

## **Cable TV Operators Broaden the Reach of VOD**

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### **Report Summary- by Mike Paxton - June 2003**

North American cable TV operators are rapidly increasing the availability of Video-on-Demand (VOD) services, while at the same time experimenting with different ways of packaging and promoting the service. As of mid-2003, approximately 40% of all US cable TV systems were offering VOD, and almost 4 million cable TV subscribers were regularly using the service to watch movies, packaged premium programming, and even “free” shows and events.

Even as the cost of provisioning VOD is decreasing, there is still concern about the best way to monetize the service. The current “Cost-per-Stream” for VOD services has dropped to under \$400, but a few operators remain concerned that the economics of provisioning VOD services are still unfavorable. However, most cable operators are less concerned about VOD costs, and are busy positioning the service as a key service differentiator highlighting the advantages of digital cable TV services in comparison to satellite TV services.

From the perspective of potential VOD users, a recent In-Stat/MDR survey showed that cable-based VOD services enjoy a high level of consumer awareness: 70% of surveyed households were familiar with VOD. The survey also showed that the percentage of cable subscribers who had paid for VOD services, the so-called “take rate,” was right at 10%. This percentage indicates that VOD service will probably remain somewhat of a “niche” service for cable operators in terms of total users and revenues generated.

Other key findings of the report include:

- VOD services are still a North American phenomenon. Outside of the US and Canada, there are virtually no cable operators offering VOD.
- The existing market for home video “playback” products and services, which consists of products like VCRs, DVD players, and even Personal Video Recorders (PVRs), continues to pose a competitive challenge to the growth of cable-based VOD services.
- Worldwide cable VOD subscribers are projected to increase from 4.7 million at the end of 2003, to almost 14 million in 2007.
- Worldwide VOD subscriber revenues are forecasted to reach \$350 million at the end of 2003, and increase to over \$1 billion by 2007.

## Consumer VOD Survey: Selected Results

This section provides selected information based on an In-Stat/MDR survey that was conducted in June 2003. The on-line survey was conducted using a consumer contact database from Reed Business Information. The initial survey sample size (n) was 1,358 households. All of the respondents are from North America: 95% were U.S. households, and the remainder were Canadian.

Of the 1,358 households surveyed, 983 (72%) were current cable TV subscribers.

### Which Company Provides Your Cable TV Service?

We asked each of the cable TV subscribers in the survey (n = 983) which company provided their cable TV services. Table 1 shows that Comcast was the service provider for just over 35% of the survey respondents, although this is not a big surprise since Comcast is North America's largest cable TV operator with over 21 million customers. Time Warner Cable finished second, followed by Charter Communications, Adelphia, and Cox Communications.

Companies like Shaw Communications, Rogers Communications, and Videotron represent Canadian cable TV operators. In addition, some respondents receive their cable service from overbuilders, such as WideOpenWest and RCN.

**Table 1. Which Company Provides Your Cable TV Service?**

<b>Comcast</b>	347	35.3%
<b>Time Warner Cable</b>	168	17.1%
<b>Charter Communications</b>	91	9.3%
<b>Adelphia</b>	80	8.1%
<b>Cox Communications</b>	68	6.9%
<b>Cablevision Systems</b>	47	4.8%
<b>Shaw Communications</b>	21	2.1%
<b>Insight Communications</b>	19	1.9%
<b>Rogers Communications</b>	19	1.9%
<b>Mediacom</b>	18	1.8%
<b>Videotron</b>	10	1.0%
<b>CableOne</b>	8	0.8%
<b>WideOpenWest</b>	7	0.7%
<b>Advance/Newhouse</b>	6	0.6%
<b>Armstrong Group</b>	6	0.6%
<b>RCN</b>	6	0.6%
<b>Cogeco</b>	5	0.5%
<b>Other</b>	57	5.8%
<b>Total</b>	<b>983</b>	<b>100.0%</b>

Source: In-Stat/MDR, 6/03

## Does Your Cable TV Operator Offer VOD Services?

Table 2 shows that out of the 983 cable subscribers in the survey, almost 39% responded that their cable operators were currently offering VOD services. However, what's notable about this question is that almost half of the respondents were not sure if their cable operator was offering VOD. While it is likely that most of these respondents' cable operators were not offering VOD, it also underlines a marketing problem faced by many cable operators: their subscribers are not really sure what services they really offer.

**Table 2. Does Your Cable TV Operator Offer VOD Services?**

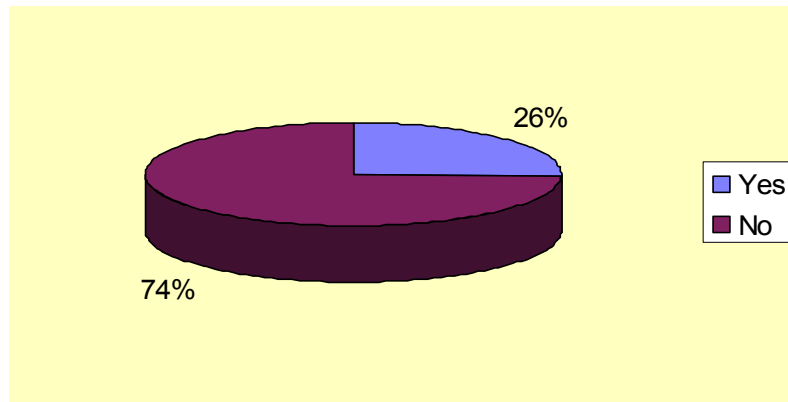
Yes	380	38.7%
No	117	11.9%
Don't know	486	49.4%
<b>Total</b>	<b>983</b>	<b>100.0%</b>

Source: In-Stat/MDR, 6/03

## Have You Ever Purchased Any VOD Programming Offered by Your Cable Operator?

The next question focused on the respondents who stated that their cable operators were offering VOD services (n = 380). We specifically asked them if they had ever paid for any VOD programming, and 26% answered yes. If we extrapolate this number to include the total number of cable TV subscribers in the survey, we can see that 97 out of 983 cable TV subscribers have purchased some type of VOD programming. This 10% "take-rate" is consistent with most other anecdotal industry estimates of VOD usage, which generally range anywhere from 8% to 20% of total cable subscribers.

**Figure 1. Have You Ever Purchased Any VOD Programming?**



Source: In-Stat/MDR, 6/03