Leichtman Research Group, Inc.

Research Notes

1Q 2010 *Actionable Research on the Broadband, Media & Entertainment Industries*

Broadband: The Glass is Two-Thirds Full

The recent release of the much-anticipated Federal Communications Commission's (FCC) National Broadband Plan has spawned considerable discussion about the state of broadband in America. Much of this discussion, and indeed the FCC's own report, takes a "glass half empty" perspective on broadband's current status. Yet, close analysis of the results of the FCC's extensive consumer research suggests a more positive conclusion about the state of broadband that has not always been brought to the forefront.

Consider *The Boston Globe's* March 23, 2010 editorial, "Here Comes the Broadband," which tells the story of Cuttyhunk, MA to illustrate a perceived widespread problem with broadband. The column begins: *"For proof of how much demand is out there for fast, reliable, affordable Internet service, look to the denizens of Cuttyhunk. Lacking service of their own, the residents of this small island off the coast of Martha's Vineyard concocted an ingenious way to spread and share a fast digital signal, beamed from an inn on the Vineyard to a chimney on Cuttyhunk."* The second paragraph then states, *"Cuttyhunk is hardly the only place to lag in digital terms; according to the Federal Communications Commission, 35 percent of Americans — about 100 million people — currently lack broadband access. That's why the FCC's National Broadband Plan… is a promising first step."* While the editorial tells a nice story, it is also a prime example of the confusion and combination of disjointed "facts" that are used to paint a distortedly bleak picture of the state of broadband in America. In this case, the editorial confuses unavailability of broadband "access" with a consumer choice not to purchase broadband, painting an entirely inaccurate picture of broadband in America.

Did you know?

Major US broadband providers added nearly 39 million subscribers over the past five years

The implication in the editorial is that 35% of Americans cannot get broadband service ("lack broadband access"). However, the FCC's report explicitly states that only 4% of Americans are *"unable to obtain broadband because it is not available. This means that 31% of all Americans can get service but do not."* The statistic of 100 million people mentioned in the

LRG Leichtman Research Group

editorial as lacking broadband access presumably comes from a February 23, 2010 FCC press release titled "93 Million Americans Disconnected From Broadband Opportunities." The release states that results from the FCC's consumer survey *"found that 35 percent of adult Americans do not have high-speed Internet connections at home -- or approximately 80 million adults and 13 million children over the age of five."* Clearly, the majority of these individuals has access, but has chosen not to subscribe to a broadband service.

> *Nationally, 19 big corporations now provide 93 percent of all broadband services, according to Leichtman Research Group, an industry consultant.*
>
> *They also have been caught up in a larger debate about national broadband policy. Critics say America needs a more ambitious national broadband strategy than simply supporting the individual business strategies of private providers.*
>
> - **Lexington Herald-Leader**
>   *February 8, 2010*

While the FCC has highlighted the fact that 93 million Americans do not use broadband at home as the central finding of their research, this reflects a pessimistic interpretation of their data. Analysis of the FCC's consumer research conducted in October-November 2009 reveals a more optimistic side of the broadband story. (For the FCC's research results, see http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-296444A1.pdf and http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-296442A1.pdf.)

Here are a few of the findings:

- 79% of Americans have either or desktop or laptop computer at home
- 74% of adults have Internet access at home
- 65% of adults use a high-speed Internet service at home

Although not stated in the FCC report, these numbers mean that:

- About 88% of online subscribers in the US subscribe to a broadband Internet service
- About 82% of computer owners subscribe to a broadband Internet service

These are very impressive adoption rates for a service that was introduced in America little over a decade ago. In addition, the FCC study finds that:

- 92% of those online are somewhat or very satisfied with their current Internet service at home
- 52% of dial-up users are *not interested* in a faster connection
- 77% of non-Internet users are *not interested* in using the Internet
- 58% of non-broadband adopters *do not* have a working computer at home

The subhead of the FCC's press release related to this consumer research states "FCC Survey Finds Cost and Digital Literacy Main Barriers to Broadband." Yet, the data show that the most important barrier is the absence of computers in non-broadband households, and the related lack of need in these households for any type of Internet service at all. The cost of broadband plays a comparatively minor role.

