Response to Consultation Paper on Tariff issues related to TV Services dated 29th January, 2016

The response to the Tariff consultation has been highly encouraging and universally all respondents have commended and lauded the initiative by TRAI for the deep dive analysis on several aspects with a pragmatic approach to accommodate all stakeholders.

While there have been very valuable insights from some quarters of stakeholders, our view is that responsible stakeholders could have taken this opportunity to shoulder a revolutionary path. This view holds credence in the manner most stakeholders chose to cling to their long stated positions from the same prism.

A slicing of the representations by the total number of participants that are likely to be influenced by the Tariff Order is shared below:

1. **Consumers**: ***Only 4 comments received***. This despite the fact that this stakeholder constitutes about 150 million households translating to approx. 600 to 700 million consumers cutting across various strata of society. What consumers will seek out of this Tariff order is the flexibility to subscribe to quality content/channels of their choice at acceptable and affordable Price points. The maximum response was called from this segment as they happen to be the most impacted of all stakeholders and yet only 2 individuals and 2 Consumer forums sent their response.

2. **LMOs**: ***Only 4 comments received.***100000 or more in number and almost all of them can be categorized as *Micro* or at best *Small* sized Enterprise. Also a vital *Cog* for transforming India into a full-fledged Broadband economy and if this stakeholder if nurtured and encouraged suitably, they can become the foundation of Digital India. They are dependent entirely on revenue from Subscription share for their survival and profitability.

3. **DPO**s: ***19 comments received.*** About 6000 to 7000 in number and have actually made the maximum investments for ushering in DAS and despite this are witnessing a severe dent in profitability. They are seeking an equitable and fair share from all the revenue sources possible and a non-discriminatory tariff regime which will allow their business to move to the next paradigm.

4. **Broadcasters**: Top most rung, Content Originators, Infotainment and conscience keepers. Trying to find the right returns from the business and a non-impeding distribution ecosystem giving equitable access to reach their consumers and a fair and transparent revenue share ecosystem.

Our view is that Revised Tariff model and the business interconnect ecosystem recommended should be fair, transparent, non-discriminatory and should encourage plurality in the ecosystem, At the same time maximum attention should be taken to ensure that Consumers get complete freedom to choose channels at Price points, they are comfortable with and in no way should be forced to consume or subscribe to channels they do not wish to.

While we appreciate and accept the plurality of the views expressed on issues taken up in this consultation, we have offered our counter comments to some of the responses, as we believe these issues needs a more detailed analysis, which we have tried our best to explain using a few examples and urge that these counter comments may be taken in the right spirit.

TARIFF ANALYSIS:

On Tariff models, the Broadcasters have almost unanimously pitched for Wholesale Pricing Model, which in our opinion is an opaque model which will not only continue to add to the existing litigations but we believe, will lead to more losses in the Distribution business.

Further, we are of the view that the contention of the Broadcasters in their recommendation that the DPOs be allowed to mark up the wholesale price by 100%, is inherently flawed and unreasonable, as the DPOs will be left with only a 15% share in revenue. The working below clearly enumerates this:

	Percentage Share	Revenue Share in Rs.
Assume Broadcasters Wholesale Price		**100**
Mark up	100%	
Consumers Retail Price		**200**
LMO Share	**35%**	**70**
MSO Share		**30**

A point to be noted is that DTH may not have much reservation to the Wholesale Pricing model, as they do not have to share the revenues with a third stakeholder (LMO) in their business and can expect a 50% share from the subscription-pie and may therefore be inclined to prefer one of the Wholesale Models which allows forbearance at the Retail end, enabling them to optimize their returns from the business.

A calibrated response is therefore required to ensure that Tariff sharing model finally proposed should allow for a fair and justifiable share for all the stakeholders. If Broadcasters are allowed to freely offer discounts to DPOs on such a model, the DPOs will then be completely dependent on the largesse from Broadcasters for their survival and profitability.

