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Embracing Digital for the Next Era of Growth

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- There is no doubt that we are all facing huge shifts, but we should be positive and embrace these changes.
- As telcos, we can and must shape the Web 2.0 era.
- If standing still is going backwards today, to move forward we must acknowledge the need to collaborate, innovate and leverage our combined capabilities to capitalise on new market opportunities and combat the real and significant threats our industry faces.
- I'd therefore like to focus on three key points:
 - the forces driving rapid change in our industry

- the strategic importance of digital products and services
- and the need for us to work with others in our new and emerging digital ecosystems, especially content producers and application developers.

1. Let's start by taking a look at the forces driving dynamic change in the industry as we see it

- Technology is changing rapidly at all levels.
 - We've got smarter and more powerful mobile devices.
 - We have faster networks with 4G, fibre and the NBN.
 - There are many, many new applications on top of the network.
 - Mobile devices are particularly important because:
 - They are intensely personal – they reach us directly.
 - They don't just connect us anymore. They increasingly reflect who we are and are beginning to define us.

- We spend two hours a day using them. They're the first thing we see in the morning and the last thing we see at night.
 - Mark Scott from ABC recently cited the growing number of Australian's 'taking a tablet and going to bed' – something I'm sure we can all relate to!
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- Perhaps most significant is not just how consumers are changing but how they are driving rapid change and therefore a change in us as an industry.
 - Consumers are getting information, entertainment and services from more channels more often and those channels are increasingly online and mobile.
 - Customers increasingly rely on always being connected.
 - They also have deeper concerns around issues like security, privacy and being protected online.
 - Communities of like-minded individuals with similar interests now drive social media
 - Consumer innovators are teaching us how to use and implement new ideas every day

- A great example is ABC's Q&A – they didn't create the powerful Twitter feed, their viewers did and as a result they implemented into their programme to increase the level of engagement (this is classic sense and respond strategic execution)
- Consumers have also got used to not paying for things! This is making freemium and other new models critical.
- It has become a whole new ball game in a very short space of time.
- As we build freemium models, we must implement new 21st Century business performance parameters
- All this change is opening up new areas of innovation and fierce and disruptive competition.
- We are facing high levels of competition within our industry and from outside.
- Broadband and IP is making it possible for global and local 'over the top' players to move into more of our territory.
- There is also significant regulatory change.

- The government is seeking to level the playing field and to update rules to match today's marketplace.
- Some of the key changes centre on the NBN and the structural separation of Telstra, the Convergence Review and the now-approved Foxtel/Austar merger.
- Many of these are positive changes, but they are creating uncertainty and opportunity.
- Regulation needs to ensure that choice and competition best serves the Australian consumer.

2. Strategic importance of digital for telco operators

- How should we respond to these changes?
- For some of us to remain competitive, we need to build new growth businesses.
- In our view, the most important of these growth areas will be digital services.
- These digital services include:
 - content services such as news, information, video content and TV

- cloud-based services like [managed email] and remote storage
- convenience tools, such as concierge services on your mobile
- ecommerce and payments facilities
- support for other parties' digital initiatives, from content delivery and capability to web design.
- As our traditional markets reach saturation, we as an industry need to shift our revenue mix towards high growth emerging digital services before the industry contracts further.
- For most of us this means that we need to radically transform our current operations so that within the next decade a large proportion of our revenues come from digital services.
- At Optus, we recognised the opportunity 18 months ago
- We needed to disrupt the industry but before doing so we had to disrupt ourselves
- A dedicated division within Optus known as Optus Digital Media was therefore created in 2010

- We built a business with more than 250 staff, invested more than \$30 million in new content delivery capabilities and have already launched 30 products and services.
- Those include TV Now, a product you may have heard about.
- TV Now allows people to record and play back free to air TV programming on their mobiles or other devices.
- We have also built apps for partners such as Football Federation Australia and streamed events including the Australian Open, the ARIAs and Mardi Gras.
- Meanwhile, the wider SingTel group was also testing and learning with innovative digital products and services of its own across the region.
- Recognising the threats I mentioned earlier and the advantages that our scale of over 400 million mobile subscribers can provide, the business has been reorganised into three focus areas across the Group – Consumer, ICT and Digital.
- One of these is called Digital L!fe, and that's the area we're a big part of.