Based on LRG's analysis of the FCC's data, among the 31% of adult Americans who can get broadband service at home but do not use it, the primary reasons for non-broadband use breaks down as follows:

- 18% don't have a computer at home
- 3% use broadband at work and don't need it at home
- 3% are dial-up users who are OK with what they have
- 3% are non-Internet users concerned about the monthly cost of Internet service
- 2% are dial-up users concerned about monthly costs of broadband or other fees
- 2% have broadband at home but they don't personally use it

Note that among non-Internet users who cite cost as a barrier and provide a monthly price that they are willing to pay for service, the mean price cited is $26 – not far different from the cost of today's entry level broadband offerings. (In addition, 31% of those who cite cost as a barrier don't know or refused to answer the price question, while 29% said that they were not willing to pay anything for access). Among dial-up users who cite cost as a barrier, and provide a monthly price that they are willing to pay, the mean price cited is $28.

FCC Chairman Julius Genachowski is quoted in the aforementioned press release as saying, *"we need to tackle the challenges of connecting 93 million Americans to our broadband future… In the 21st century, a digital divide is an opportunity divide."* This divide, which is not surprising in an economically and generationally diverse country the size of the United States, does not stem primarily from problems with broadband. Rather, it stems largely from the lack of ubiquitous computer ownership. As the FCC data shows, broadband in America is flourishing and consumers are generally satisfied with broadband service.

Did you know?

In 4Q 2009, Verizon and AT&T added 401,000 landline video subscribers – compared to 567,000 in 4Q 2008

DirecTV's 119,000 net adds in 4Q 2009 were the fewest in the decade

New Ways to Watch Video Increasing

New consumer research from Leichtman Research Group, Inc. (LRG) found that 24% of all households have a television connected to the Internet. These connections vary from connecting through a video game system, a Blu-Ray player, or the TV set itself. While Internet connectivity has become a common built-in feature in many products, consumers are just beginning to use this feature to watch video from the Internet.

Overall, just 1% of all adults watch video from the Internet via one of these devices daily, and 5% weekly. And usage is heavily skewed to young men, with 16% of men ages 18-34 watching video from the Internet via one of these connected devices weekly, compared to 3% weekly use among all others.

These findings are based on a survey of 1,250 households throughout the United States, and are part of a new LRG study, *Emerging Video Services IV*.

Other findings include:

- 20% of households have a video game system connected to the Internet, 8% have an Internet-connected TV set, and 6% have a Blu-Ray player with an Internet connection (some households have more than one of these)
- 55% of Netflix subscribers report that they used the "Watch Instantly" feature in the past month – overall, 1% of all adults use Netflix's "Watch Instantly" daily, and 4% weekly
- Overall, 3% of adults watch a full length TV show online daily, and 11% weekly
- 5% of those online at home strongly agree that they would be willing to pay $9.95 per month to watch TV shows online from a service like Hulu, while 81% strongly disagree
- Among all individuals online at home, 4% strongly agree that they would consider disconnecting their TV service to just watch video online – compared to 3% last year, and 4% two years ago
- In total, 0.3% of the overall sample are current non-subscribers to a multi-channel video service who disconnected their service in the past year and agree that they don't need to subscribe because most of what they want is available online (these respondents represent 1.6% of the cell phone-only sample)

Did you know?

In 2009, major providers added over 2 million net new multi-channel video subscribers

If Hulu charges for a TV show or movie, the viewer could simply watch it over the air live, be more consistent about recording it to view later or catch the program for free through a video-on-demand service offered by cable TV and other providers.

"There are very few people who would be willing to pay for it," said Bruce Leichtman, president of the Leichtman Research Group Inc. in Durham, N.H.

- **MSNBC**
  March 3, 2010

Despite speculation that consumers are "cutting the cord" to cable, satellite or Telco video services and choosing to watch video exclusively online or through other alternatives, there remains little evidence of this being a trend. Emerging video services do not necessarily create either/or scenarios in decisions to subscribe to a video service or not. Rather, they create opportunities and trade-offs in how, when, what, and where to consume the increasing video entertainment options.

4.1 Million Added Broadband from Top Cable and Telephone Companies in 2009

Leichtman Research Group, Inc. found that the nineteen largest cable and telephone providers in the US – representing about 93% of the market – acquired nearly 4.1 million net additional high-speed Internet subscribers in 2009. Annual net broadband additions in 2009 were 75% of the total in 2008.

The top broadband providers now account for nearly 71.8 million subscribers – with cable companies having 39.3 million broadband subscribers, and telephone companies having 32.5 million subscribers.

