Lights, Camera, Action:

A Proposed Strategic Plan for Netflix in a Changing Media Landscape

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Abstract

The trend towards digital content on-demand has shaken up the media industry on a fundamental level, and the effects of these changes have only begun to take hold. One consequence of this shift has been the emergence of online streaming video providers, of which Netflix is one of the most successful. Netflix's dominant market position can be attributed largely in part to its early entry into the fledgling streaming video industry during the past decade, and Netflix is positioned well to enjoy future success. However, this is contingent upon the firm navigating increasingly stiff competition from other streaming video competitors, cable companies, and premium cable channels in a market where streaming video as an end in itself is no longer a unique value proposition. This paper surveys the current streaming video market competition, profiling Netflix's position in relation to its rival firms. A strategic audit on Netflix's current and announced future plans analyzes potential threats and opportunities for the firm. The paper then outlines the beginnings for a potential strategic plan for the firm to maintain its position at the head of the market, including proposed changes to the firm's current business practices. Among these is a suggestion for the firm to introduce a plan offering live television to customers in an effort to compete directly with existing cable companies who pose a serious threat to Netflix's business.

Executive Summary

The streaming video industry has grown significantly over the past few years, leading many to speculate over the impact that this new form of media delivery will have on traditional media outlets. The developments in the industry, coupled with the uncertainty surrounding its future have spurred a great deal of activity in both the streaming video, television, and movie industries. Multiple streaming video firms have emerged as competitors, and traditional media distribution companies have made moves to block any negative impact this emerging trend may have on their existing business model.

One example of a successful streaming video company is Netflix, and the firm presents an excellent case to study through which one can better understand the changes going on in the industry as a whole. Over the past few years, Netflix has seen great success with its streaming video subscription service. And while the firm secured a place as an industry leader early on in the move to streaming video, a significant amount of competition has developed with many firms now offering similar services. Netflix also faces competition from cable companies who see Netflix as threat to their current business model, and who are therefore starting their own video streaming services. As a result, Netflix's position as a leader in the streaming video industry is in jeopardy. Netflix currently intends to work with cable companies in an attempt to expand their customer base and increase the popularity of its streaming service, but in the face of increased competition from cable companies this plan seems flawed.

This paper proposes that Netflix add live television as a separate streaming package that customers can subscribe to as a solution to this problem. Doing so would improve the firm's strategic position and help it remain dominant in the industry. Additionally, this service would capitalize on a growing trend away from traditional cable subscriptions while complementing Netflix's existing capabilities.

BACKGROUND

Streaming Video Industry

Streaming video has seen an upsurge in popularity over the past half decade. This increase in popularity is attributable to the fact that more people have access to broadband, and this only continues to grow. Similarly, the number of internet-ready televisions and television accessories has exploded over the same time period, and estimates show that this trend will continue for the foreseeable future. Finally, the trend towards 'cord-cutting' in which people cut their cable subscription in favor of a combination of online viewing and free over-the-air broadcasts, has also played a role in the increased popularity of the industry.

Broadband penetration

Over the course of the last decade, there has been a significant growth in the number of people in the United States (as well as the rest of the world) who subscribe to broadband internet services. As seen in figure 1, the number of subscribers in the US has grown from 7,069,874 in 2000 to 85,723,155 in 2010.[1]

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[1] International Telecommunication Union. (2011, December). Fixed Broadband

Similarly, on average 27.62 out of every 100 people in the United States subscribed to broadband internet in 2010, up from only 2.5 per 100 people in 2000.[2] As is clear from figure 2, it appears that this trend is set to continue for the near future. Intuitively, this makes sense as high-speed internet is becoming more and more a necessity for people in today's highly connected and increasingly internet focused society. Between the increase in social networking, photo sharing, streaming video usage, and everything else the modern internet has to offer, users are finding more reasons to justify or even require a broadband internet subscription. The surge in popularity of high-speed internet over the past decade has been a positive feedback loop. As more content is developed for the web, more users get high speed internet. As more users get high speed internet, more content is developed for them on the web.

There are two other factors with a major impact on broadband subscriptions: price and availability. According to a 2011 report by the FCC, only 3% of non-rural internet users in the US did not have access to broadband service of 3 Mbps/768 kbps or faster. In comparison, 28.2% of rural users did not have access to similar services, and where service was available there were fewer choices in broadband providers than in non-rural areas.[3] The US government believes that "all Americans, whether they live in rural or urban areas, should have access to robust and affordable broadband services—as well as the ability to use those services—in order to take advantage of the many opportunities the digital revolution has

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[2] Ibid.
[3] US Federal Communication Commission. (2011, June 17). Bringing Broadband To Rural America: Update To Report On Rural Broadband Strategy. Retrieved from http://www.fcc.gov/encyclopedia/telecommunications-service-rural-america

created." [4] As a result, the government is making an effort to extend broadband to all areas of the United States through the use of government programs and subsidies.

Additionally, more and more users have been subscribing to broadband services as the price to do so has become more affordable over time. Currently, the United States is one of the cheapest places for broadband internet, when compared to other countries around the world.[5] Overall, broadband prices have been dropping over the past few years. And while the largest price decreases are taking place in the developing world, developed nations are still seeing broadband price decreases from year to year.[6]

Internet Capable TV Devices

Another emerging trend is that of internet capable televisions and accessories which allow users to watch digital internet content on their television instead of on their computer. For the past few years, users have had the option to purchase accessories with the capability to connect to the internet, thus allowing them to watch content from the internet and content from their computer on their television. This includes Apple's 'Apple TV', which allows users to watch content from their iTunes library on their computer, Microsoft's 'Xbox', a gaming platform that features internet connectivity and the ability to watch Hulu, Netflix, and other

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[4] US Federal Communication Commission. (2011, June 17). Bringing Broadband To Rural America: Update To Report On Rural Broadband Strategy. Retrieved from http://www.fcc.gov/encyclopedia/telecommunications-service-rural-america
[5] International Telecommunication Union. (2011, May 16). ICT services getting more affordable worldwide. Retrieved from http://www.itu.int/ITU-D/ict/ipb/index.html
[6] Ibid.

streaming services, and certain DVD and Blu-Ray players that feature internet connectivity and applications to watch streaming services.

And while these internet connected devices continue to be popular, the newest appearance of this trend is in internet connected televisions. Now, instead of having a television and connecting an internet-ready device to it to watch streaming content, users have the option to simply buy a television with built in internet connectivity. Viewers have been somewhat slow to adopt these internet capable televisions, with the percentage of broadband-capable homes with internet ready televisions growing from only 8% in 2010 to 10% in 2011.[7] However, many analysts still believe that the percentage of internet-connected televisions is only going to rise. One study suggests that by 2015, most televisions will connect directly to the internet,[8] while another more conservative report estimates that 100 million homes in North America and Western Europe will have internet connected TVs by 2016.[9] Combined with the internet-ready television accessories that are still popular among users, and it appears that users with the ability to watch streaming content on their televisions will soon be in the majority.

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[7] Baig, E. C. (2012, Jan 11). Intelligent products run the show at CES. *Gannett News Service,* pp. n/a. http://search.proquest.com/docview/915683996?accountid=8285

[8] Research and markets; the digital home and connectable devices: Trends, markets and forecasts - internet-ready device sales expected to more than double between 2011 and 2015. (2011). *Electronics Business Journal,* 2524. http://search.proquest.com/docview/900558078?accountid=8285

[9] 100 million TVs to be internet-connected by 2016. (2012, Mar 22). *Tribune - Review / Pittsburgh Tribune - Review,* pp. n/a. http://search.proquest.com/docview/932423217?accountid=8285

Cord Cutting: Theory and Reality

As online video streaming services have proliferated, there have been many references made to the idea of 'cord cutting,' in which customers cancel their expensive cable subscriptions in favor of watching their shows online for free. There are several factors behind this trend. First of all, many people do not realize that they can watch broadcast television in HD for free, needing only an antenna to connect to their TV. Because broadcast channels are included in most cable subscriptions, the fact that these channels are still broadcast for free over the air is lost on many cable subscribers.

