

Programming for Cable and Satellite

27.410D: The Canadian TV Market in the New Millennium

Mass Communications, Carleton University

March 11, 2003

What is programming?

- **From a cable and satellite perspective, it is the process of selecting, promoting and evaluating programming services and their packaging.**

What is the goal of programming?

- **In the case of cable and satellite companies, the goal of programming is to maximize the number of subscribers and subscriptions to programming packages.**

Agenda

- **The origins of cable**
- **The economics BDU technologies**
- **The dynamics of BDU competition**

Impact of Broadcast Distribution on TV

- **Broadcast Distribution has three main implications for TV:**
 - 1. Eliminates over-the-air interference (ie. Improves picture and audio quality)**
 - 2. Extends the range of conventional TV**
 - 3. Creates the possibility of narrowcasting**

Origins of Cable

- **1948 – certain American towns began to build community antennas**
- **1952 – Montreal and London were the first Canadian cities to be wired for cable TV**
- **1964 – 215,000 (4% of Canadian Homes) subscribed**
- **1952 to 1968 – cable was an ‘unregulated industry’ (no provisions in the Broadcast Act)**
 - **Each cable company emerged as a territorial monopoly**
 - **Cablecos faced significant start-up costs, building head-end’s, trunk lines and cable drops (ie. Last mile)**
 - **Telecos, fearing potential competition, threw obstacles in their path (eg. Denying access to cable, but not hydro, access to telephone poles, or charge exorbitant rates)**
- **1968 – Broadcasting Act was revised.**
 - **Revision created CRTC as well.**
 - **Indirect economic regulation switched to direct cultural regulation**

Framework for CRTC regulation of cable

- **Cable initially threatened cultural nationalist mandated of the CRTC**
 - **Cable introduced foreign (ie. US) signals into Canada and ‘fragmented audiences’**
- **CRTC came to realize that granting cable monopolies allowed them to ‘manage choice’**
- **Four methods of managing choice on cable (see CRTC presentation):**
 - *Linkage* – **tying American services to Canadian services (1 to 1). Doesn’t force them to watch Canadian, but makes Canadian services available.**
 - *Simultaneous cable substitution* – **where an American signal is replaced with a Canadian when broadcasting the same program. This protects advertising for Canadian broadcasters.**
 - *Prohibition* – **forbidding US services from entering Canada. This is choice management. CRTC delivers viewers to music videos to MuchMusic rather than MTV.**
 - *Tiering* – **offering channels in bundles (usually in tandem with linkage). Creates guaranteed revenue to Canadian services if they wish to consume American services.**

Growth of the Industry

- **Growth of Cable coincided with the CRTC:**
 - Penetration of cable is 80-90%
 - Despite low population density, Canada is second most cabled country in the world (satellite is dominate method of distribution outside North America)
 - Cable revenues grew 119% from 1972 to 1984
 - Operating profits for cable are 30-40%
- **By the mid 80s, cable evolved into a mature industry:**
 - Consolidation ensued (ie. Economies of scale)
 - New sources of revenue were sought through new services: specialty services, pay TV, PPV, etc

