

# Digital Transition of U.S. Television

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The Dynamics of the Media and Content Industries

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**INDIANA UNIVERSITY**

## Presentation today

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- ❑ **Part of an ongoing economic study of digital transition in 10 US media industries**
- ❑ **Focus on professionally produced commercial programming**



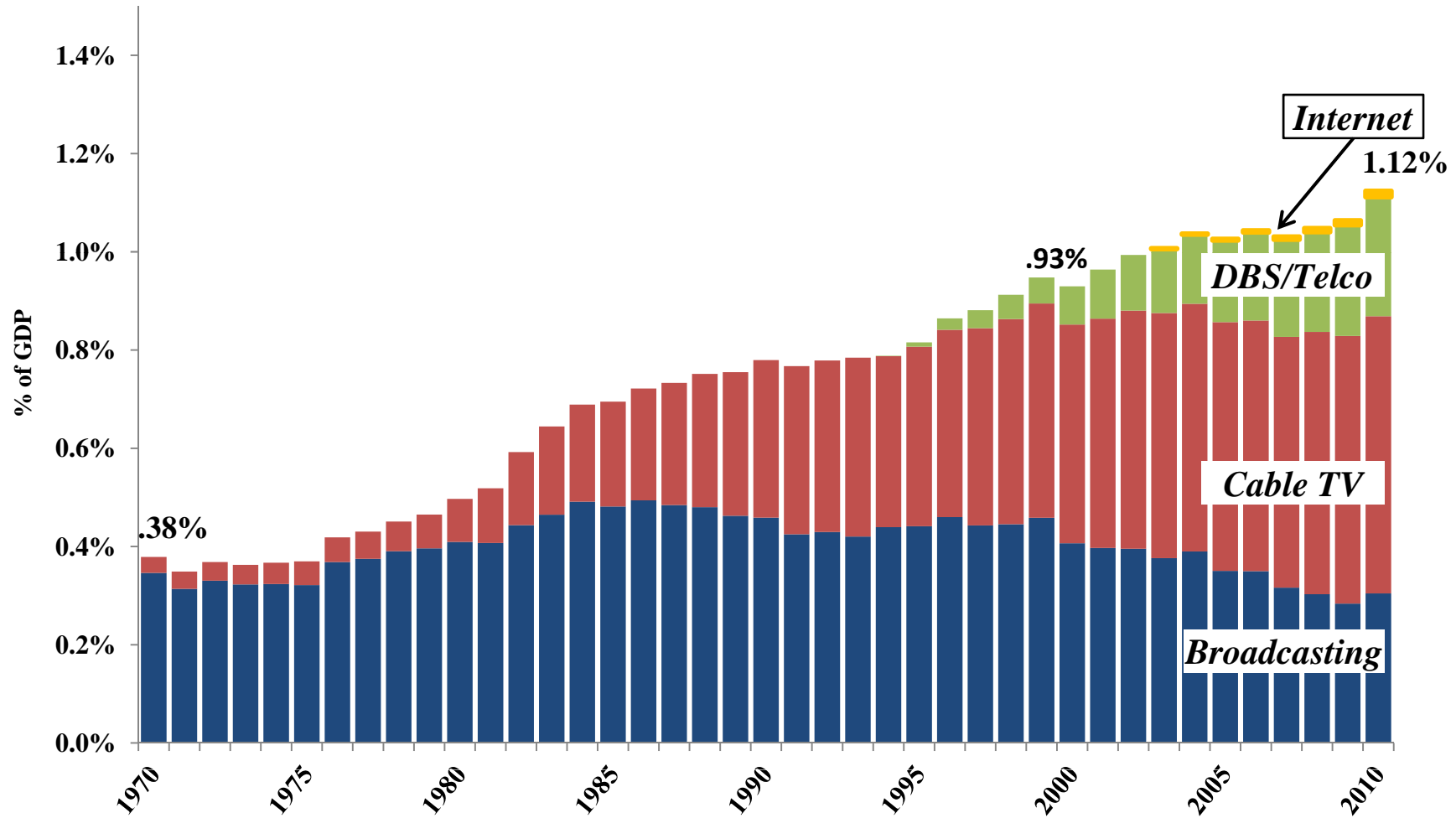
## Overview

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- ❑ **Unlike other U.S. media, standard TV continues to prosper**
  - Reasons: digital/pay TV conversion, even higher viewing
  
- ❑ **Online TV is growing fast, but remains very small**
  - a shift from advertising → direct payment support
  - dominated by content aggregators, raising policy concerns
  
- ❑ **Some comments on the future of U.S. TV**



# Television: Total Revenue by Category, as % of GDP, 1970-2010



Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations  
Preliminary data (Waterman/Ji/Sherman, March, 2012)



