

December 5, 2005

Looking for the Proceeds in TV-on-Demand

By RICHARD SIKLOS

For five decades or so, the television industry's main mission has been to come up with hit programs, get them on screens, and hope people will stop and watch. Now, that is just the starting point.

As an era of ordering TV shows at the push of a button gets underway, new challenges are clouding the landscape in the year ahead: What business models are going to work and who is going to get paid what?

These questions loom behind attention-grabbing announcements in recent weeks from some of the biggest TV networks, cable operators, satellite companies, gadget-makers and Internet players, including [Apple](#), [Disney](#), NBC Universal and [Comcast](#), offering what is expected to be the first of many new video-on-demand and downloading services.

"The video segment of the content industry is trying to be out ahead and not have happen to them what happened in the music industry," said Saul Berman, a partner specializing in media with [I.B.M.](#) Consulting, referring to the widespread illegal downloading of music in the absence of appealing legal ways to buy online music.

But the road to video convergence is crowded with convoluted business relationships and potential conflicts. Behind the press releases, a major power struggle is unfolding among a wide group of stakeholders - from studios to satellite operators to manufacturers of consumer products - as new ventures are being devised for the digital age.

"We've taken a couple of steps forward, but there really isn't a clear business model yet," said David Zaslav, the president of NBC Universal Cable.

One issue is whether consumers ought to pay for their shows individually or whether on-demand access should be a free component of a subscription to video services provided by cable or satellite operators or newer competitors like Internet or telecom companies. Another is whether the shows will be sold for viewing during a set time period, or will be permanent so that consumers can collect them like DVD's. And, not surprisingly, a big point of contention is how the revenue generated by these new services is shared. As a result, only a handful of the most popular shows on television are available on-demand so far.

Mr. Zaslav and other industry executives and analysts said progress was slow because of the longstanding and often convoluted relationships that exist among the companies that create content, the networks that package and market it, and the distributors who deliver it into households, which can sometimes all be tentacles of the same conglomerate. The [News Corporation](#), for example, owns the Fox TV network and production studio and also controls DirecTV.

Also, the broadcast TV networks that reach the biggest audiences and have relied on advertising as their sole source of revenue have had to run on two parallel and seemingly conflicting tracks.

First, they've had to explore new revenue models as [TiVo](#) and similar digital video recorders threaten conventional advertising by allowing viewers to fast-forward through commercials on the shows they record. At the same time, they've had to ensure that marketers and especially the network affiliates that own the majority of the big networks' local stations around the country are not alienated by these new ventures. For example, making a popular show available on demand via cable or the Internet within hours of its

airing may lead fewer viewers to tune in during its scheduled time slot. That, in turn, would mean reduced advertising revenue and hamper the ability of the local affiliates to promote other shows in their lineup.

Because of this, CBS, for one, will begin offering reruns in January of hit shows like "CSI: Crime Scene Investigation" for 99 cents an episode, but only in markets where Comcast offers cable service and CBS owns the local TV affiliate. And, like NBC and ABC, CBS is so far only offering programming that it owns a large piece of and has the right to rebroadcast. Notably, the CBS partnership with Comcast only runs until the end of August 2006, an unusually brief period for such an arrangement.

Until recently, Comcast, the nation's largest cable company, has made free video-on-demand products a cornerstone of its strategy to convert more of its customers to its digital service. CBS was already allowing Comcast to offer programs like its CBS Evening News free on Comcast's video-on-demand service. But Comcast, faced with the prospect of NBC's deal to show selected programs on DirecTV for 99 cents a show, acceded to CBS's insistence that it be paid directly.

"There was no way we were going to do this for free," Leslie Moonves, the chairman of CBS, said in an interview when the deal was announced last month.

Josh Bernoff, an analyst at [Forrester Research](#), a technology and market research company based in Cambridge, Mass., predicts TV shows available by video-on-demand will eventually be free, and that new interactive business models for advertising on demand will help pay the freight. For instance, he believes broadcasters will adopt "click though" pricing models similar to the fast-growing Internet advertising on portals like [Google](#) and [Yahoo](#). Under that scenario, the network would be paid each time a viewer clicked on an ad or perhaps an icon super-imposed on the screen that paused the show they were watching and took them to a longer commercial.

Cable operators including Comcast, Cox Communications and [Charter Communications](#) have already made long-form advertising such as sponsored musical performances and infomercials part of what they offer on free video-on-demand. TiVo - a service for which subscribers pay a monthly fee to access - offers so-called showcases to advertisers. These showcases encourage customers to check out long-form advertisements and special promotions when they are browsing through a cable company's listing of TV shows, for example.

