

Television New Zealand Limited  
and subsidiaries

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# **Statement of Intent**

For 4 Years Ending 30 June 2024

## Table of Contents

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1.	Introduction	1
2.	Who we are and what we do	1
3.	TVNZ's statutory obligations	2
4.	Strategic priorities	4
5.	Challenges within the operating environment	5
6.	Statement of service performance	8
7.	Capability	8
	APPENDIX – Consultation, subsidiary and associated companies	10

## **Introduction**

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This Statement of Intent outlines TVNZ's strategy for the forthcoming four years. It should be read in conjunction with each year's Statement of Performance Expectations.

## **Who we are and what we do**

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TVNZ is a Crown Entity Company and has a Board of Directors appointed by the Minister of Broadcasting, Communications and Digital Media and the Minister of Finance.

The Chief Executive has day to day management of the company.

The Television New Zealand Act 2003 provides the company editorial independence of which freedom from political influence is a fundamental principle. TVNZ's operations are governed by:

- Television New Zealand Act 2003.
- Broadcasting Act 1989.
- Companies Act 1993.
- Crown Entities Act 2004.
- The Owner's Expectations Manual as published by the Treasury.
- The 'Letter of Expectations' typically sent to TVNZ in advance of the 1 July start to the financial year.
- Compliance with the current Free-to-Air Television Code regulated by the Broadcasting Standards Authority.
- Compliance with advertising codes promulgated through the Advertising Standards Authority.
- Compliance with principles promulgated through the New Zealand Media Council.
- The Memorandum of Understanding between TVNZ and the National Emergency Management Agency.

The policy objectives set out by shareholding Ministers are for TVNZ to continue its transition into a successful national television and digital media company providing a range of content and services on a choice of delivery platforms while maintaining a strong commercial performance.<sup>1</sup>

In carrying out its functions, TVNZ must provide high quality content that:

- (a) is relevant to, and enjoyed and valued by, New Zealand audiences; and

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<sup>1</sup> Section 12(1), Television New Zealand Act 2003

(b) encompasses both New Zealand and international content and reflects Māori perspectives.<sup>2</sup>

The scope of functions and intended operations of TVNZ are:

- The commissioning, production, purchasing and archiving of video content, either independently or with others.
- The provision of video production facilities (field, studio and post-production, outside broadcast facilities, design and set construction services).
- The programming and scheduling of video content for on-air and online distribution.
- The provision of advertising and sponsorship services and related marketing activities.
- The publishing and distribution of video content on a broad range of relevant platforms and devices.
- The provision of services to the broadcast industry, both domestically and internationally.
- The provision of audio-visual footage, programming, video and DVD rights, programme listing information, channel packaging and all other content related services and materials.
- To undertake other media related activities, as determined by the Board.

### **TVNZ's statutory obligations**

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TVNZ's primary reason for being is to provide compelling content to New Zealand audiences.

Consistent with the obligations detailed in the Television New Zealand Act 2003, TVNZ's statutory obligations are:

- **To provide content that is enjoyed and valued by New Zealanders;**
- **To ensure our content is readily accessible to viewers;**
- **To maintain a sustainable commercial performance; and**
- **To reflect Māori perspectives.**

These obligations are outlined in more detail below.

#### ***To provide content that is enjoyed and valued by New Zealanders***

Deeply understanding the needs of New Zealand viewers is fundamental to delivering on these obligations.

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<sup>2</sup> Section 12(2), Television New Zealand Act 2003

Different moments matter to different New Zealanders and we need an appropriate breadth of content to meet the varied needs of specific viewer groups. Some of those moments will be relevant local stories and others international. Some moments inform and educate, some stimulate conversations, some elicit laughter, some tears, and others will provoke personal contemplation.

### ***To ensure our content is readily accessible to viewers***

TVNZ's linear channels are made available free of charge on the Freeview, Sky and Vodafone TV platforms, and are streamed online through a range of devices. To remain relevant we need to be available where viewers choose to watch and how they do this. We're less concerned about where people choose to access our content – what's more important is that they can, and do. The goal we use to track our success is how often we **“engage two million New Zealanders per day”**.

The ultimate measure of our success is viewer engagement, and we'll leverage the unique and powerful attributes of video content to drive emotional engagement with viewers. Maintaining a free-to-view service is a big contributor to maximising the accessibility of our content.

