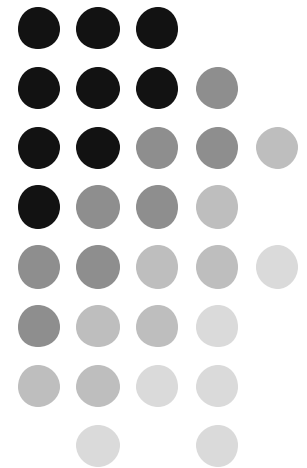
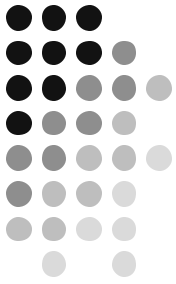


Cable Television Advertising

A Guide for the Radio Marketer



Overview

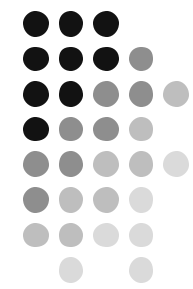


- Cable Television has seen tremendous advertising revenue growth in recent years. This growth is believed to have impacted radio's revenue share both nationally and locally. This report seeks to clarify the strengths and weaknesses of cable advertising, as well as outline the ways in which cable television and radio can complement each other within the local media mix.

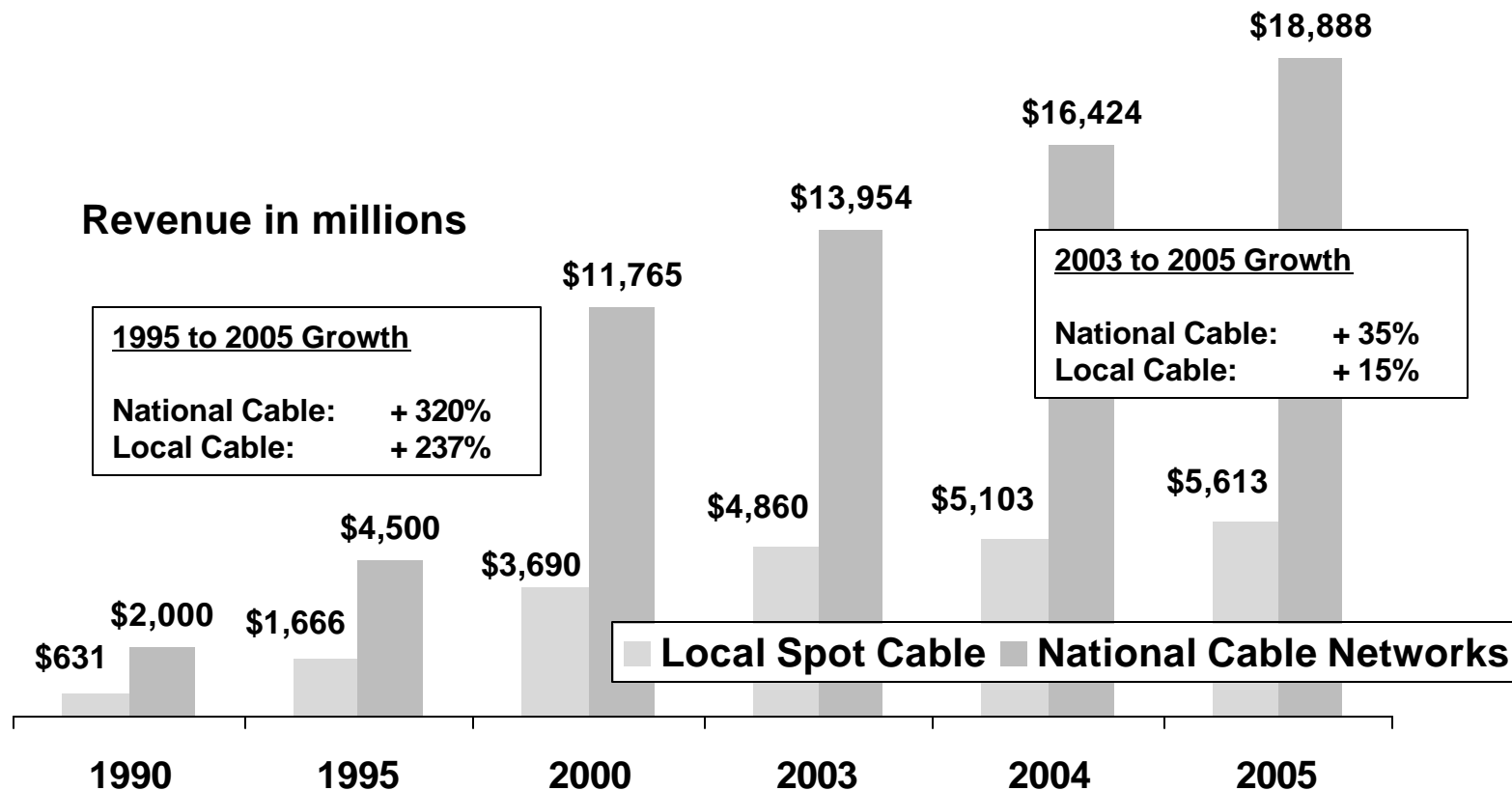
Report highlights:

