

DVR Upheaval Starting Point for the On Demand Universe

**Tom Wolzien
Chairman Wolzien LLC
35th Annual Entertainment Bar Symposium
UCLA School of Law
March 11, 2011**

DVR UPHEAVAL ***Starting Point for the On Demand Universe***

*A Special Presentation For
The Entertainment Bar
UCLA
March 11, 2011*

Tom Wolzien
wolzien LLC
wolzien@wolzien.com
www.wolzien.com

Copyright 2009-11 All Rights Reserved
Content is Proprietary Material. Copying & electronic
distribution not permitted without written permission. Professional Services for
Media & Communications Leaders wolzien LLC. 1

and today you will be seeing some second-by-second data from a few million TiVo boxes that I think you'll find pretty interesting. Thanks to TiVo's CEO Tom Rogers for making this available.

So what are we doing?

--First a status report on the industry to make sure everyone's on the same statistical page.

--Then a look at the state of interconnectivity, the key to the maximum use of on demand consumption.

-- We'll move to on-demand consumption of hyper-local content and how sub-markets could be linked to dis-intermediate local television.

--Then lessons from the biggest on-demand platform today—the digital video recorder. We'll be looking at

Thank you, and thanks to all of you for inviting me back as your opening act for...I think...the sixth consecutive year. I hope to make the next 45 minutes worth your while. .

Some disclosures first. My anchor clients continue to be Discovery Communications and the Directors Guild of America, but nothing I say here reflects their opinions or work done for those organizations. In addition, I continue on the Board of TiVo,

What We're Doing Today

1. Status Report
2. Preparing for the Ultimate in VOD
Everywhere on All Devices
3. Using Hyper-Local on Demand to
Dis-intermediate Local TV
4. On Demand Lessons from the DVR
Today's biggest source of on demand viewing.
5. THE BULLSEYE MODEL, A Wrap Up

Copyright 2009-11 All Rights Reserved
Content is Proprietary Material. Copying & electronic
distribution not permitted without written permission. Professional Services for
Media & Communications Leaders wolzien LLC. 3

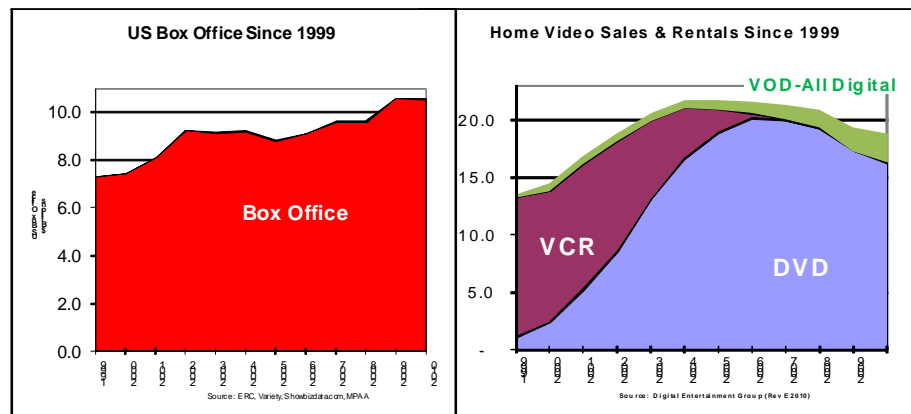
everything from Madmen and the Superbowl to CSI Miami, American Idol, and even KGO's late news in San Francisco.

--And finally the grand finale, and those of you who have been here for the last half decade know what's coming...you just don't know how I'm going to get there this time.

1. Status Report

US Box last year flat, attendance down 6%, suggesting a 4-6% 3D/Imax premium. Hold on to that premium number. Home video down 3%, but within those numbers from the

Status Report: US Feature Film



2010 FINAL GROWTH:

US Box Office Revenue: **FLAT**
US Attendance Down: **-6%**

Note: DEG Results Include Features, TV Shows, and some Games.

2010 HOME VIDEO FINAL

Total 2010 RETAIL Down 3%,
Physical Sell Through Down 8%
Physical Rentals Down 2%
Digital (VOD, EST) UP 18%

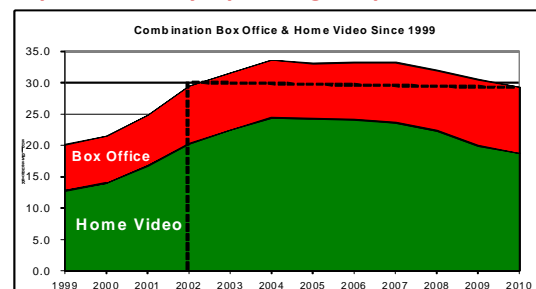
industry's Digital Entertainment Group, some interesting splits. Physical home video was down 6%, offset in part by video on demand and electronic sell through, together up 19%.

Rentals were up 2% in total, thanks entirely to VOD on cable and the web, which was up 21%. And on the sell thru side, tiny EST was up 16%, but that wasn't anywhere nearly

enough to help offset an 8% decline in sell through of physical product including BluRay.

Status Report: Features & Home Video Despite Recovery, Spending Drops to '02 Level

Despite the recovery, the combination of US Box and Home Video was down to 2002 levels. Last year, you may recall, it was hovering just shy of 2003 numbers. Definitely not the right direction.



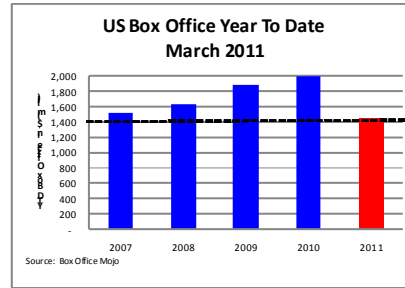
Copyright © 2011 Wolzien LLC. All Rights Reserved.
Contains Proprietary Material. Copying & electronic distribution not permitted without written permission.

Professional Services for
Media & Communications Leaders

wolzien LLC
www.wolzien.com

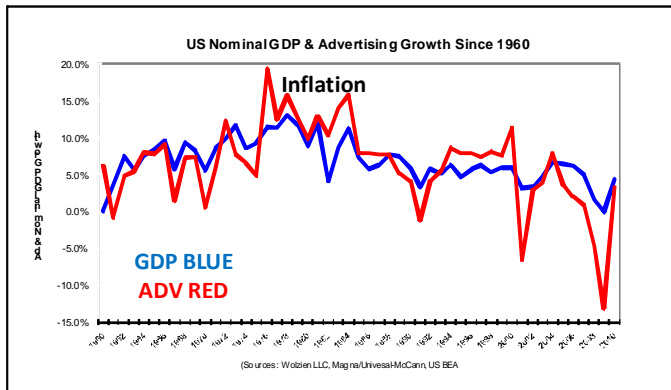
And this year isn't off to a very good start. As of this morning ERC was reporting box down 25% and attendance down 26% year to date. Not only is there extreme weakness, that 4-6% 3D/Imax premium we saw in 2010 seems to have vanished. In fact, when you lay out the YTD numbers from Box Office Mojo for the past five years, you see that this year, so far, is below 2007.

Status Report: US Box Office
More than Avatar: YTD Now 4% Below 2007



Copyright 2011 Wolzien L.L.C. All Rights Reserved. Contains Proprietary Material. Copying & electronic distribution not permitted without written permission.
 Professional Services for Media & Communications Leaders
 wolzien L.L.C. www.wolzien.com

Advertising: Recovery. Inflation?



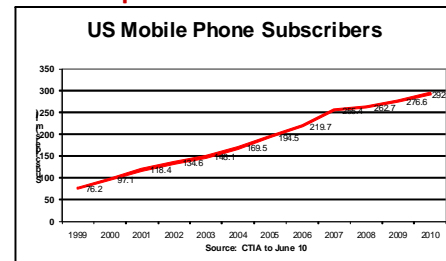
Copyright 2011 Wolzien L.L.C. All Rights Reserved. Contains Proprietary Material. Copying & electronic distribution not permitted without written permission.
 Professional Services for Media & Communications Leaders
 wolzien L.L.C. www.wolzien.com

Now something more encouraging. All advertising bounced way back in 2010 after the 50year low in 2009. Blue is growth for nominal GDP on this 50 year chart, and red is all advertising growth. You can see how advertising is far more volatile than the economy. This spring TV advertising continues to be up, often near or in double digits. But before we pat ourselves on the back too much...a reminder to consider what happened back in the inflation years of the late 70s and early 80s.

