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The Battle for the American Couch Potato: New Challenges and Opportunities In The Content Market

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Commentary

Now in its third year of publication, The Battle for the American Couch Potato: New Challenges & Opportunities in the Content Market (April 2009, 90 pages) contains detailed analysis by Market & Company, **see Table of Contents for what is included in this Report.** Sources include Company interviews, as well as quarterly, annual reports & presentations, FCC.

Commentary, see table of contents for more of what is included in this Report: Based on recessionary impacts, many of the forecasts we made in 2008 have been adjusted downwards.

Broadcast and Cable Networks aim to grow online advertising revenue without negatively impacting their traditional TV advertising and programming revenue.

For Broadcasters & Cable Networks to accelerate a transition to a total online model would put $66 billion in traditional TV advertising revenue and $32 billion in cable, satellite, telco TV provider programming fees at risk (both 2008 revenue numbers).

Online, in contrast to traditional TV provides on average 80% less available advertising minutes/per hour and no lucrative upfront market.

Hence why Broadcaster/Cable Networks have limited the number of shows and episodes that appear online and in many cases run episodes online days after airing on TV, and may end up protecting shows online behind a walled-garden.

We estimate national/local station Broadcaster and Cable Networks, led by CBS, Disney/ABC, NBC Universal, News Corp., Time Warner/AOL, Viacom, US online TV advertising (we have not included non-TV related) revenues represented 2.4% ($1.63 billion) of US Broadcast/Cable Network TV advertising revenue in 2008 and forecast 4.6% ($3.23 billion) in 2011.

We estimate the 2008 US online advertising market at $25 billion (14% growth over 2007), and forecast $27.8 billion for 2009 (we have broken out the online ad market in the Report).

Based on the full-episode TV shows that Broadcasters' ABC, CBS, NBC, Fox, as well as Cable Networks (including from A&E, Discovery, Disney, NBC Universal, Scripps, Time Warner, Viacom) made available online in 2008, we estimate that on average 15% of the weekly TV viewing audience **also** watched **a** full-episode at a Broadcaster **or** Cable Network **or** one of their distribution partner's websites. We forecast 19% for 2009, 22% for 2010, and 24% for 2011.

ABC & NBC were 2008's Broadcast online full-episode viewing leaders. Cable Networks from Disney, NBC Universal, Scripps, Time Warner, Viacom led 2008 Cable Network online full-episode viewing.

Bypassing cable, satellite, and telco TV access providers, and selling directly to the consumer has not seen much traction due to the expense & limited value proposition, and more recently the rise of online Broadcast/Cable TV shows available for free.

We estimate iTunes in the US saw $180 million in TV download revenue in 2008 (up 20% from 2007). Whereas in 2008 the cable, satellite, and telco TV access providers saw $80 billion in TV revenue with the average TV subscriber home paying $68/month and watching 240 hours of TV, equating to $.27/hour as compared to on average $2 ($3 for high-def) per episode from iTunes.

By the end of 2011, we forecast 50% of US TV subscribers will have a DVR, up from 31% at year-end 2008. Given the option of watching TV and skipping ads, and watching online video with ads we believe the majority of consumers will choose TV and the DVR. Bottom line the DVR will limit full-episode viewing (as will to a lesser extent free Cable/Telco TV VOD).

2008 saw 1.5 million TV subscribers added down from 2 million in 2007. We forecast that 2009 and 2010 will each see on average 2.1 million TV subscribers added- despite the economic climate- due to the digital TV transition.

As for the US DVD/Video Sales and Rental Market:

US sales of Movie/TV DVDs, the Studios' high-margin profit center, are seeing minimal impact from paid Online (mainly iTunes) downloads, which we estimate represented in 2008 a 3% share of the $15 billion US Sales market (we forecast a 7% share for 2011).

US DVD sales are not only being hurt by the recession, lag on Blu-Ray adoption but also the rise of alternative Rental DVD channels.

We estimate in 2008, Stores represented 69%, Mail (Blockbuster & Netflix) 24%, Kiosks 6%, and Online 1% of the $7.6 billion US Movie/TV Rental market. We forecast Stores will represent 47%, Mail (Blockbuster & Netflix) 31%, Kiosks (does not include Blockbuster) 17%, and Online (does not include Netflix) 5% of 2011 US Movie/TV Rental market revenue.

Mail and Kiosk growth is being driven, in contrast to Online and Store, by their lower prices; as well in the case of Mail, convenience and vast library, and in the case of Kiosk, proliferation of kiosks.

A key competitor to Rental is Cable/Telco VOD, which continues to experience robust revenue growth. Release windows for VOD from the Studios continue to shrink, VOD libraries continue to grow, and as of 2008 both Comcast and Time Warner Cable have been providing a number of new movies in the day & date Store window.