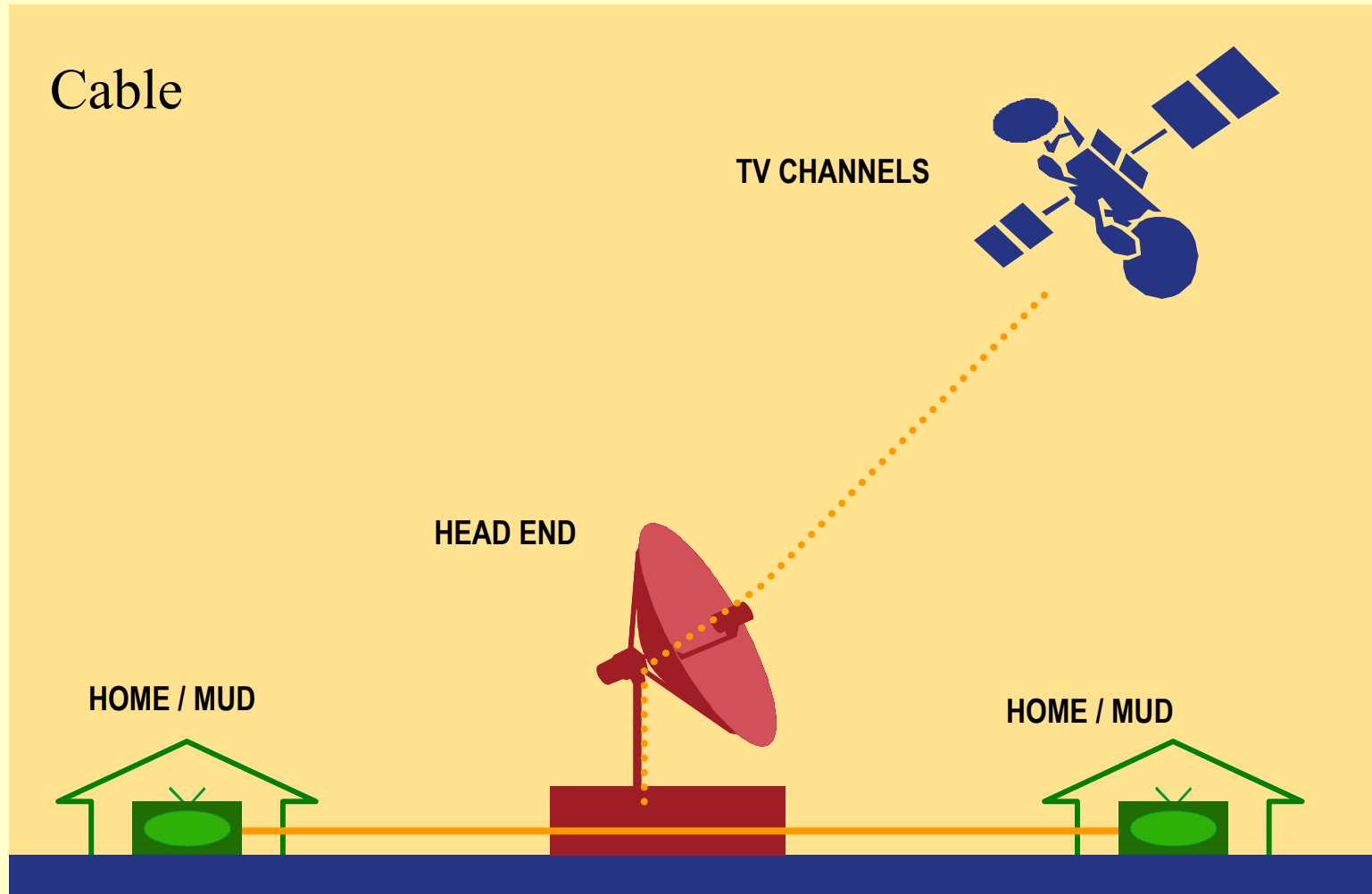
The Impact of Competition

- **DirecTv in the US launched in June 1994**
 - **CRTC promoted using satellites to ‘extend’ TV services to Canadians, but preserve the cable monopoly**
 - **Cable industry denounced DBS as “deathstars”**
- **Competition in Broadcast Distribution threatened by the CRTC and the cablecos**
 - **Teleco and satellite competition threatened their lucrative monopolies**
 - **Competition limits the CRTC’s ability to manage choice. Foreign competition threatens ‘cultural nationalism’.**
- **Pressure from the ‘DBS’ grey market and Competition Bureau eventually forced the CRTC to change cable regulations to permit competition among “Broadcast Distribution Undertakings”**