As for network programming, there are many options for watching current season television shows after they have aired online. Many network websites show recent episodes for free after they have aired, and sites like Hulu have shows for free from many different networks. The iTunes store offers episodes of some shows for download for a small fee after they have aired, and sites like Netflix that have large catalogs of movies and television shows to watch for a small monthly fee. This eliminates the need for many existing movie channels, as well as some channels that focus mainly on syndicated television programs that are already likely to be on DVD.

While there have been rumblings in the industry for a long time about cord cutting and its potential impact on the industry, a dramatic shift towards cord cutting has not been observed yet. There has, however, been evidence of 'cord shaving' occurring among those that currently have a cable subscription. In a recent study, 16% of surveyed cable subscribers were 'highly likely' to cut back on their cable subscription. Of those who said they would cut back, 34% said that they would

be getting rid of their HD service in favor of SD, 18% said they were cutting back on non-premium channels, 14% said they were cutting back on the number of cable boxes they had in their house, and 12% said they were cutting back on premium channels.[10]

Competition

Over the past few years a great deal of competition has developed in the online streaming video market. The various competitors range from cable companies to web streaming sites to other places where users can purchase digital content. Among all of the Netflix's competitors, just about every possible combination of pay-per-view, subscription, and digital purchase pricing strategies is available to users. Each site has strengths in terms of the content that it offers, and whether a user is looking for television shows or movies, they will typically find at least one or two platforms offering it. Additionally, some competitor sites offer currently running television shows or recently released movies, an area in which Netflix does not have a strong presence. This wide variety of streaming video services threatens Netflix's seat at the head of the market. At the moment, the following services form the largest threat to Netflix:

- ***Hulu*** – Hulu has two components: a free site and a paid subscription service, and viewers are required to watch ads using both versions. The free version of Hulu shows many current running network shows, which either come

[10] Kurz, P. (2012). "Cord shaving" rather than outright "cord cutting" likely among many cable-TVbroadband subscribers this year, says report. *Broadcast Engineering,* n/a. http://search.proquest.com/docview/922482662?accountid=8285

online the next day or at a one week delay. Typically only the most recent five episodes of a currently airing show are available on the free version of Hulu. Hulu Plus is the company's paid subscription service where users pay a flat monthly fee, giving them access to additional shows, episodes, and some movies. Hulu Plus also allows users to watch content on devices other than their computer, such as internet capable television devices and mobile phones. Hulu is operated as a joint venture of several major media networks.

- ***RedBox –*** RedBox currently operates a chain of rental kiosks where users can rent a DVD movie or video game using only their credit card. The service is similar to the traditional video rental model, but has a much smaller selection and is cheaper to operate as the service is more similar to a vending machine than a full store. RedBox recently partnered with cable provider Verizon to launch an online streaming video service.
- ***Vudu*** – Vudu is a streaming video provider that was purchased by Walmart in 2010. Vudu allows users to rent or buy streaming movies and watch them across devices. They also recently announced a service that will allow users to 'digitize' their existing DVD movie collection, where they can trade in DVDs that they own and in exchange receive digital licenses to stream those movies across devices through Vudu.
- ***iTunes Store*** – The iTunes store is owned and operated by Apple. The service allows users to buy or rent movies and TV shows online. However, unlike Vudu, users actually download the content that they watch, and then transfer that content to compatible viewing devices such as iPods, iPhones, iPads, or

Apple TV. As a result, an internet connection is only required for the initial purchase and download of the content.

- ***Streampix –*** Streampix is a streaming video service that was recently launched by cable giant Comcast. The service will feature streaming television and movies, and will be available only to current Comcast subscribers. A subscription to the service will be included for free with certain Comcast cable packages, and will be a flat fee monthly subscription add-on for others.
- ***Amazon Instant Video*** – Amazon Instant Video is the streaming video segment of Amazon.com. The service allows users to buy or rent streaming videos online. The service normally operates on a pay-per-rental/paid video purchase pricing plan, with some exceptions. Subscribers to Amazon Prime, Amazon.com's yearly paid subscription service, receive access to most of the site's video streaming library for free.
- ***Blockbuster –*** Blockbuster was once the industry leader in brick and mortar video rental stores. As in-person video rentals became less popular, Blockbuster suffered huge losses in customers and had to close many of its retail stores. The firm filed for bankruptcy in late 2010, and in 2011 was purchased by satellite television provider Dish Network. Blockbuster now operates brick and mortar rental stores, rental kiosks, and an online video streaming platform.

The combination of these companies' streaming offerings makes Netflix much more vulnerable now that the bulk of Netflix's business is in streaming video. These problems are compounded by the fact that Netflix has recently had trouble getting the rights to some content to put in its streaming library. In September of 2011, Netflix announced that it would no longer hold the rights to stream content owned by Starz (Starz has the rights to content by both Sony and Disney) due to a contract dispute between the two firms.[11] The content acquisition issues mainly relate more to movies than they do to television shows, as film studios are beginning to see Netflix as a threat to DVD sales. In 2011, US DVD sales dropped by 20% to $6.8 billion, which represents the continuation of a major decline for the industry, which saw sales of $11.4 billion as recently as 2009.[12] [13] On the other hand, digital video sales rose 50% in 2011 to reach $1.3 billion.[14]

While Netflix's content problems have caused some users to complain about the lack of selection, the fact that Netflix has been the best option around for video streaming has kept the company popular. However, now that there are multiple substitute products entering the market, Netflix needs to innovate to stay competitive.

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[11] More net, less flix; forget movies by mail. TV streaming is the new star for netflix. (2012, Feb 05). *Los Angeles Times,* pp. B.1-B.1. http://search.proquest.com/docview/919806867?accountid=8285
[12] Snider, M. (2010, Jan 07). Blu-ray is the silver lining among dwindling DVD sales. *USA TODAY,* pp. D.3-D.3. http://search.proquest.com/docview/409121469?accountid=8285
[13] Snider, M. (2012, Jan 10). DVD sales slide, but blu-ray grows. *USA TODAY,* pp. B.1-B.1. http://search.proquest.com/docview/914951150?accountid=8285
[14] Ibid.

Netflix

Corporate Overview

When Netflix was founded in 1997, it was well positioned to compete in the existing market for home video rental. At the time, brick and mortar video rentals chains, such as Blockbuster, were the primary source of VHS and DVD movie rentals. When it first entered the market, Netflix followed the standard business model of charging customers per rental for DVDs that most brick and mortar rental outlets used. The company quickly dropped this, however, for the subscription-based model it still uses today. The core aspects of Netflix that made the service novel to customers were twofold.

First of all, the fact that Netflix users could pay one flat monthly fee and not have to worry about being charged for late fees was appealing to customers. Video stores like Blockbuster often had significant late fees for movies, and customers had to pay each time they wanted to see a movie. The second thing that made Netflix stand out was the fact that customers could order movies online and receive them by mail without having to go to the store. And while the Netflix experience may have lacked the instant gratification of going to a video store, it wasn't long before the company had a solution for that problem too. A few years later Netflix began offering streaming video online to customers. At first, the amount of video customers could stream was limited to one hour for every dollar a customer paid for their subscription each month. In response to Apple's announcement that it would

begin renting television and movies, Netflix began offering customers unlimited streaming for the same price as part of their paid subscription plan.[15]

Increasing Popularity of Streaming Video Service

During the late 2000s, Netflix saw a surge in popularity of its streaming video product, as broadband penetration increased and consumers had more bandwidth available at their fingertips. At the end of 2011, Netflix had 26.3 million unique subscribers (customers who have both a streaming package and a DVD package are only counted as one). Of these customers, there were 21.67 million streaming video subscriptions in the US and 11.16 million DVD by mail subscriptions in the US. The fastest growing portion of the business is the video streaming subscription service, and the firm expects DVD subscriptions to continue drop off until that segment is discontinued. Netflix was successful because it entered the relatively mature, stable video rental business and presented a next step forward: watching movies online. The company has enjoyed a great deal of success from this strategy, but at this time there is a great deal of competition that has emerged, and Netflix is finding it harder and harder to differentiate itself.

