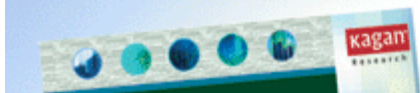


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**Kagan** **INSIGHTS**

December 15, 2005

### À la Carte Pricing Makes Great Theory, But TV Ch. Bundling Tough To Beat

With sudden pressure from Washington D.C. to offer consumers basic cable TV channels individually, few realize the price per network is actually going down.

The monthly subscription price is up because channel packages have gotten much bigger. The average package increased to 64 national basic cable channels today from 27 ten years ago, according to an analysis of data in [Kagan Data Services: Economics of Basic Cable Networks 2006](#). Those channel figures exclude re-transmission of over-the-air broadcast TV channels and regional channels.

#### Basic Cable Cost Per Channel Analysis/Big Basic Package

	2004	2005
Cable operator revenue/sub/month (basic + tier)	\$43.17	\$45.40
Affiliate fees paid to cable nets/sub/month	\$12.41	\$13.77
Margin	71.3%	69.7%
Affiliate fees % of revenue	28.7%	30.3%
Average number of channels per sub*	60.0	64.2
Wholesale cost per channel	\$0.21	\$0.21
Retail cost per channel	\$0.72	\$0.71

\*Excludes PBS stations, network affiliates, indies, C-Span and PPV/pay TV networks.

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Looking at today's bundle, subscribers pay about \$1.49 per day, which works out to just 15-20 cents per hour watched. Kagan Research estimates consumers would have to limit à la carte buys to somewhere between 6-9 basic cable networks to beat the bundle price. That small number assumes subscribers will gravitate to the most popular channels such as ESPN and Discovery, that are also the most expensive.

"Consumers don't realize how pricey their favorite channels would be on an individual basis," says Derek Baine, senior analyst at Kagan Research. "Popular basic cable networks could be \$4-\$6 per month à la carte. Some advocates of à la carte extrapolate from the carriage fees that cable TV and other platforms pay, but this is a bulk-buy wholesale figure. It does not include overhead expenses the platforms add to come up with an adequate retail price to cover the considerable costs of building, operating and maintaining infrastructure."

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As the table indicates, a cable system operator paid an average of 21 cents per subscriber per month for each channel in its big basic package in 2005, according to Kagan Research. That channel has an effective cost of 71 cents to consumers, when overhead, other expenses and cable system profit are added. The 71 cents is actually down one cent from the comparable 2004 retail figure. The retail price could easily be increased by a multiple of four in sales to consumers on an à la carte basis.

The current basic cable network model has 52% of revenue coming from carriage fees paid by multichannel platforms, 44% from advertising sales and the remaining 4% from miscellaneous activities, according to Kagan Research databook [Benchmarking Cable Network Financial Statistics 2005](#) (fourth edition).

In a model looking at potential à la carte impact, Kagan Research newsletter [Broadband Technology](#) estimates TV channel operators would need to raise per-capita channel carriage fees by a multiple of four to offset a 50% loss of subscribers from big basic bundles.

With regulatory pressure mounting, multichannel platforms are discussing scenarios for introducing à la carte. The most sensible would be a tier for sports channels—given they are pricey and not every household has sports fans—and a family friendly package, although picking such channels would be subjective.

It's typically not understood that expenses for TV channel platforms would rise with à la carte. Multichannel providers would have to beef up customer service to explain pricing, take orders and make customer-directed changes to their lineups of channels. Such extra expenses are likely to be passed on to consumers.

"It's ironic that there was this massive push to force multi-channel operators to provide channels on an à la carte basis when it has failed dismally in Canada, France and other countries," notes Baine. "À la carte has been tried in the U.S. over the years with poor results." Further, consumers already have options because of the trend to personalized media with personal video recorders, DVDs, iTunes downloads and Internet Protocol video.

**Robert Marich**



**Derek Baine**, Senior Analyst

Derek Baine is a major contributor for Kagan databooks, a primary contributor to programming newsletters such as [VOD & ITV Investor](#), [Cable Program Investor](#) and [Motion Picture Investor](#), and consultant for [Kagan Media Appraisals, Inc.](#), valuing and monitoring trends affecting film, TV and video libraries.

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