- From a consumer point of view, the Digital L!fe mantra is to lead the Group's journey from being a communication provider to becoming a leading player in the digital ecosystem.
- From connecting voices to bringing people together through the creation and delivery of innovative and cutting edge digital services.
- For the shareholder, we are creating new Growth Engines to secure a winning position for the Group in the evolving digital consumer space.
- From being a regional leader in the analogue communication world to shaping the future of the connected society.

Why does digital matter?

- Why is it so important to us?
- Digital matters because it offers future high-growth incremental revenues and deepens customer relationships reducing acquisition costs leading to margin expansion and increased return on equity

- As mentioned, the mobile market has passed saturation point.
- We're now at 125%, meaning that there are 1.25 services for each Australian. [Source: Paul Budde]
- Many traditional services like fixed line are in decline, in absolute or dollar terms.
- At the same time, we and other carriers are still spending heavily on continued renewal and expansion of our networks.
- In the last three years Optus alone has invested over \$1.6bn in its mobile network
- And we have already begun the roll out of our 4G network showing a commitment to continued expansion
- We are compelled to find ways to monetise these network investments beyond simple carriage and to deepen customer loyalty.
- The mobile industry in Australia generated \$17.5 billion in revenue last year, up 8% from \$16.2 billion the year before.¹

¹ Telsyte. [Add full reference]

- But moderating growth and the scale of our network investments puts a drag on shareholder returns.
- Most importantly, there is phenomenal demand for new digital services for the home, the workforce, the classroom and the always connected consumer.
- Interestingly, as the Australian Bureau of Statistics reported last week, Australian's use of wireless broadband has surpassed fixed for the first time
- 51% of Australians aged over 16 now own a smartphone². In fact, we have the second highest penetration in the world after Singapore.
- People spend more than 10 hours a week on their smartphones and tablets, working, social networking, playing online games, watching video and so on.³
- More than 300,000 households now have IPTV based on quality and value and this should surge with the NBN.⁴
- This is where the new opportunities lie, but to capitalise on them we need to be delivering high-value digital services that solve problems and make life easier for people.

² Nielsen, *The Australian Online Consumer Landscape*, March 2012.

³ Nielsen, *The Australian Online Consumer Landscape*, March 2012.

⁴ Telsyte: [exact source to come]

3. Digital insights

Digital ecosystems

- Digital will deliver growth, but you may have noticed that there is a catch.
- To succeed in digital, you need to deliver value within a wider ecosystem.
- To win you need to understand how you're involved in that wider environment.
- It's hard to go it alone. You need partners and the benefit of network effects.
- Consumers no longer care about specific devices and services; they care about how those devices and services help them reach the wider ecosystems they find valuable.
- Let's look at one of the biggest and best-known ecosystems: Apple and iTunes.
- I'm sure you know the stats. Since launch in 2003, Apple has sold more than 16 billion songs and [25 billion apps] through iTunes.

- Yes they invented a great interface and mobile products, but what has made it so successful has been the buy-in from content providers and application developers.
- Apple has given record labels and movie studios a way to monetise digital content, and it's given app developers a way to get micro-payments for their products.
- In the quarter to December 2011, Apple paid out US\$700 million to app developers alone.
- We all know what this success has done to Apple's share price and we're seeing similar successes in plenty of other ecosystem-driven startups.
- Just this month, Facebook paid US\$1 billion for a profitless photo-sharing app company called Instagram.
- The company was only founded in 2010 and had 13 staff. But it has gained 30 million users in 18 months, and that represents value.⁵
- Australians have been succeeding too. Brisbane games developer Halfbrick Studios claims 70 million global users for its mobile game Fruit Ninja.