Netflix Common Sized Financials

From looking at Netflix's balance sheets from FY 2011, FY 2010, and FY 2009, it is clear that Netflix is currently undergoing a significant amount of growth. Almost

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[15] Liedtke, M. (2008, January 13). Netflix Expands Internet Viewing Option. *SF Gate.* Retrieved from http://web.archive.org/web/20080115195018/http://www.sfgate.com/cgi-bin/article.cgi?f=/n/a/2008/01/13/financial/f090113S93.DTL

all of the sections of Netflix's balance sheet showed some sort of growth from both 2009 to 2010 and from 2010 to 2011. The most significant growth occurred in the accounts related to Netflix's content library, with both current and non-current content showing triple digit growth from FY 2010 to FY 2011 (Figure 4). Netflix has some complicated accounting related to its streaming content library, with some titles classified under 'Prepaid Content,' some titles under 'Current' or 'Non-Current Content Library,' and some titles not appearing on the balance sheet at all.[16] Regardless of the accounting, however, all of Netflix's content accounts show at least some amount of growth between FY 2009 and FY 2011. It is interested to note that Netflix has made a significant investment in its content library, and yet it still faces criticism from customers over its lack of content.

While these figures represent growth across all Netflix content (DVDs and streaming included), the statement of cash flows illustrates that the bulk of this growth is caused largely in part by a massive investment by Netflix in their streaming content. According to Netflix's FY 2011 statement of cash flows (figure 9), the firm spent over $2 billion on streaming content in 2011, as compared to only $85 million on acquiring new DVD content. All of this evidence gives a financial perspective to Netflix's current focus on streaming content as opposed to DVD by mail content. Additionally, the focus on content is evident in the fact that content accounts have grown from 25.43% of the firm's total assets in FY 2009 to 43.19% of total assets in FY 2011 (figure 3).

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[16] Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Looking at the income statement it is interesting to note that even while the firm has been experiencing a lot of growth, the firm's expense structure has stayed relatively constant. According to (figure 5), all of the accounts on the income statement remained at the same amount as a percentage (within a few percent) of total revenues from FY 2009 through FY 2011. At the same time, the firm saw an increase in revenues between FY 2009 and FY 2010, and again between FY 2010 and FY 2011. This coincides with the continued growth in the firm's subscriber base. As seen in (figure 10), the firm added more than 7 million subscribers between FY 2009 and FY 2010, and more than 6 million between FY 2010 and FY 2011. At the same time, 'General and Administrative' expenses and 'Technology and Development' expenses grew faster than revenues (figure 6).

MOVING FORWARD

Current Strategy

CEO Reed Hastings has stated in the past that he believes Netflix's is most comparable to a premium cable channel (like HBO) than anything else.[17] And in an effort to gain additional subscribers, it appears that the firm is trying to act like one too. It was reported in early 2012 that Netflix was in talks with various cable companies to try to strike a deal in which Netflix would be included in customers' cable packages. Since no details of such an agreement have been released yet, it is not clear whether the Netflix add-on would be free to cable customers or if it would be an extra monthly charge added onto customers' bills. Either way, however, such a

[17] Chozick, A. Netflix Said to Be Aiming For a Cable Partnership. (2012, Mar 08). *The New York Times,* pp. B.3-B.3.

deal would be likely to increase subscriber counts. The comparison to HBO has some merit, as the two companies offer a great deal of movies to customers as well as some original television programming. HBO has even recently introduced its own streaming platform for its own content, called HBO Go.[18] And while Netflix appears to believe that partnering with cable firms is a path to future success, there is a potentially large problem with doing so: large cable companies appear to be conspiring against Netflix in an effort to rid themselves of Netflix's stiff competition.

Verizon, which sells cable packages under its Verizon FiOS brand, has recently partnered with RedBox, who maintains a network of video rental kiosk across the US, to offer online video streaming. Launching in late 2012, the service will contain video streaming content online and potentially even live television.[19] Comcast recently announced that it is developing a service called 'Streampix' to offer unlimited online video streaming free with certain cable packages (or as a $4.99 add-on to other cable packages).[20] Dish Network, the second-largest satellite cable provider in the US, purchased Blockbuster in 2011.[21] Blockbuster now offers online streaming packages to compliment its network of brick and mortal video rental stores. Each of these companies is rolling out a streaming video offering to their customer base, and they are all direct competitors to Netflix's streaming segment.

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[18] Spangler, T. (2012). HBO gets go signs. *Multichannel News, 33*(1), 6-6. http://search.proquest.com/docview/913494684?accountid=8285
[19] Spangler, T. (2012). Verizon, redbox gun for netflix. *Multichannel News, 33*(7), 26-26. http://search.proquest.com/docview/921753445?accountid=8285
[20] Schechner, S. Comcast Takes Aim at Netflix. (2012, Feb 22). *The Wall Street Journal*.
[21] Flint, J. (2011, Aug 02). Dish networks big appetite. *Chicago Tribune,* pp. 3-2.3. http://search.proquest.com/docview/880327270?accountid=8285

The reason behind the proliferation of video streaming sites affiliated with cable companies is twofold. First, the cable companies (correctly) see Netflix and other video streaming sites as a threat to their business model. Netflix, along with Hulu and other online streaming video platforms are the main driver behind the recent talk of cord cutting in the cable industry And while it is still unclear just how big of an effect the cord cutting trend is going to have on the cable industry, the cable companies are definitely taking notice of the trend. In an interview in 2011, Verizon VP of consumer strategy and planning Shawn Strickland stated that "The change of pace has been mind-blowing…we've been looking at this issue for the better part of a year, and our perspective has pretty much done a 180" and he now believes that "cord-cutting…will happen."[22]

Flaws with Current Strategy

At a time when cable companies are scared of Netflix and other similar streaming video providers, does it make sense to partner with said cable companies? Going forward, it seems unlikely that companies such as Comcast, who have invested in developing their own streaming video provider. Such proprietary streaming platforms allow these firms to enter into the streaming market, and thus eliminate any need for a partnership with an outside streaming video provider. There is always the possibility that smaller cable companies without the resources to develop their own streaming platforms will want to partner with Netflix. Netflix, however, is an innovative firm and has been on the cutting edge media distribution

[22] Lieberman, D. (2011, Jan 04). Is it time to cut the cord on cable TV? *USA TODAY,* pp. A.1-A.1. http://search.proquest.com/docview/822177408?accountid=8285

for the last decade. They have set the trend for video rental and streaming video, so for them to partner with cable companies at a time when cable companies appear to be the weakest they have ever been does not make sense. Instead, Netflix has the opportunity now to push the boundary of the industry and catalyze the current change in the media industry. If it appears that consumers are moving towards online content consumption, they why not push the process along by adding live television to its product offering?