- While cable television audience growth has increased considerably over the past decade, it has not kept up with revenue growth. Despite all the P.R. that select cable shows receive, most are not watched by upwards of 90% of the population.
- Unlike radio, cable television gets most of its ad revenue from national advertisers. There are special problems for local cable advertisers, including the increasing popularity of satellite services, which do not carry local cable advertisements. In addition, since local commercials are placed side-by-side with multi-million dollar national commercials, local advertisements can look shoddy and second-rate.
- Like broadcast television, cable TV is susceptible to “commercial zapping” via the increasingly pervasive DVR.
- On average, cable viewers can watch 91 different channels, causing fragmentation and limiting reach.
- Commercial clutter is a concern; 25% of programming time is given to commercial units. On average, this is 40% more than radio.
- Cable ad costs can be misleading; high inventory loads can keep spot costs down, but the vast majority of these commercials will be placed in low-rated, low-interest programming.
- The addition of radio can improve a cable TV campaign by offering a variety of complementary media assets.

Cable Television Revenue Growing Exponentially



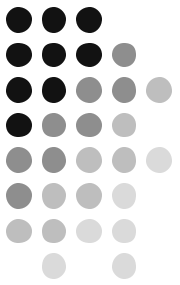
Cable Advertising has seen exceptional revenue growth over the past 10 years, including strong growth rates in the recent 2-3 years.



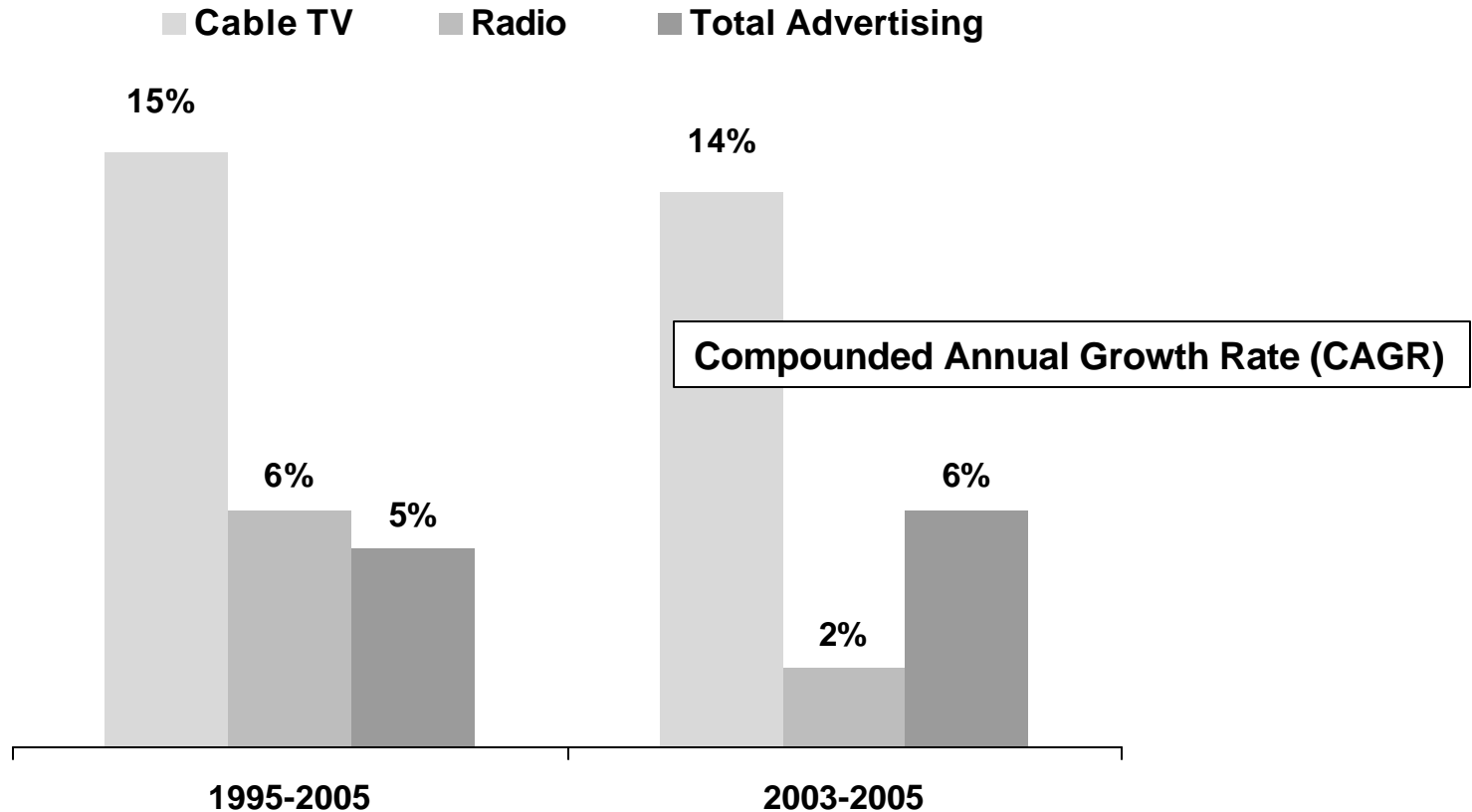
Source: Bob Coen, McCann Universal, March 2005.