Pushed by fears of even higher prices, advertisers bought high and media companies thought they were doing great. But it wasn't all them. It was the economy--inflation. And a few years later there was hell to pay as costs climbed, labor contracts came due, and supply deals had to be renegotiated. So, this spring's anticipation of a great upfront could be because of the recovery...but it could also be an indicator of inflation.

Mobile phones. Now 93% of the US, up 10 million in just the past year. But look at this...text messages in the US are now running at 1.8 trillion a year. That's trillion with a T. And a quarter of the households don't have landlines at all. Talk about cord cutting.

Status Report: Mobile Now 93% of US



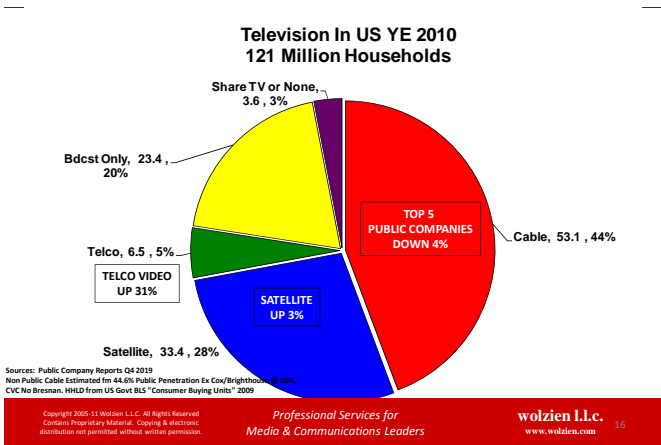
293 Million=UP 10 Million in Past Year

Copyright 2011 Wolzien L.L.C. All Rights Reserved. Contains Proprietary Material. Copying & electronic distribution not permitted without written permission.
 Professional Services for Media & Communications Leaders
 wolzien L.L.C. www.wolzien.com

TV. Census says our population is 311 million. There are about 117 million TV households out of 121 million. That works out to about two and a half people per household...just about the same as the number of TVs. About 80% of those have multichannel service from cable, satellite or telcos. Still some big discrepancies—about ten percentage points between my build up of numbers reported by the public

companies and numbers from other studies like Nielsen. Those of you who work for companies that own cable nets may want to go back and ask if the public numbers are anywhere close to what you're getting paid for.

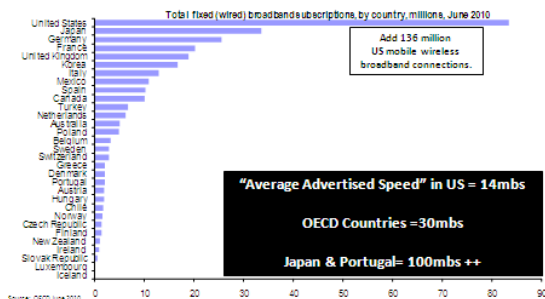
Status Report: Television



Cable (in the red) accounts for about 44% of multichannel homes. The top 5 public companies reported the video subs they managed were down about 4% in 2010. Satellite gain about 3% to 33 million subscribers. And the phone companies have definitely become real video providers. Verizon and AT&T—reporting a 31% jump to more than 6.5 million.

Broadband, based on public reports, is now in 66 million homes, or 55% of households. The US now has more broadband connections than any other country...according to the Organization for Economic Cooperation and Development (OECD), but we're the 24th country in advertised broadband speeds, the OECD says. Of course, advertised and actual speeds may vary....just like mutual fund returns.

Status Report: US Leads Global Broadband In Numbers, But 24th In Speed



Status Report: Broadband

Broadband (mil) (Est fm Public Co Reports)	YE 2010
Broadband Penetration of Cable Homes Passed	34%
Cable Broadband (mil)	40.3
Telco Broadband (mil)	25.6
Total Broadband HHLDS (mil)	65.9
BBND as Pct of Multichannel HHLDS	70%
BBND as Pct of ALL HHLDS	55%

* Public Co Pct Applied to Private Cable Cos

And let's wrap up the status report with a fascinating number from Facebook, whose web site says fully half of it's 500 million global subscribers are in the United States. If we stand back for a moment and consider that number in comparison with US Census figures, it means that more than 99% of persons 14 years old or older have a Facebook account, or if you consider kids and tweens over 5, the percentage would be 86.5. Any time I look at a number like this, I wonder if it accurately reflects individual subscribers...or whether some portion of the subs maintain multiple personalities, thereby making Facebook's impressive numbers slightly less so. Maybe Paul Ollinger from Facebook will be able to answer that when he moderates the Social Networking panel later this afternoon.

Status Report: Social Media

		Source
Facebook US Active Subs (mil)	250	Facebook 50% of 500m 3/7/11
US Population 14+	252	US Census Projection 2010
Facebook as Pct of 14+ US Pop	99.2%	Derived
US Population 5+	289	US Census Projection 2010
Facebook as Pct of 5+ US Pop	86.5%	Derived



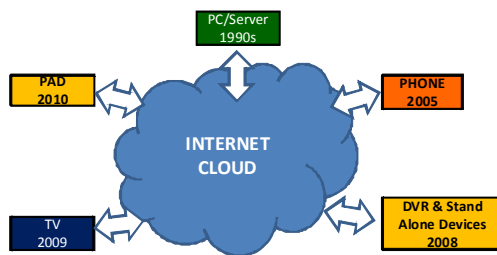
Question: Do Facebook subscriber numbers accurately reflect individual subscribers, or does a (significant) proportion maintain multiple subscriptions, thereby overstating Facebook's impact?

2. Maximizing On Demand Video by Connecting Devices

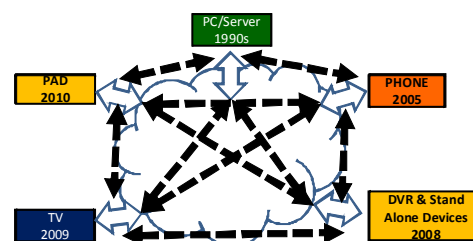
To maximize video on demand, you need to be able to get whatever you want anywhere you are, on any device you have, and then flip it to your other devices as you move around. We have television connectivity to over air, cable and satellite, but only now are we on the cusp of broad interconnectivity between television and the web, and between devices.

Connectivity to the web has taken about 10 years, from PCs in the early 90s, to mobile phones in the middle of the last decade, then stand alone devices like Roku and DVRs like TiVo a few years ago. Finally a few TV models had some connectivity year before last, and, of course, the iPad showed up last year with video connectivity mostly

Evolution of Connected Devices All Had Some Web Access by 2010



Evolution of Connected Devices All Had Some Web Access by 2010



Will probably take until mid-decade to complete.

thru wifi.

But while each can connect with the web with greater or lesser difficulty, content accessed on one may not be viewable on another, and that process will probably take until mid-decade to remedy across the board.

Perfecting connections to the TV was front and center at CES earlier this year, as Google TV and Yahoo TV came up with easier ways to view web video on television displays. But a good number of TV manufacturers seemed to just want to make everything available, including the whole web if you had a big enough screen like this Sony display.

As for starting content on one device and then transferring it to another, that's the realm of the Digital Living Network Alliance, which many of your companies are a part of .

You'll be interested to know that none of the attempts I saw to interconnect phone to TV

Perfecting Connections to TV



Google TV & Yahoo TV both provided easier ways of viewing internet video and other content on modified TVs or through ad on boxes.

Copyright 2011 Wolzien LLC
Contains Proprietary Material. Copying & reuse without
prior written consent is prohibited without our prior permission.

Professional Services for
Media & Communications Leaders

wolzien I.L.C.
www.wolzien.com 23

Perfecting Connections to TV



While others pushed putting the whole web on TV. (With a really big screen...)