In our view the Integrated Distribution Model makes a case for addressing the present ails, as it endeavours to put in place a Transparent regime serving all stakeholders and offering protection to consumer at the bottom rung.

Revenue Share from Subscription in the Integrated Distribution Model:

On the Distribution side, both DPO and LMO prefer the Integrated Distribution Retail Model, which is fairly transparent to all stakeholders and seems the most equitable of all models suggested in the Consultation. However, the bone of contention is the Revenue share between DPO and LMO, with each stakeholder recommending a higher share for themselves.

As advocated earlier in our submission, we have averred that the LMO should be accorded a nominally higher share from Subscription revenue, as the DPO can additionally earn Carriage, Placement and Marketing revenues.

To Understand and Analyze the ***Revenue share from Subscription in the Integrated Distribution Model*** a little more thoroughly, we have used 2 sets of channel-offerings to the consumers; one with lesser number of Pay channels (25 pay channels) and the other with a higher number of pay channels (85 channels) offered alongwith 100 FTA channels. The rationale is to test the fairness and the robustness of the Distribution Retail Model and the proposed sharing of revenue.

The following are the assumptions:

1. FTA Retail Price of Rs. 100/- for 100 channels. To be shared equally between DPO and LMO.
2. 2 Basic options assumed. Customer chooses a 125 channel package (100 FTA+25 Pay channels) in the 1^{st} Option & in the 2^{nd} ^{s}chooses 185 channels (100 FTA + 85 pay channels).
3. For each of the above Options, we have further taken 2 sub-options; Distribution Charge sharing @ 35:65 for DPO:LMO and the 2^{nd} sharing @ 65:35 DPO:LMO. Distribution charge has been assumed at Re. 1/- per channel, per STB, per month.
4. The Pay channel Subscription sharing ratio has been apportioned in the ratio of 25:30:45 @ DPO: LMO: Broadcaster.

Integrated Distribution Model - Revenue Share between DPO, LMO & Broadcasters

Option 1 A (25 Pay channels) - Distribution charge sharing DPO:LMO @ 35:65 & Pay channel Subscription sharing DPO:LMO: Broadcasters @ 25:30:45

			FTA Channel Sharing Ratio		Distribution Charge @ Re. 1/Channel			Pay ChanneL Subscription Sharing			Consumer Price; Net of Taxes	Stakeholder Share		
	No of Channels	Rate	DPO	LMO	DPO	LMO	Broad-caster	DPO	LMO	Broad-caster		DPO	LMO	Broad-caster
Sharing Ratio			50%	50%	**35%**	**65%**	0	**25%**	**30%**	**45%**				
100 FTA channels	100	1	50	50							**100**	50	50	0
Pay Channels														
10 Pay channels @ 2/-	10	2			3.5	6.5	0	5	6	9	**30**	8.5	12.5	9
7 Pay channels @ Rs. 5/-	7	5			2.45	4.55	0	8.75	10.5	15.75	**42**	11.2	15.05	15.75
5pay channels @ Rs. 10	5	10			1.75	3.25	0	12.5	15	22.5	**55**	14.25	18.25	22.5
3 Pay channels @ Rs. 15	3	15			1.05	1.95	0	11.25	13.5	20.25	**48**	12.3	15.45	20.25
	125		**50**	**50**	**8.75**	**16.25**	**0**	**37.5**	**45**	**67.5**	**275**	**96.25**	**111.25**	**67.5**

