

Networks Go Boldly --
And Fearfully --
Into TV's Future

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When CBS and NBC broke a longtime taboo by making hit prime-time shows available through video-on-demand services this week, it wasn't to get rich on the 99-cent download model. Anyone with a digital video recording device such as TiVo can already access shows when they want, and millions more Americans are likely to have such technology in the near future.

Instead, the newly announced deals have to do with corporate strategy -- and fear. Broadcasters are scrambling to gain a foothold as their traditional business landscape starts to crumble. Technology, from video-enabled cell phones to DVRs to the Internet, is increasingly putting content at consumers' fingertips. At the same time, it is pushing the networks away from their decades-old model of broadcasting shows for free and selling ads to make money.

The result: the networks want to train consumers to think of TV shows as products that aren't free -- and make the idea of on-demand ventures more palatable. The TV business is also trying to avoid the music industry's mistakes in this realm. In the early days of music download services, labels were clueless about the changes sweeping their field, so they put too many restrictions on how songs could be used, and had unrealistic expectations about how much consumers would pay. (For a viewer's guide to the increasingly complex world of watching TV, [see related story](#)¹.)

TV ON-DEMAND

- [TV On-Demand Makes Ads More Targeted](#)²
11/09/05
- [Flurry of Deals Gives Viewers New Options](#)³
11/09/05
- [CBS, NBC Deals Accelerate Shift In TV Landscape](#)⁴
11/08/05
- [Yahoo, TiVo Announce Deal](#)⁵
11/07/05

QUESTION OF THE DAY

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Vote:⁷ Would you pay 99 cents to watch a prime-time TV-show episode on demand?

While television executives are confident that people will still be watching their programs ten years from now -- and that they can still realize big profits -- they don't know who will be delivering these shows, or with what kind of technology. "It's the 'how' that's hard," says Jeff Zucker, president of **General Electric** Co.'s NBC Universal Television Group.

Networks, thus, are moving fast to offer shows through a variety of routes that don't include the living room TV set -- and showing some flexibility on pricing. Aside from its recent on-demand

beyond Reruns

/ shows are popping up everywhere. Examples:

'**Desperate Housewives**' (ABC): On Sunday night; season available on DVD; also for sale on iTunes

'**Curb Your Enthusiasm**' (HBO): On Sunday night; replays on HBO channels all week; seasons available on DVD; also on HBO-on-Demand

'**Survivor**' (CBS): On Thursday night; also on Outdoor Life Network; seasons available on DVD; \$0.99 on Comcast's on-demand service

Source: the networks

cable deal, **Viacom** Inc. recently brokered an agreement with **Apple Computer** Inc.'s iTunes to sell audio versions of "60 Minutes" and "Guiding Light," two major CBS properties.

Walt Disney Co.'s ABC and **News Corp.**'s Fox say they are actively pursuing their own on-demand details but wouldn't elaborate. Said an ABC spokesman: "Any deal we strike will have to make sense both from a financial and brand-management sense."

Cable and satellite operators have just as much at stake. **Comcast** Corp., which cut an on-demand deal with CBS, and DirecTV, which signed up with NBC Universal, are both trying to get out in front of the Internet.

The Internet is one of the biggest threats facing cable and satellite operators because it enables viewers to watch television without an intermediary. Already there are numerous ways for consumers to watch movies, programs and other content piped from the Web to the TV screen.

Earlier this week, for example, **Yahoo** Inc. and **TiVo** Inc. launched a service that will eventually allow TiVo owners to access select Yahoo Web services through a broadband connection. While initially that deal won't allow users to obtain videos off the Web, it is possible for the partnership to add that capability in the future. (See [related story](#)⁸.)

Google Inc., for its part has already been at odds with the industry for trying to compile an online trove of searchable TV shows without permission from the networks and studios.

While TV companies still strongly back their traditional advertising-based model, they concede advertising revenue has softened as viewership fragments and advertisers shift dollars to other mediums. Regulatory changes in the 1990s, allowing networks to own their primetime shows rather than merely air them, also reduces the networks' reliance on ad revenue and allows them to share in rerun and DVD revenue.

TV companies have long worried that new ways of distributing programs will cannibalize their existing ways of making money. Warner Bros., for instance, has been reluctant to start selling DVDs for its hit comedy "Two and a Half Men" until it sells reruns of the series to cable networks and TV stations, which long has been the main way that owners of TV shows make money.

But as networks and studios crunch sales and viewership data, some are realizing the cannibalization threat is less than they feared -- at least initially. "These moves can make network broadcast television even stronger because it gives shows greater exposure," Mr. Zucker says. "You're more likely to get hooked on something you've actually seen."

The gradual shift in TV's business models will have varying impacts on the "television food chain," notes Michael Nathanson, a media analyst at Sanford C. Bernstein & Co.

For studio owners, Mr. Nathanson says the arrival of on-demand services and other distribution routes offers the chance to "improve returns as consumers will pay for episodes that they might

have never have been able to view." Typically, studios must wait several years before they have enough episodes to sell a rerun package. But on-demand services allow studios to start generating ancillary revenue more quickly, as DVDs have begun to do.

TV stations may have a problem, however. As TV companies allow consumers to watch TV shows whenever they want instead of chaining them to a weekly schedule, local stations are likely to suffer. That's because their profitable local news divisions are likely to lose viewers, says Mr. Nathanson. These networks of TV stations are the backbone of the traditional broadcast model, but the big media companies that own these networks have hedged their bets.

As slow as the TV business has been to embrace change over the years, they've actually positioned themselves well to weather the changes sweeping the industry. **General Electric** Co.'s NBC Universal and **Walt Disney** Co.'s ABC now own a movie studio, a giant television network, a television studio and multiple cable channels. **Time Warner** Inc. and News Corp., meanwhile, both own huge distribution systems in Time Warner Cable and DirecTV.

The cable and satellite companies worry about the likes of Google and Yahoo, but so far none of the threatening Internet services have caught fire. Part of this is because it still requires some technology know-how to hook a computer up to a TV. Also the leading TV content companies have yet to make their top programs widely available on the Internet.

That's beginning to change, however. ESPN, for example, has been talking about making college games available via the Internet using devices similar to the Yahoo/TiVo box. "Over time, select content on the computer is going to move to the TV set," says John Kosner, who's in charge of new media for ESPN. "We're looking at all those possibilities."

Video file sharing services have already have begun to blossom on the Web. One popular software, BitTorrent, has been downloaded by more than 51 million users and accounts for more traffic on the Internet than practically any other single use. For no charge, users can download prime time programming, sometimes from the previous night.

Nonetheless, some expect certain TV viewing habits to die hard. "People still find comfort sitting on the couch and using their remote to flip through things," says Dan Fawcett, executive vice president of DirecTV. "Even if your computer is hooked up to your television, you're not able to do that."