Proposed Strategy

Instead of trying to work with the cable companies, Netflix should ratchet up the competition with them by offering live television in addition to its current video streaming library. Netflix has already found a way to get customers to subscribe to an online streaming platform, and television is rapidly becoming a major part of Netflix's streaming capabilities. In Q4 2011, 60% of all content streamed on Netflix was television, and the addition of live television would fit in well with this trend.[23] Netflix also offers the ability for users to watch content across devices, something which has proved popular with subscribers. Currently, 77% of time spent is on television-connected devices, 20% is on a PC, and 3% is on a mobile device.[24] This is opposed to traditional cable viewing which is still primarily done on a television. Cable networks are realizing that they must open up their content to be accessible

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[23] More net, less flix; forget movies by mail. TV streaming is the new star for netflix. (2012, Feb 05). *Los Angeles Times,* pp. B.1-B.1. http://search.proquest.com/docview/919806867?accountid=8285

[24] Spangler, T. (2011). Netflix streaming isnt slowing down. *Multichannel News, 32*(41), 26-26. http://search.proquest.com/docview/902627787?accountid=8285

online, and have begun providing it online for free, though in most cases viewers must first provide proof that they are a cable or satellite television subscriber.[25] By offering live television online using the equipment customers already use to watch Netflix (internet ready television accessories, computers, mobile phones, etc.), Netflix can add value to the existing traditional cable subscription. This strategy would help capitalize on the emerging trend towards cord cutting, specifically the movement in the industry towards providing content online.

And while a live television package would still require customers to subscribe to receive cable television content, this type of package would be successful for several reasons. First of all, Netflix has the opportunity to capture a ripe market by focusing on college student and young adults. Next, the flexibility added by Netflix's cross-platform distribution is attractive to users. Offering live television may also give the firm additional leverage with producers to gain content for their streaming repository, and a live component will complement the firm's current plans to produce its own original content. Finally, a live television package would allow the firm to capitalize on negative customer perception of existing cable providers, especially if it can provide television at a price lower than that of the existing cable subscription options. This paper now seeks to investigate each of these reasons for success.

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[25] Steinkamp, C. M. (2010). *Internet television use: Motivations and preferences for watching television online among college students.* Rochester Institute of Technology). *ProQuest Dissertations and Theses,*http://search.proquest.com/docview/366442341?accountid=8285

Target Market

A recent Credit Suisse study showed that many young adults are choosing to watch television programs online. According to the study, these users are "are content to watch programs online and to have a less satisfying, but still sufficient video experience at no charge, rather than pay the increasing fees charged by video providers."[26] This fits in with the trend towards cord cutting or cord shaving discussed earlier. The fact that this trend is being seen in college students and young adults, however, makes this trend all the more relevant to Netflix. These young adults may represent the first generation of 'cord nevers,' a potential market for Netflix to target with a live television service.

Specifically, college students and young adults would be a target market for such a product, due to the fact that it is during young adulthood that many find themselves without cable for the first time. According to an original study consisting mainly of American University college students, only 58% of respondents were cable or satellite subscribers. This is compared to the national average where 58.62% of households subscribe to cable and 27.89% of households have a satellite dish, meaning that 86.51% of US households have either cable or satellite television.[27] So why do college students have cable at a lower rate than the national average?

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[26] Hamaker, C. (2012). Cord cutters? what about "cord nevers"? *Rural Telecommunications, 31*(1), 9-9. http://search.proquest.com/docview/921365977?accountid=8285

[27] ProQuest Statistical Datasets. (2011). Media Use: Television, 2011 – 2011 [Data file]. Retrieved from https://web.lexis-nexis.com/statuniv

As illustrated in (figure 12), the timeline of students' exposure to cable plays a significant role in that segment's recommendation as a target market. For the most part, children and teenagers grow up watching their parents' cable subscription (for free, presumably). When they leave home and go to college, many students find themselves without cable for the first time. Often, college students living on campus are provided cable for free by their university, though this discontinues when they move off campus or graduate. The students who choose not to purchase cable subscriptions likely do so because of the constraints that they live under while in school. Of these, perhaps the most important is money, as college students typically find themselves needing to save money wherever they can. In the same original study, when non-subscribers were asked why they did not subscribe to cable, 56% said the price was too high. In addition the price, 78% said it was because they could watch shows online, and 41% said it was because they do not watch a lot of TV. The irregularity of students' schedules and study habits may make it difficult to find time to regularly sit down in front of their television (if they even have a television) to watch cable. Also, the fact that college students are often tech-savvy means that they have the capability to circumvent cable by finding the shows they watch online instead of watching them on TV.

All of these arguments make college students an ideal target for live television from Netflix. The fact that students are often between cable subscriptions means that Netflix has a great opportunity to target them, and perhaps hook them into sticking with the firm as a television provider even after leaving college. The fact that students would not need to purchase any additional equipment (or even

need a TV for that matter) also makes a television subscription through Netflix more attractive, both financially and logistically. College students and young adults also represent a younger, more tech-savvy generation who are eager to try out new technology and are often early adopters of technology.

Leverage and Original Content

Perhaps in an effort to play up Reed Hastings' comparison of Netflix with HBO, Netflix has recently begun licensing its own content. Netflix has ordered 26 episodes of original political thriller "House of Cards" starring Kevin Spacey, set to debut on the site sometime in late 2012.[28] In February of 2012, Netflix debuted its first original series "Lilyhammer," with all six episodes released on the premiere date.[29] Perhaps the most talked about Netflix original content is the revival of hit television series "Arrested Development," scheduled to debut in early 2013.[30] This presents an interesting solution to the firm's content issues. Since Netflix has had problems getting content from some networks and movie studios, perhaps success with original content will give another reason to get customers to subscribe. Either way, producing original television content complements the recent increase in

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[28] Fritz, B. (2011, Mar 19). COMPANY TOWN; netflix to offer house of cards; the deal for rights to 26 episodes of original content takes the firm into new territory. *Los Angeles Times,* pp. B.3-B.3. http://search.proquest.com/docview/857681340?accountid=8285
[29] Seitz, P. (2012, Feb 06). Netflix takes page from cable network playbook first up, lilyhammer creates original content to take on HBO, starz; google, hulu plan same. *Investors Business Daily,* pp. A04. http://search.proquest.com/docview/919711110?accountid=8285
[30] More net, less flix; forget movies by mail. TV streaming is the new star for netflix. (2012, Feb 05). *Los Angeles Times,* pp. B.1-B.1. http://search.proquest.com/docview/919806867?accountid=8285

popularity of television series on Netflix, and makes offering a live television more of a natural next step.

Offering a live television package may also help Netflix with its content problem. Right now the firm is struggling due to its recent loss of content from Starz, and the refusal of HBO to license content under its control to Netflix.[31] By producing original content and offering live television, Netflix may gain additional leverage to bargain with content producers and license holders. Just as Comcast and other cable companies have a significant amount of 'on demand' content, offering a live television content may give Netflix the additional bargaining position it needs to get the rights to the content it wants and needs for its content library.

Competition and Price

Another factor that would benefit a Netflix live cable offering is the fact that many of the current major cable companies have negative perceptions about them, particularly when it comes to customer service. When survey respondents were asked why they did not subscribe to cable, one person submitted a text comment stating "Comcast is a horrible company," while another gave "Poor customer service with the cable company in my area. I have heard enough horror stories" as the reason why they did not subscribe to cable. According to the research done for the American Customer Satisfaction Index, "Cable's customer satisfaction ratings have

[31] Fritz, B. (2011, Mar 19). COMPANY TOWN; netflix to offer house of cards; the deal for rights to 26 episodes of original content takes the firm into new territory. *Los Angeles Times,* pp. B.3-B.3. http://search.proquest.com/docview/857681340?accountid=8285

been among the worst of any industry."[32] This perception is driving cable customers to seek alternatives to traditional cable. Recently, this has included video television offerings by AT&T and Verizon, or cord cutting measures such as cutting back to a broadcast antenna or watching television shows online. And while cable companies are now making a conscious effort to improve their customer service, the existing perception may still drive some customers to Netflix as an alternative to a traditional set-up. The fact that Netflix users do not require any special hardware or house calls from technicians also makes keeping customers happy a lot easier.