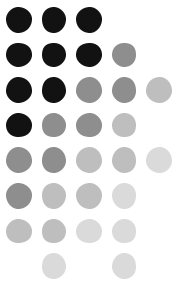


Total Cable Television Revenue Growth Comparison



Compared to other media, Cable Advertising has outpaced total advertising's CAGR over the past 10 years by 200%. In the past *two years*, Cable has outpaced overall advertising by 130%. Compared to radio's growth, Cable's performance has been even more dramatic.





Why all the growth?

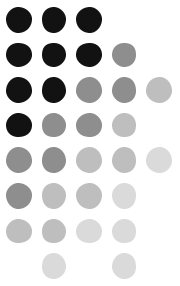
- This incredible growth in cable television leads to one question – why?
- While no one is disputing the growth of cable networks over the past decade, the rate of growth in cable advertising remains disproportionate to actual audience growth. At least one industry analyst, David Shackmann, speaking at the 2005 RAB Convention, speculated that cable’s own P.R. machine – its ability to create “water-cooler talk” hit shows, is a major part of the growth. He cites shows like HBO’s *Sex in the City* and the *Sopranos*, TLC’s *What Not to Wear*, Bravos’ *Queer Eye for the Straight Guy*, FX’s *The Shield* as examples. These shows create such buzz that advertisers psychologically want to be part of the excitement – even though in actuality many of these shows – or even entire networks – are never seen by over 90%-95% of the population.
- Entire Cable Networks often reach relatively low percentages of viewers, and particular shows – even top-rated ones – reach substantially fewer viewers. Here is a comparison between weekly and primetime reach for some popular networks.*

	<u>Total Week</u>	<u>Prime</u>
FX	16%	5%
HBO	16%	6%
HGTV	16%	5%
Showtime	9%	2%
TLC	17%	4%

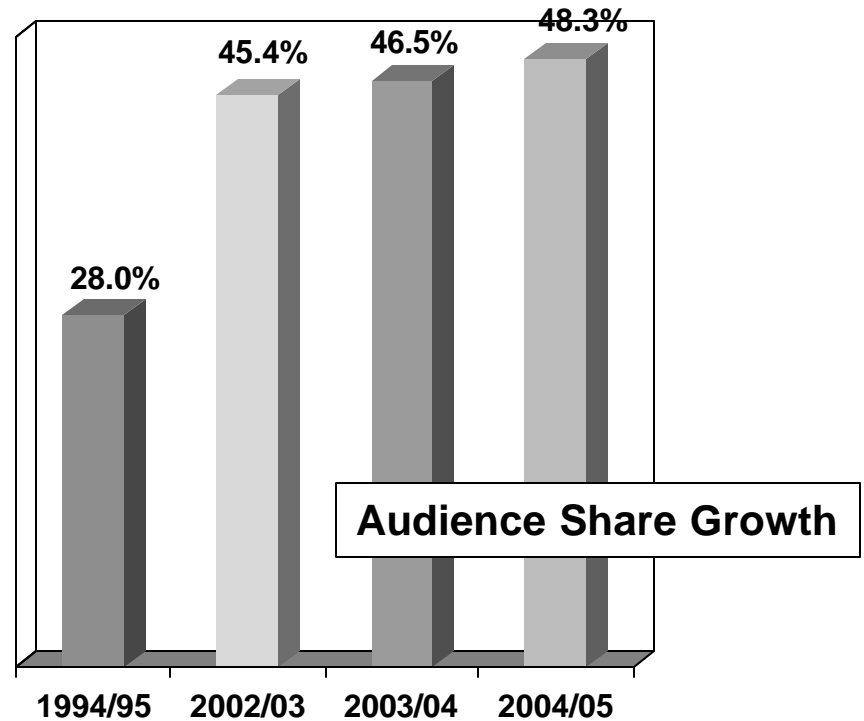
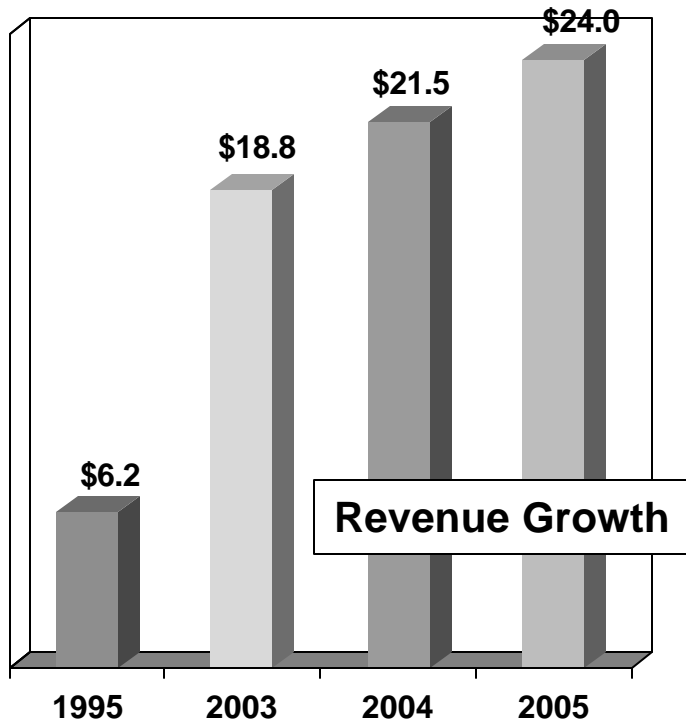
Simmons Fall 2005, Adults 18+, viewed network in past 7 days, or viewed primetime past weekday.