## Drivers of standard TV Growth; 2000-2010

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- ❑ **Continuing shift from broadcast to multichannel pay TV**
  - 83% to 88% TV HH penetration
  
- ❑ **Continuing digital diffusion: higher channel capacity**
  - Average of 72 → 137 channels per TV HH
  
- ❑ **Continuing rise in standard TV viewing**
  - 28 to 34 weekly hours per person
  
- ❑ **Low impact of online TV so far.... *More on this in a minute***



## Development of Online Television

2005

- *YouTube* launch; Free broadcast TV programs posted
- *iTunes* offers TV programs for sale (\$1.99)

2007

- Networks give “takedown” orders to YouTube/lawsuits
- Netflix offers streaming video

2008

- *Fox, NBC* launch *hulu.com*
- *CBS* launches *tv.com*

2009

- *ABC* joins *hulu.com*

2010

- *Comcast*, other cable operators launch *TV Everywhere*

2011-12

- *Amazon*, others launch or announce online video services



## Some Major Online TV Program Providers

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Service	Primary Content	Primary Business Model(s)
<b>Comcast Xfinity*</b>	Cable/Broadcast networks/movies	Free to offline cable subscribers/PPV
<b>HBO-Go</b>	HBO-licensed movies & original programming	Free to offline subscribers
<b>Hulu</b>	Broadcast networks (Fox, NBC, ABC...)	Adv/subscription
<b>Viacom Digital</b>	Viacom cable networks programs (MTV, Comedy Central...)	Adv
<b>Netflix</b>	Broadcast/cable programs/movies	Subscription (also DVDs by mail)
<b>iTunes</b>	Broadcast/cable programs	PPV
<b>YouTube</b>	Funded “channels” of niche programming	Adv

\*Similar services offered by other leading cable operators



## Reasons for Low Impact of Online TV

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- ❑ **Good copyright protection**
  
- ❑ **All online video viewing only 1.9% of standard TV viewing in 2011**
  - average of 38 minutes vs. 34 hours per week
  - top 20% of online video viewers watched 2 hrs. 25 minutes per week (but also watched 31 hrs. standard TV)





# The economics of online TV

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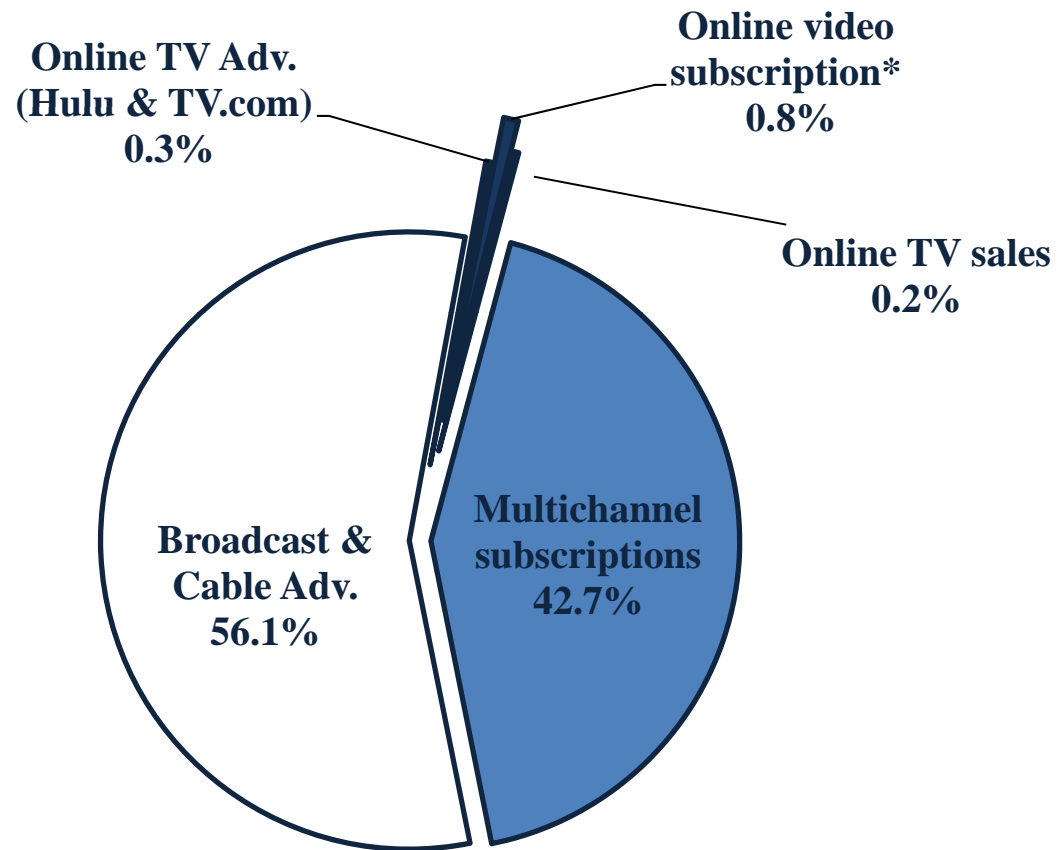
**Business model developments**