Copyright 2011 Wolzien LLC
Contains Proprietary Material. Copying & reuse without
prior written consent is prohibited without our prior permission.

Professional Services for
Media & Communications Leaders

wolzien I.L.C.
www.wolzien.com 25

or other devices in the booths at CES seemed to work. Everyone always blamed wifi interference. And, I don't know if it was significant or not, but the DLNA exhibit was not on the CES convention floor...but rather in a temporary trailer out in the parking lot.

At CES Digital Living Network Alliance Relegated to Parking Lot



While all the other standards organizations found homes on the convention floor.... DLNA* was relegated to a temporary trailer in the parking lot.

Significance unclear.

*Consortium of most major manufacturers EXCEPT Apple.

Copyright 2011 Wolzien LLC
Contains Proprietary Material. Copying & reuse without
prior written consent is prohibited without our prior permission.

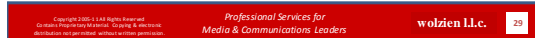
Professional Services for
Media & Communications Leaders

wolzien I.L.C.
www.wolzien.com 27

Content Rising?

Four Recent Events May Show Shift:

1. *Google 10% Commission on Subscriptions*
2. *YouTube/Google Buys Next New Networks*
3. *AOL Buys Huffington Post for Content-related Traffic (Including Hyper-Local PATCH)*
4. *A Hyper-Local Operation Claims Profitability*



subscriptions, as opposed to Apple's 30%. Google's YouTube bought web video producer Next New Networks—you may remember Obama Girl. AOL bought the Huffington Post for content related traffic, including original content, not just aggregation. And, most surprisingly, a hyper-local operation in New Jersey says it's actually profitable.

That sub-market operation serves 12 towns southwest of New York City. It's filled with on demand news-type video as well as dozens of ads that feel a bit like yellow page display ads.

But the reason to spend a minute on hyper-local on demand services is not what one tiny operation means, but rather what many could mean to the local television businesses that traditionally have been very profitable for many of your companies....and the affiliates who are now or will be giving networks a piece of the new retransmission consent payments from cable operators.

3. Sub Markets/Hyper Local

As we consider on demand content, we need to remember that we're dealing with more than just national services, but local as well.

There are four recent events that suggest that content...rather than web distribution...is once again in the ascendency. Google decided that 10% was a reasonable cut to take for

Rise of the Sub-Markets

Focus:
The Alternative Press

SW of NYC
12 Towns
Dozens of Ads

Publisher Claims Profitable

Rise of the Sub-Markets

AOL's Patch Now Has 600 Sites

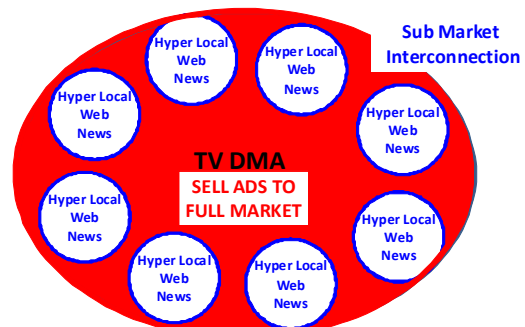
Take a look at AOL's Patch. You may have tried it around here. Patch now has 600 sub market sites, mostly in major population centers. Including 130 sites in California. So Patch is probably far from profitable, but here's why I am concerned that attention should be paid to it and other hyper-local operations.

New Competitor to Local TV?



Copyright 2005-11 All Rights Reserved
 Contains Proprietary Material. Copying & electronic distribution prohibited without written permission.
 Professional Services for Media & Communications Leaders
wolzien I.L.C.

New Competitor to Local TV?



Copyright 2005-11 All Rights Reserved
 Contains Proprietary Material. Copying & electronic distribution prohibited without written permission.
 Professional Services for Media & Communications Leaders
wolzien I.L.C.

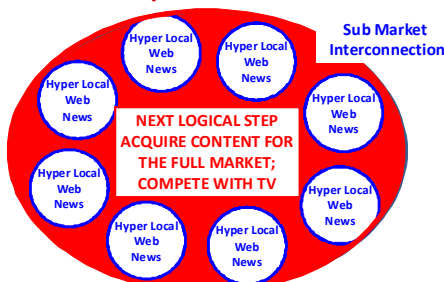
First, take the local TV market area, the DMA. Add one hyper local site somewhere down in a sub market, and sell advertising in that site. Like the New Jersey operation, those ads are probably more like yellow pages or shopper display ads. But that's not a big deal.

Then add a batch more hyper local sites and you begin to get a ring surrounding the TV DMA. They can now share relevant news where stories overlap a couple of sites, and, of course, begin to sell advertising that overlaps a couple or more of the hyper local operations.

Next comes an interconnection of all the sub markets in the DMA and full market news is shared across all those sub market sites. It's beginning to look a lot like an old broadcast network structure with interconnected local outlets...except this time it's all within one DMA. And here's where the competition comes...full market ads begin to be sold and delivered to all the Hyper Local sites. Not only is this direct competition for local television and other local media... but as they become more successful, the combination of these sites may begin to acquire and provide access to on demand video content that will actually compete with local television.

Hulu is the simplest link. And think about it...now news and information consumers go to their local site, get not only hyper local news, but also full market news in competition with the big local news providers...and they get access to on demand entertainment content in competition with the syndicated and network product offered by local television stations.

New Competitor to Local TV?



Copyright 2005-11 All Rights Reserved
 Contains Proprietary Material. Copying & electronic distribution prohibited without written permission.
 Professional Services for Media & Communications Leaders
wolzien I.L.C.

My view of all this? Pay attention because if it evolves the way I suspect it will over the next decade, local television companies that thought their news franchise would keep them in the game, will realize they have a powerful new competitor.

4. On Demand Lessons from the DVR

So we've talked about the growing broadband penetration in the country, the interconnectivity of devices with the web today and with each other over the next five years, early indications of the resurgence of content on the web and the potential impact of hyper local on demand news and information, but what do we really know about how people actually use on demand video today? We see web video usage numbers from ComScore and Nielsen, but those services don't tell us how viewers interact with the video content it's self. Now thanks to new second-by-second data, we're actually beginning to get glimpses of quite a bit of consumer behavior.

If you think about it, there are three delivery mechanisms for Video on Demand. Web delivered VOD like Hulu or CBS.com, Netflix, or web rights from your cable company's "TV Everywhere" approach. Cable distributor based VOD through the cable walled garden—to your cable box—is the second form. And finally, there's, let's call it, Consumer Controlled VOD through your digital video recorder.

Three Delivery Mechanisms For On Demand Viewing

Three Vehicles for On Demand Viewing in Home

1. Web Delivered VOD (Hulu, CBS.com, "TV Everywhere")
2. Cable Distributor Based VOD (Inside Cable System)
3. Digital Video Recorder (Now 40% of TV homes)

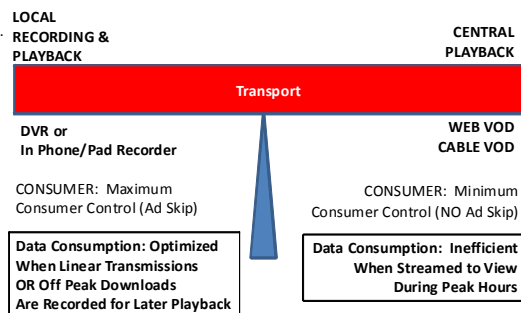


Let's take a second to explore the differences. Think of a see-saw where the board is transport—basically digital bit's carrying video information. On screen right, there is central storage and playback under the control of the provider. This is how both web and cable VOD work. On Screen left is local recording and playback of any signal arriving from any source that's allowed to be recorded. The DVR is the most common example.

In general, the consumer has minimal control over what comes from the central playback via web or cable VOD. The advantage is you don't have to remember to record a show, but the disadvantage is that the provider decides whether you can skip the ads, or not. Usually not. But over on the local recording side, the DVR the consumer has maximum control to skip ads, if he wishes. In all three cases consumers can zip through content that may not be to his or her liking. Some vivid examples of that in a few slides.