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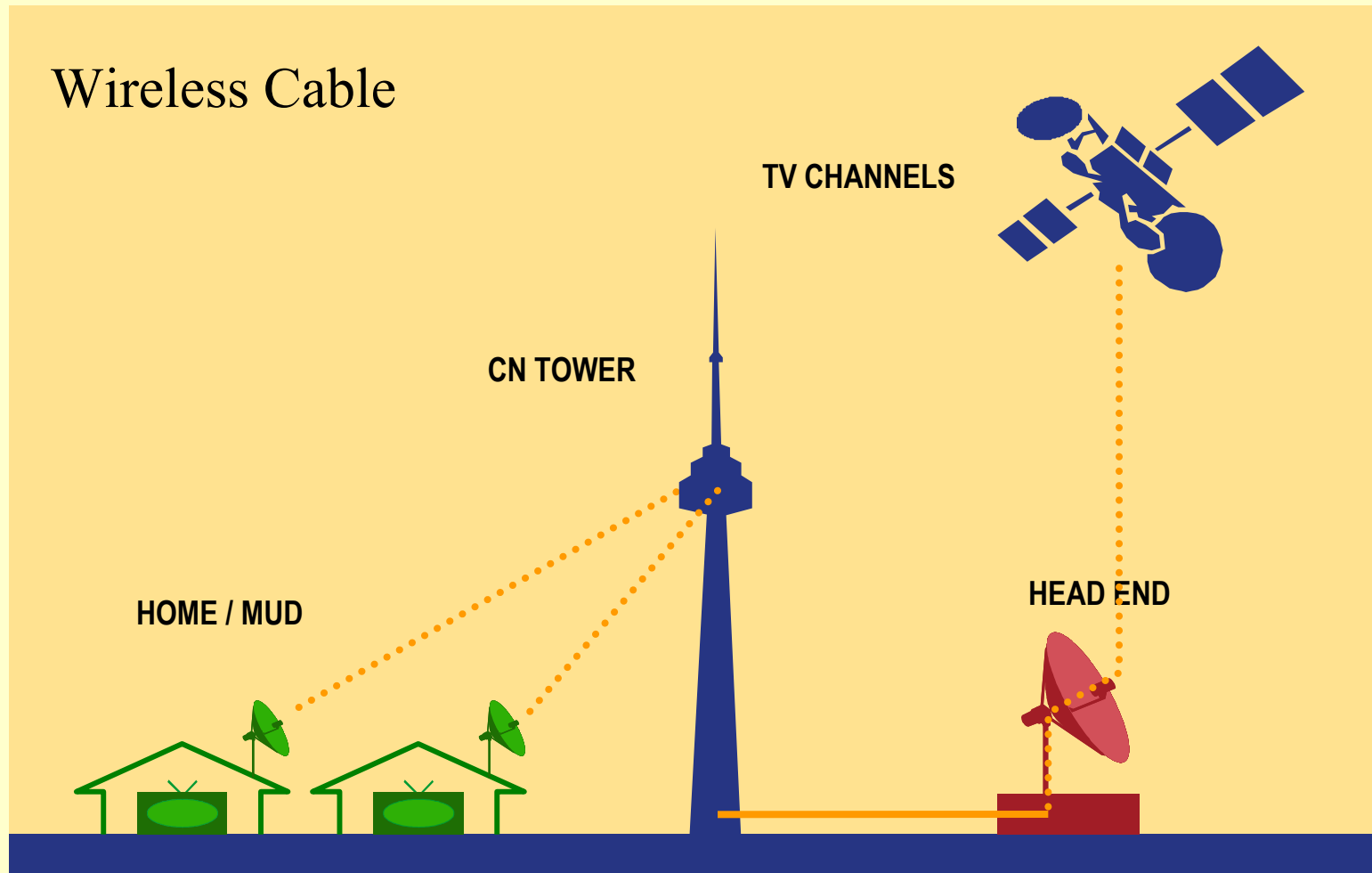
Collection of and distribution of TV signals via cable



Characteristics of cable

- **Cable television channels are offered in ‘tiers’**
 - **Basic tier: includes Over-the-air tv channels (eg. CFTO, CityTV) and some specialty channels (eg. YTV, CBC Newsworld)**
 - **Classic Combo tier: includes established specialty channels (eg. MuchMusic, A&E, Discovery Channel)**
 - **MeTV tier: includes new specialty channels (eg. Comedy, Space, History)**
 - **Premium tier: includes movie channels (eg. TMN) and US superstations (eg. WGN)**
 - **Ethnic channels are offered ‘a la carte’ (ie. each is paid for individually)**
- **Cable specialty tiers don’t require a TV set-top decoder, but the premium tier and ethnic channels require a digital TV set-top decoder**
 - **Over the next few years, cable service will migrate to digital**

