99 | 69 | Rainmaker Industrial; Govt. Bulletin Feb. 1996 | 3.5 | 4.0 | 25.5 | Rainmaker Industrial, Jan -Jun. 1996 |
| Thailand | 434 | Khoo Khoeng Data Bank | 13,511 | 91 | 2 | Deemar | 3.3 | 4.2 | 24.8 | Deemar |
| Vietnam | 24 | SRG Vietnam | 3,150 | 90 | 1 | SRG Vietnam, base : major urban | 2.0 | 3.0 | 16.0 | SRG Vietnam, Jan-Jun. 1996 |
| *Total* | *13,887* | | | | | | | | | |

* China : averaged Beijing, Shanghai and Guangzhou

Source : Nielsen SRG

# Appendix 5

## Table 7

## Viewership Profile[33]

| | Total Popn | Any TV | TVB (C) | ATV (C) | TVB (E) | ATV (E) | Satellite TV | Cable TV |
|---|---|---|---|---|---|---|---|---|
| people 9 years old + ('000) | 5,459 | 5,246 | 4,870 | 2,937 | 1,114 | 399 | 173 | 163 |
| | % | % | % | % | % | % | % | % |
| **Sex** | | | | | | | | |
| Male | 51 | 51 | 51 | 52 | 54 | 59 | 56 | 49 |
| Female | 49 | 49 | 49 | 48 | 46 | 41 | 44 | 51 |
| **Race** | | | | | | | | |
| Chinese | 97 | 97 | 100 | 99 | 86 | 68 | 72 | 100 |
| Non-Chinese | 3 | 3 | 0 | 1 | 14 | 32 | 28 | 0 |
| **Age** | | | | | | | | |
| 9-14 | 9 | 10 | 10 | 8 | 10 | 8 | 11 | 7 |
| 15-19 | 8 | 8 | 8 | 7 | 10 | 8 | 11 | 11 |
| 20-29 | 18 | 17 | 17 | 15 | 23 | 20 | 18 | 20 |
| 30-39 | 25 | 25 | 25 | 26 | 32 | 32 | 26 | 31 |
| 40-54 | 20 | 20 | 20 | 22 | 18 | 18 | 23 | 21 |
| 55+ | 20 | 20 | 20 | 22 | 7 | 14 | 11 | 10 |
| **Monthly Household Income** | | | | | | | | |
| Under HK$6,000 | 3 | 3 | 3 | 4 | 1 | 2 | 1 | 0 |
| HK$6,000-7,999 | 3 | 3 | 3 | 3 | 2 | 2 | 1 | 0 |
| HK$8,000-9,999 | 9 | 8 | 8 | 8 | 6 | 6 | 2 | 4 |
| HK$10,000-14,999 | 24 | 25 | 25 | 27 | 23 | 20 | 13 | 19 |
| HK$15,000-19,999 | 22 | 22 | 23 | 23 | 23 | 22 | 16 | 29 |
| HK$20,000-29,999 | 23 | 23 | 23 | 21 | 23 | 23 | 27 | 29 |
| HK$30,000 + | 16 | 16 | 15 | 14 | 22 | 25 | 40 | 19 |
| **Occupation** | | | | | | | | |
| Professionals/Manager/Executive | 6 | 6 | 5 | 4 | 13 | 19 | 24 | 5 |
| Trader/Proprietor | 3 | 3 | 3 | 3 | 4 | 6 | 6 | 6 |
| Office Skilled | 13 | 12 | 12 | 11 | 16 | 12 | 13 | 14 |
| Office Unskilled | 6 | 6 | 6 | 5 | 6 | 5 | 3 | 10 |
| Factory/Shop Skilled | 12 | 12 | 12 | 12 | 13 | 13 | 9 | 12 |
| Factory/Shop Unskilled | 15 | 15 | 15 | 17 | 8 | 9 | 3 | 10 |
| Student | 17 | 17 | 18 | 17 | 21 | 17 | 25 | 18 |
| Housewife | 22 | 23 | 23 | 24 | 16 | 16 | 13 | 25 |
| Retired/Unemployed | 6 | 6 | 6 | 7 | 3 | 3 | 4 | 0 |

[33] Ogilvy & Mather Hong Kong, Pocket Guide to Media 1996, pages 20 and 28

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