From Analog to Digital: Technological Redeployment in the US Cable Industry and its Competitive Implications

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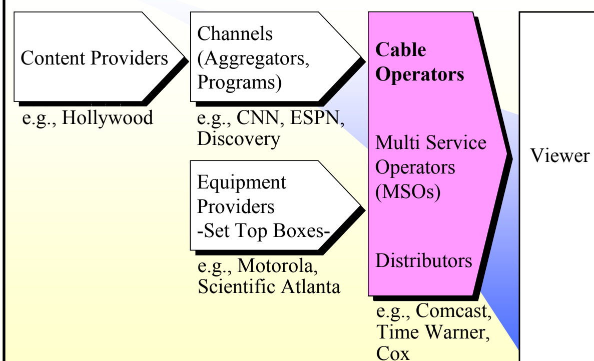
Agenda

- US Cable Industry
- Competitive Situation for Cable Operators
  - ➢ Market for Content Services
  - ➢ Market for Information Services
- Technology Driven Business Model Changes
- Outlook

US Cable Industry (2006)

- Multiple System Operators (MSOs)
  - ➢ Top 4 MSOs control nearly 75% of 65.6 mill. subscribers
  - ➢ MSOs have attracted 31 mill. customers of total 65.6 mill. to digital cable
- Cable Industry Challenges
  - ➢ Attempts to profit from technological upgrade from analog to digital
  - ➢ Increased competition as content provider
  - ➢ Increased competition as information and communication service provider

Value Chain -Video Content Services



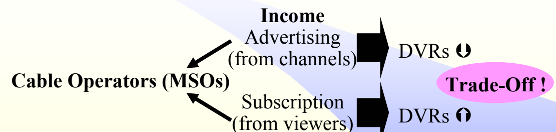
DVR Features and Drivers

- Cross-promotion & lead-ins ➲ Questionable
- Role of prime time and concept of live shows ➲ Minimized
- 'Call-in' model ➲ Not feasible
- Channel surfing ➲ Reduced
- Exposure to commercials ➲ Reduced

- Different forms of advertising (e.g., promotions within programs)
- Replay figures replacing Nielsen Data
- More accurate information about viewers

DVR Impacts on Value Chain

- DVRs: Business model - Trade off required !



- On-demand sales ⇔ DVRs - Not both !
- DVDs (and their exchange platforms) ⇔ DVRs

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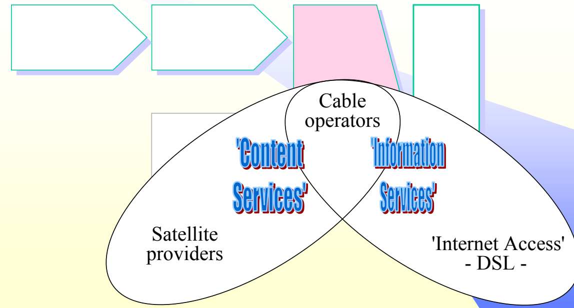
Infrastructure Competition



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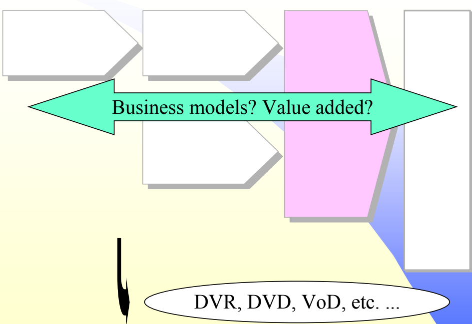
Innovative End-User Devices



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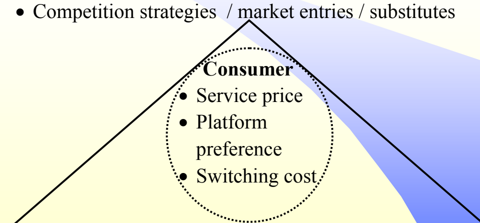
Drivers of Infrastructure Competition

Market Situation / Industry Structure

- Status quo - Installed platforms
- Competition strategies / market entries / substitutes



Technology

- New services and business models
- Cost of 'upgrade'

Regulation

- Status quo
- Trend re. facility-based competition

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Information Services – Cable versus DSL (Sept. 2007)

	Dig. cable	DSL
Market- / Industry-structure	• 31.4 mill. subscribers	• 4 big ILECs* > 25.4 mill. subscribers (92% mark. share) • Higher concentration
Regulation		• Access regulations ('Open access rules') • '1996 Telecommunication Act': Deregulation until 1999 • '2003 Triannual Review': Permission for services bundle
Techno-logy	• Investments > US $1,000 per cable customer	• Cost of 'Last Mile' as doubtful economic calculation

* Incumbent Local Exchange Carriers

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Technology Factors as Transformation Drivers

- Innovative storage devices
  - ➢ DVDs
    - Additional content
    - Higher quality picture
    - Possibly reducing demand for on-demand movies
  - ➢ DVRs
    - Possibly reducing advertising viewed
    - Viewing time independent of broadcasting time
- Broadband connectivity to home ➲ Video distribution over Internet
    - Competition with television-based video programming
    - Reach viewers in other countries

Technology Driven Business Model Changes - Content Provider Strategies -

- Prime time less important
- Prices for advertising to fall due to lower viewership
- Product placements to be placed in programs themselves
- Technology to leverage basic viewer information into greater precision for targeted advertisements
- Changing metrics to accommodate DVRs
- DVR viewing patterns supplementing Nielsen ratings

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Technology Driven Business Model Changes - Industry Structure and Value Chain -

- Substitutability of distribution technologies
  - ➢ Broadcast, cable, and satellite for video delivery
  - ➢ Broadcasters losing their competitive advantage in reaching national audiences
- DVRs reduce already low 'on-demand' sales
  - ➢ No additional charges compared to on-demand video
  - ➢ Faster response as content is locally stored
- Digitalization of content facilitating Internet-based distribution

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Outlook

- Video Content Services
  - ➲ US: Large cable incumbents challenged by small, but promising satellite broadcasters
- Information Services
  - ➲ US: New entry cable players as serious threat to ILECs
- Competitive situation in both markets heavily depending on 'Industry Structure' & 'Regulation'
- DVRs and Internet-based distribution jeopardizing cable industry's business model of subscription fees and advertising income
- Revenue split among advertisers, channels, content distributors and Hollywood studios to be reassessed

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…. Questions, Comments, Complaints ?

Thanks for your attention !

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