



An Industry White Paper: Cable TV

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It Keeps Going ... and Going ...

When cable television entered the scene more than two decades ago, no one could have forecasted the 82 percent penetration of television homes achieved by 2001. In 2003, during prime time, ad-supported cable outdistanced the seven broadcast networks combined by 3.5 million homes.

Part of all this growth can be attributed to the recent surge in the variety of programming for all demographics. On the content side, the cable networks also invested heavily in both original and acquired programming, spending over \$7 billion in 2001, an all-time industry first. The largest audience gains were in the 12-17 and 18-34 groups. It is even being said that these gains are coming at the expense of the broadcast networks. Time spent viewing ad-supported cable in 2003 rose to 28.8 hours versus the four major broadcast networks at 20.6 hours. That represents a 7.9 percent increase over 2002.

The ad revenue story is just as compelling. According to the Cabletelevision Advertising Bureau (CAB), the revenue derived from cable advertising grew from \$5.7 billion in 1995 to \$16.2 billion in 2003. The 2003 increase alone was \$1.5 billion over 2002 revenues. The forecast for 2004 is expected to reach over \$19 billion (projected from the CAB), making 2004 the strongest year yet for the cable industry.

Inside the Industry

Today there are 210 cable markets, with over 10,000 cable systems throughout the United States and a handful of cable rep companies. Like Radio, cable has gone through consolidation as well. Today, with so few rep cable firms, one stands out as a powerhouse. That is National Communications Cable (NCC) which basically reps 97 percent of the markets and cable systems. Comcast, Time Warner, Cox, and a few other companies own NCC. Through NCC, the process has become a much easier, coherent way of buying local and national cable. Even though most DMAs are connected by an **Interconnect** and/or a **Multi-System Operator (MSO)**, the one-stop shopping offered by NCC has helped this industry grow. An **Interconnect** is a company that links different cable systems together. An **MSO** is a company that owns and/or operates more than one cable system.

There is some regional cable news programming, but the CAB recommends buying cable over multiple markets. One of cable's strengths is being local to the marketplace and its ability to reach customers in a specific geographic area. All ad-supported cable systems have inventory and sell spots on a local basis. You can also buy time on most cable networks that have national reach. Not all local systems insert ads into all the cable networks. This has to do more with viewership of a particular network in the local area rather than availability of inventory. Cable also uses targeted programs similar to Radio formats, such as MTV, VH1, CNN, and others.

Ins and Outs of Buying and Selling

As an example of the flexibility in cable purchasing, CNN can be sold nationally as well as locally. In fact, cable can be bought on a market-to-market basis or as finite as one cable system covering a neighborhood. For example, the New York market has approximately 60 different cable systems. You can buy it as a total market getting all 60 systems, or just one system covering part of a local county. Local systems control their own inventory and devise a rate structure for each cable system. Rates are based on the population within the system's coverage area. On some local systems where the population is small, airtime can be bought for as little as \$50-250 for a 30-second spot. In larger markets such as New York or Los Angeles, inventory can be as high as \$5,000 or more, especially when buying time on a major cable network.

With that said some of the larger cable networks (CNN, ESPN, MTV, and others) cut deals with the local providers. In order for the local system to carry the network, the network will keep from 75 to 85 percent of the available inventory. This is the same way the television networks work with the local affiliated stations.

Even though there is 82 percent cable penetration in television homes, this does not mean all cable networks are carried throughout all systems. Showtime, as an example, is in 19.6 million homes, whereas CNN is received in 88.6 million homes. In some cases only 15 percent of homes receive a particular cable network.

Cable Facts

One of cable's unique characteristics is that it can be used as an extremely broad medium or a highly refined targeted medium. Cable is demographically driven and, in some cases, a lifestyle niche.

Some of Cable's Top Categories

Automotive

Restaurants

Telecommunications

Media & Advertising

Computers, Software, Internet

Beverages

Beer & Wine

Household Supplies

Personal Hygiene & Health

Pets, Pet Foods, & Supplies

Cable's Advantages

Cable is still growing year to year.

Cable is still relatively less expensive than the broadcast networks.

Cable is still more targeted than the broadcast networks.

Cable is still does very well in the summer when broadcast TV shows reruns.

Cable's Disadvantages

Individual cable channel audiences are usually smaller than broadcast television.

Some television households still do not have cable.

Cable is at least – if not more -- cluttered than broadcast television.

The disparity in production quality between cheaper local ads vs. national ads