

# PwC Defines “Big Bets” For U.S. Cable TV Industry

## At NATPE

by PETER WINKLER of PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers (PwC) is pleased to be teaming up with our colleagues at the law firm Lord, Bissell & Brook LLP to sponsor the NATPE 2005 Conference, January 25-27 in Las Vegas. PwC's Entertainment & Media Practice has enjoyed a fruitful association with NATPE, whose annual conference provides one of the entertainment and media industry's top platforms for exploring market-shaping technologies and trends. NATPE 2005 will be the launchpad for our new white paper, *Big Bets for the U.S. Cable Industry - Key Opportunities for Future Revenue Growth*. The paper, authored by PwC's Entertainment & Media Practice and our Global Technology Centre, a think-tank based in San Jose, CA, will be released on Monday, January 24th. All NATPE participants will receive a complimentary copy of the paper in their delegate bags. On Tuesday, January 25th, from 10:30 to 11:30 am, we will host a panel session, “The Road Ahead for the Cable Industry,” where senior executives will discuss the white paper's findings and their views on the future of the industry. For further details on this panel, visit [www.natpe.org](http://www.natpe.org).

Below are highlights from the cable white paper.

As we enter 2005, the U.S. cable television industry is facing significant challenges to revenue growth. Cable operators are faced with fewer new subscribers, rising cost of content from programmers, increasing competition from satellite operators and telecommunications carriers, and mounting resistance to fees by consumers of existing program services. On the cable network side, development costs continue to rise, digital video recorders (DVRs) are threatening the advertising market, and consumer audiences are increasingly fragmented due to the proliferating number of content choices available. Given all these challenges, how will the cable industry boost revenues over the next five years?

PricewaterhouseCoopers' new white paper examines these issues within the context of the cable industry's changing competitive landscape. It incorporates analyses and viewpoints based in part on interviews with senior executives from some of the leading cable operator, cable network and satellite TV companies. It defines the big strategic bets that the industry will and should be making to

ensure that it remains a vibrant and competitive force.

Among our key recommendations for cable operators:

**Manage complexity by focusing on customer service.** Cable operators need to continue to improve and consistently deliver high-quality customer service. This initiative is necessary in order to fully realize the benefits of their investments in an upgraded infrastructure capable of delivering a triple-play bundle (digital video, high-speed data and telephony).

**Focus management and financial resources on the most promising opportunities.** Cable operators should avoid being distracted by new, non-fundamental services that promise less in returns than the solid execution of a sound triple-play strategy. They should focus on the most lucrative prospects and the best differentiators—and deliver on what they promise. For the near term, the focus should be on maintaining their lead in high-speed data and growing telephony businesses. Over the longer term, operators should develop the on-demand platform.

**Develop and communicate the value proposition of on-demand platform.** With deep relationships with both cable networks and consumers, cable operators have a critical and unique role in making the on-demand platform a compelling offering and a success. Operators must develop and communicate the value proposition of the on-demand platform to both consumers and cable networks.

**Anticipate a true telecommunications carrier video threat.** Faced with significant threats to their core voice businesses, incumbent local exchange carriers (ILECs) such as Verizon and SBC are serious about modernizing their networks and entering the video market. Cable operators should anticipate a true video threat from these service providers and, having already made significant investments in network modernization, should aggressively market their broadband access and voice-over-IP (VoIP) services before the ILECs catch up.

**Pursue wireless service to add to the bundle.** The ILECs will use their wireless assets to provide subscribers with

“Big Bets” - continued on page 6



### "Big Bets" - continued from page 2

wireless service as part of the bundle, and they will also create differentiation with deep integration between the wireline and wireless services. Cable operators will need a competitive response. They too should consider collaborating with mobile operators not tied to an ILEC to offer a bundle that incorporates wireline and wireless service.

Among our key recommendations for cable networks:

**Continue to invest in the highest-quality programming content.** Cable networks have the opportunity to establish a distinctive and valuable brand and market reputation by developing and airing high-quality programming appealing to a desirable demographic. In addition to its positive impact on a cable network's brand and market value, the development and popularization of a small number of hit original programs can also have significant downstream benefit in the form of syndication revenues.

**Diversify the advertising stream through unique marketing and sponsorship opportunities associated with programming.** While the rise of DVR technology will not cause irreparable damage to the television advertising marketplace, it has served as a wake-up call to both the networks and the advertising industry. The traditional 30-second TV ad format needs to be refreshed and supplemented by new, more innovative forms of sponsorship and marketing. Broadcast and cable networks, advertising and media buying shops, talent agencies, and corporate marketers have already begun to innovate in this area.

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**Develop strategies for taking advantage of the increasing number of video outlets.** The emergence of the on-demand platform, broadband Internet, mobile Internet, and DVRs has increased the outlets over which consumers consume video content. Networks should understand the unique characteristics of these outlets and develop strategies for capturing the synergies across them.

**Leverage the unique characteristics of the high-speed Internet.** The high-speed Internet has unique characteristics that make it suitable for highly interactive applications such as games. Networks should develop a richer stable of original broadband content that takes full advantage of the high-speed Internet, adding to its appeal as an outlet for exclusive content as well as increased throughput.

**Engage advertisers in the value of targeted advertising via the on-demand platform.** The on-demand platform offers the promise of making advertising more effective, similar to Web-based advertising. Networks and advertisers will have access to more accurate and detailed data on consumer usage that can be leveraged for targeted and effective advertising. Networks need to engage advertisers in developing appropriate advertising mechanisms for the on-demand platform.

For an electronic copy of the complete white paper, *Big Bets for the U.S. Cable Industry - Key Opportunities for Future Revenue Growth*, go to [www.pwc.com/e&m](http://www.pwc.com/e&m).

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## NEWS NOTES

- ♦ Jody Simon and Eileen Horta, co-chairs of the Academy of Television Arts & Sciences' runaway production committee, were recently featured in an article by Libby Slate, "Into The Fray," published in *emmy Magazine's* December 2004 Special Issue: The Global Challenge.  
  
Jody, an entertainment attorney with Lord, Bissell & Brook LLP's Los Angeles office, has more than 20 years of experience working on virtually every type of deal in the entertainment industry. Eileen, a two-time Emmy winner for *Hill Street Blues*, is the supervising sound editor for WB's *Gilmore Girls*. Together, Jody and Eileen are leading the Academy's 13,000 members in an effort to "curb runaway production."
- ♦ The recently enacted American Jobs Creation Act of 2004 (P.L. 108-357) included a benefit that the entertainment industry had long sought to encourage production to stay in the United States. The Act amended the Internal Revenue Code to permit a 100 percent write-off for the cost of certain audio visual works in the year in which the costs are incurred, rather than to be amortized over the expected life of the work. In order to qualify, 75 percent of the total compensation relating to the audio-visual work must be paid for services performed in the United States. The provision applies to productions with budgets up to \$15 million, and only the first 44 episodes of a television series.