Cable Television Revenue Growth Outpacing Audience Growth

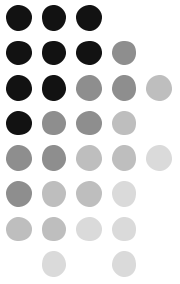


- 28% revenue increase vs. 6% audience increase '03-'05
- 287% revenue increase vs. 72% audience increase '95-'05



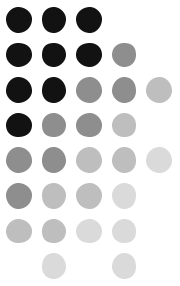
Source: Revenue Growth/Bob Coen, McCann Universal, 2005;
Audience Growth/ Ad supported Cable, share of total U.S. HH delivery, Oct-Sept.

Local Cable vs. National Cable Advertising: Special Considerations



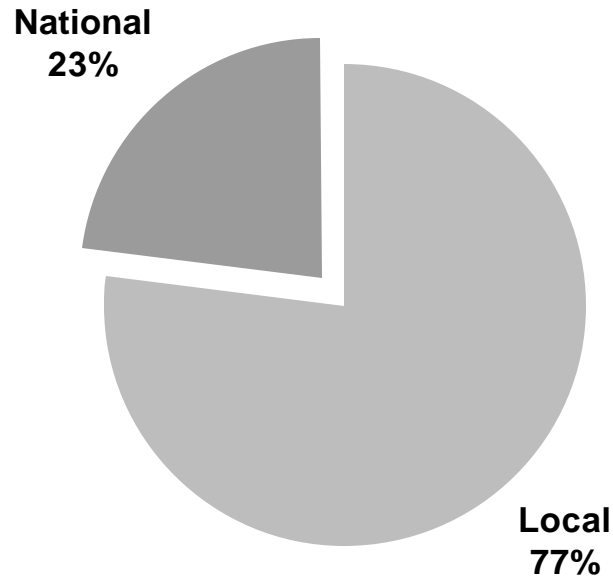
- As the graph on the following page shows, whereas radio generates most of its ad revenue from local ad sales, cable generates the majority of its revenue from national ad sales
- However, in recent years, cable advertising has been taking an increasing share of local ad dollars. Part of this reason is due to the growth of *interconnects* – sales partnerships between competing cable systems within markets to facilitate buying market-wide cable advertising
- However, there are special challenges for local cable advertisers:
 - Local commercials are placed right beside national commercials. National advertisers often spend millions of dollars on commercial production which could make local commercials look shoddy and inferior by comparison – not the image local advertisers want to project.
 - An even larger problem is the growth of Alternative Delivery Systems (ADS), or satellite dishes. Consumers who receive their cable networks via satellite dish do not see local cable commercials. Therefore, national cable audience estimates are misleading when applied to local viewership.

Charts on the following pages show the enormous growth of ADS in recent years.