Another issue that many customers complain about with cable is the price. If Netflix can offer a live television package for less than the price of a cable subscription, they will have a greater ability to attract customers away from traditional cable companies. In the survey conducted for this paper, 62% of respondents said that they would be "Very interested" in signing up for a live television service that allowed them to watch TV across multiple devices if the price were lower than a standard cable subscription. This interest existed even at the same price as a standard cable subscription, with 61% of respondents saying they would be "interested enough to consider" signing up if the prices were the same.

Currently, most cable subscriptions include equipment rentals for the cable boxes, DVRs, and other devices that customers pay for each month to receive and watch the cable they receive from their provider. By offering a service that does not require any of these, Netflix would be able to shave some of the cost off of a

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[32] Yao, D. (2010, May 26). Cable providers turning nicer defections prompt customer service emphasis. *Houston Chronicle,* pp. 5-5. http://search.proquest.com/docview/340312812?accountid=8285

standard cable package. Another way Netflix could provide a cheaper subscription would be to investigate offering channels a la carte.

The way the cable industry currently operates, cable providers purchase the rights to channels in bulk from the television networks. As a result of this, cable subscriptions come in large packages and consumers do not have the options to choose individual channels they wish to subscribe to. As a result of this, the prices that networks charge to cable providers are typically very inexpensive (typically less than $1 per month) (figure 13). A recent study of the potential effects of mandated a la carte channel offerings suggests that while offering a la carte channels may reduce the price of a cable subscription for the end user, even with the associated price increase of each individual channel. At the same time, however, the study found that such a configuration may lead to a decrease in profits for contend producers and distributors.[33] While it may be difficult or even impossible to negotiate with the networks to get cable channels a la carte, the opportunity to get channels a la carte presents an opportunity to manage the price of the service and is worth investigating.

Conclusion

In conclusion, the author of this paper believes that Netflix can maintain its place as a streaming video industry leader through the offering of a live television package, and by marketing this package towards college students and young adults.

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[33] Crawford, Gregory S, & Yurukoglu, A. (2012). The welfare effects of bundling in multichannel television markets. *The American Economic Review, 102*(2), 643-685. doi:10.1257/aer.102.2.643

Netflix has the ability to tailor a live television subscription package that appeals to consumers in this market by focusing on their core needs: low price (consumers in this demographic are looking to save money) and flexibility (college students and young adults have irregular schedules, they want to be able to watch things at anytime, anywhere, on any device). One of Netflix's core capabilities is its ability to deliver high quality video content over a variety of devices (computer, television via internet ready devices, mobile phones, tablets, etc), and a live television service would benefit greatly from this ability. Additionally, Netflix is currently licensing its own original content for debut through their traditional streaming service. The ability to give customers live television would complement their original programming, as it would incentivize customers to turn to Netflix for their television needs more so than they already do. Streaming live television would also give Netflix additional leverage with which to bargain with content producers for the rights to television and movies for their online streaming library.

In the end, the combination of these factors would give Netflix the competitive boost it needs to maintain a successful position in the video streaming marketplace.

Figure 1

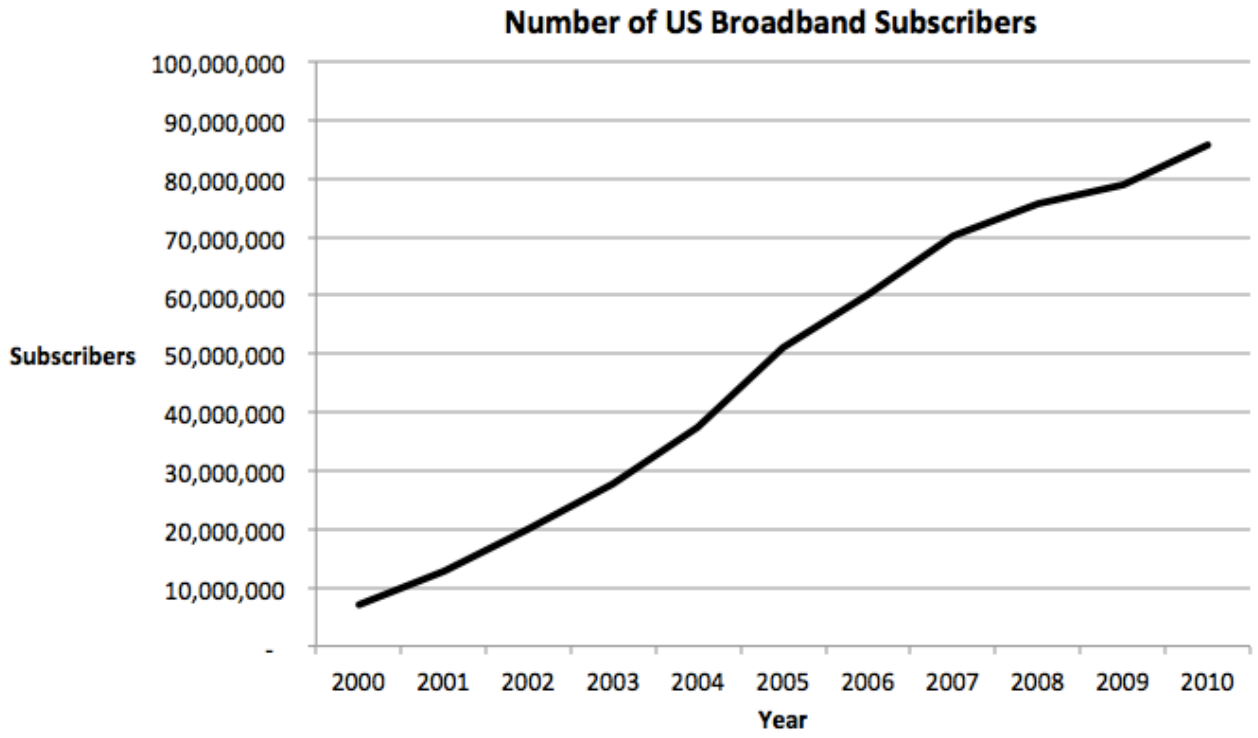
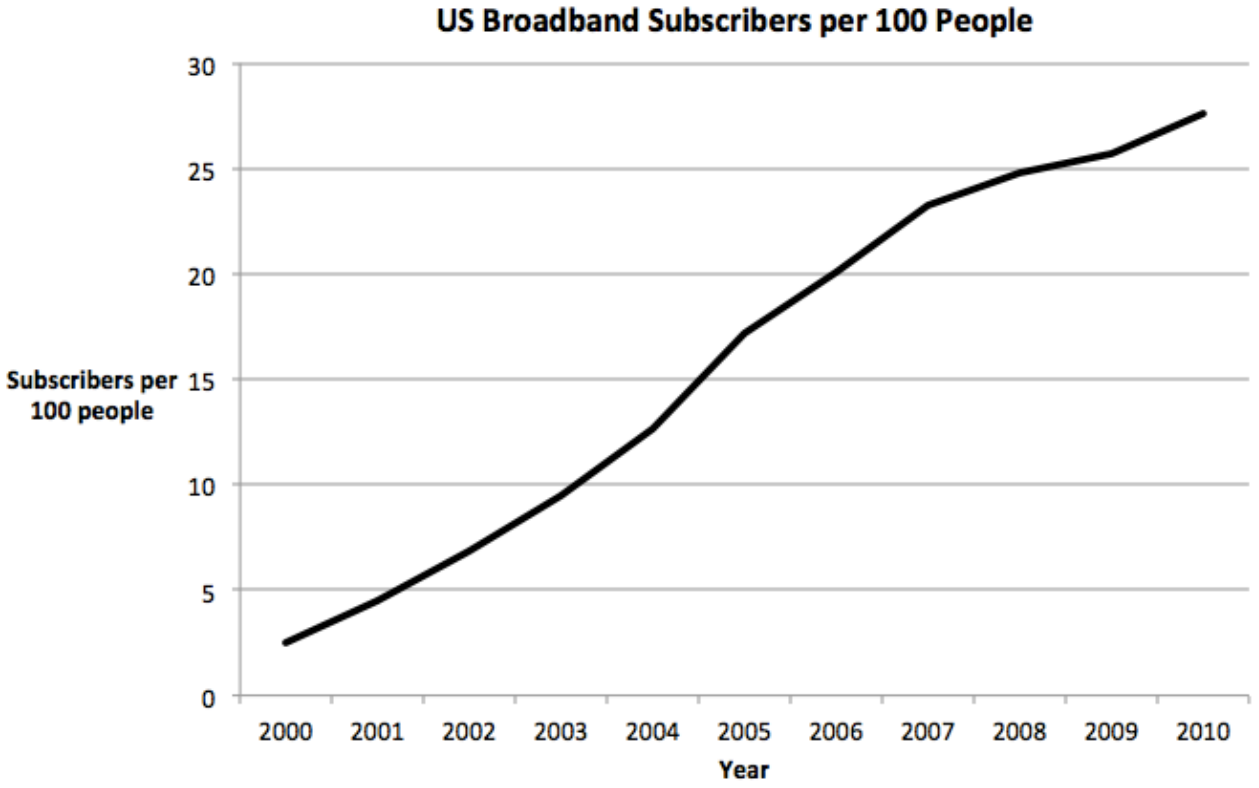