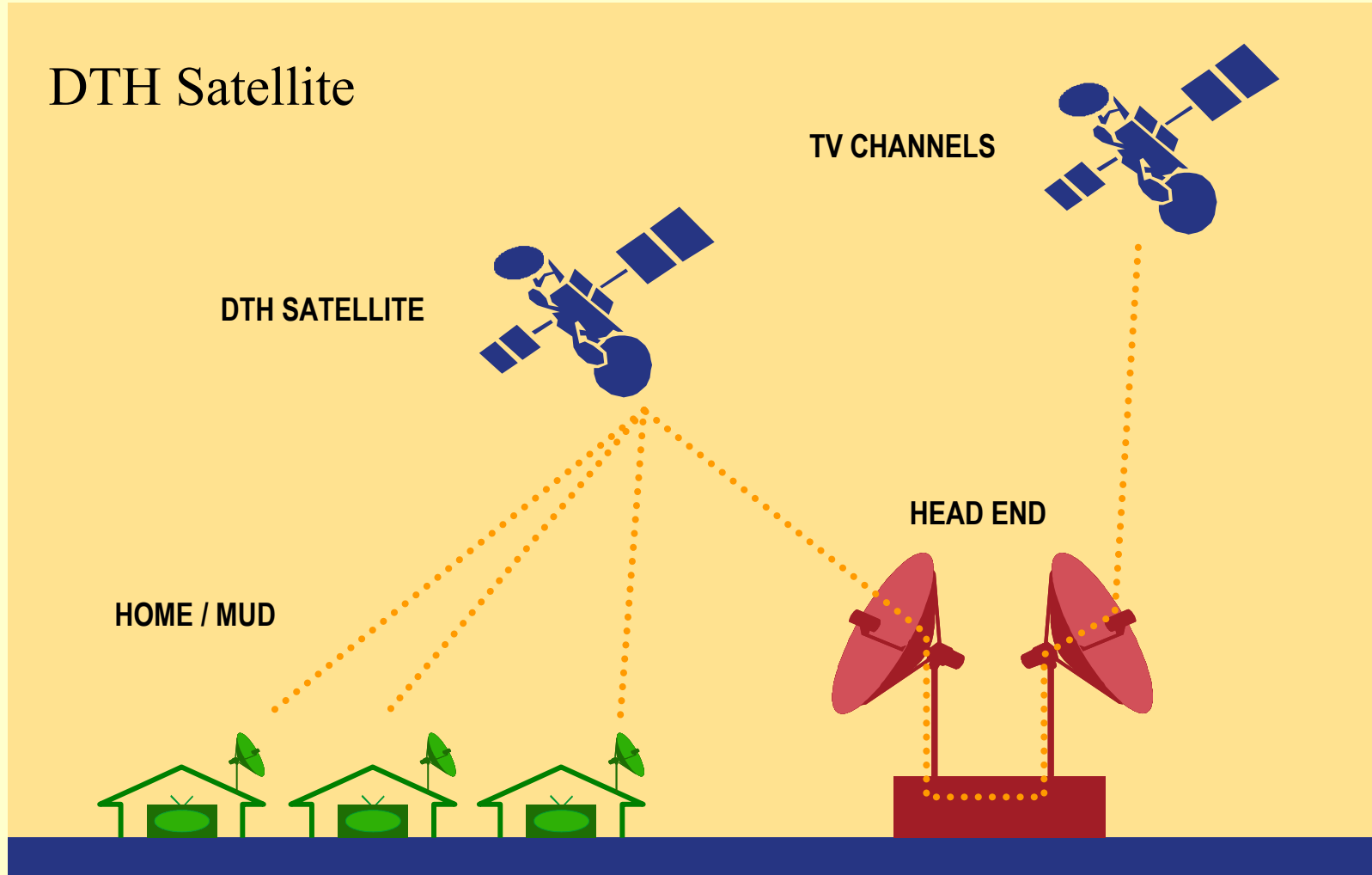
Collection of and distribution of TV signals via cable



Characteristics of wireless cable

- **Wireless cable service is digital, so every subscriber and every TV requires a set-top digital decoder to unscramble signals**
- **Because wireless cable's service is digital, it doesn't have to offer channels in tiers, like Rogers**
 - **LOOK (for example) has a small basic tier: includes Over-the-air tv channels (eg. CFTO, CityTV) and some specialty channels (eg. YTV, CBC Newsworld)**
 - **LOOK sells the rest of its channels through a 'pick and pay' method, where you pay a monthly fee, but pick the channels that you want (eg. 10 specialty channels for \$10). But, you must pick 1 Canadian for every foreign channel.**
 - **Premium television channels (eg. TMN) and ethnic channels are offered on a pick and pay basis, but are considerably more expensive than specialty channels**