The other interesting thing about central playback versus local playback is that for everything but live shows, data consumption during peak periods is much more efficient for local storage

Consumer Control & Cost Factors Will Influence On Demand Viewing Options



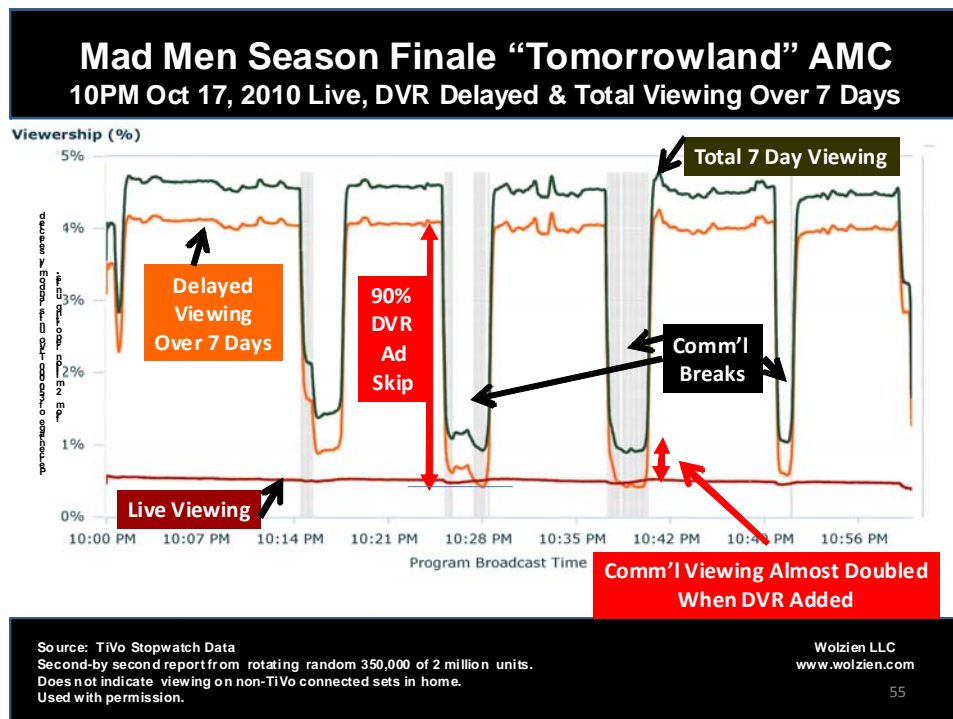
like the DVR than for web or cable VOD. The reason is that there is only so much data capacity on the circuits, and if everyone is trying to stream his or her separate connection at the same time, the whole thing bogs down. Or, if we wind up with usage based pricing, we may be paying more for bits in peak periods than low usage time. The opposite is that local storage for everything but live or near live viewing permit's downloading at off peak periods for later viewing in prime, thus not putting a strain on the network. Not a big deal today, but it could become one.

Well the one place we can learn about consumer usage habits of On Demand is with the Digital Video recorder, now in about 40% of households. It is the most prevalent form of VOD today. And second by second data can tell us when we view, how we view recorded versus live shows, how patient we are with shows that aren't delivering what we want, and how much we really skip ads.

What you're about to see is second by second data collected from about 350-thousand TiVo unit's out of around 2 million. And the 350-thousand rotate daily, so there is so much data it's almost like a vote. To be clear, we're looking at viewing on these units, not on other TVs in the home. And to me the key is the ratios between live and delayed viewing, rather than the actual amount of viewing.

Let's start with Madmen's season finale last October. This AMC show is the darling of Madison Avenue—everybody likes to see themselves. It even has commercials made specifically to run in it. So how is it watched on those DVR units?

Here's a chart for the full hour. It may not be the type of chart some of you have encountered before, so here's how it works. The X axis along the bottom is the program broadcast time...an hour in this case. The Y axis shows the percent of measured unit's watching at various times. For this chart, live viewing is that line across the bottom. The orange line shows just delayed viewing over the next seven days. And the top line is the total seven day viewing combining



live plus delayed. And of course, you see the commercial breaks.

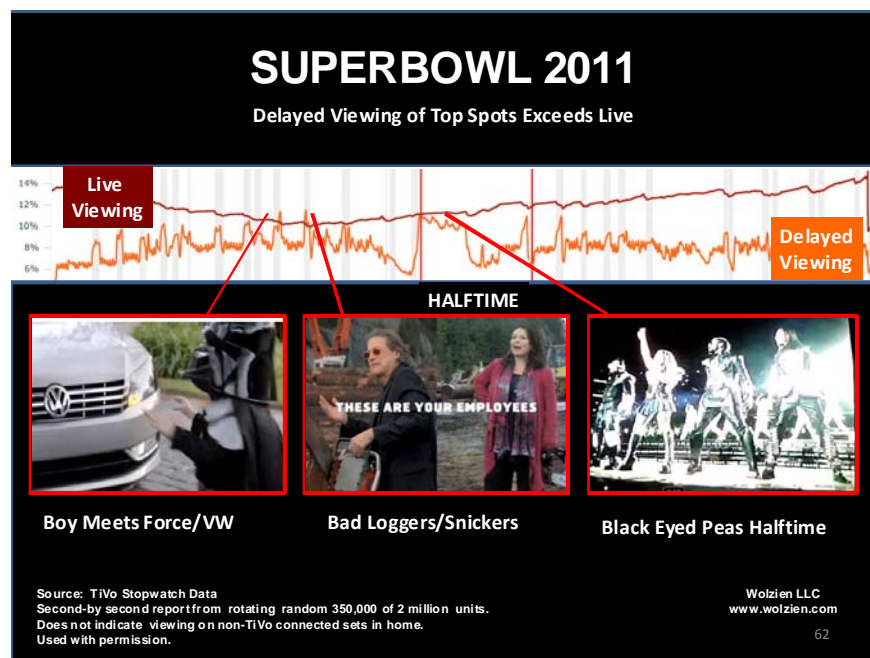
This is really a glass is doubly full or 90% empty slide, depending on how you want to look at it. For those people who watched on a delayed basis, about 90% of the commercials were skipped. This darling of Madison Avenue saw a 90% skip rate on playback, even as though almost everybody watching live seemed to let the spots run instead of surfing to other channels. That sounds horrible, but the positive message would be that the amount of viewing of commercials actually was almost double when the live viewing of spots was combined with the 10% of DVR viewers who didn't skip.

But this huge skip rate does raise an interesting question of what I'll call Yield. It's a new concept I've been thinking about. In order to understand format, production costs, and scheduling, should we be exploring the yield ...or the percentage of viewers from the program content who go to and stick through the commercial breaks. More commercial viewers or fewer skips mean a higher show ROI to the network.

Superbowl. Here's a viewing chart across the full game. Not surprisingly, live viewing at the top was generally more than delayed viewing in the jagged line at the bottom. And you see halftime in the middle. There are some lessons here about how new original content holds up in replays.

To start with, Boy Meets Force, the VW ad with the little Darth Vader exceeded live viewing in playback over the next seven days. Making that a great buy for VW, even at Super Bowl rates. In fact, virtually all ads did better than the game in playback.

Matching Darth Vader were the Bad Loggers for Snickers, Roseanne Barr and Richard Lewis.



And then there were the Black Eyed Peas at halftime. It's interesting that they did well live, but not as well as the game overall...but exceeded the game action in playback. And look at the drop as soon as the sports guys came back on. So what's the take away?

