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VOD and DVR in the Home-- A Glimpse of the Future

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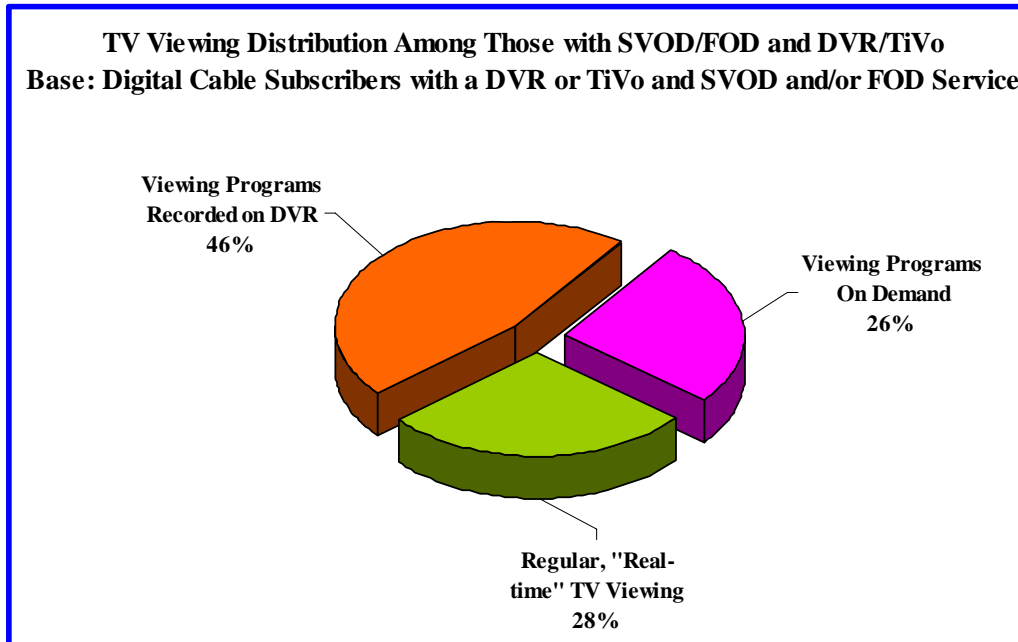
Of late, there has been a great deal of dialogue-- and hand wringing-- in the media industry about the impact of new technologies, and DVR in particular, on the way people consume TV. There are those who predict the end of real-time TV and advertising as we know it, and others on the more optimistic end of the spectrum who believe the real effects will be much less dire.

The real impact will probably be somewhere in between, but make no mistake about it-- between technologies like Video On Demand, DVR and streaming video, consumers today have more choice and control over what they watch, when and how. Data from Horowitz Associates' annual syndicated study, **State of Cable and Broadband**, provide some insight about current penetration and usage of many of these technologies. Indeed, the growth of these and other enabling technologies in the home may well open up a whole realm of new possibilities and challenges to which the media industry must rise in order to keep up with the more sophisticated demands of today's multichannel consumer.

Data from the 2005 **State of Cable and Broadband** survey, published in February of this year, show that more than half (55%) of digital cable subscribers (19% of all cable subscribers) say they have Movies On Demand, four in ten (37%) say they have free VOD (13% of cable subs) and a third say they get subscription VOD service (11% of cable subs). Self-reported DVR penetration (both retail and cable or satellite-provided) is now at 9% of multichannel homes (8% of all TV homes).

While penetrations of technologies like VOD and DVR have not yet reached critical mass, research is already beginning to tell us about their potential impact on consumer behavior in homes with these services. In the **State of Cable and Broadband** study, a special over-sample of digital cable customers with DVR and/or VOD were asked what percent of their TV viewing is spent using these services and what percent is still regular, linear viewing. As expected, the impact of DVR in particular on linear viewing is quite substantial.

Currently, only 3% of TV homes have both DVR and VOD in the home-- a small base today, but one that promises to increase dramatically in the near future. The data reveal that among digital customers in homes with both DVR and VOD, almost half (46%) of their time is spent watching programming recorded on the DVR and 26% of the time they are ordering On-Demand content. Regular, "live" viewing consumes less than a third (28%) of their total viewing time.



TV Viewing Distribution Among Those with SVOD/FOD and DVR/TiVo

Five percent of TV homes have a DVR/TiVo and do not have VOD. Among those with DVR and without SVOD or FOD services, 60% of their viewing time is spent watching programming previously recorded on their DVR/TiVo, while the remaining 40% of viewing is of regular, "live" TV. In the 11% of TV homes that have VOD service but do not have a DVR/TiVo, live TV still dominates about 80% of viewing time. These data provide us a glimpse of what we might anticipate as the penetration of these services increase.

While the impact of DVR on live TV viewing is somewhat predictable, some of the most compelling data from the study is about *why* consumers use the technology. The study finds that commercial skipping, clearly a by-product of having the device, is not a *motivation* for using the DVR. Almost seven in ten (68%) multichannel consumers with DVRs or TiVo say they use the DVR when they know they are going to miss a program "a lot;" 36% of DVR consumers say they purposely start watching their favorite programs on TV 10 minutes or so after their scheduled start time so that they can skip the commercials "a lot." Almost a third (28%) of DVR consumers "never" purposely use the DVR to fast forward over commercials. At the same time, almost two thirds (64%) of DVR consumers say they watch less commercials now that they have a DVR, but 21% say they watch the same amount of commercials than before and 5% say they watch more commercials now than before.

Video on Demand and SVOD may also change consumers' relationships with linear channels. When it comes to viewing free on-demand content from cable channels, about four in ten (38%) digital cable subscribers say they use the service in addition to the regular channel, 26% take advantage of the service when they miss an episode or program they wanted to watch on the regular

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channel, and 19% are actually using the service instead of watching the linear channel itself.

When it comes to SVOD, the impact of on-demand is greater when it comes to movies than when it comes to the channels' original series: when watching movies, 52% are more likely to watch from the on-demand menu rather than the channel itself and 41% are more likely to watch from the channel itself (7% are not sure); but for series, 44% are more likely to watch on the channel itself and 41% are more likely to use on-demand, with 16% saying they aren't really sure how they use the service most.

Ultimately, the true impact of digital services like VOD and DVR is that these technologies enable consumers to make TV viewing a more personalized and thus, a more satisfying experience. We can hypothesize that as consumers have more control over what they watch and when, the demand for what they perceive as "good TV" will naturally increase-- and tolerance for what does not pass muster will wane.

Perhaps, then, the real possibility and challenge these digital services bring to the media industry is nothing really all that new at all-- it is, quite simply, to create compelling, quality programming and even commercials that really are "must-see TV."