Maximizing Pay-Per-View Revenue

By Thomas H. Carroux

The launch of digital cable systems throughout the United States is significantly increasing the mumber of channels available to subscribers. Cable operators such as Buford Television, Clinton Cable, and Summit Cablevision are upgrading their analog networks and are now offering up to 12 digital channels in the bandwidth previously used by one analog channel.

Some of these new digital channels are being programmed with an expanded pay-per-view service that offers subscribers more movies at more frequent start times. Intermedia Partners found that systems offering 30 digital PPV channels generate three times the buy rates generated by systems with five or six analog PPV channels.

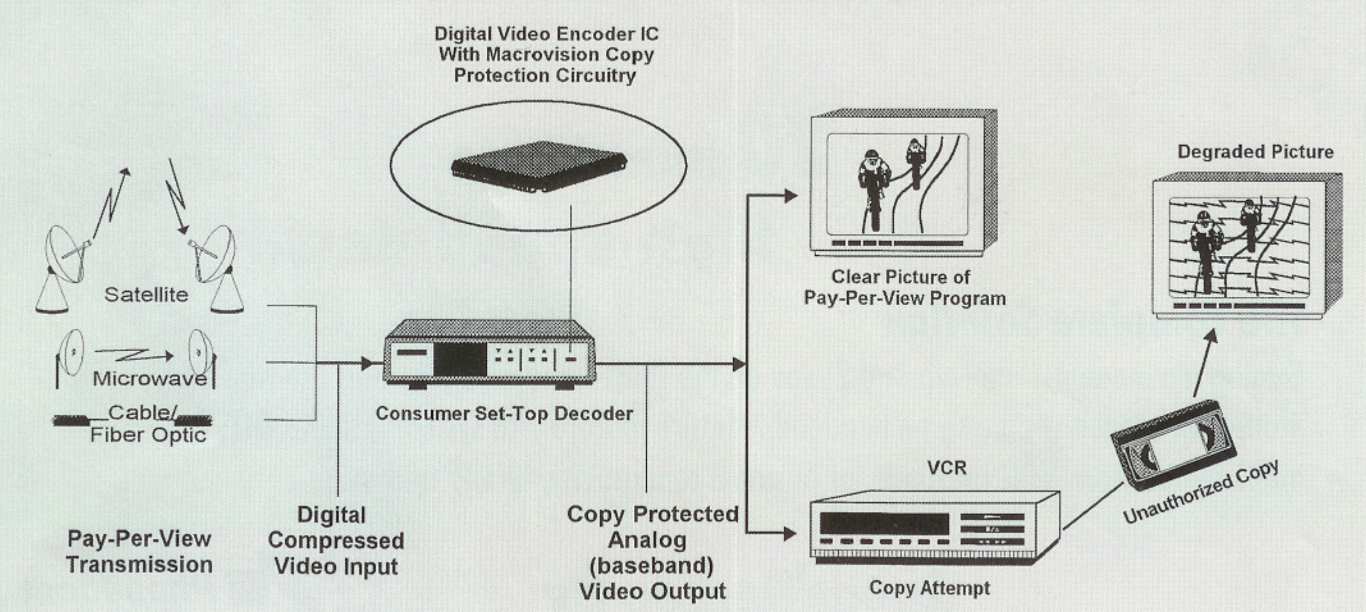
Another approach to increasing the revenue potential of PPV is to use technology already incorporated within the digital set-top to prevent consumers from recording videocassette copies of programs. These copies cut into repeat PPV buys from the same household and cannibalize potential new PPV buys from neighbors and friends.

According to a '96 Chilton study, 24.6 percent of PPV buyers tape programs. Such unauthorized taping translates into a significant amount of displaced revenue each year. In the PPV industry, revenues generated through consumer PPV purchases are shared between the cable operator and the movie studio. Each unauthorized copy can potentially deprive both the operator and the studio of another transaction. If a cable system has 75,000 subscribers and each subscriber makes three copies of a $3.00 PPV movie and just one of those copies displaces another PPV buy, $225,000 in gross revenue will have been lost.

COPY PROTECTED

Copy protection technology does not exist in analog cable systems. Simply put, copy protection technology is a tool that cable operators can use to increase the return on their investment in digital hardware. Both TCI and Time Warner Cable specify copy protection as a feature within their digital set top decoders. Virtually

How PPV Copy Protection Works



every major digital set-top manufacturer, including General Instrument and Scientific-Atlanta, offer copy protection-capable digital set tops.