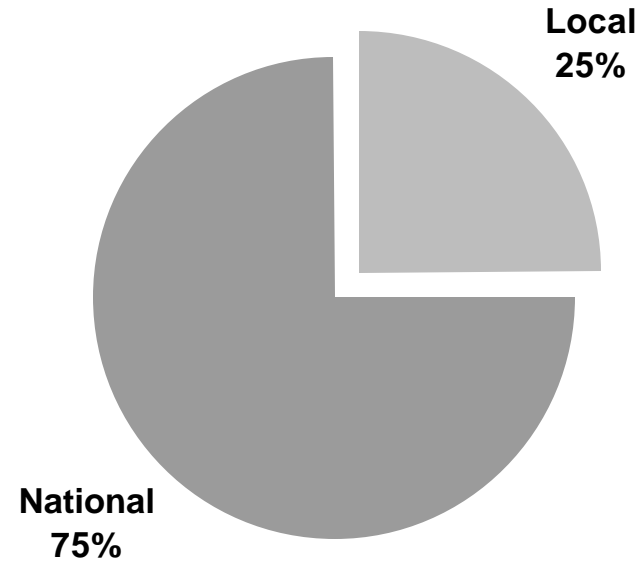


Radio and Cable's Local/National Advertising Revenue Split

Radio and Cable show almost exact opposite distribution in the percentage of advertising that comes from national versus local advertisers. Despite this, however, local cable advertising is growing.

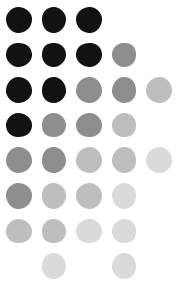


Radio

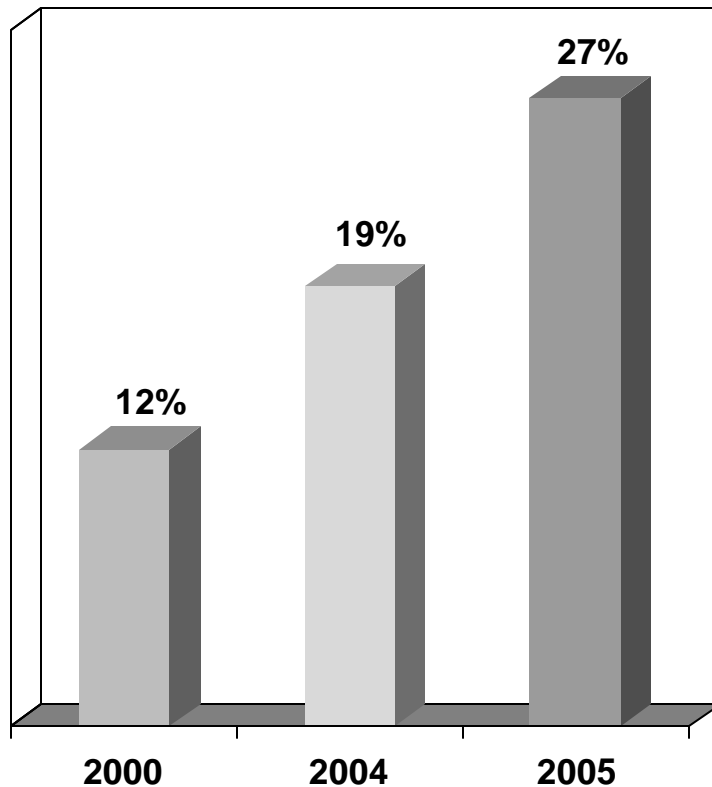


Cable Television

Satellite Television (DBS) Delivery Growing Rapidly



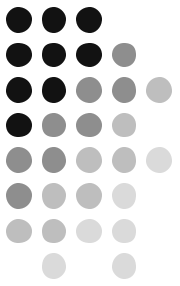
**% of U.S. Households
Subscribing to Satellite TV**