Option 1 B (25 Pay channels) - Distribution charge sharing DPO:LMO @ 65:35 & Pay channel Subscription sharing DPO:LMO: Broadcasters @ 25:30:45														
			FTA Channel Sharing Ratio		Distribution Charge @ Re. 1/Channel			Pay ChanneL Sharing			Consumer Price; Net of Taxes	Stakeholder Share		
	No of Channels	Rate	DPO	LMO	DPO	LMO	Broad-caster	DPO	LMO	Broad-caster		DPO	LMO	Broad-caster
Sharing Ratio			50%	50%	**65%**	**35%**	0	**25%**	**30%**	**45%**				
100 FTA channels	100	1	50	50							**100**	50	50	0
Pay Channels														
10 Pay channels @ 2/-	10	2			6.5	3.5	0	5	6	9	**30**	11.5	9.5	9
7 Pay channels @ Rs. 5/-	7	5			4.55	2.45	0	8.75	10.5	15.75	**42**	13.3	12.95	15.75
5pay channels @ Rs. 10	5	10			3.25	1.75	0	12.5	15	22.5	**55**	15.75	16.75	22.5
3 Pay channels @ Rs. 15	3	15			1.95	1.05	0	11.25	13.5	20.25	**48**	13.2	14.55	20.25
	125		**50**	**50**	**16.25**	**8.75**	**0**	**37.5**	**45**	**67.5**	**275**	**103.75**	**103.75**	**67.5**

Although in the 1st Sub-option the DPO gets a lower share from subscription, our contention is that they will be adequately compensated by the additional income generated through Carriage + Placement + Marketing + Advertisements (run on local channels).

In the above assumption of 125 channel package, other than the DD channels (25 to 26 channels), there are 75 FTA & 25 Pay channels and even if we go by a conservative estimate that 50% of the channels will only opt for paying Carriage, Placements & Marketing fee at a very nominal cost @ Re. 0.5/- per channel, per month, per STB, the DPO will be able to earn an additional Rs. 25/- per month taking their total revenue generated per customer higher than that earned by the LMO.

The reason for choosing only 125 channels including DD channels, is to test the acceptability of this assumption even with a lower number of channels.

The same inference can be made even in the 2nd Option, comprising a higher number of channels subscribed by a Consumer (185 channels, which includes 100 FTA + 85 pay channels):

Option 2 A (Higher no. of Pay channels - 85) - Distribution charge sharing DPO:LMO @ 35:65 & Pay channel Subscription sharing DPO:LMO: Broadcasters @ 25:30:45														
			FTA Channel Sharing Ratio		Distribution Charge @ Re. 1/Channel			Pay ChanneL Sharing			Consumer Price; Net of Taxes	Stakeholder Share		
	No of Channels	Rate	DPO	LMO	DPO	LMO	Broad-caster	DPO	LMO	Broad-caster		DPO	LMO	Broad-caster
Sharing Ratio			50%	50%	**35%**	**65%**	0	**25%**	**30%**	**45%**				
100 FTA channels	100	1	50	50							100	50	50	0
Pay Channels														
50 Pay channels @ 2/-	50	2			17.5	32.5	0	25	30	45	150	42.5	62.5	45
25 Pay channels @ Rs. 5/-	25	5			8.75	16.25	0	31.25	37.5	56.25	150	40	53.75	56.25
8 pay channels @ Rs. 10/-	8	10			2.8	5.2	0	20	24	36	88	22.8	29.2	36
2 Pay channels @ Rs. 15/-	2	15			0.7	1.3	0	7.5	9	13.5	32	8.2	10.3	13.5
	185		**50**	**50**	**29.75**	**55.25**	**0**	**83.75**	**100.5**	**150.75**	**520**	**163.5**	**205.75**	**150.75**

