

Telstra T-Box



Executive Summary

COMPANY PROFILE

Telstra is Australia's leading telecommunications and information services company. The publicly traded company offers wholesale and retail voice, mobile, Internet access, and television products and services to consumers and businesses throughout Australia. Telstra also has international presence in Asia, North America, and Europe.

Telstra has the opportunity to capture a major share of the Australian Video on Demand (VoD) market through pricing and content differentiation.

The VoD market in Australia has three primary players: Telstra, iiNet, and Internode. However, many packages are expensive, and 70 percent of Australian households that do not have a pay TV service are reluctant to pay for high-priced packages. Telstra aims to target this audience with the T-Box service and rights to

popular content such as Australian Football League (AFL).

Experience Innovation

In June 2010, Telstra launched an over-the-top IPTV service through a device called the T-Box, which includes a 320 GB hard drive, 200 GB of which is reserved for the storage of recorded programs.

Telstra has 2500 movie titles in its VoD library; 1.8 million movies were downloaded by T-Box users in the first year. The T-Box also offers live streamed channels, including 15 digital terrestrial television channels and several Big Pond TV channels. In June 2011, Telstra added 30 streamed channels from cable operator Foxtel (Telstra owns 50 percent of Foxtel) on the T-Box for cable subscribers.

Telstra has deployed adaptive bit-rate streaming technology on its cable network to improve the quality of the streamed content to the home. The service has achieved good growth, with 190,000 subscribers in the first year. In August 2011, Telstra said that about 25 percent of new broadband bundled customers subscribe to a bundle that includes the T-Box. Telstra's bundled offers and the improved value of its fixed broadband plans have driven a strong turnaround in fixed broadband momentum in FY11 (ending June 2011):

- Telstra's net cancellation rate for fixed broadband services has fallen from 22.8 percent in FY10 to 17.3 percent in FY11.
- Public switched telephone network (PSTN) customers declined by 171,000 in FY11, compared with more significant declines of 253,000 in FY10.

The T-Box service has been crafted to complement Foxtel's premium pay TV service, resold by Telstra on its cable network. Foxtel is a high-end, subscription-based, linear channel-focused offering, with VoD as a sideline. In contrast, the T-Box is a fixed broadband retention effort by Telstra and employs a core VoD business model, with streaming as a sideline. It is not aimed at existing Foxtel customers. Rather, its focus is on customers who view the existing Foxtel service as too expensive and have either cancelled service or never signed up. In addition, the T-Box is designed to accelerate content service growth and customer loyalty by crafting a bundled content product with a wider customer appeal.

Challenge

The Australian movie VoD market is already fairly crowded, with services offered by Foxtel and by challenger DSL ISPs iiNet and Internode. The two latter companies offer Fetch TV, providing more than 20 IPTV channels, on-demand videos, and interactive Internet application.

iiNet is Australia's second largest DSL ISP, with over 1.3 million broadband, telephony, and IPTV services nationwide. iiNet reportedly had 7000 Fetch TV customers by mid-September 2011. Internode claims to have invested in "multiple" points of presence and a private international backbone network that will support growth in VoD services.

US-based over-the-top operators Hulu and Netflix are reportedly eyeing the local market with their respective services.

Opportunity

The target audience for the T-Box service is the 70 percent of Australian households that do not have a pay TV service, and who are reluctant to pay for a full Foxtel line-up. These households should find the relatively modest cost of T-Box services attractive. For example, Foxtel over the T-Box starts at A\$19.50 monthly for 10 channels, compared with Foxtel's basic 36-channel package, which starts at A\$44 monthly.

One key attraction of the service is that any content from Telstra viewed via the T-Box is unmetered and, therefore, not counted toward a user's fixed broadband (either cable or ADSL) data allowance. iiNet and Internode also offer unmetered content over ADSL. However, as video services and adoption accelerate, operators will need to increase investment in the fixed broadband network to maintain quality of service. The unmetered model for all may prove to be cost prohibitive.

Telstra announced a five-year exclusive deal to stream 2012 AFL games, reportedly costing A\$150 million. This deal further highlights Telstra's financial muscle to be a dominant Internet content rights player.

Strategic Partnership

Telstra's CDN vendor is Cisco. The hosted video platform provider is ThePlatform, while the client software provider for the T-Box is NetGem software. Foxtel is a key content partner.

Success Factors/Metrics/Monetization

The T-box retails at A\$299 with a A\$35 upfront fee. However, the main monetization of the T-Box service comes through VoD payments. New release movies cost A\$6.99, with older movies at an average of A\$3.99. This VoD movie pricing is similar to its competitors' offers.

Top-rated local sports programming has been a big driver of take-up in the pay TV space in Australia. However, competitors such as Foxtel and Austar offer sports packages that might be considered expensive for the average consumer. Austar offers a 14-channel sports package at A\$18 per month, only offered as an add-on to the "starter pack" of 55 channels for A\$43 per month. Foxtel offers a sports channel package for A\$92 a month.

In April 2011, Telstra announced a five-year exclusive deal to stream AFL games. Plans start at A\$19.50 per month in addition to the A\$10 monthly charge. This service will be made available to T-Box subscribers. In addition, Telstra is continuing to expand its sports Internet rights and could sign a similar live deal for National Rugby League games.

In addition to T-Box services, Telstra offers data packages ranging from A\$29.95 to A\$89.95 per month. Internode's data packages start at A\$49.95 per month, 28 percent cheaper than Telstra's 200 GB offer.

Company Background

- Read [Telstra overview](#)

Case study source: Cisco sponsored research developed by [Ovum](#).



Americas Headquarters
Cisco Systems, Inc.
San Jose, CA

Asia Pacific Headquarters
Cisco Systems (USA) Pte. Ltd.
Singapore

Europe Headquarters
Cisco Systems International BV Amsterdam,
The Netherlands

Cisco has more than 200 offices worldwide. Addresses, phone numbers, and fax numbers are listed on the Cisco Website at www.cisco.com/go/offices.

Cisco and the Cisco logo are trademarks or registered trademarks of Cisco and/or its affiliates in the U.S. and other countries. To view a list of Cisco trademarks, go to this URL: www.cisco.com/go/trademarks. Third party trademarks mentioned are the property of their respective owners. The use of the word partner does not imply a partnership relationship between Cisco and any other company. (1110R)