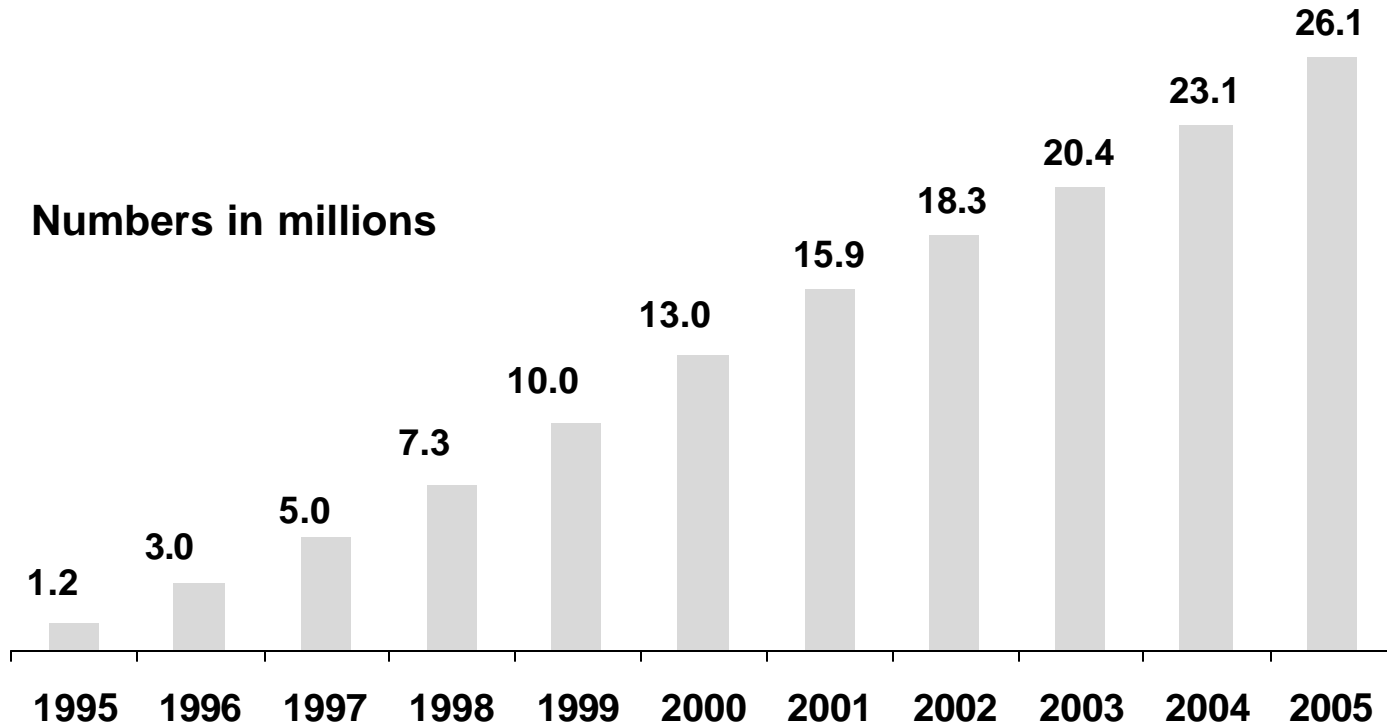
- Alternative Delivery Systems are significantly impacting cable distribution.
- While 61% of households subscribed to cable television in 2005, this percentage declined from 66% in 2000, according to J.D. Powers and Associates. The reason is ADS, or specifically satellite dish growth.
- Currently over one in four households subscribes to a satellite dish service. DirecTV and Dish Network are the two largest providers. Those homes – unless they are also cable subscribers – see no local cable advertisements. Therefore, national cable network ratings must be discounted by the percentage of satellite penetration in a particular market.

Source: J.D. Power and Ass. 2005 Residential Cable/Satellite TV Satisfaction Study (Tracks subscribers to “only satellite” and “only cable”; does not include HHs subscribing to both.

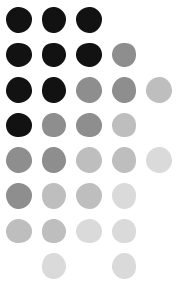
Number of Satellite TV Subscribers Soars Over Past Decade



In just the past 10 years, satellite subscribers have gone from nearly none existent to over 26 millions homes. Growth began to escalate in the mid-90s when satellite companies were given the right to carry local broadcast networks in addition to the cable networks.

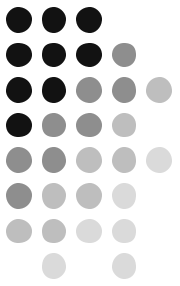


Source: Satellite Broadcasting and Communications Association.

