

'On Demand' TV

Why This Breakthrough Service Isn't Breaking Through Yet

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Kevin Collins, a high-school teacher who doesn't watch much TV during the week, enjoys the new "on-demand" service he gets from his cable company, **Comcast**. He can watch cable documentaries and some other favorite programs when he wants to, on the weekend.

What he'd really love to do is watch "24," the hit drama from **Fox**. But it's not available on demand. The network's parent company, which produces "24," won't let Comcast provide it—or any other Fox shows. The same goes for shows on **NBC**, **CBS** and **ABC**, except some news programs.

On-demand television, introduced by most cable-TV operators in the past three years, is potentially a revolutionary technology. It allows viewers to order and view programs anytime they want. Cable companies are offering thousands of hours of on-demand programming, much of it for no extra charge beyond a monthly digital-cable bill. "We are changing television," says Comcast Chief Executive Brian Roberts.

Perhaps—but not as quickly as some viewers would like. That's because Comcast is at loggerheads with networks, production companies and Hollywood studios that own some of the most popular television programming. Those program owners are uneasy with the new technology and have resisted providing on-demand content on Comcast's terms. People can watch documentaries, cartoons, news programs, sports and movies that have long been in the video store—but hardly any of the popular prime-time shows that draw the largest audiences.

Wary of Change

Networks worry that on-demand viewing will jeopardize the billions of dollars they make from advertising, since people can fast-forward through the commercials when they download a previously aired program. And program owners—sometimes the networks themselves, sometimes other production companies such as film studios—fear they'll lose revenue from reruns and DVD sales of TV shows. Mr. Collins, for example, goes out to his video store to rent old episodes of "24," but he wouldn't have to bother if he could download them with a few clicks of his remote control.

Only pay channels such as **HBO** are embracing on-demand. They rely on subscription fees for the bulk of their profits, rather than rerun sales or advertising. HBO says on-demand, which gives people more chances to watch

HBO shows, has helped reduce the number of subscribers who drop its service.

This isn't the first time that the owners of entertainment content have been wary of technological change. When the VCR was introduced in the 1970s, Hollywood feared it could destroy the movies. **Walt Disney** and **Universal Studios** sued to block the VCR's use, claiming that it allowed people to infringe copyrights by recording TV shows. It took big sales of an exercise video to show Hollywood the potential market for video rentals.

Technology doesn't always win out. Video-on-demand has been technically feasible in some form for more than a decade, but various experiments failed to pan out, in part because of resistance from program owners.

The cable companies' new push for video-on-demand is stronger than those earlier efforts but still isn't guaranteed to succeed fully. Comcast wants to offer most of the content for no extra charge beyond the monthly digital-cable bill, which tends to run at least \$50 a month. As a result, Comcast doesn't want to pay much to TV program owners for on-demand rights. Program owners, including TV networks, say they need to get paid enough to offset the potential loss of revenue from reruns and DVD sales.

"We're in a little bit of a standoff," says David Zaslav, president of the cable division at NBC Universal. "For the really good stuff that is on the sidelines to get onto the platform, there has to be an economic model that works." Mr. Zaslav says he's confident program owners and cable companies will work out a compromise soon. Mr. Roberts hopes so. He and other cable executives see on-demand service as a key weapon to fend off competition from satellite TV.

Cable-TV companies can offer a much broader on-demand service than satellite companies can, at least using existing technology. Viewers at home request a program via their cable line. The request is delivered to a central group of computers that store thousands of hours of programming. The computers send the program as digital signals back over the same line to the viewer's home. Satellite-TV viewers usually don't have any way of delivering their program request to the satellite, although some satellite companies are working on their own versions of on-demand service.

Viewers Are Responding

Cable executives warn that if their approach to on-demand programming doesn't take off, viewers will try other options. Digital video recorders such as **TiVo** already allow consumers to record shows and watch them when they want—and they're compatible with

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satellite TV. And more people are downloading TV programs illegally over the Internet.

Comcast now offers about 2,000 hours of on-demand content, including movies, cable programs and a range of exclusive features on subjects like parenting, cooking and playing the guitar. This year, it introduced a "free movies" section featuring some older hits.

Viewers are responding. Comcast says it received 72 million on-demand orders in December, an average of two orders a week for each Comcast customer who has access to on-demand. The company expects one billion orders next year and plans to increase its on-demand content to 10,000 hours by the end of 2006.

Mr. Roberts insists Comcast doesn't need the prime-time shows to turn on-demand into a success. While it negotiates with content owners, it is adding to its on-demand lineup by acquiring its own content. Recently it joined forces with **Sony** and other investors to buy the **MGM** film studio. As a result of the deal, Sony Pictures agreed to license 100 of its older movies for use on the "free" section of Comcast's on-demand service. Once the MGM purchase is completed, another 100 MGM films will be added, Mr. Burke says.