### ***To maintain a sustainable commercial performance***

Viewers are also the engine of our commercial success because advertising investment will follow eyeballs. We need to deliver audiences that are valued by advertisers and deliver competitive value for money in comparison with other media options.

Maintaining alignment between our revenues and costs is central to our commercial performance. This is facing increasing pressure, and we'll adopt a dynamic approach to the allocation of business resources between investing to sustain our core TV business and accelerating the growth of our future online business. The stronger the commercial performance of our core business, the more actively we'll be able to invest in shaping our future.

### ***To reflect Māori perspectives***

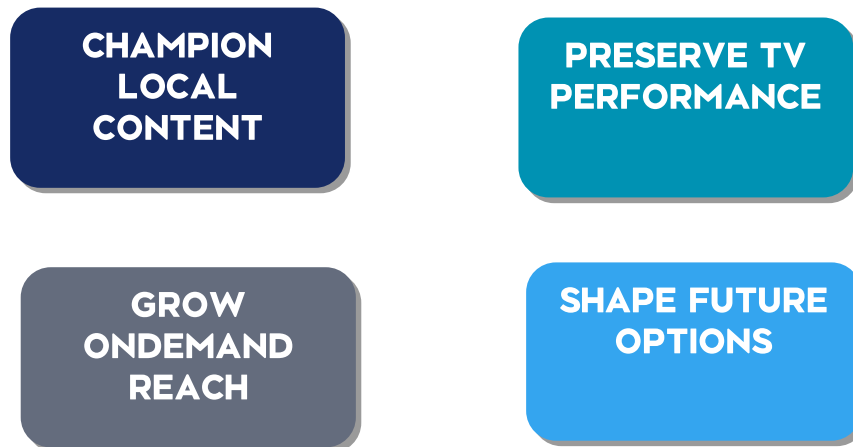
Reflecting Māori perspectives remains an important focus for TVNZ and the growing ethnic diversity of New Zealand is another input that shapes our selection of content.

We will do this by incorporating Te Reo and Te Ao Māori in dedicated Māori content, by “normalising” it in mainstream content, and by promoting its usage within the organisation. We will cover contemporary Māori issues in our news and current affairs programmes, as well as bringing them to life in our entertainment offering.

## Strategic Priorities

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TVNZ has identified four strategic themes for the FY2021. These are:



### ***Champion local content***

Local content is TVNZ's point of difference relative to global online competitors. Protecting and enhancing local content as a competitive advantage is central to TVNZ's future success. Prioritising investment in local news & entertainment content, maintaining TV audiences, and growing digital reach, are key to strengthening our local leadership position and future relevance.

### ***Preserve TV performance***

Three million New Zealanders turn to TV every week to meet their information and entertainment needs. Free to air TV is the primary driver of TVNZ audiences and advertising revenue. Maintaining TV market leadership is critical to our financial performance and ability to invest in future growth initiatives.

### ***Grow OnDemand reach***

TVNZ OnDemand is the primary driver of TVNZ's digital audiences and advertising revenue. Growing the scale of TVNZ OnDemand is key to sustaining audiences and growing online advertising revenue as viewers migrate to online streaming services and advertising investment migrates to targeted addressable digital solutions.

### ***Shape future options***

TVNZ's current operating model must adapt to meet changing viewer and advertiser needs. The financial outlook is uncertain; operating systems & processes need to transform from legacy to digital; and a clearly defined future mandate is needed to guide TVNZ's strategic focus and investment choices.

## **Challenges within the operating environment**

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Key risks and challenges confronting TVNZ include:

### ***1. Impact of Local Market Changes***

There remains an over-supply of FTA advertising inventory relative to the size of the New Zealand market which is suppressing the value of TV advertising. By comparison, the price of TV audiences in New Zealand is approximately one-third of Australia.

Local subscription video on demand (SVOD) services have proven to be unprofitable without cross-subsidisation from parent companies due to the scale of global competitors' investment in content and aggressive retail market pricing. The net outcome is many current media businesses are financially unsustainable and this is expected to prompt imminent M&A activity and/or business failures.