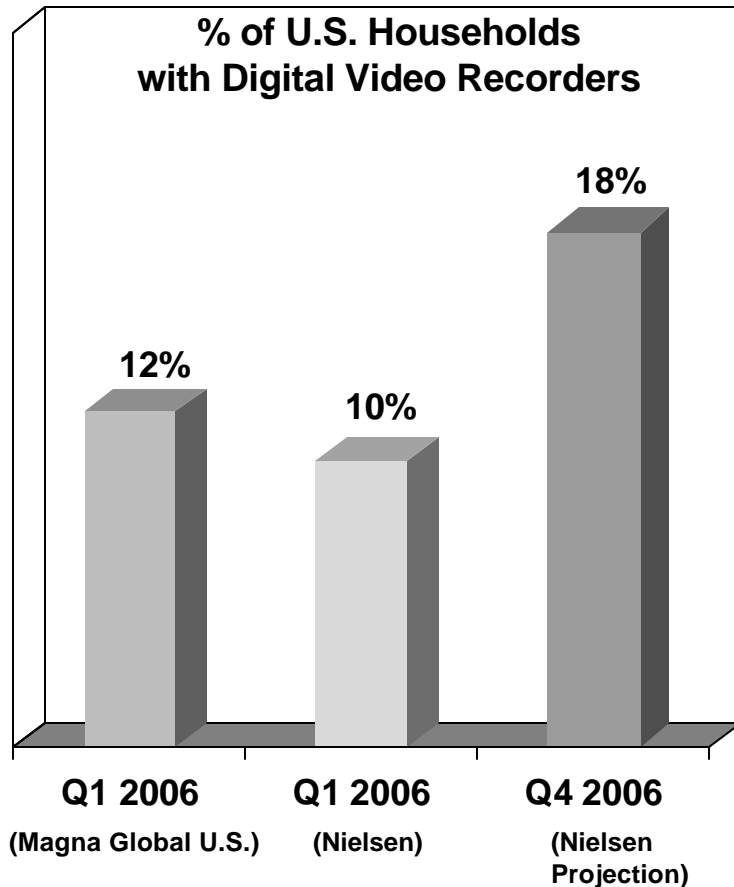


Additional Issues for Cable Advertising

- **Digital Video Recorders (DVRs)**
- **Fragmentation**
- **Commercial Clutter**
- **Ad Rate Specificity**



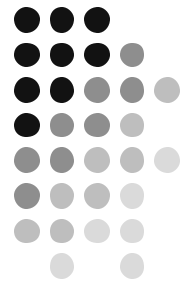
DVR Penetration Continues to Grow



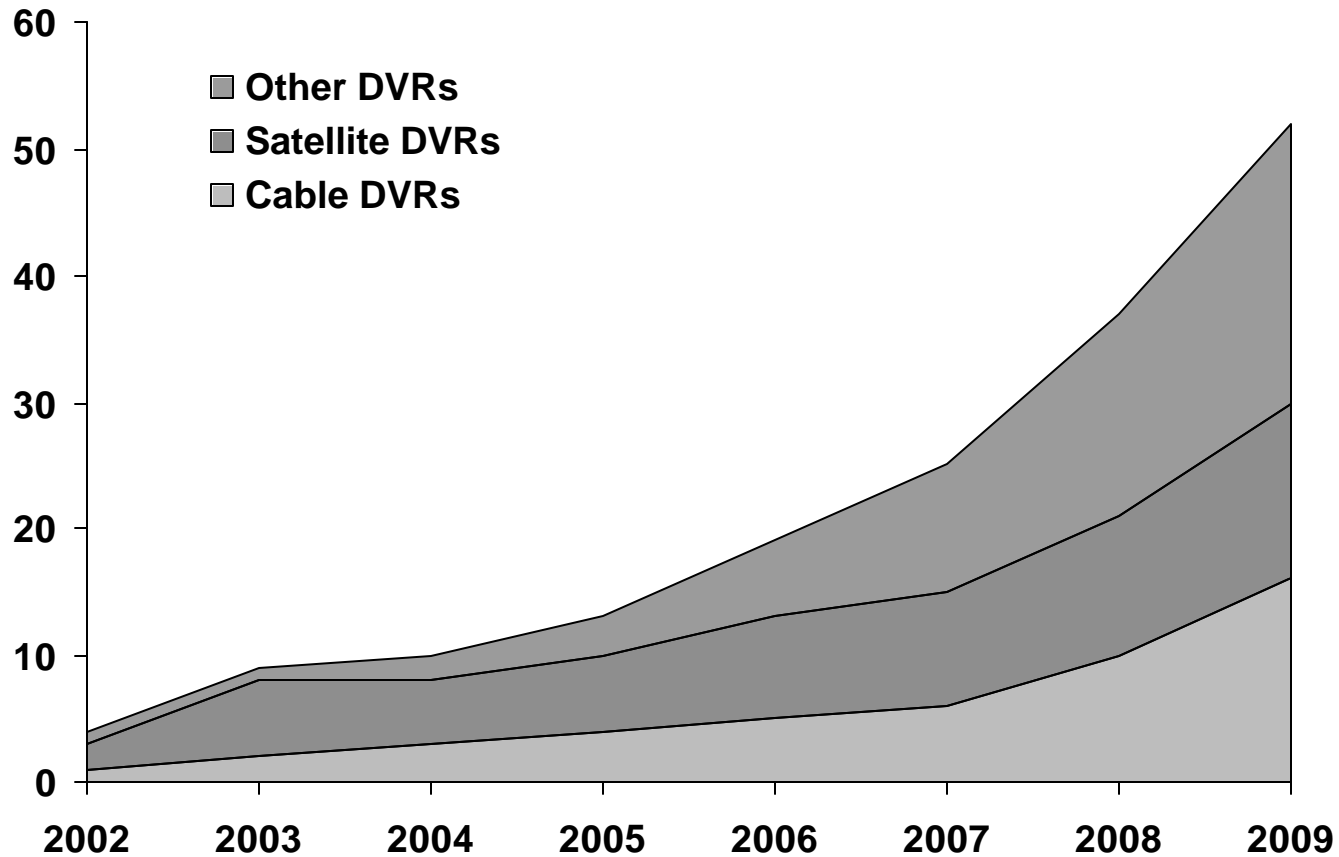
- DVR penetration is not a problem unique to cable television. *All* television viewing – including cable - is impacted by the increasing use of DVRs and “TiVo-like” devices to watch television.
- According to a study by TiVo, viewers with DVRs watch recorded programs 75% of the time and skip about 60% of commercials.*
- Currently, about one in five households have a DVR, but the number is growing rapidly.

