

# TopTV on life support: Can it be saved?



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The story of TopTV's chronic failure to capture the South African pay television market has its origins in the failure by the broadcasting regulator, ICASA, to open the subscription television market to competition. ICASA has failed dismally to enable the introduction of new pay-TV players to compete with the incumbent, the dominant MultiChoice, operating under the brand name DStv, which was launched in 1995, a decade after its parent pay-TV channel, M-Net, was launched in 1986.

TopTV is the only new pay-TV player that managed to launch its service after ICASA licensed new players in 2009. ESAT, Telkom Media and Walking on Water failed to launch, citing lack funds and uncompetitive market, amongst other reasons.

It is therefore not surprising that TopTV is now technically insolvent and under a business rescue process initiated in terms of the Companies Act. According to TopTV's original business plan submitted to ICASA during the licensing process in 2006, the station had estimated to attract approximately 350,000 LSM 5-6 subscribers annually. TopTV was launched on 1 May 2010.

## Fewer subscribers than expected

To date, TopTV has only managed to attract at least 166,000 subscribers. If you look at DStv, the incumbent operator has more than four million subscribers in South Africa. According to DStv, more than 40% of its subscribers are premium bouquets subscribers in the LSM 7-10. DStv, which is owned by media conglomerate, Naspers, contributed 42% to the group company revenue. According to Naspers 2012 Annual Report, the incumbent pay-TV operator revenue for 2012 was R20.5bn increasing by 16% from R17.7bn in 2011. Net profit increased by 21.5% from R3.4bn (2011) to R4.2bn (2012) as a result of organic growth. MultiChoice paid a dividend of more than R5bn to its shareholders in 2012. DStv growth in the year 2010-2012 was driven by subsidised decoders, cheaper bouquets, and premium content like sport and movies.

DStv has more than 656,000 subscribers using its popular Personal Video Recorder (PVR). PVR enables subscribers to record content and to rewind programs in real time. DStv also has the dual view capability which enables subscribers to utilise one subscription account to view different channels through two television sets and two decoders. TopTV does not offer PVR and dual-view service to its subscribers.

## A harsh market

When TopTV was launched in 2010, it had R1bn of working capital. Unfortunately, the working capital did not enable the pay-TV operator to break even. The TopTV business model is based on growing its subscriber base. According to ICASA subscription television regulations, pay-TV operators' income stream must be dominated by subscription fees not advertising revenue. The failure by TopTV to attract its initial estimated number of annual subscribers has negatively impacted the growth, sustainability, and viability of the business.

TopTV is operating in a very uncompetitive and harsh market with lots of barriers to entry. The one barrier to entry is the decoders that the station must subsidise to enable subscribers to receive its service. This subsidy has depleted TopTV's working capital. In an ideal market, ICASA should have enabled TopTV subscribers to use DStv decoders; however, the incumbent, DStv flexed its market power and ensured that its decoders are not compatible with the TopTV smart access card.

## Taking the 'adult' approach

The launch by DStv of Box Office, a video-on demand service for PVR Premium subscribers that allows these subscribers to view the latest blockbuster movies instantaneously, proved popular, with more than million movie rentals in 2011-2012. TopTV does not offer a video rental service as DStv does. DStv also recently introduced a number of High Definition (HD) Channels; TopTV does not have any HD channels.

In an effort to turn the business around, TopTV intends to introduce three adult content channels. According to TopTV, the adult channels will stimulate the growth of subscriber numbers, ultimately leading to the positive cash flow for the station. Potential investors are also currently conducting due diligence in TopTV business and books with a view to providing some life support to the business operations.

As we await the business rescue process aimed at preventing TopTV going under, it remains to be seen whether ICASA shall authorise TopTV to commence transmitting some erotic content through Playboy TV channels.

## ABOUT AVHASEI MUKOMA

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