**Role of content aggregation**



# National U.S. Television Industry Revenues by Source 2010

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**Total: \$130.2 bil.**

\* Subscriptions include movies

Sources: trade associations; industry analysts; 10-K reports; SNL Kagan; authors' estimation



# The economics of online TV

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## Business model developments

- So far, direct payment models lead

## Role of content aggregation



## The economics of online TV

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### Business model developments

- So far, direct pay models dominate
- Lower online revenue may mean lower cost

### Role of content aggregation



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## The economics of online TV

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### ❑ Business model developments

- So far, direct payment models dominate
- Lower online revenue may mean lower cost

### ❑ Role of content aggregation

- Aggregators dominate online video
- Compelling economics of aggregation
- A winner-take all market? → antitrust issues



*Comments on the future of U.S. TV*





## Standard TV delivery

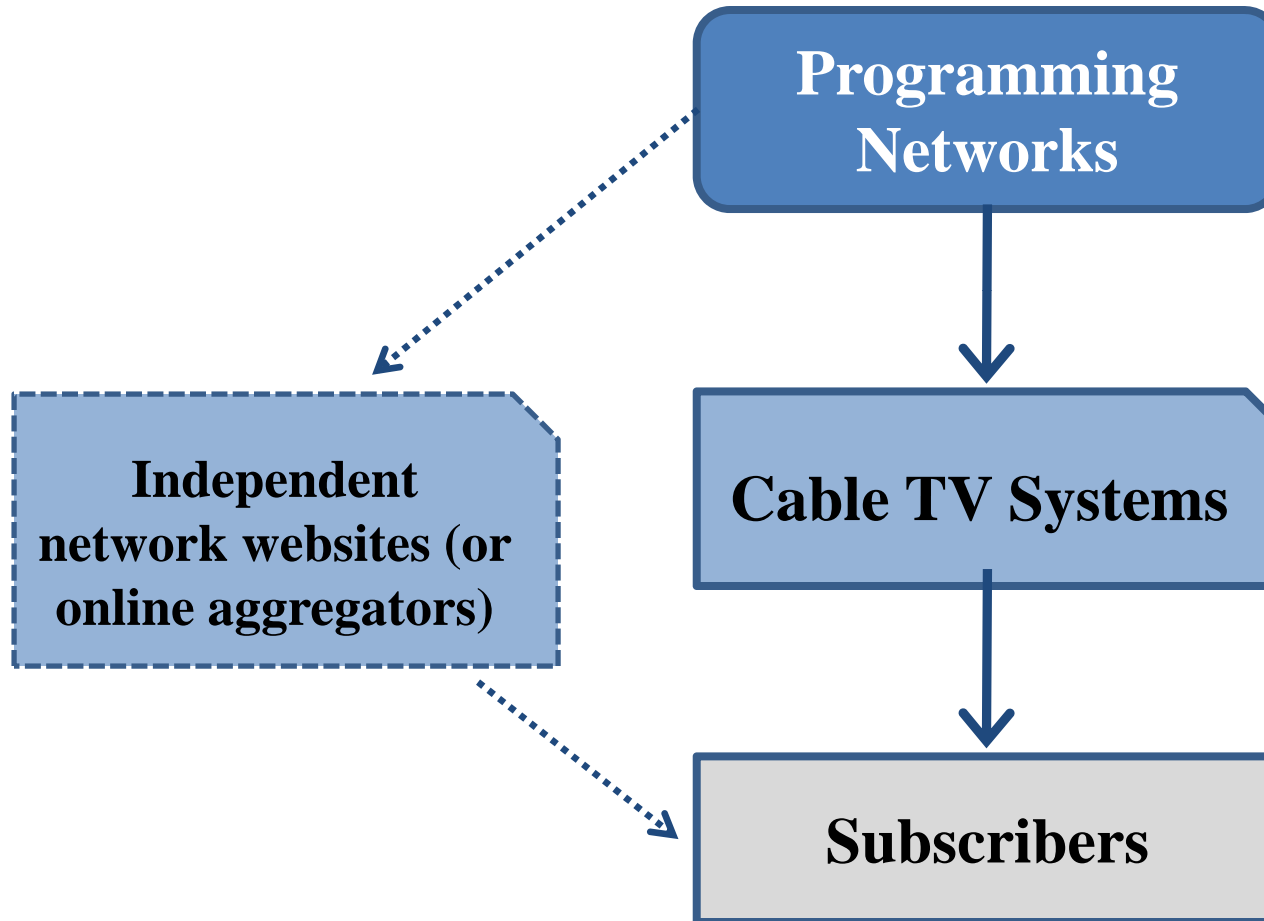
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- ❑ **Broadcast technology will be less and less relevant**
- ❑ **Cable, DBS, other multi-channel systems are very efficient technologies, but...**
  - they are themselves offline programming aggregators
  - IPTV can potentially disaggregate them (like newspapers)