DVR users love high quality original content, even if it's in commercials.. But

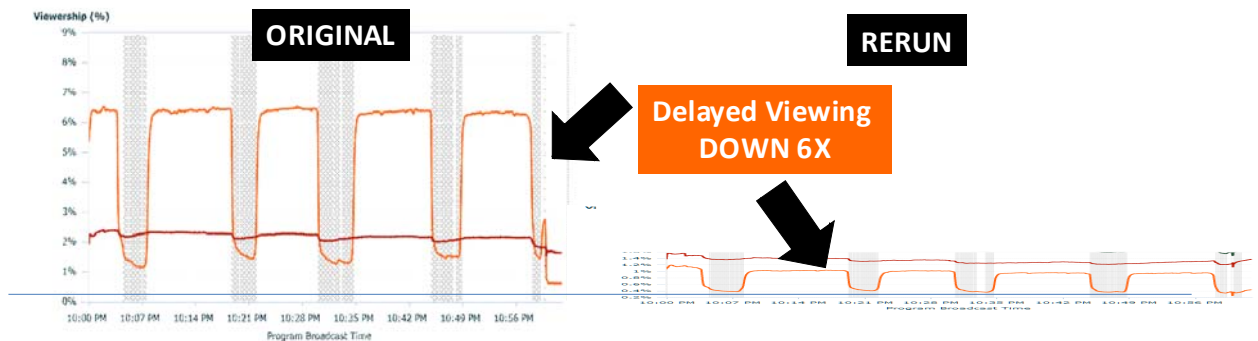
they hate reruns on DVRs. And this could threaten much of any business model that relies on reruns...broadcast network or cable. An example:

Here are side by side charts for a CSI Miami original versus Rerun. The charts have been adjusted to match scales. The show was "Dude, Where's My Groom". It first aired in November 2009 and first rerun in March 2010. Now, of course, the rerun wouldn't do as well as the original airing because it's a rerun. But what's interesting is to look at the drop in viewers of the live transmission between the original air in November and the live transmission of the rerun in March....and look at the drop in viewers who recorded and then watched the original airing in November...versus recording and then watching the rerun in March.

CSI MIAMI Original vs. First Rerun

"DUDE, Where's My Groom? Nov 2009 and March 2010

On Demand Viewing Appears to Reduce Value of Reruns
Original Had 3 to 1 Ratio DELAYED Viewing of Content to Live
Rerun Had 1.4 to 1 LIVE Viewing to Delayed



Source: TiVo Stopwatch Data
Second-by-second report from rotating random 350,000 of 2 million units.
Does not indicate viewing on non-TiVo connected sets in home.
Used with permission.

Wolzien LLC
www.wolzien.com

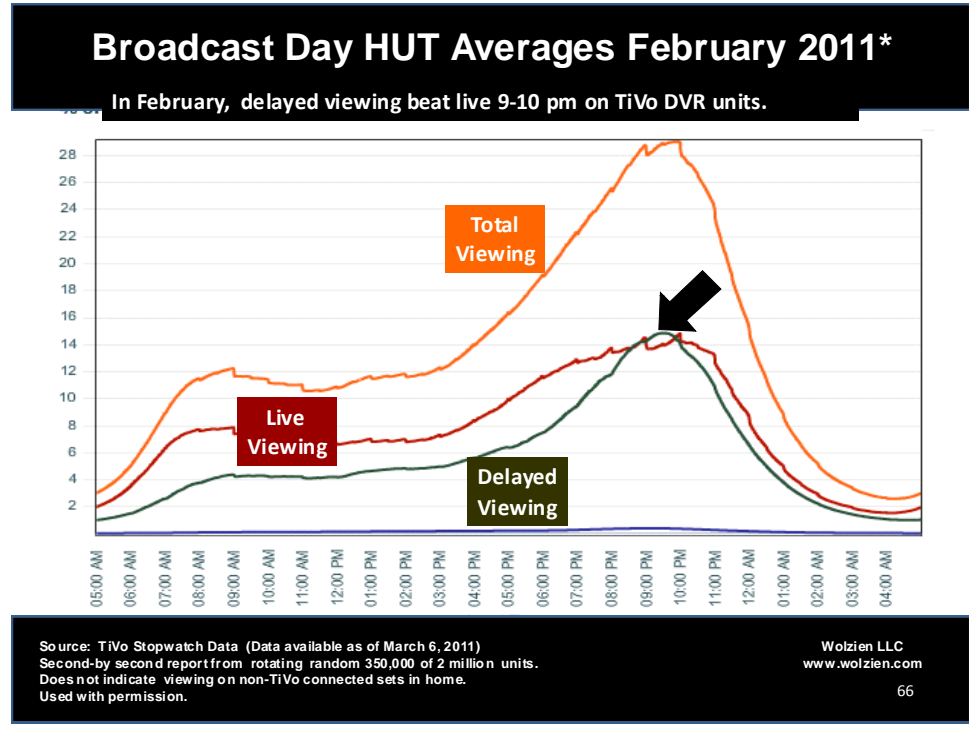
65

For the original air in November, on these TiVo units 3 times as many people delayed viewing as watched the show live, but that flipped on the rerun in March when live viewers were about 1.4 times those who delayed viewing. Live viewing dropped about 20% between November and March, while delayed viewing dropped a huge six times.

Now this slide is not atypical of rerun shows at both broadcast and cable networks. So my concern is that as on demand increases whether by DVR or cable or web, the value

of reruns and their ability to generate audience and advertising will diminish. And this, too, may negatively impact syndication value.

Basically and broadly, my view is that on-demand viewing will undermine the economics of linear television, not because of ad skipping, but because it diminishes the value of reruns since many more people can see a show in or not too long after it's first airing, and therefore have no need to pick it up on the second or third pass.

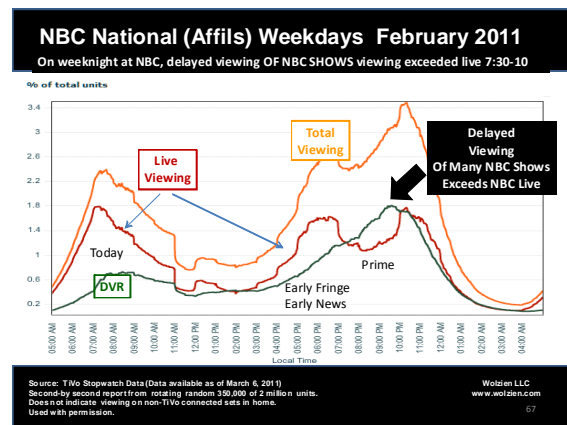


This chart in a different format shows 24 hours of all television viewing in February, as available through March 6th, starting at 5am on the x axis. Total viewing is the top line in orange. Live viewing is the brownish line that's mostly in the middle. And unit's running delayed playback of previously recorded shows is

in the green line that's mostly running third down from the top. There is also a blue line way down at the bottom, which indicates people watching web shows via broadband on their TiVos...from Netflix, YouTube or a host of other providers.

What's the headline here—pretty obvious. From 9 to 10pm more of these units are running previously recorded shows than all the viewing at that time of all the live transmissions on broadcast and cable television combined. Let's take a look at individual networks.

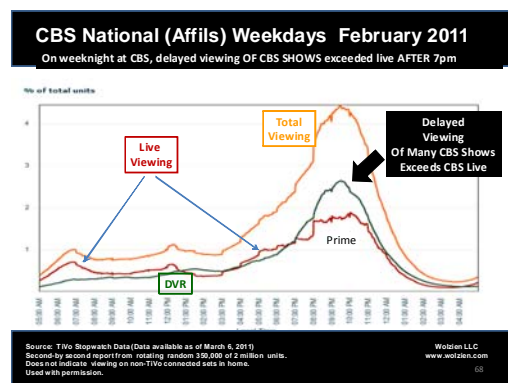
NBC weekdays, total viewing in orange, live viewing in brown, and delayed viewing in green. Really interesting things here. Huge DVR playback of—this is important---



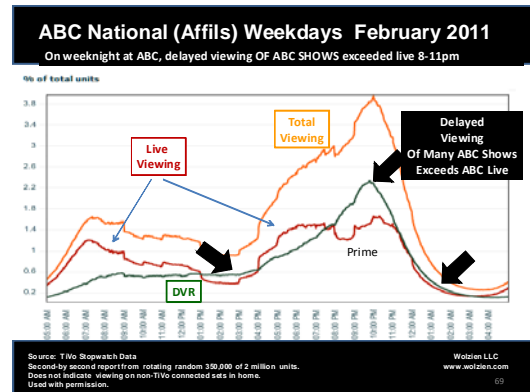
previously recorded NBC SHOWS in prime exceeds live from 7:30 until 10pm. So NBC is it's own huge competitor during prime. Then look at Today and Early Fringe and early news—places where live transmission is way higher than playback. In fact, during this period, the first half hour of Today has more live viewing on these on demand DVR units than prime. Back when I was working at NBC News nobody would ever have thought that Today could beat prime one day. And that live shift suggests changes in ad buys that will focus on live delivery because it's pretty hard to skip commercials when you're shaving or getting the kids dressed.