Mutual accusations of greediness are nothing new among the various players in the television ecosystem, but the newest technologies have intensified those accusations.

Broadcasters like CBS and NBC will continue to push either to be paid directly or to be compensated in some other way for what they see as their part in helping companies like Comcast or DirecTV put their digital boxes in more homes.

"If we're putting our best content on the digital platform - and if that content excites viewers and therefore increases the number of people that want to keep that box in their home - then we should get a piece of that value," Mr. Zaslav said.

Distributors such as cable companies, however, argue that they have invested tens of billions of dollars in the technology to make these services possible and the networks are already being fairly compensated under existing relationships.

Despite the pressure it is under from digital video recorders and the spread of video on the Internet, television supported by advertising is "a successful model that everybody understands," said Jeffrey M. Bewkes, who oversees [Time Warner's](#) entertainment businesses, which includes the Turner cable networks, HBO and the Warner Brothers studio.

Mr. Bewkes has been championing StartOver, a service developed by Time Warner Cable as an alternative to video-on-demand and digital video recorders. StartOver was introduced in a small test market in South Carolina several weeks ago.

StartOver offers digital cable subscribers a free restart button if they join a program in progress, with about 60 broadcast and cable networks participating in the venture. While the utility of the service is initially quite limited, Mr. Bewkes and Time Warner hope over time to be able to persuade the networks and their nervous affiliates to continue to extend the window when people could restart programs they have missed by hours and possibly days.

While this may sound exactly like video-on-demand, the difference is that StartOver viewers can pause a show, but not fast-forward past the advertising. It is far from clear that such a service would gain acceptance in households where people with digital video recorders are already zipping through ads. In Time Warner's case, Mr. Bewkes says that because the company has content, networks, the nation's second largest cable company and online heft through its America Online division, it need not pick sides in the shakeout over new digital business models.

However, he is skeptical of a future without TV networks as a platform to introduce programs, build loyalty or direct viewers to affiliate programming like local newscasts. "Nobody's got a crystal ball here," he said. "But I'm not sure we're ready to throw out 30 years of television industry economics."

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Analysis

This article surveys the implication of the recent announcements by TV broadcast networks, cable/telcom operators, satellite companies, and consumer entertainment product manufactures regarding the future of TV-on-demand and video downloading services. The main motivation behind this is to prevent the scenario happening in the music industry. Video-on-demand is particularly appealing to both consumers and suppliers. The consumers appreciate have a choice over the content and the personalization. The suppliers know that personalization will make their content more valuable to the user who is now more likely to purchase it. Traditionally, the strategic challenge had been to come up with programs that people will watch. By offering personalization though video-on-demand, this is no longer a problem. However, as was illustrated in the music industry, it will be difficult to devise a profitable and sustainable business model to pre-empt widespread illegal downloading.

A major challenge is getting all the players to agree. With digital video content becoming increasing popular and available over the internet, traditional broadcast and cable networks are scrambling to adapt. This video convergence underscores the complexities when multiple companies are involved ranging from content creators and packagers to marketers and distributors. Vertical integration is difficult since there are so many components involved, and the interests of these companies are often at odds.

The pricing model will be a crucial component in any video-on-demand business model. It is unclear whether the consumer will pay for on-demand videos individually or that on-demand videos should be free as part of a subscription to the content provider (i.e., cable/telcom company). The pay per video is appealing as it is reminiscent of the simple and successful iTunes model of 99 cents/song. An additional issue is the duration that the content would be available. Unlike traditional DVDs which are physical entities, digital media has no "shelf-life". Content providers can make their content only during set time periods instead of permanently like the DVD in stores. Interestingly, by controlling access to the supply, the content providers can implicitly control the value of the show and hence the price that consumers are willing to pay. Regardless of the pricing structure, a revenue sharing model still needs to be negotiated. Given the number of players from video creation to distribution, this will be a difficult task.

The role of advertising as a source of revenue also needs to be reevaluated since competitors such as TiVo and digital video recorders allow users to fast forward or skip commercials. There are also potential secondary network effects on advertising revenue. Not only can ads can be skipped, making the video content available on demand means that fewer viewers will tune in to view the actual broadcast. This will affect how much advertisers are willing to pay. As suggested in the article, perhaps a revenue model based on click-through advertising (like search engines) is more feasible. This is appealing since it couples the videos that consumers pay for with personalized advertising. Long-form advertising displayed while browsing through show listings (think interactive tv guide) would be one example.