Figure 2



Source: International Telecommunication Union. (2011, December). Fixed Broadband Subscriptions. Retrieved from http://www.itu.int/ITU-D/ict/statistics/index.html

Figure 3

Netflix Vertical Common Sized Financials - Balance Sheets	2011	2010	2009
Assets			
Current assets:			
Cash and cash equivalents	16.55%	19.81%	19.75%
Short-term investments	9.44%	15.87%	27.37%
Current content library, net	29.97%	18.43%	5.49%
Prepaid content	1.82%	6.34%	3.93%
Other current assets	1.87%	4.44%	3.93%
Total current assets	*59.65%*	*64.89%*	*60.47%*
Non-current content library, net	34.11%	18.43%	16.01%
Property and equipment, net	4.44%	13.09%	19.37%
Other non-current assets	1.79%	3.59%	4.16%
Total assets	**100.00%**	**100.00%**	**100.00%**
Liabilities and Stockholders' Equity			
Current liabilities:			
Content accounts payable	30.13%	17.18%	N/A
Other accounts payable	2.86%	5.51%	N/A
Total Accounts payable	*32.99%*	*22.69%*	*13.61%*
Accrued expenses	2.08%	3.93%	4.91%
Current portion of lease financing obligations	N/A	N/A	0.21%
Deferred revenue	4.85%	12.95%	14.73%
Total current liabilities	*39.91%*	*39.57%*	*33.46%*
Long-term debt	6.52%	20.37%	29.42%
Long-term debt due to related party	6.52%	0.00%	0.00%
Non-current content liabilities	24.10%	4.91%	N/A
Other non-current liabilities	2.01%	5.62%	7.82%
Total liabilities	**79.06%**	**70.45%**	**70.70%**
Stockholders' equity:			
Preferred stock	0.00%	0.00%	0.00%
Common Stock	0.00%	0.01%	0.01%
Additional paid-in capital	7.14%	5.26%	0.00%
Accumulated other comprehensive income	0.02%	0.08%	0.04%
Retained earnings	13.78%	24.21%	29.25%
Total stockholders' equity	**20.94%**	**29.55%**	**29.30%**
Total liabilities and stockholders' equity	**100.00%**	**100.00%**	**100.00%**

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11. Retrieved from http://ir.netflix.com/sec.cfm

Figure 4

Netflix Horizontal Common Sized Financials - Balance Sheets	2010 - 2011	2009 - 2010
Assets		
Current assets:		
Cash and cash equivalents	161.21%	44.91%
Short-term investments	85.88%	-16.20%
Current content library, net	408.11%	384.89%
Prepaid content	-9.98%	132.67%
Other current assets	31.43%	63.37%
Total current assets	*187.31%*	*55.04%*
Non-current content library, net	478.50%	66.32%
Property and equipment, net	6.05%	-2.34%
Other non-current assets	55.99%	24.90%
Total assets	**212.52%**	**44.48%**
Liabilities and Stockholders' Equity		
Current liabilities:		
Content accounts payable	448.15%	N/A
Other accounts payable	62.32%	N/A
Total Accounts payable	354.42%	140.78%
Accrued expenses	65.13%	15.53%
Current portion of lease financing obligations	N/A	N/A
Deferred revenue	16.99%	27.06%
Total current liabilities	*215.27%*	*70.85%*
Long-term debt	0.00%	0.00%
Long-term debt due to related party	N/A	N/A
Non-current content liabilities	1435.17%	N/A
Other non-current liabilities	11.89%	3.74%
Total liabilities	**250.68%**	**43.97%**
Stockholders' equity:		
Preferred stock	N/A	N/A
Common Stock	3.77%	0.00%
Additional paid-in capital	324.47%	N/A
Accumulated other comprehensive income	-5.87%	174.73%
Retained earnings	77.90%	19.58%
Total stockholders' equity	**121.53%**	**45.71%**
Total liabilities and stockholders' equity	**212.52%**	**44.48%**

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 5

Netflix Vertical Common Sized Financials - Income Statements	2011	2010	2009
Revenues	100.00%	100.00%	100.00%
Cost of revenues:			
Subscription	55.84%	53.37%	54.45%
Fulfillment expenses	7.81%	9.40%	10.17%
Total cost of revenues	63.66%	62.76%	64.62%
Gross profit	36.34%	37.24%	35.38%
Operating expenses:			
Marketing	12.56%	13.59%	14.23%
Technology and development	8.08%	7.55%	6.86%
General and administrative	3.68%	2.98%	2.80%
Legal settlement	0.28%	0.00%	0.00%
Total operating expenses	24.61%	24.12%	23.89%
Operating income	11.74%	13.12%	11.49%
Other income (expense):			
Interest expense	-0.62%	-0.91%	-0.39%
Interest and other income	0.11%	0.17%	0.40%
Income before income taxes	11.22%	12.38%	11.51%
Provision for income taxes	4.16%	4.94%	4.57%
Net income	7.06%	7.44%	6.94%

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 6

Netflix Horizontal Common Sized Financials - Income Statements	**2010 - 2011**	**2009 - 2010**
Revenues	48.18%	29.48%
Cost of revenues:		
Subscription	55.06%	26.90%
Fulfillment expenses	23.15%	19.69%
Total cost of revenues	*50.29%*	*25.77%*
Gross profit	44.63%	36.26%
Operating expenses:		
Marketing	37.03%	23.59%
Technology and development	58.60%	42.59%
General and administrative	82.96%	37.82%
Legal settlement	N/A	N/A
Total operating expenses	51.18%	30.71%
Operating income	**32.59%**	**47.78%**
Other income (expense):		
Interest expense	2.02%	203.15%
Interest and other income	-5.56%	-45.24%
Income before income taxes	34.30%	39.29%
Provision for income taxes	24.85%	39.97%
Net income	**40.58%**	**38.83%**