CBS. Same story, but more so. On demand playback on these DVR units of previously recorded CBS shows exceeded live viewing from 7pm until 3am. And also like NBC, there were live bumps, but lesser ones, for Morning News and in early fringe and early news.

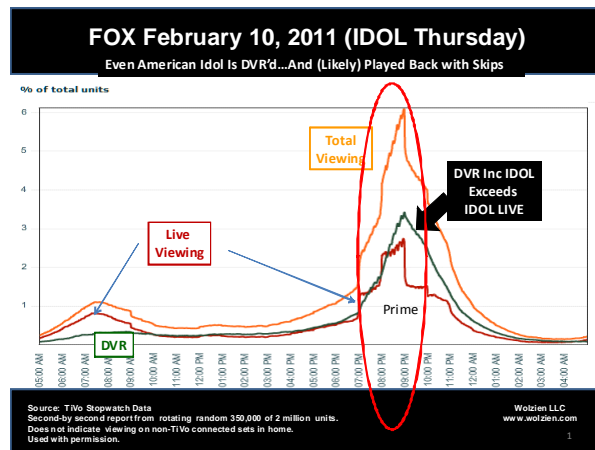
Could ABC be different? No. Exactly the same story. DVRs of ABC shows exceeded viewing of the live transmission throughout prime, from 8 to 11pm, with live bumps for GMA and early fringe and early news.



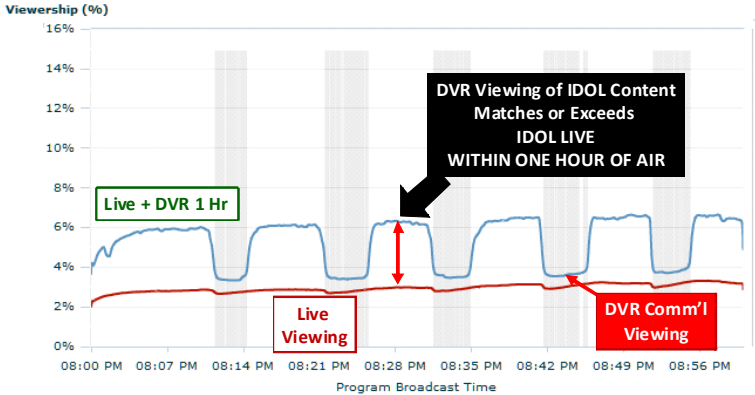
So what are they watching instead of those live shows? Let's take a look at Fox.



Here's 24 hours of Fox on February 10th, an IDOL Thursday. Take a look at American Idol from 8 to 9pm. You see a huge run-up in the brown live viewing line, but an even greater run-up in the delayed viewing line. What's going on here?



IDOL Feb 10th LIVE PLUS ONE HOUR
 Even American Idol Is DVR'd...And Played Back with Skips



Source: TiVo Stopwatch Data
 Second-by-second report from rotating random 350,000 of 2 million units.
 Does not indicate viewing on non-TiVo connected sets in home.
 Used with permission.

Wolzien LLC
 www.wolzien.com
 72

Let's look at a show slide for Idol 8 to 9pm. I've sorted out live in the brown at the bottom, and live plus delayed viewing BUT ONLY within the first hour of air in the blue. So the spread between the blue and the brown—the red arrow—shows you the actual delayed viewing. So within the first hour of Idol's air, the audience for the content portion of the show effectively doubled, while the ads were skipped on about 80% of those delayed viewing units.

So we've got a partial answer to what they're watching when not watching live transmissions...they're watching the same hit shows, but more conveniently AND skipping commercials. Put another way, some of them are Time Warping—starting recording and then beginning viewing when the show is underway...and skipping commercials along the way.

And that raises the question, in some frustration, of what works, if anything?

The answer is live sports...or at least football.

IDOL Feb 10th LIVE PLUS ONE HOUR
 Even American Idol Is DVR'd...And Played Back with Skips

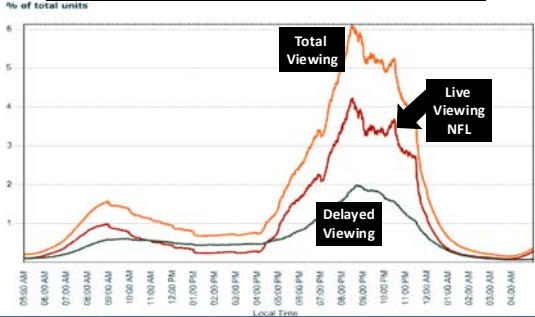
Research Question
 So What Works???

LIVE SPORTS
 (or at least Football)

Source: TiVo Stopwatch Data
 Second-by-second report from rotating random 350,000 of 2 million units.
 Does not indicate viewing on non-TiVo connected sets in home.
 Used with permission.

Wolzien LLC
 www.wolzien.com
 75

NBC National (Affils) Sundays in October 2010
 NFL games delivered live audiences hugely ahead of DVR.

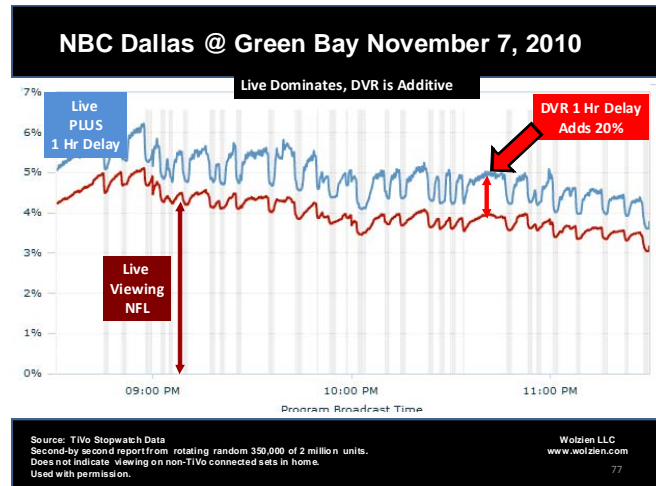


Source: TiVo Stopwatch Data
 Second-by-second report from rotating random 350,000 of 2 million units.
 Does not indicate viewing on non-TiVo connected sets in home.
 Used with permission.

Wolzien LLC
 www.wolzien.com
 76

Take a look at NBC on Sundays in October. Live viewing in prime on these TiVo units exceeded delayed viewing by better than a 2:1 ratio. The power of football. I was curious about that one hour delay thing we saw with Idol.

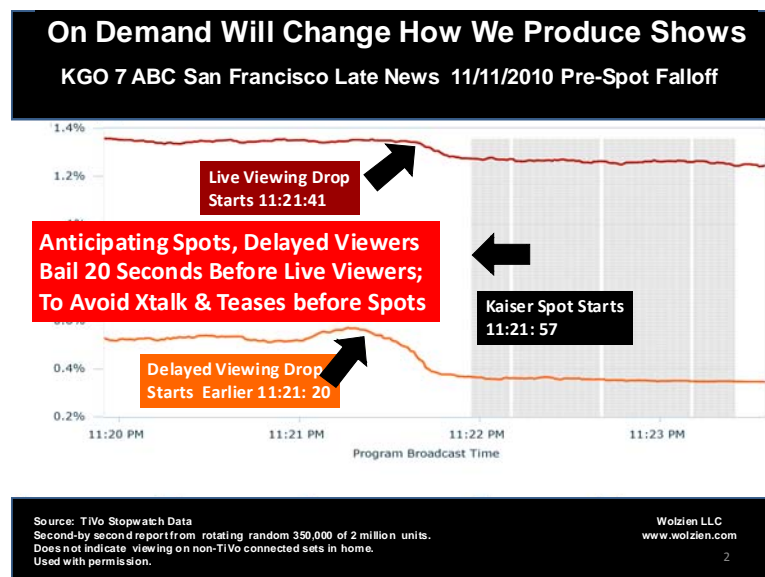
Dallas at Green Bay on November 7th. As in the previous chart, more people watching live than delayed. Here's a chart with live in the lower line, and live plus one hour in the upper, blue. The one hour delay, shown by the red arrow, added about 20% to viewing of content during the live telecast, and the skip rate is around half or less. So even though we know people do the Time Warping thing...start recording, then begin to playback somewhat later and skip commercials to catch up with the live action at the end of a game, in this case at least there doesn't seem to have been a whole lot of that. The fall off in the fourth quarter in both live and delayed viewing is not surprising...the super bowl champs were ahead 35 to 7 at the end of the third...and won 45 to 7.