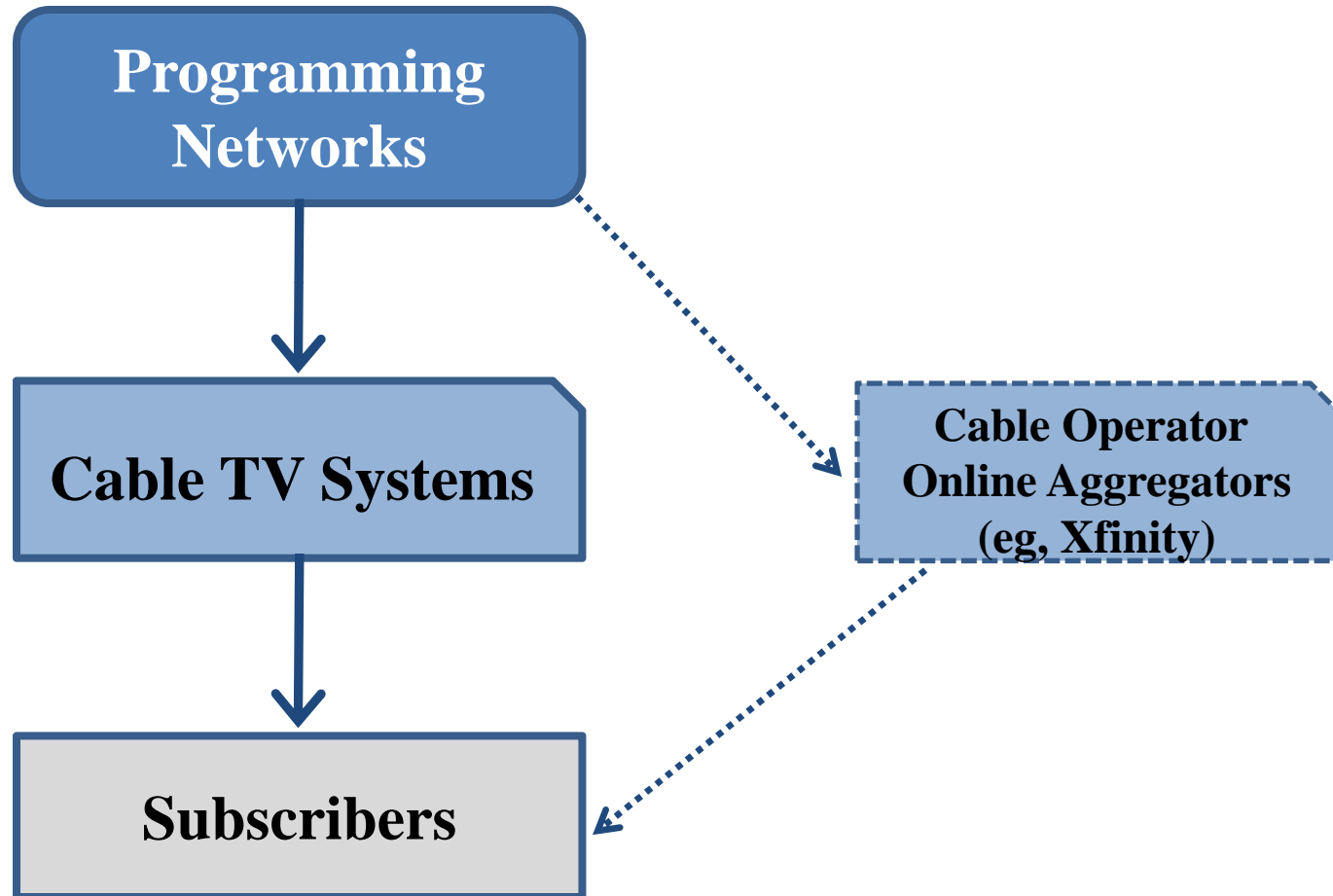
# Potential Cable TV Disaggregation

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# *TV Everywhere* TV Business Model

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# The future for online TV/video

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## □ Healthy industry growth depends on.....

- low costs of distribution
- successful business models → \$ for investment
- Government policy → easy market entry

*These factors will determine the quality and variety of programming– especially Internet-original programming. There is not much investment now.*



*The end*