Other key findings include:

- The top cable companies netted 57% of the broadband additions in 2009
- The top cable companies added over 2.3 million broadband subscribers in 2009 – 73% of the total net additions for the top cable companies in 2008
- The top telephone providers added over 1.7 million broadband subscribers in 2009 – 78% of the total net additions for the top telephone companies in 2008
- In the fourth quarter of 2009, cable and telephone providers added 890,000 broadband subscribers – with cable companies adding about 580,000 subscribers and phone companies adding about 310,000 subscribers in the quarter

The top broadband providers in the US accounted for 71.8 million at the end of 2009, an increase of nearly 39 million subscribers in the past five years. Broadband is one of the fastest adopted products or services in U.S. history, and it has now settled into a more mature stage of development.

Did you know?

25% of adults are online and watch TV at the same time daily

Industry by the Numbers – (as of the end of 4Q 2009)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Availability	Penetration	Net Adds in 2009	Net Adds in 2008
Basic Cable	116,600,000	55,700,000		47.8%	(1,280,000)	(875,000)
Digital Cable*		40,400,000		72.5%	2,225,000	3,070,000
Broadband Internet**	115,375,000	38,950,000	99%	33.8%	2,330,000	3,200,000
Telephone***	105,000,000	19,425,000	96%	18.5%	2,335,000	3,940,000

Sources: The Companies and Leichtman Research Group, Inc.
Totals include LRG estimates and pro forma results from system sales and acquisitions.
** Digital penetration of Basic subscribers; among the top MSOs, digital cable is now available to essentially 100% of basic subscribers*
*** Internet data does not include RCN*
**** Telephone data does not include Bright House Networks or Suddenlink*

DBS

	Subscribers	Net Adds in 2009	Gross Adds in 2009	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	18,560,000	939,000	4,273,000	$712	$85.48
Dish Network	14,100,000	422,000	3,118,000	$697	$70.04
Total DBS	**32,660,000**	**1,361,000**	**7,391,000**		

Sources: The Companies and Leichtman Research Group, Inc.
** Includes leased equipment and unreturned box costs*
*** Includes revenue from commercial accounts and other non-consumer spending*

Telco Video

	Subscribers	Net Adds in 2009	Net Adds in 2008
Verizon FiOS	2,861,000	943,000	975,000
AT&T U-verse	2,065,000	1,020,000	814,000
Total	**4,926,000**	**1,963,000**	**1,789,000**

Sources: The Companies and Leichtman Research Group, Inc.

Top Broadband Internet Providers in the U.S.

Broadband Internet Provider	Subscribers at the end of 4Q 2009	Net Adds in 2009
Cable		
Comcast	15,930,000	1,001,000
Time Warner	9,289,000	562,000
Cox*	4,200,000	200,000
Charter	3,062,300	186,700
Cablevision	2,568,000	113,000
Mediacom	778,000	54,000
Insight	501,500	43,000
Cable One	392,832	19,945
RCN	312,000	10,000
Other Major Private Companies**	2,235,000	150,000
Total Top Cable	**39,268,632**	**2,339,645**
Telephone Companies		
AT&T	15,789,000	712,000
Verizon	9,220,000	547,000
Qwest	2,974,000	127,000
CenturyLink	2,236,000	183,000
Windstream	1,132,100	102,300
Frontier	635,947	56,004
FairPoint*	295,000	(360)
Cincinnati Bell	244,000	9,600
Total Top Phone	**32,526,047**	**1,736,544**
Total Broadband	**71,794,679**	**4,076,189**

Sources: The Companies and Leichtman Research Group, Inc.

** LRG estimate*
*** Includes LRG estimates for Bright House Networks and Suddenlink*
Totals reflect pro forma results from system sales and acquisitions
Top cable and telephone companies represent approximately 93% of all subscribers
Company subscriber counts may not represent solely residential households

U.S. Residential Telephone Lines – Gains and Losses

	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009
Telco Net Adds*	(1,890,000)	(1,768,000)	(1,774,000)	(1,864,000)	(1,532,000)
Cable Net Adds	717,000	717,000	506,000	604,000	509,000

Sources: The Companies and Leichtman Research Group, Inc.
** Retail residential phone lines include both primary and additional lines, but do not include wholesale lines*
Includes LRG estimates and some results adjusted from prior reports

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