TVNZ has the strongest share of the New Zealand TV advertising market and is therefore most exposed to the secular industry decline. Other local media players are responding to changing market conditions and TVNZ is at risk of being re-positioned by the merger and acquisition initiatives of other players.

Additionally, a significant shift in broadcasting policy or change in shareholder expectations could prove disruptive to TVNZ business.

*TVNZ is responding to this by:*

- *Exploring partnership opportunities with other local media.*
- *Keeping officials up to date with market developments to enable timely decision making when opportunities arise.*

### ***2. Loss of Audience Scale and Advertising Revenue***

Simply, linear TV viewership is in slow decline, while digital media consumption is increasing. The New Zealand market is increasingly crowded, with a broad range of online content service offerings available across an ever-growing number of distribution platforms and devices. The lion's share of TVNZ's advertising revenue is derived from its broadcast TV channels. Advertisers buy audiences and specifically value viewers within the 18 – 54 age demographic. Globally, TV viewership among this commercial media demographic cohort is forecasted to decline and TVNZ expects its TV advertising revenue to align with this trend in its commercial audience reach.

Viewing audiences are fragmenting as the linear model is disrupted by online models and we expect audiences will continue to fragment across a growing number of video service offerings. This in turn has a negative impact on revenue, as digital audiences provide a smaller return.

*TVNZ is responding to this by:*

- *Maintaining its currently strong share of commercially valued audiences and its premium share of advertising revenue relative to audience share.*
- *Joining with other industry players to promote the value of TV advertising.*
- *Aligning operational costs (e.g. content rights, labour costs, marketing and technology costs) to the observable revenue trajectory.*
- *Investing to build online audience and revenue scale, to offset declines in TV.*

### **3. Inability to Invest to Reach Critical Mass Online Scale**

Global scale online players dwarf the audience reach of local online media services and their disproportionate ability and willingness to invest in future growth is expected to further widen this gap. Audience reach, user data insights, and automated trading capability are key buying criteria for online advertisers and the competitively advantaged capabilities of Facebook and Google/YouTube has enabled them to dominate ~80% of this advertising opportunity. Multi-national media agencies are incented to migrate online advertising expenditure to automated trading exchanges that are tightly integrated into Facebook and Google digital advertising systems. To be commercially sustainable, local online services need to reach sufficient scale to warrant agencies moving investment away from the “must-buy” global players.

While this has been mitigated by TVNZ’s market-leading position with advertising supported entertainment content (TVNZ OnDemand), the issue is exacerbated in digital news.

*TVNZ is responding to this by:*

- *Driving the growth of TVNZ OnDemand via increased investment in content rights, user experiences, promotional marketing, and advertising innovation.*
- *Working with industry to align the measurement of TV and online audiences to enable a ‘bundled’ sell of our combined audience reach.*
- *Exploring partnership opportunities with other local news media.*

### **4. Lack of Access to Compelling Content**

Content services are now dominated by global scale players – both in the advertising funded and subscription funded market sectors. Competing effectively against the favourable audience reach, data insights, and content economics of global scale players will be challenging for local media players.

The proliferation of content platforms has intensified competition for premium content and is inflating the cost of content rights – particularly OnDemand rights. Piracy of international content is established normal behavior for many New Zealand viewers and this directly undermines the commercial value of this content. Major content producers are increasingly by-passing traditional



content distributors and distributing content exclusively via global platforms and/or investing in their own direct-to-consumer delivery services.

Local content is significantly more expensive to produce than buying rights to international content and the ongoing inflation in international rights costs is effectively suppressing investment in local content. The increasingly fragmented allocation of finite NZ On Air funding is suppressing TVNZ's ability to co-fund local content, which is the key differentiator for TVNZ. Competition has driven the cost of Tier 1 live sports rights above the level that can be commercial justified via advertising revenue alone.

*TVNZ is responding to this by:*

- *Seeking broad content rights to maximise monetisation opportunities across multiple platforms.*
- *Migrating international acquisition sourcing from long term 'output' deals to shorter term 'spot' market deals.*
- *Exploring co-production opportunities with like-minded non-competing media players confronting similar challenges.*
- *Leveraging our unique capabilities to partner with other providers to obtain sports rights.*
- *Working with local content producers to create compelling initiatives to compete for contestable sources of funding.*
- *Supporting industry-wide initiatives to reduce piracy.*

### ***5. Near Term Cost Reduction vs Longer Term Business Sustainability***

TVNZ has materially reduced operational costs over the last few years to align with declining revenues, and in response to the COVID-19 pandemic. Our most significant cost is investment in content and aggressive cost cutting could precipitate a value destructive downward cycle (i.e. reduced investment in content, leading to reduced audiences, leading to reduced revenue, leading to further reductions in content investment).

