

StarHub: English Premier League^(c)

Some of the most ardent fans of Arsenal, Manchester United, and Liverpool live far from Highbury, Old Trafford, and Anfield, in Hong Kong and Singapore.

Until the 2006-07 season, ESPN Star Sports held the broadcast rights to the English Premier League (EPL) for Singapore. Then, in late 2006, StarHub bid an estimated US\$160 million to beat incumbent ESPN Star Sports and telecommunications provider, SingTel, to win the rights for the next three seasons. The winning bid was reputedly several times the amount that ESPN Star Sports had paid for the previous rights.

The Singapore government prohibits the reception of satellite TV. Integrated telecommunications and cable TV provider, StarHub, is the only provider of cable TV in Singapore. The government did offer a second cable TV license, but no one applied.

In 2007, StarHub's major source of revenues was mobile services, which accounted for 52% of revenues, with cable TV, broadband, fixed network services, and equipment sales accounting for 17%, 12%, 14%, and 5% respectively.

In 2001, StarHub unbundled the basic cable TV package into thematic basic packages and reduced the price from \$32.95 to \$20 a month. Subsequently, it added new channels to the various basic packages without raising prices. The new channels included CCTV-9, Discovery Travel & Living and STAR Chinese Channel.

In 2004, StarHub raised the price of the sports package by \$7 to \$15 a month. The sports package included ESPN Star Sports. Typically, cable TV operators pay content providers such as ESPN a royalty based on the number of subscribers to the content.

Following its acquisition of the English Premier League rights, StarHub announced price increases. It raised the price of basic packages by \$4 to \$24 a month with effect from July 11. It decided to broadcast the EPL on its own sports channel, which was included in the sports package. It raised the price of the sports package by \$10 to \$25 a month, with effect from October.

Mr Thomas Ee, Senior Vice President of Cable, Fixed & IP Services, justified the prices increases, "Most pay-TV operators around the world increase

^(c) 2008, I.P.L. Png. This case is based, in part, on "Singaporeans to pay more to watch EPL next season", *Straits Times*, 11 May 2007; StarHub, "StarHub to revise pay-TV prices in step with increasing content costs", Press Release, 11 June 2007; "We have no choice,' says SCV", *Channel News Asia*, 12 June 2007, 0640 hrs (SST).

prices periodically, and StarHub has not done so despite a steady rise in costs over the years”.

In 2007, StarHub’s cable TV revenue grew by 9% from S\$313 million to S\$342 million. ARPU (average revenue per user) rose by 6% from S\$48 to S\$51, while the subscriber base increased by 4% to 504,000 as at end December 2007. Relative to the number of households in Singapore, the subscriber base amounted to a 45% penetration rate.

Questions

- a. Identify changes in demand and costs (fixed and marginal costs relative to the number of subscribers) arising from StarHub’s acquisition of the EPL rights.
- b. Which of the changes in (a) would be relevant to StarHub’s pricing of cable TV services?
- c. Do you think that, prior to the 2007 price increases, StarHub’s prices had maximized profits?
- d. From the viewpoint of a content provider like ESPN which receives a per-customer royalty from a cable TV operator, explain the moral hazard to which the cable TV operator is subject.
- e. From the viewpoint of EPL, explain how a lump-sum bid would resolve asymmetry of information between EPL and cable TV operators.