When you look at the live vs. delayed viewing and the somewhat lower ad skip rates in a chart like this, it gets you thinking about the value of rights payments to the NFL....and the implications of a strike.

Production Lessons: A couple more slides as we wrap up this section...about how on demand viewing habits will change how we produce shows. As some of you know, I've spent a chunk of my career as a news producer, both local and network. So I suspect that those of you who are producers, or work with producers, may find things in second-by-second data that may change the way you look at how you build shows.

This chart is of the late news on November 11th at the ABC O&O, KGO, up in San Francisco. This is an expanded period to show viewing for just three minutes between 11:20 and 11:23pm. There is show content up until the start of the gray block which is a Kaiser spot beginning at 11:21:57. You can find places that look like this in the charts of many newscasts. Here's what I found interesting as I remembered that ABC's stations pioneered the development of personality in news programs through cross talk, and have been masters at promoting what's later in the show in their teases. Live

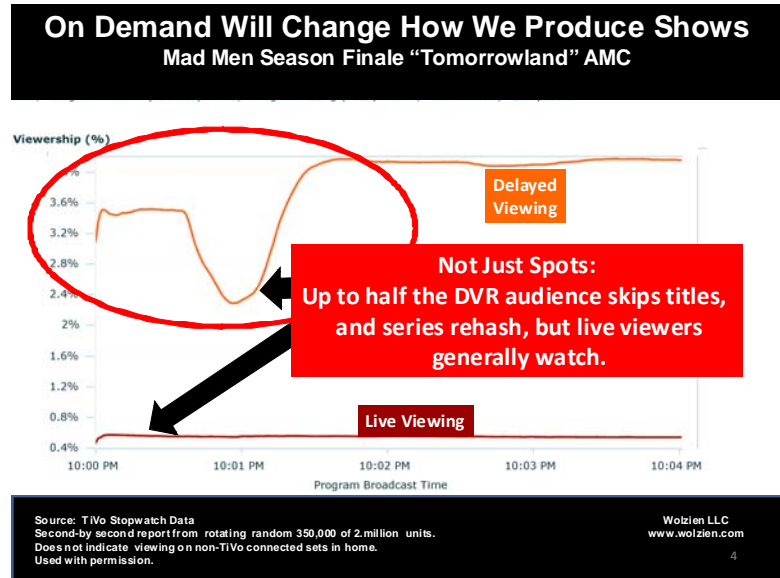


11:20 and 11:23pm. There is show content up until the start of the gray block which is a Kaiser spot beginning at 11:21:57. You can find places that look like this in the charts of many newscasts. Here's what I found interesting as I remembered that ABC's stations pioneered the development of personality in news programs through cross talk, and have been masters at promoting what's later in the show in their teases. Live

viewers up on the brown line at the top—and, to be fair, most people watched live-- began to sense the spot was coming 16 seconds before that, at 21:41, and began to surf to other channels. But the people watching on delayed playback sensed the spot was coming and bailed 21 seconds before that...fully 37 seconds before the Kaiser spot hit. Nearly half of the delayed viewers thought the end of segment cross talk and teases were useless, and they were very fast on their skip buttons.

Finally let's return to that season finale of MadMen back in October. You saw the full show chart before, with live at the bottom, delayed viewing in orange, and total viewing in green. Now let's look just at the start of the show...just the first two minutes.

That's where you get the series reprise and the very classy, but lengthy title sequence. Live viewers seem to tolerate that...you see a bit of joining over the first ten seconds of the live transmission. But the second-by-second data shows that the reprise and particularly the long title result in the loss of up to half of the delayed viewers for that period. Would this change the way you think about stacking a show?



Early Questions From DVR On Demand Experience

Will On Demand Television by Air, Cable or Web

1. Reduce the value of reruns on originating net or in syndication?
2. Require more originals and threaten network models that are based on significant reruns?
3. Increase the value of sports?
4. Develop a "Yield" approach to a show's ability to convert show viewers to commercials?
5. Require new approaches to production of both entertainment and news?

So all of this raises some interesting questions about the on demand universe we're moving into whether it's by cable or web VOD or DVR. My questions would be:

Does on demand television reduce the value of reruns on the originating net – broadcast or cable-- or in syndication?

If so, would that change the basic economics of linear

networks, particularly those based on a significant number of reruns?

Third, does this increase the value of sports, particularly football...if you can imagine football being worth still more?

Fourth, do we need to begin to consider a “yield” approach to a show’s ability to deliver viewers to and hold them through commercial breaks?

And finally, do we need to develop new thinking on approaches to production and stacking shows for both entertainment and news that reflect what delayed viewers are actually doing on a second by second basis?

5. The Bulls Eye Model of Media Complexity.

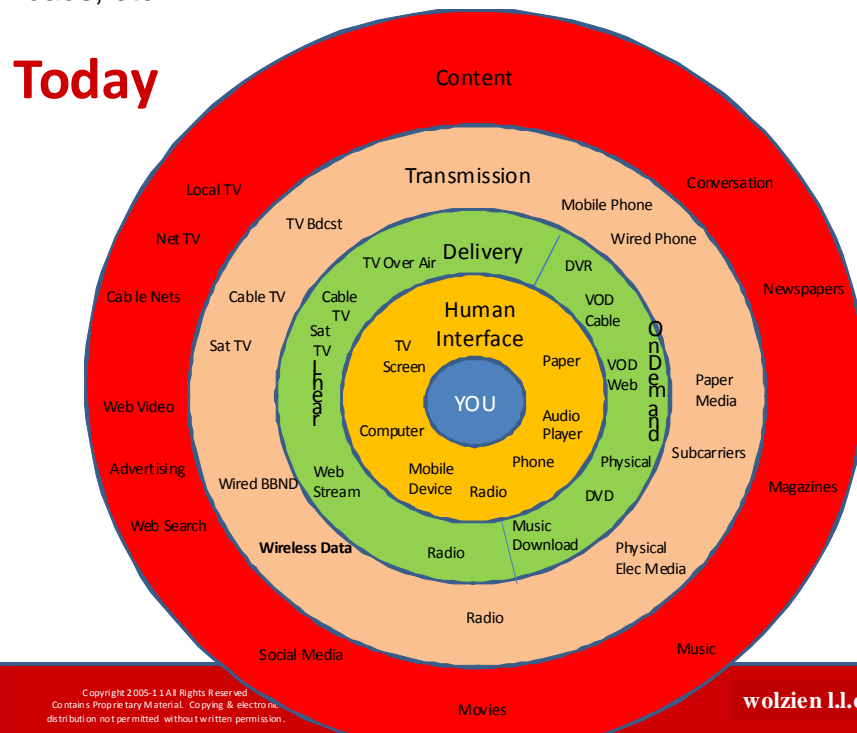
Ok, let’s wrap this up. How we make decisions, and design deals in this business often depends on the various options of content, transmission, presentation, and the human interfaces that surround us.

So first, put yourself in the middle. You’re the consumer. Surrounding you are human interface devices...the screens, computers, pads, phones, mp3 players, and even paper based newspapers and magazines.

Those all receive content through some form of delivery mechanism... either linear as in broadcast or cable television or on demand as in VOD by web, cable or DVR, or DVD discs, or music downloads, etc.