Collection of and distribution of TV signals via DTH



Characteristics of DTH

- **DTH service is digital, so every subscriber and every TV requires a set-top digital decoder to unscramble signals**
 - **DTH charges for the satellite and digital set-top decoder, but at subsidized prices**
- **Though it is digital, DTH does not offer channels on a ‘pick and pay’ basis. However, its tiers are smaller and theme based. Some examples of tiers include:**
 - **Sports tier (TSN, Headline Sports, SpeedVision, Golf, Sportnet, Outdoor Life)**
 - **Music tier (MuchMusic, MuchMoreMusic, BET, CMT, TNN)**
 - **Entertainment tier (A&E, Showcase, Bravo!, Prime, Star, Space, TBS)**

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Current Competitive Strategies

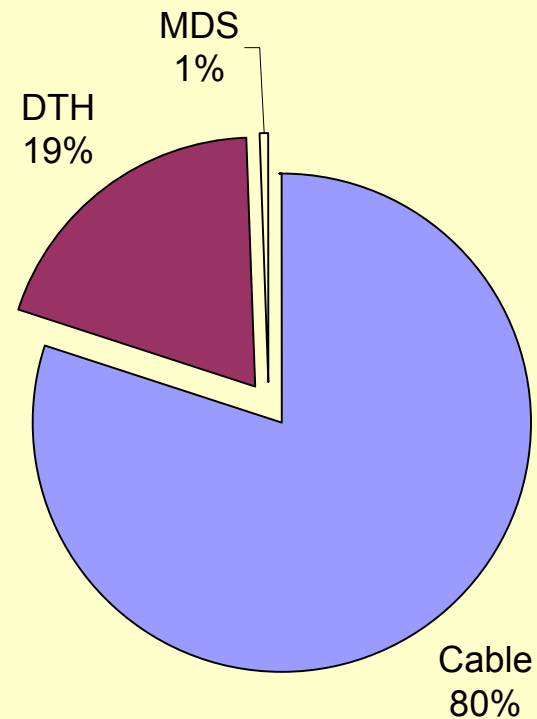
New entrants compete with cable on a number of variables.

<u>Competitive Variable</u>	<u>Options</u>
Choice	<ul style="list-style-type: none">• More television channels• More PPV• Audio services
Price/Value	<ul style="list-style-type: none">• Same services at a better price
Technical Quality	<ul style="list-style-type: none">• Better quality video signal• Better quality audio signal• Better user interface
Flexibility	<ul style="list-style-type: none">• Theme based vs. tiered program packages• Transactional service for all customers (eg. PPV)• A la Carte subscriptions
Customer Service	<ul style="list-style-type: none">• Faster customer responses• 24 hour customer service• Self-service web sites
New Markets	<ul style="list-style-type: none">• Un-cabled/rural households• Technophiles subscribing to cable

DTH quickly captured the rural market.

- **BDU Competition in Canada is progressing, but still early**
 - **Cable controls the market – at 80%, but this is down from 96% in 1998**
 - **In FY1998, DTH captured 4% market share of TV Subscribers but now controls 19%. The rural market is now exhausted.**
 - **MDS is in critical condition. Look is near bankrupt and the Craig's have yet to use their license in B.C.**
 - **The future of Telcos delivery is questionable. NB Tel launched then dismantled. MTS, Telus and SaskTel all have BDU licenses. SaskTel is operational with 600 subs.**

Estimated Market Share of BDUs by Delivery Method,
August/September 2002



**Competition is between
cable and satellite.**





Traditionally, BDUs offer almost all the same channels so cable and DTH services are substitutable

