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WIDESPREAD ADOPTION OF DIGITAL VIDEO RECORDERS IS NOT INEVITABLE

Cable Operators Hold the Key to Growth of DVRs

Durham, NH – July 22, 2002 – Driven by supply-side deployments, the number of households in the United States with Digital Video Recorders (DVRs) will grow from a customer base of approximately 1 million today to 15 million in five years, a significant increase but one that does not represent widespread consumer adoption. The forecast is based on Leichtman Research Group's comprehensive supply and demand-side research on the digital video marketplace.

Factors driving the adoption rate of DVRs include:

- **Consumer Demand** – While over 25% of consumers are interested in the concept of getting TV programs on-demand, just 5% of consumers express a willingness to pay for both a DVR device along with a monthly fee;
- **Current Status** – In three years of availability, along with tens of millions of dollars spent on advertising from companies throughout the industry, DVR technology has reached just 1% of US households. In this time about 350,000 stand-alone DVRs have been sold, averaging less than one sale per available retail outlet per week;
- **Supply-side Motivators:**

- Direct Broadcast Satellite (DBS) providers currently have about two-thirds of a million set-tops deployed with DVR technology. EchoStar's Dish Network leads the way with no monthly service fees, and intends to increase the pace of deployment.
- Cable operators are dabbling with DVR technology as a competitive tool, but with a current base of over 16 million digital cable households, this customer base could potentially be reached more quickly with networked-based video-on-demand (utilizing currently deployed premise-based equipment). Additional hurdles to cable deployment include the potential conflict of interest with operator-owned programming ad revenues and local advertising insertions that can be easily bypassed by broad deployment of DVR technology.

“While DVRs are causing a stir within the media and entertainment industry, the general public has yet to show a strong interest,” said Bruce Leichtman, president and principal analyst for Leichtman Research Group, Inc. “With limited demand for DVRs as a stand-alone product and service offering, the potential growth for the category will be supply-side driven, resting firmly on the shoulders of the cable operators who may not be motivated to rapidly deploy DVR technology.”

Consumer demand data is from two nationwide surveys totaling over 2,600 US households. The survey data is part of LRG's industry study, *VOD and SVOD: Consumer Perceptions and Market Opportunities*, along with an upcoming report *“DVRs: Next Big Thing or Next Betamax?”*

About Leichtman Research Group, Inc.

Leichtman Research Group, Inc. (LRG) specializes in research and consulting on the impact and adoption of broadband products and services. LRG combines on-going surveys and analysis with years of hands-on industry experience to provide companies with a richer understanding of the opportunities and challenges in today's broadband market. For more information about LRG, please call (603) 397-5400 or visit www.LeichtmanResearch.com.