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 7

NETFLIX, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of December 31, 2011	As of December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 508,053	$ 194,499
Short-term investments	289,758	155,888
Current content library, net	919,709	181,006
Prepaid content	56,007	62,217
Other current assets	57,330	43,621
Total current assets	1,830,857	637,231
Non-current content library, net	1,046,934	180,973
Property and equipment, net	136,353	128,570
Other non-current assets	55,052	35,293
Total assets	$ 3,069,196	$ 982,067
Liabilities and Stockholders' Equity		
Current liabilities:		
Content accounts payable	$ 924,706	$ 168,695
Other accounts payable	87,860	54,129
Accrued expenses	63,693	38,572
Deferred revenue	148,796	127,183
Total current liabilities	1,225,055	388,579
Long-term debt	200,000	200,000
Long-term debt due to related party	200,000	—
Non-current content liabilities	739,628	48,179
Other non-current liabilities	61,703	55,145
Total liabilities	2,426,386	691,903
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized at December 31, 2011 and 2010; no shares issued and outstanding at December 31, 2011 and 2010	—	—
Common stock, $0.001 par value; 160,000,000 shares authorized at December 31, 2011 and 2010; 55,398,615 and 52,781,949 issued and outstanding at December 31, 2011 and 2010, respectively	55	53
Additional paid-in capital	219,119	51,622
Accumulated other comprehensive income	706	750
Retained earnings	422,930	237,739
Total stockholders' equity	642,810	290,164
Total liabilities and stockholders' equity	$ 3,069,196	$ 982,067

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 8

NETFLIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year ended December 31,		
	2011	2010	2009
Revenues	$ 3,204,577	$ 2,162,625	$ 1,670,269
Cost of revenues:			
Subscription	1,789,596	1,154,109	909,461
Fulfillment expenses	250,305	203,246	169,810
Total cost of revenues	2,039,901	1,357,355	1,079,271
Gross profit	1,164,676	805,270	590,998
Operating expenses:			
Marketing	402,638	293,839	237,744
Technology and development	259,033	163,329	114,542
General and administrative	117,937	64,461	46,773
Legal settlement	9,000	—	—
Total operating expenses	788,608	521,629	399,059
Operating income	376,068	283,641	191,939
Other income (expense):			
Interest expense	(20,025)	(19,629)	(6,475)
Interest and other income	3,479	3,684	6,728
Income before income taxes	359,522	267,696	192,192
Provision for income taxes	133,396	106,843	76,332
Net income	$ 226,126	$ 160,853	$ 115,860
Net income per share:			
Basic	$ 4.28	$ 3.06	$ 2.05
Diluted	$ 4.16	$ 2.96	$ 1.98
Weighted-average common shares outstanding:			
Basic	52,847	52,529	56,560
Diluted	54,369	54,304	58,416

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 9

NETFLIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 226,126	$ 160,853	$ 115,860
Adjustments to reconcile net income to net cash provided by operating activities:			
Additions to streaming content library	(2,320,732)	(406,210)	(64,217)
Change in streaming content liabilities	1,460,400	167,836	(4,014)
Amortization of streaming content library	699,128	158,100	48,192
Amortization of DVD content library	96,744	142,496	171,298
Depreciation and amortization of property, equipment and intangibles	43,747	38,099	38,044
Stock-based compensation expense	61,582	27,996	12,618
Excess tax benefits from stock-based compensation	(45,784)	(62,214)	(12,683)
Other non-cash items	(4,050)	(9,128)	(7,161)
Deferred taxes	(18,597)	(962)	6,328
Gain on sale of business	—	—	(1,783)
Changes in operating assets and liabilities:			
Prepaid content	6,211	(35,476)	(5,643)
Other current assets	(4,775)	(18,027)	(5,358)
Other accounts payable	24,314	18,098	1,537
Accrued expenses	68,902	67,209	13,169
Deferred revenue	21,613	27,086	16,970
Other non- current assets and liabilities	2,883	645	1,906
Net cash provided by operating activities	317,712	276,401	325,063
Cash flows from investing activities:			
Acquisition of DVD content library	(85,154)	(123,901)	(193,044)
Purchases of short-term investments	(223,750)	(107,362)	(228,000)
Proceeds from sale of short-term investments	50,993	120,857	166,706
Proceeds from maturities of short-term investments	38,105	15,818	35,673
Purchases of property and equipment	(49,682)	(33,837)	(45,932)
Proceeds from sale of business	—	—	7,483
Other assets	3,674	12,344	11,035
Net cash used in investing activities	(265,814)	(116,081)	(246,079)
Cash flows from financing activities:			
Principal payments of lease financing obligations	(2,083)	(1,776)	(1,158)
Proceeds from issuance of common stock upon exercise of options	19,614	49,776	35,274
Proceeds from public offering of common stock, net of issuance costs	199,947	—	—
Excess tax benefits from stock-based compensation	45,784	62,214	12,683
Borrowings on line of credit, net of issuance costs	—	—	18,978
Payments on line of credit	—	—	(20,000)
Proceeds from issuance of debt, net of issuance costs	198,060	—	193,917
Repurchases of common stock	(199,666)	(210,259)	(324,335)
Net cash provided by (used in) financing activities	261,656	(100,045)	(84,641)
Net increase (decrease) in cash and cash equivalents	313,554	60,275	(5,657)
Cash and cash equivalents, beginning of year	194,499	134,224	139,881
Cash and cash equivalents, end of year	$ 508,053	$ 194,499	$ 134,224
Supplemental disclosure:			
Income taxes paid	$ 79,069	$ 56,218	$ 58,770
Interest paid	19,395	20,101	3,878

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 10

	As of /Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Domestic streaming:			
Paid subscriptions at end of period	20,153		
Total subscriptions at end of period	21,671		
International streaming:			
Net additions	1,349	509	—
Paid subscriptions at end of period	1,447	333	—
Total subscriptions at end of period	1,858	509	—
Domestic DVD:			
Paid subscriptions at end of period	11,039		
Total subscriptions at end of period	11,165		
Total domestic:			
Net unique subscriber additions during period (1)	4,894	7,233	2,878
Total domestic unique subscribers at end of period (1)	24,395	19,501	12,268
Churn (2)	4.9%	3.8%	4.3%
Consolidated:			
Net unique subscriber additions during period (1)	6,243	7,742	2,878
Paid unique subscribers at end of period (1)	24,305	18,268	11,892
Total unique subscribers at end of period (1)	26,253	20,010	12,268

Source: Netflix. (2012). Form 10-K for the fiscal year ended 12/31/11, p. 34-35. Retrieved from http://ir.netflix.com/sec.cfm

Figure 11 – Survey Results

1. What is your age? Create Chart Download

	Response Percent	Response Count
Under 15	0.0%	0
15-18	0.0%	0
18-22	**87.3%**	**62**
23-29	1.4%	1
30-39	4.2%	3
40-49	0.0%	0
50-59	5.6%	4
60 and above	1.4%	1
	answered question	71
	skipped question	0

2. Do you currently pay for cable television (through Comcast, Verizon, DirectTV, etc)? Create Chart Download

	Response Percent	Response Count
I have cable but do not pay for it (for example, college student living on campus)	15.5%	11
Yes	**49.3%**	**35**
No	35.2%	25
	answered question	71
	skipped question	0

3. If you are a cable subscriber, how do you feel about the price you pay for cable television?

Create Chart Download

	Response Percent	Response Count
I believe the price is reasonable, and I would be willing to pay more to keep the service if prices went up	2.8%	2
I believe the price is reasonable, but if prices were to rise I would consider canceling my service	26.8%	19
I believe the price is unreasonably high	23.9%	17
I am not a cable subscriber	46.5%	33
	answered question	71
	skipped question	0

4. If you are a cable subscriber, about what percentage of the channels you receive to you regularly watch?

Create Chart Download

	Response Percent	Response Count
5%	8.5%	6
10%	12.7%	9
15%	9.9%	7
20%	9.9%	7
25%	9.9%	7
30%	1.4%	1
35%	2.8%	2
40%	1.4%	1
45%	1.4%	1
50%	0.0%	0
55%	0.0%	0
60%	0.0%	0
65%	0.0%	0
70%	0.0%	0
75%	0.0%	0
80%	0.0%	0
85%	0.0%	0
90%	0.0%	0
95%	0.0%	0
100%	0.0%	0
I am not a cable subscriber	42.3%	30