Rogers Cable Channel #	Station/Channel Name	Rogers	LOOK	Bell ExpressVu	Starchoice
2	TVO (TV Ontario)	✓	✓	✓	✓
3	Global	✓	✓	✓	✓
4	CFMT (Independent)	✓	✓	✓	✓
6	CBLT (CBC)	✓	✓	✓	✓
7	CITY TV (Independent)	✓	✓	✓	✓
8	CFTO (CTV)	✓	✓	✓	✓
9	CTS (Crossroads)	✓	✓	✓	✓
10	Rogers Television	✓			
11	ONTV (Independent)	✓	✓	✓	✓
12	CBLFT (CBC French)	✓	✓	✓	✓
13	TFO (French)	✓	✓	✓	✓
14	WKBW (ABC) Buffalo	✓	✓	✓	✓
15	WGRZ (NBC) Buffalo	✓	✓	✓	✓
16	WIVB (CBS) Buffalo	✓	✓	✓	✓
17	CTV News Net	✓	✓	✓	✓
18	WNEB (PBS) Buffalo	✓	✓	✓	✓
19	The Shopping Channel	✓	✓	✓	✓
20	CKVR (Independent) Barrie	✓	✓	✓	✓
21	Toronto Star TV	✓	✓	✓	✓
22	CTV Sportsnet	✓	✓	✓	✓
23	The Weather Network	✓	✓	✓	✓
24	Cable Pulse 24	✓	✓	✓	✓
25	YTV	✓	✓	✓	✓
26	CBC Newsworld	✓	✓	✓	✓
27	WTN	✓	✓	✓	✓
28	WUTV (FOX) Buffalo	✓	✓	✓	✓
59	TV5 (French)	✓	✓	✓	✓
60	Vision TV	✓	✓	✓	✓
61	CFMT (TVA) Montreal	✓	✓	✓	✓
65	Stocks/Voice Print (Audio)	✓			
66	Ontario Legislature	✓			✓
70	CPAC	✓		✓	✓
72	Aboriginal People's Television	✓	✓	✓	✓
73	RDI (French)	✓	✓	✓	✓
29	MuchMusic	✓	✓	✓	✓
30	TSN	✓	✓	✓	✓
31	A&E	✓	✓	✓	✓
32	TNN	✓	✓	✓	✓
33	CNN	✓	✓	✓	✓
34	TLC	✓	✓	✓	✓
35	Teletatino	✓	✓	✓	✓
36	MuchMoreMusic	✓	✓	✓	✓
37	Headline News	✓	✓	✓	✓
38	CMT	✓	✓	✓	✓
39	Showcase	✓	✓	✓	✓
40	Bravo!	✓	✓	✓	✓

Rogers Cable Channel #	Station/Channel Name	Rogers	LOOK	Bell ExpressVu	Starchoice
41	Life Network	✓	✓	✓	✓
42	Discovery Channel	✓	✓	✓	✓
43	History	✓	✓	✓	✓
44	Comedy	✓	✓	✓	✓
45	Teletoon	✓	✓	✓	✓
46	HGTV	✓	✓	✓	✓
47	TBS Atlanta	✓	✓	✓	✓
48	SpeedVision	✓	✓	✓	✓
49	BET	✓	✓	✓	✓
50	Space	✓	✓	✓	✓
51	Family Channel	✓	✓	✓	✓
52	Gold Channel	✓	✓	✓	✓
53	Headline Sports	✓	✓	✓	✓
54	Prime	✓	✓	✓	✓
55	CNBC	✓	✓	✓	✓
56	Food Network	✓	✓	✓	✓
57	Report on Business Television	✓	✓	✓	✓
58	Outdoor Life	✓	✓	✓	✓
64	Treehouse	✓	✓	✓	✓
62	Moviepix	✓	✓	✓	✓
63	TMN 1 (24 hrs)	✓	✓	✓	✓
64	TMN 2 (Starts 7pm)	✓	✓	✓	✓
65	TMN 3 (Starts 7pm)	✓	✓	✓	✓
66	TMN 4 (Starts 8pm)	✓	✓	✓	✓
67	KTLA Los Angeles	✓	✓	✓	✓
68	WPIX New York	✓	✓	✓	✓
69	WSBK Boston	✓	✓	✓	✓
71	WGN Chicago	✓	✓	✓	✓
	SuperEcran	✓		✓	✓
	RDS	✓		✓	✓
	MusiquePlus	✓		✓	✓
	Musimax			✓	✓
	Game Show Network	✓	✓	✓	✓
	The Health Network		✓	✓	✓
	Star!	✓	✓	✓	✓
	CLT	✓	✓	✓	✓
	BBC World	✓	✓	✓	✓
	CourtTV	✓	✓	✓	✓
	Fairchild	✓	✓	✓	✓
	Asian Television Network	✓	✓	✓	✓
	Deutsche Welle	✓	✓	✓	✓
	Odyssey	✓	✓	✓	✓
	TV Japan	✓	✓	✓	✓
	Playboy TV	✓	✓	✓	✓

(1) Line up for Look was for Eastern Ontario. Rogers was for Toronto. ExpressVu and Starchoice is national.
Source: PwC Analysis

... at almost the same price ...