⁵ <http://finance.ninemsn.com.au/newsbusiness/aap/8448835/facebook-buys-instagram-for-us1-billion>

- It's earned more than \$13 million on iTunes alone and just released a new award-winning game.
- Just because these organisations have achieved some amazing early successes doesn't mean that we as an industry can't come up with innovations of our own.
- This race is only getting started.
- We just need to appreciate that ecosystems matter and consider our strengths.
- As I'll discuss later, those strengths are significant.

- What should our ecosystems do? What value should they provide?
- If you boil it right down, digital allows us to do three things for customers:
 - keep them connected to others for social or business purposes
 - remove friction from their day-to-day lives
 - solve a problem for the consumer (and in some cases a problem they didn't yet know they had)
- You can see this focus in the products we've launched so far at Optus.

- TV Now is designed to make it easier for people to consume free to air television, when and where they want it.
- A service like GoPlaces gives people information on restaurants and entertainment options in their vicinity and presents special offers.
- Our SmartSafe provides storage in the cloud. It makes it easier for people to operate within networks and it reduces their dependence on particular computing devices.
- IPTV services like Optus MeTV make it easier and cheaper to access pay TV without a heavy long-term financial commitment.
- These all add up to supporting our customers' digital lives.
- Here's a short video to give you a glimpse of our shared vision across the group.

4. So having watched this video, how can we truly compete against global players?

- As I've said, we've been learning quickly and hoping to disrupt
- I am very confident that the traditional telecommunications industry can compete very effectively in this new digital environment.
- There are at least five strengths that existing telcos, like Singtel/Optus, hold to legitimately compete in this space
- Successful phone companies have strong, well-established cash flows.
- We can re-invest these cash flows in new digital services.
- An example from our business is the SingTel Group's recent acquisition of Amobee
- Amobee is based in Silicon Valley and a young, exciting global leader in mobile advertising technology.
- It's a very exciting deal because mobile marketing will be one of the key areas where we believe telcos can grow digital revenues in coming years.
- Global mobile ad revenues are forecast to surpass US\$20 billion by 2015, up from US\$3.3 billion last year (2011).⁶

⁶ Gartner statistics, cited in SingTel Driving Transformation presentation, 5 March 2012.

- By 2015, US\$6.9 billion of that mobile advertising revenue will come from Asia Pacific. In fact, this region will have become the largest mobile ad market in the world.⁷
- We should certainly expect Australia to be right at the forefront of that change.
- A 14-country survey released in February showed that Australians were the most open in the world to receiving advertising on their mobiles.⁸
- The study found that 75% of Australians were comfortable with the idea of receiving ads on their mobiles, compared to 68% for Europeans and 63% of Americans.⁹
- You can imagine the Amobee acquisition is an early bet for us.
- You could compare this to the way we committed early to mobile and SMS, or the way we backed the first iPhone as a data device in Australia ahead of our competitors.
- Or even SingTel's decision to buy Optus over 10 years ago.

⁷ Gartner statistics, cited in SingTel Driving Transformation presentation, 5 March 2012.

⁸ <http://www.smartcompany.com.au/internet/042412-20110209-75-of-australians-are-comfortable-with-mobile-ads-new-study-reveals.html>

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Customers who trust us

- Our second strength is having a large base of customers who have come to trust us
- Our research shows us that our customers trust us with their information (like a bank) and the majority of Australians feel comfortable with us using this information if it will benefit them in the long term
- A great example of this being done successfully is Amazon
- When was the last time you got annoyed at Amazon for recommending a book you might like?
- As carriers, we know people's age, socioeconomic status, gender, usage patterns and things like what handsets they use and location awareness
- While being very mindful of privacy, these insights can enable us to deliver a much higher level of quality information for the benefit of customers and advertisers alike.
- The OTT players are scrambling to gather this sort of information (e.g. Google+) but they are effectively a long way behind.

Existing commercial relationships

- Third, we have trusted commercial relationships with our customers.
- Optus alone touches 10 million paying customers every day.
- We have mechanisms in place for charging them for products and services.
- This opens the way for us to offer new payments solutions and to increase the value and distribution channels we offer in other industries.

