Digital Media's Next Wave:
Programming On Demand; Consumers In Demand

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At Horowitz Associates, we have tracked the transition to the digital home through annual consumer surveys on cable and broadband services. The past decade has brought about revolutionary change-- in terms of the technologies and services to which consumers have access, the programming that is available, and the industry's own understanding of the consumers we serve. Recent data from the annual **State of Cable and Broadband** survey show overall digital penetration at 41% of all TV homes, with cable claiming a 56% market share and satellite a 45% share of digital homes.

The next wave of new digital media and technologies, including Video On Demand, HDTV, DVR, IPTV, wireless and cellular is now upon us and changing the media landscape for service providers, content networks, and media and technology companies. Survey data show that penetration of these services is finally reaching measurable levels, with 21% of cable or satellite TV homes having at least one of these services, 14% with some form of Video-On-Demand, 8% who say they have a DVR or TiVo and 6% who say they pay to get HDTV service. Today, consumers enjoy unprecedented choice and control over what they watch, when, how and on what media.

Now that services like VOD and DVRs can begin to be measured, we are beginning to gain perspective on how these technologies impact consumer behavior-- not just among "early adopters," but among average consumers who are realizing the full potential of the new gadgets and features they have.

These enabling technologies are good news for content providers: One-third (29%) of consumers in DVR/TiVo homes from the **State of Cable and Broadband** study say they watch more TV overall, and more than a third (35%) say they watch *more cable programs* now than before they had the device. We are also beginning to actually gauge, instead of hypothesize about, the impact of DVR on commercial viewing -- Two-thirds (64%) of DVR/TiVo users do say they watch less commercials than they did before they had the device-- but more than one-quarter (26%) of consumers say they watch about the same or even *more* commercials now that they have it. As we continue to study this issue we become aware of nuances in commercial exposure now created by DVR which did not exist in pre-DVR days, when consumers might have simply left the room or flipped channels during commercial breaks.

Data on VOD reveal that on-demand services supplement, more than replace, linear viewing. Four in ten (38%) consumers say they watch Free On Demand (FOD), programming *in addition* to programs on regular TV, and a full quarter (26%) use FOD *when they miss an episode* they wanted to watch on a linear channel.

IPTV is another technology that has service providers, programmers and content aggregators alike pondering a wealth of possibilities. The key question remains, will consumers really watch TV on their PC? Now, as consumers become accustomed to using a PC to view streaming video, the remote to click on icons on TV, and their cellphone to check email, could the TV and PC screens finally converge? Survey data show that almost half (47%) of cable/satellite subscribers with high speed Internet surveyed say they could see themselves watching some sort of TV-type programming on their PC.

The changes we are experiencing are not just about new *consumer demands*. New, one-on-one media -- from large screen, to PC screen to phone screen – provide unprecedented opportunities for service providers and media companies to *reach target audiences* with video content, messaging and advertising. With these enabling technologies literally at the industry's and consumers' fingertips, we are at a new juncture in the transition to the on-demand media world.

At Horowitz Associates, we have long contended that multicultural—urban, African-American, Hispanic and Asian—audiences are among the most valuable customers for the cable/broadband industry. Historically, satellite had the upper hand when it came to delivering targeted content to ethnic consumers. Unlike the local market limitations of cable systems, satellite's national footprint allows providers to easily aggregate these audiences and provide them with relevant programming, regardless of how small or "niche" they might be in certain areas.

Today, cable and its technologies may have the advantage. In-language and/or culturally relevant content delivered interactively on VOD or via IPTV is becoming a viable solution to the interrelated dilemmas of reaching smaller local consumer segments, handling demands for bandwidth from content providers and contending with the bi-cultural reality of most American multicultural homes, that limits the appeal of an exclusively ethnic offering.

The opportunity extends beyond content itself. America's multicultural consumers are sophisticated, globally connected and culturally-commingled. We know that advanced digital services can reinforce perceptions of cable as the more sophisticated provider that can best serve sophisticated, diverse audiences. Horowitz' **State of Broadband Urban Markets** study series has shown over the years that segments of African-Americans, Asians and Latinos (particularly those that are more "acculturated") are variously "most valuable" in terms of their overall spending on cable and premium services, penetration digital and Broadband services and their consumption of content. This year's urban markets Forum titled "On Demand & In Demand: Multicultural Consumers and Multicultural Programming" will focus on multicultural consumers' usage of new technologies like VOD and DVR, providing glimpses of what lie ahead for content and service providers in the new, on-demand media world and in the highly competitive multicultural market

Indeed, the transition to an on-demand, digital world provides us with yet another opportunity. Consumers will have unprecedented control and choice over their programming, services and technology, and we as an industry will be more enabled than ever to understand how our audiences interface with our offerings. As penetration of digital services grows, so too will our insights on programming on demand, and consumers who are in demand.