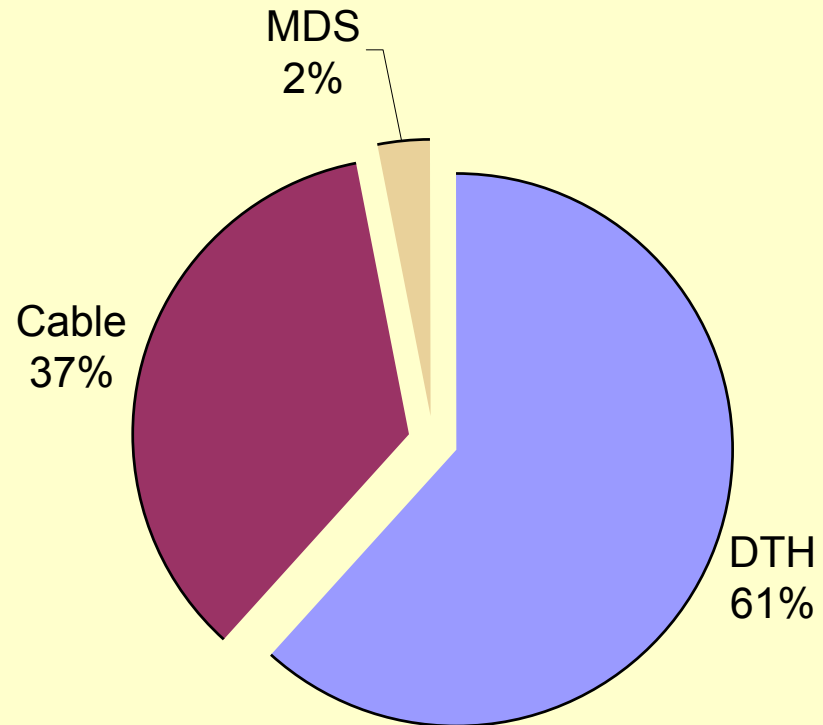
				
BASIC TIER	Includes local television stations (eg. CITY TV, CFTO), US stations (eg. NBC, FOX) and some specialty services (eg. TSN, Weather Network)			
BASIC RATE	\$19.95	\$21.16	\$15.90*	\$14.99
SPECIALTY TIERS	Includes Canadian specialty channels (eg. Much Music, Discovery Channel) and US specialty channels (eg. A&E, CNN)			
BASIC + SPECIALTY	\$39.95	\$39.88	\$36.95	\$36.99
PREMIUM TIER	Includes movie channels (eg. TMN) and US Superstations (eg. TBS).			
BASIC + SPECIALTY + PREMIUM	\$51.95	\$53.83	\$52.95	\$52.99
ETHNIC CHANNELS	Includes channels broadcast in languages other than English and French (eg. Asian Television Network, Telelatino)			
PER CHANNEL RATE	\$14.95 to \$19.95	\$14.95 to \$19.95	\$4.95 to \$19.95	\$9.99 to \$19.99

(1) Pricing for Look was for Eastern Ontario. Rogers was for Toronto. ExpressVu and Starchoice was national.
Source: PwC Analysis

... but the recent digi-net launch changes this.

- In 2001, over 50 new digital specialty services launched.
 - 13 category 1s were must-carry
 - The rest are discretionary
- This launch is the differentiator that DTH needs:
 - DTH controls most of the digital subscribers
 - DTH can package different than cable because it is fully digital

Estimated Market Share of Digital Subscribers by Industry (Dec. 31, 2001)

