



COMPETITION

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CRITICAL MASS FOR INTERNET TV

SOME (BUT NOT YET ALL) ENABLING FACTORS ARE IN PLACE FOR INTERNET TV TO EMERGE AS A SERIOUS VIDEO DISTRIBUTION COMPETITOR.

Internet TV is on a growth trajectory that could become explosive if key enabling factors achieve critical mass, just as a nuclear reaction can occur once there is a critical mass of nuclear material.

Several enabling factors are already aligned for accelerated growth, while others are not quite there yet.

in 2006 captured \$16.9 billion in advertising spending, up 35% from 2005, according to a report sponsored by the Interactive Advertising Bureau. Internet TV content providers, such as NBC Universal/News Corp., have settled on a model of free viewing supported by advertising, and advertisers appear ready and willing to back them up.



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SUPPORTING ACCELERATED GROWTH:

- **Economic base of broadband access.** The 50%-plus of U.S. households that already have broadband Internet access provide a necessary and sufficient economic base for Internet TV. A virtuous cycle is in play where (i) ongoing growth in penetration of broadband access supports (ii) further expansion of attractive Internet TV and multimedia content, which in turn (iii) drives demand for more broadband access.
- **Big media content.** The TV networks and movie studios are piling into Internet TV, giving viewers ever more reasons to look on the Web for mainstream video content as well as innumerable video clips of all descriptions.
- **Viable business model.** Where's the money? For now, the answer is advertising. Internet TV is a small but rapidly growing part of the Internet advertising juggernaut that

NOT THERE YET:

- **Hooking-up TVs.** To achieve mass media status, Internet TV will need to be as convenient to use as today's linear TV and VOD. This will require escaping the PC for viewing on big-screen TVs. Various means being tried to achieve this include use of consumer devices from Apple and others for TV viewing of Web content, and in-home networking of PCs and TV sets. However, there is still some way to go before this capability is readily available in a consumer-friendly package.
- **Faster, better, video delivery.** Internet TV is subject to download delay and limited resolution of streamed video. Two favorable trends include ever-increasing Internet access data rates and legitimizing peer-to-peer (P2P) content distribution. P2P offers important cost advantages to Internet TV publishers. However, P2P operators and MSOs will need to find a mutually beneficial way to collaborate so that P2P traffic on cable networks is manageable.

To avoid shock and awe when Internet TV emerges as a competitive video distribution channel, it's worth keeping an eye on these key enabling factors. ■ ■ ■