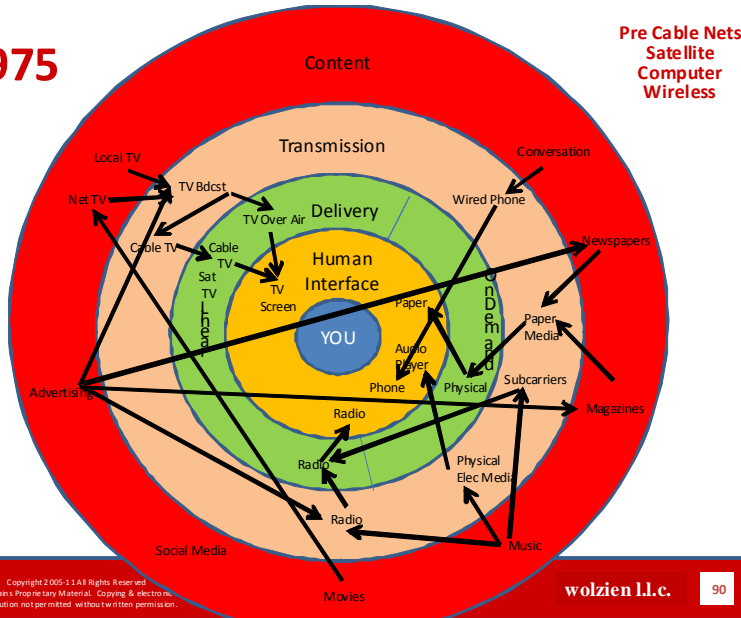
There are transmission mechanisms to get that content into the delivery forms...broadcast, cable, broadband, radio, physical media.

And then there’s the content itself that’s trying to get through all those other rings to get to you...or you are trying to get to it. Local or



network or cable TV, web video, advertising, search, social media, movies, music, magazines, newspapers, even conversation on your phones. All content.

1975



It's always been a complex model...even back in 1975, for example, before cable networks, wide use of satellites, computers, and certainly mobile phones.

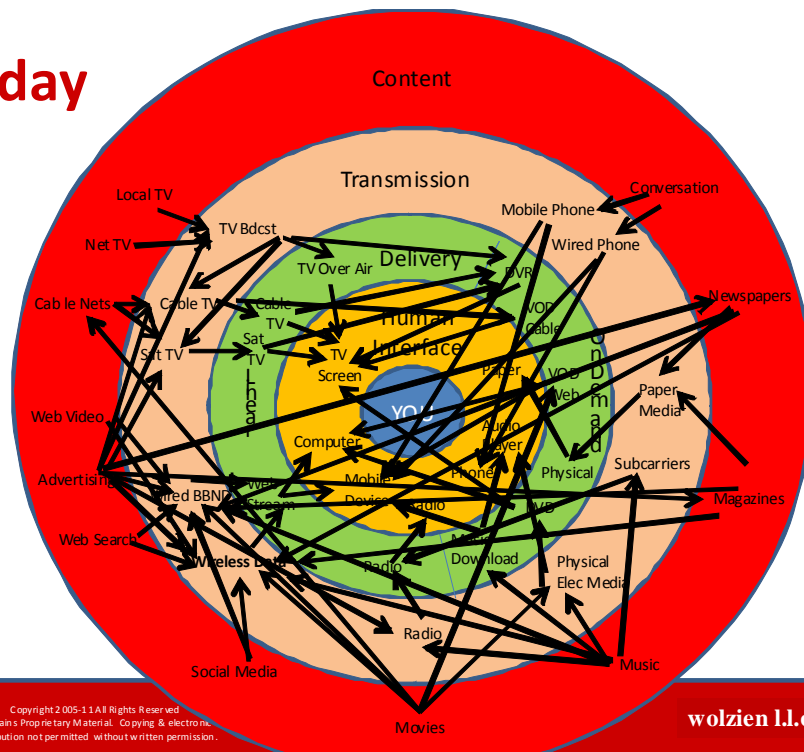
Here's how the model looked back then. Pretty complicated, but hold your breath.

But today there are five times the number of types of connections possible, and thousands of content sources trying to wiggle their way to the human

interfaces that surround you, the consumer. So multiplying all of those options times one another gives you a total number of factors to consider...maybe in the millions. Pretty daunting.

It's pretty difficult to make sense of it all in a workable structure. There are lots of us involved in this business, but there is only one profession that can really sort it all out. And what is that profession?

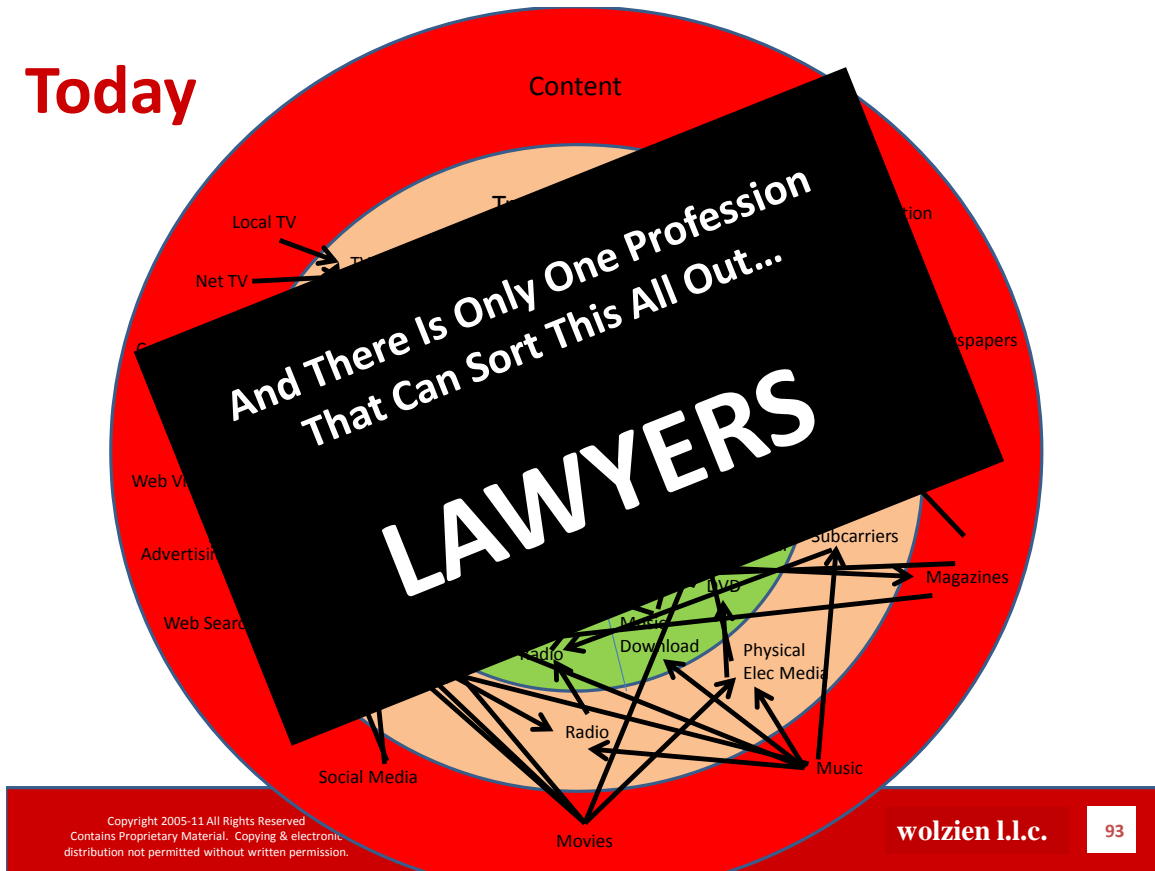
Today



wolzien I.L.c.

91

Today



Lawyers, of course....and that's why you are all here today.

And as a non-lawyer, I think I can say this with great certainty.

THIS is YOUR job security chart.

Thank you very much.

UCLA Freud Theatre
Friday, March 11, 2011

(About Tom Wolzien & Wolzien LLC. Tom Wolzien formed Wolzien LLC in 2005 after nearly 40 years in local and network television news, network television management, and as a sell side analyst of media, entertainment, and cable companies on Wall Street. Wolzien LLC provides strategic services to media and communications leaders. Details are available at www.wolzien.com.)