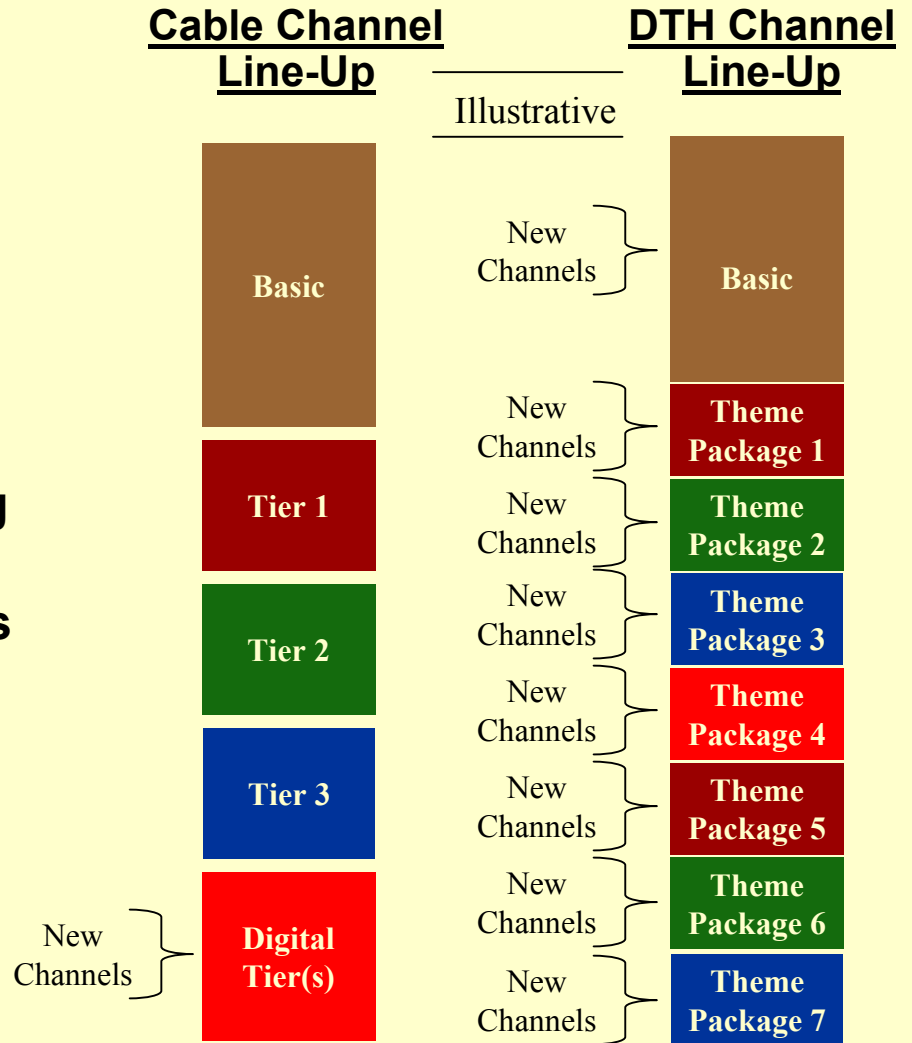


Source: Decima

* Total of 2.8 million digital subscribers

There is now some real differentiation between DTH and cable regarding TV channel choice and selection now that the diginets have launched.

- **Cable companies are limited to marketing new services only on digital:**
 - Cable can't cobble together 'Theme packages' with the limited number of cat. 1s, 2s and new foreign services.
 - They offer the new channels in another tier and are emphasizing 'pick and pay'
- **DTH is able to package new services within existing theme packages or create new theme packages (e.g. more sports, more news):**
 - Increasing the price of existing packages marginally with new 'related' services is easier than selling 'new tiers' of unrelated services.



On-demand TV is the next battleground for consumers

- The expansion of choice has been by expanding channel capacity
- New technologies are emerging that let consumers time-shift:
 - PVRs
 - VOD
- Cable and satellite are starting to use these technologies to battle for consumers.

		1996	2001
Cable	analog	60	77
	digital	0	80-200
	total	60	~160-280
Satellite	digital	0	~280

Source: PwC based on CRTC, CCTA data

Considerations for your essay

- **How is the basic package different between cable and DTH?**
- **How are cable and DTH packages designed, bearing in mind:**
 - **CRTC must-carries vs. discretionary services (foreign and category 2s)?**
 - **CRTC linkage rules?**
 - **Technology employed?**
- **What are the differences in entertainment services offered?**
 - **High-definition channels?**
 - **VOD? PVRs?**
 - **Ethnic channels or other premium services?**
 - **Any exclusive channels?**