Nonetheless, some cable operators offering digital pay-per-view channels find it difficult to deprive a subscriber of a hitherto "free" benefit and accuse the movie studios of creating unnecessary demands. The obvious question, however, is why should a consumer be able to see a great movie or a high profile sports event again and again for the price of a blank videocassette.

Consumers already know that they cannot always make copies of programs. All of the Motion Picture Association of America studios have used copy protection technology to protect some or all of their videocassettes and DVDs. Studios such as Columbia Tri-Star, Disney, DreamWorks, Paramount and Polygram copy protect substantially all of the movies they release on videocassette and DVD throughout the United States.

On a fundamental level, cable operators are program distributors, as are retail video stores. Video industry ogranizations such as the Video Software Dealers Association, the National Association of Video Distributors and the Training Media Association endorse the use of copy protection technology. The reason is simple: copy protection helps maximize their rental and sell-through revenue. If a consumer can't copy a videocassette, they either rent it again or buy it for their home video library.

In the home video industry, the losses from casual consumer copying are comparable in size to the losses from professional piracy. Schulman, Ronca and Bucuvalas, Inc. estimated in a 1996 study commissioned by Macrovision that consumer copying deprives the home video industry of $370 million a year. Copying PPV programs is easier than copying another cassette because only one VCR is needed and 84 percent of U.S. households own at least one VCR.

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Unauthorized copying is an issue that impacts all of us in the cable industry. As the number of digital cable networks increase, the value of protecting PPV programming revenue from the cannibalization of unauthorized copying will become increasingly important. □

Independent Cable NEWS

Official Publication of the Small Cable Business Association

October 1998

Local-Into-Local Bills Put Forward As Battle Heats Up

Legislators are under heavy pressure to provide DBS operators with some kind of local-into-local carriage legislation, with broadcasters and cable operators lobbying hard to get at least equitable must carry requirements into any such bill. But Congress and others in Washington still want more effective competition with cable, so the heat is on.

Meanwhile, the White House is urging the FCC to "clarify" the issue immediately under current rules (meaning "find a way not to cut off CBS and Fox signals" which DirecTV customers are about to lose under court order. Commission Chairman William Kennard recently said that the FCC would re-think the issue by early next year.

Senator John McCain (R-AZ) is trying to push through his bill to allow local-into-local immediately, with phased-in must carry requirements taking effect between now and 2002. McCain has already delayed a hearing on his bill, though, since he is looking for a consensus from the warring parties as the key to early passage.

Meanwhile, House subcommittee Chairman Billy Tauzin (R-LA) has drafted a similar bill which would let DBS carry local-into-local without must carry requirements for three years or until they reach 15 percent market penetration. DBS providers would be required to carry at least five local signals immediately however, under Tauzin's approach.

NAB and local broadcasters seem to be fighting an uphill battle on this issue, even though for once they have the cable lobby on their side. Small market stations are particularly concerned, as are smaller, cable operators with limited capacity systems. □

Justice Delays Suit To Negotiate On Primestar Sale

The Justice Department has held up its suit in federal court to halt the sale of Primestar to News Corp. and TCI's United Video Satellite Group. Justice, in a joint filing with Primestar, asked the judge in their case for an extension because the parties were negotiating to resolve the dispute via a consent decree. The judge granted a two-week extension.

This was the first indication that Justice is willing to cut a deal to drop their suit and let the sale go through. If this legal hurdle is cleared, News Corp. and UVSG will still need to come up with the roughly $780 million to buy out the other MSO's 61 percent stake in Primestar.

Structuring an ownership and financing scheme that will satisfy Justice and provide sufficient cash to do the deal is hardly a sure thing, and various other new partners have been mentioned as possible sources of financing which would be acceptable to the Justice Department.

Time Warner, Cox, and MediaOne reportedly want $6 per share in cash for their interests in Primestar, and News Corp. / UVSG have reportedly offered $8 with half in cash and half in notes. If Justice agrees to a deal, the buyers have 30 days to complete the financing under current agreement with the three MSO partners. □

FCC Cable Chief Says No Guarantee On Digital Must Carry

The new chief of the FCC's Cable Television Bureau, Deborah Lathen, recently stated to reporters that broadcasters have no guarantee the cable operators will be required to carry their new digital signals. Her comments echoed those of Commission Chairman William Kennard earlier last month.

Lathen also indicated that the Commission prefers to let the marketplace work out interoperability standards for receivers and settop boxes, while insisting on a smooth transition from analog to digital, and working to foster increased competition among multichannel providers. □

Inside