Capacity to leverage our networks

- Fourth, we own and control our networks.
- We can develop new services and build the network intelligence to support them.
- One of Apple's biggest boasts is that its products work well because it has control over both the hardware and the software.
- We can be the same.
- Let me add here that scale will be important in the future digital environment.

- Again, much of what we're doing at Optus and within SingTel is about building scale.
- SingTel now has 400 million paying subscribers across Asia. That's a very respectable number compared to the OTT players.
- We'll take the best innovations and share them with customers across our networks.
- This will allow us to develop market leading services while driving down costs.

Local presence and multichannel capabilities

- Finally, we can be leaders in localisation – both in the sense of using mobile technology and in terms of providing locally relevant content and apps.
- The big OTT players have strong systems but they often lack local focus or content.
- We need to think local but act global
- This is a key reason why we believe it's essential that we support Australian producers and developers.

- There is a real value to us in having high quality, local content and harnessing the great talent that exists on our shores
- We're already a creative hub in the English-speaking world. We can be bigger still.
- According to a Boston Consulting Group study, Australia is already a net exporter of new media content and Internet applications.
- For example, BCG found that international viewers watch eight times more Australian video content than Australians watch video that has been generated overseas.
- In fact, Americans watch twice as much Australian video as Australians!
- This makes sense because there are so many more Americans than Australians, but it highlights Australia's strength as an English-language content producer on the global stage.¹⁰
- With this in mind it is vital for us an industry to collaborate and share.

¹⁰ Boston Consulting Group, *Culture Boom: How Digital Media are Invigorating Australia*, March 2012, pp16-17.

- This will help us keep the services and content we produce relevant to Australians
- We see huge opportunities in partnerships with mobile developers and content providers
- For example our Go Places app is what it is because of its partners
- Entertainment Book gives us a database of 30,000 restaurants and Eatability delivers the capability to review and rate
- We've also partnered with FIFA to broadcast World Cup soccer matches not to mention FetchTV for streaming video content on our IPTV offering MeTV
- This year we were the exclusive digital rights holder for the Mardi Gras and successfully delivered over 400,000 streams of video content including a one hour package of the Sydney parade
- But we don't just work with large scale commercial partners - we also embrace the start- up community
- We are dedicated to fostering emerging talent via Optus owned initiatives such as NICTA Unleash Your App and our sponsored Start Up Weekends

- Sydney Start Up weekend will be held on 27th to 29th April, at Fishburners in Ultimo.
- This event is targeted at Entrepreneurs, Software Developers, Students, Marketers, Business Leaders, Legal Experts and those ready to take on the 54 hour challenge to build a web or mobile application which could form the basis of a credible business.
- It is a great example of how Optus is helping to foster digital innovation in Australia and I hope initiatives such as these will help us keep emerging talent on our shores and build the digital economy here rather than in Silicon Valley
- Working together we can make a united and innovative contribution to the evolving digital world
- Thank you for the opportunity today.
- I hope I've shed light on why we're so focused on digital, and why we believe it's essential for whole industry to develop competitive strategies in this arena.
- This is the new battleground and the future for our businesses. And we can win.

- We have the strong cash flows, networks and customer relationships to take the lead.
- But we do need to embrace change and create new ecosystems of value, solve problems or do an important job for consumers and businesses
- We also need to focus on supporting and collaborating with others, especially our local content producers and developers.
- I hope you can see we've been making some big changes and placing some bold bets.
- We believe that location- and context-relevant digital services represent the next big inflexion point for the industry, and we are working to be a leader with unique insights and relevance
- That's the reason we have been investing heavily in personalisation, relevance, mobile marketing, ecommerce, next-generation TV and content delivery.
- These are all exciting new areas and we look forward to working with all of you – and perhaps competing at times – as we transform our industry for the digital era.

- I'd like to leave you all with a quote by Marc Andreessen that we like to use at Optus as an inspiration when searching for that next digital innovation:

“If you believe human wants and needs are infinite, then there are infinite industries to be created, infinite businesses to be started, and infinite jobs to be done, and the only limiting factor is human imagination.”

- Thanks again and I'm happy to take any questions.