5. If you are not a cable subscriber, why? Select all that apply Create Chart Download

	Response Percent	Response Count
The cost is too high	25.4%	18
I do not watch a lot of TV	18.3%	13
I can catch up on most of the shows I watch online after they have aired	35.2%	25
I am a cable subscriber	**54.9%**	**39**
Other (please specify) Show Responses	8.5%	6

7. How interested would you be in switching to a cable provider that allowed you to watch live TV on multiple devices in addition to your television (computer, phone, tablet) under the following circumstances: Create Chart Download

	1 - Not at all interested	2	3 - Interested enough to consider switching	4	5 - Very interested. Sign me up!	Rating Average	Response Count
If the price was more than what you pay now (or would pay) for cable?	**63.2% (43)**	19.1% (13)	17.6% (12)	0.0% (0)	0.0% (0)	1.54	68
If the price was similar to what you pay now (or would pay) for cable?	19.1% (13)	10.3% (7)	**33.8% (23)**	27.9% (19)	8.8% (6)	2.97	68
If the price was less than what you pay now (or would pay) for cable?	10.3% (7)	1.5% (1)	7.4% (5)	19.1% (13)	**61.8% (42)**	4.21	68
						answered question	68
						skipped question	3

Figure 12

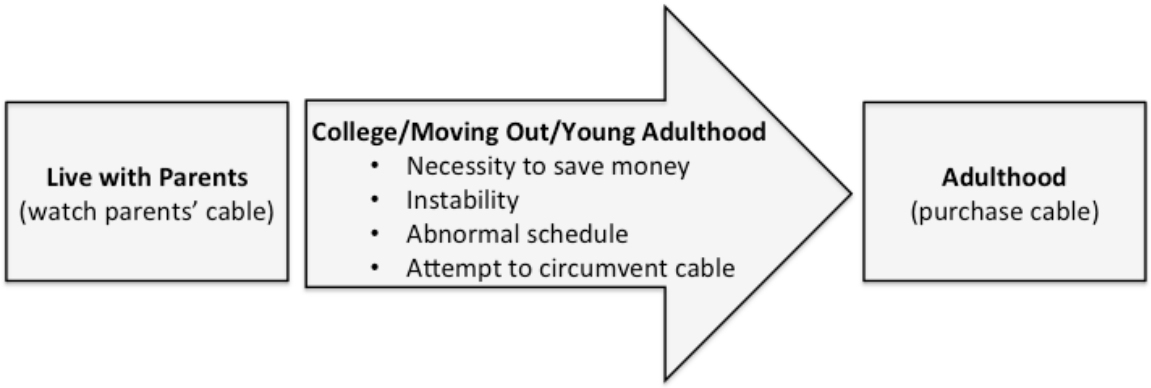


Figure 13

Figure 2. 2009 Basic and Basic Digital Cable Networks and Subscriber Fees

Network Name	Monthly Fee	Network Name	Monthly Fee	Network Name	Monthly Fee	Network Name	Monthly Fee
ESPN/ESPN HD	4.08	Smithsonian Channel HD	0.19	GolTV	0.11	LOGO	0.05
FOX Sports Net	2.37	Sur Mexico	0.19	Palladia	0.11	MTV2	0.05
TNT	0.99	Ecuavisa	0.18	The Weather Channel	0.11	Outdoor Channel	0.05
Disney Channel	0.88	ESPN Classic	0.18	TV Land	0.11	VH1 Soul *	0.05
NFL Network	0.75	MEXICANAL	0.18	WE tv	0.11	Fine Living	0.04
FOX News	0.58	Ritmoson Latino	0.18	¡Sorpresa!	0.10	Lifetime Real Women	0.04
HDNet	0.55	Telefe International	0.18	Oxygen Network	0.10	MavTV	0.04
USA	0.55	TV Chile	0.18	truTV	0.10	Tempo	0.04
ESPN2	0.54	Cartoon Network	0.17	CMT	0.09	BBC World News	0.03
MGM HD	0.53	De Película	0.17	FOX Reality	0.09	Hallmark Movie Channel	0.03
CNN en Espanol	0.51	Discovery en Espanol	0.17	Lifetime Movie Network	0.09	iaTV	0.03
CNN/HLN	0.51	ESPNews	0.17	TeenNick	0.09	The Sportsman Channel	0.03
TBS	0.49	Nick Jr.	0.17	Boomerang	0.08	AmericanLife TV Network	0.02
HDNet Movies	0.44	Telehit	0.17	De Película Clásico	0.08	CNBC World	0.02
Nickelodeon/Nick At Nite	0.44	TV Colombia	0.17	Food Network	0.08	GAC	0.02
FX Network	0.42	TV Venezuela	0.17	G4	0.08	Galavision	0.02
Big Ten Network	0.36	BET	0.16	PBS KIDS Sprout	0.08	MTV Jams	0.02
NHL Network	0.35	Discovery Familia	0.16	Travel Channel	0.08	MTV Tr3s	0.02
FOX College Sports	0.34	ESPNU	0.16	Animal Planet	0.07	TV Guide Network	0.02
MTV	0.33	FOX Movie Channel	0.16	BET Hip Hop	0.07	BlueHighways TV	0.01
Antena 3	0.29	FOX Soccer Channel	0.16	Canal Sur	0.07	MTV Hits	0.01
CNBC	0.29	History en Espanol	0.16	CENTRIC	0.07	Nick Too	0.01
Lifetime Television	0.28	Latinoamérica Televisión	0.16	Chiller	0.07	**Industry Average**	**0.20**
HD Theater	0.27	MSNBC	0.16	Military Channel	0.07		
Universal HD	0.27	Sur Peru	0.16	Nicktoons Network	0.07		
TCM	0.26	TLC	0.16	Ovation	0.07		
VERSUS	0.26	CentroAmerica TV	0.15	Planet Green	0.07		
Industry	0.26	ESPN Deportes	0.15	Sleuth	0.07		
A&E	0.25	SOAPnet	0.15	VH1 Classic	0.07		
Discovery Channel	0.25	Tennis Channel	0.15	BET Gospel	0.06		
Golf Channel	0.25	TVE Internacional	0.15	Bloomberg TV	0.06		
Sundance Channel	0.25	VH1	0.15	Crime & Investigation Network	0.06		
TyC Sports International Channel	0.25	Caracol TV	0.14	Discovery Kids Channel	0.06		
MLB Network	0.24	Comedy Central	0.14	FitTV	0.06		
AMC	0.23	FUEL TV	0.14	FUSE	0.06		
WealthTV	0.23	HGTV	0.14	Hallmark Channel	0.06		
ABC Family Channel	0.22	HTV	0.14	History International	0.06		
History	0.22	The Style Network	0.14	Investigation Discovery	0.06		
NBA TV	0.22	CNN International	0.13	Military History Channel	0.06		
Syfy	0.21	Disney XD	0.13	mun2	0.06		
WAPA-America	0.21	Bandamax	0.12	Retirement Living TV	0.06		
E! Entertainment Television	0.20	BBC America	0.12	Science Channel	0.06		
Independent Film Channel	0.20	Discovery Health Channel	0.12	Si TV	0.06		
MountainWest Sports Network	0.20	GSN	0.12	The Africa Channel	0.06		
National Geographic Channel	0.20	La Familia Cosmovision	0.12	TV One	0.06		
SPEED	0.20	WGN America	0.12	Wedding Central	0.06		
Spike TV	0.20	Bio	0.11	Blackbelt TV	0.05		
Bravo	0.19	Bridges TV	0.11	CMT Pure Country	0.05		
CBS College Sports Network	0.19	Current	0.11	C-SPAN	0.05		
FOX Sports en Espanol	0.19	FOX Business Network	0.11	DIY Network	0.05		

Source: SNL Kagan.