Option 2 B (Higher no. Of Pay channels - 85) - Distribution charge sharing DPO:LMO @ 65:35 & Pay channel Subscription sharing DPO:LMO: Broadcasters @ 25:30:45															
			FTA Channel Sharing Ratio		Distribution Charge @ Re. 1/Channel			Pay ChanneL Sharing			Consumer Price; Net of Taxes	Stakeholder Share		
	No of Channels	Rate	DPO	LMO	DPO	LMO	Broad-caster	DPO	LMO	Broad-caster		DPO	LMO	Broad-caster
Sharing Ratio			50%	50%	**65%**	**35%**	0	**25%**	**30%**	**45%**				
100 FTA channels	100	1	50	50							100	50	50	0
Pay Channels														
50 Pay channels @ 2/-	50	2			32.5	17.5	0	25	30	45	150	57.5	47.5	45
25 Pay channels @ Rs. 5/-	25	5			16.25	8.75	0	31.25	37.5	56.25	150	47.5	46.25	56.25
8 pay channels @ Rs. 10/-	8	10			5.2	2.8	0	20	24	36	88	25.2	26.8	36
2 Pay channels @ Rs. 15/-	2	15			1.3	0.7	0	7.5	9	13.5	32	8.8	9.7	13.5
	185		**50**	**50**	**55.25**	**29.75**	**0**	**83.75**	**100.5**	**150.75**	**520**	**189**	**180.25**	**150.75**

The robustness of this model has been tested with various revenue sharing combinations, both in Subscription sharing and Distribution charge sharing.

We therefore are of the view that the Sharing from subscription revenue in an Integrated Distribution Model, should be higher for the LMO vis-a-vis the DPO.

On Carriage, Placements and Marketing, some of the Broadcasters have expressed the view that the maximum Discounts offered on Subscription should include Carriage, Placement & Marketing fee paid to the DPOs.

We beg to differ on this, as the drawback with this view is that the Carriage, Placement & Marketing Rates of the DPO’s will get subsumed into Subscription Rates and with a only 15% share on subscription revenue, it will lead to DPOs becoming fully dependent on the largesse from Broadcasters for their survival.

Packaging by Broadcasters:

On packaging, the views put forth by the Broadcasters and their Associations is that Broadcasters should be allowed to create packaging/bundling of their channels, whereas the majority opinion from other stakeholders is for unbundling i.e only ala-carte offerings with Retail Prices announced for individual channels.

On the other hand, the opinion of different stakeholders to DPO’s creating their own packages by mixing channels from multiple broadcasters is divided with a few consenting to this and a few other stakeholders opposing this.

Our stated view was that both Broadcasters & DPO’s should be allowed full freedom to create and promote packages. **However, in view of the reservations expressed by many of the stakeholders, we reserve our view and will like to go with the views proposed by M/s Siti Cable, which in our opinion is a very fair and reasonable option. Their proposition that – any given Package offered by a Broadcaster should not contain more than 1 channel of each genre, appears to be a balanced approach**.

We continue with our view that the DPO should be allowed to create packages by mixing channels from multiple broadcasters, while at the same time maintain that all Pay Channels should any which ways be offered to customers on an Ala-carte basis as proposed in the Integrated Distribution Model.

On compression of Activation time, the suggestion by Satellite Channels that DPO's should offer activation of services through Mobile Apps (rather than thru'a web-based App) holds good and is a workable solution as it will be easy for most customers to use it.

We would like to once again re-emphasize that the huge number of LMOs (more than 1.00 lac) are probably the only entity in the country to own such an extensive and ubiquitous outdoor wired infrastructure which can be used to deliver Broadband and connected-services, at very affordable costs. Infact a perusal of the infrastructure will clearly indicate that such an extensive and pervasive network is available even in small towns and villages and can be enabled to deliver Broadband services with very low turn-around time.

We are of the firm belief that this LMO ecosystem needs to be nurtured properly to help it become a very vital Cog for transforming India into a full-fledged Broadband economy and keeping this in mind, we have suggested a higher share from subscription be apportioned to the LMO. In a way this can be viewed as a Levy needed to boost "Digital India", provided LMOs use this extra revenue to reinvest / plough back by upgrading the existing network to enable it to function as a bi-directional network.

Currently, most of the infrastructure is unidirectional and impaired and will need to be re-laid with proper designing for enabling it to be used for delivering broadband services. This entire exercise will entail huge capital investment, but if planned and guided correctly, can become the backbone of a very Vibrant and Dynamic Digitally Enabled India.