Our second most significant cost is people and more invasive labour cost reductions than those already implemented could lead to operational failures and/or unreasonable workload for remaining staff. TVNZ needs to invest in creating future online (and other) sources of revenue to remain financially sustainable in the longer term.

Our third major cost is transmission where (despite temporary relief) we are beholden to a monopoly provider for broadcast infrastructure at high fixed costs, while variable online costs continue to rise.

*TVNZ is responding to this by:*

- *Strengthening procurement capabilities to optimize the value of every dollar, and continuing to tightly manage all discretionary expenditure.*

- *Setting a base case budget to ensure the business will survive in the near term, and allocating surplus financial headroom to fund investment in initiatives to enable the business to thrive in the longer term.*
- *Applying stringent commercial criteria to all business initiatives to maximize resources available to fund our future.*
- *Participating in industry discussions on the migration from broadcast to IP delivery, and the more efficient use of Crown-owned transmission facilities.*

## **Statement of Service Performance**

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TVNZ is not directly funded to provide any Government service, and all of TVNZ's revenue comes from advertising and non-Crown commercial sources. Consequently, TVNZ does not have any reportable output classes under the Crown Entities Act 2004.

## **Capability**

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In response to the changing nature of the New Zealand media industry, TVNZ will continue to review all areas of its business to identify efficiencies and ensure a sustainable business.

As at 30 June 2020 TVNZ employed 680 FTEs in its Auckland, Wellington, Christchurch and Dunedin offices, and those working remotely in New Zealand and overseas.

In FY2021 TVNZ will continue to:

- Provide a healthy and safe work environment, and maintain policies in this area in line with new legislation and expectations.
- Manage change with clear communication, transparency, respect and support for individuals in order to meet the changing needs of the company.
- Ensure its recruitment process enables the selection of suitable candidates.
- Remunerate fairly and consistently in relation to performance, position in salary bands and to the external market.
- Conduct good faith collective bargaining with the PSA and E tū unions.
- Provide appropriate learning and development opportunities.
- Demonstrate equal opportunity practices which promote diversity and firmly discourage discrimination.

- Operate a fair, transparent and regular performance management appraisal system that allows employees full participation in their own performance reviews.

TVNZ takes seriously its commitment to treating people fairly and with respect, ensuring equality of access to opportunities and understanding, appreciating and realising the benefits of individual differences.

## **APPENDIX – Consultation, subsidiary and associated companies**

TVNZ will in relation to any single or connected series of transactions, consult with Shareholding Ministers of TVNZ on substantial matters not contemplated in the business plan including:

- Any substantial capital investment where the value of the investment exceeds \$5 million (excluding content acquisition).
- Any substantial expansion of activities outside the scope of its core business into new business areas.
- The subscription for, or sale of, shares in any company or equity interests in any other organisation which are material, involve a significant overseas equity investment, or are outside the scope of its core business.
- The sale or other disposal of the whole or any substantial part of the business or undertaking of TVNZ.

TVNZ will ensure at all times that:

- Control of the affairs of every subsidiary of TVNZ is exercised by a majority of Directors appointed by TVNZ.
- A majority of the Directors of every subsidiary of TVNZ are persons who are also Directors or employees of TVNZ, or who have been approved by the Board of TVNZ for appointment as Directors of the subsidiary.

In accordance with Section 100 of the Crown Entities Act 2004, TVNZ will ensure that it does not:

1. Acquire shares in a company that gives TVNZ substantial influence in or over that company or
2. Acquire an interest in any partnership, joint venture, or other association of persons, or an interest in a company other than its shares or
3. Settle, or be or appoint a trustee of, a trust, -

other than –

4. After written notice to its shareholding Ministers and
5. In accordance with the consultation principles stated in the first paragraph above and
6. For the purpose of TVNZ carrying out its functions, and acting consistently with its objectives under any Act and its constitution.