Data in graph excerpted from MediaPost.com, March 21, 1006
*Excerpted from The Economist, April 15th, 2004.

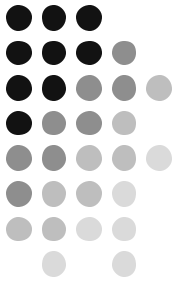
DVR Usage Exploding



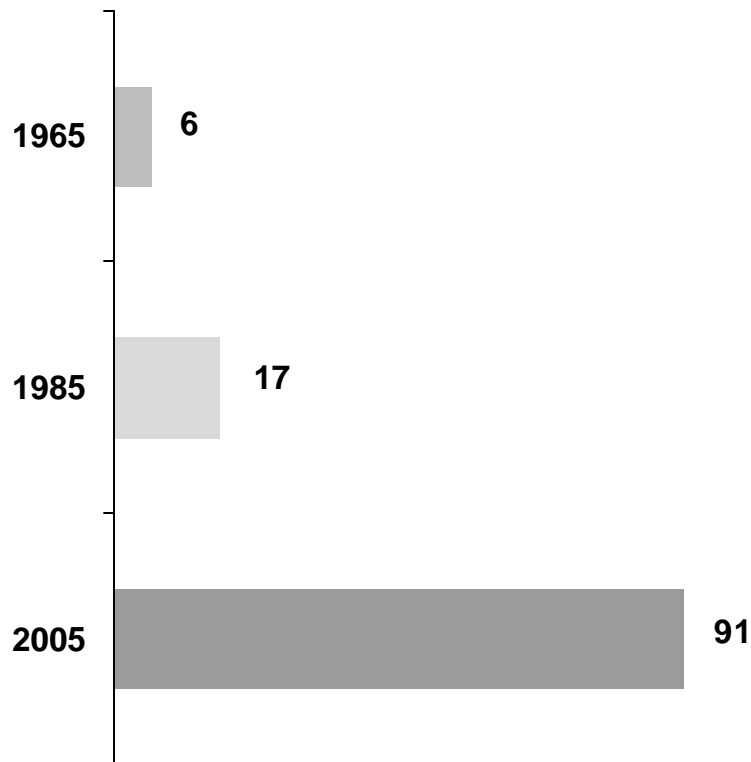
According to industry estimates, DVR numbers are estimated to grow by nearly 50% annually in the coming years, reaching upwards of 50 million units by 2009.



Fragmentation Limits Cable Reach

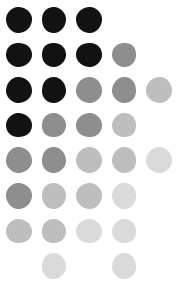


of Channels in Average Home



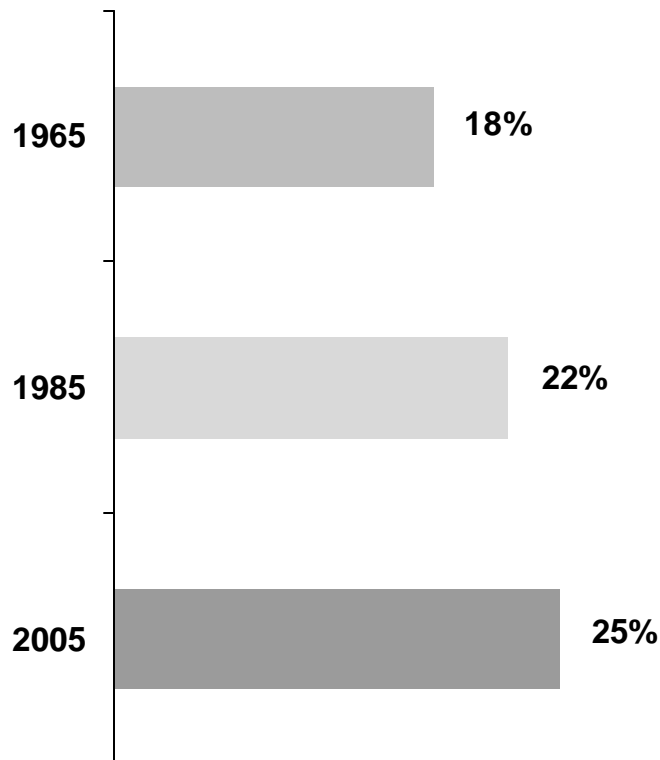
Source: TV Dimension

- The number of available cable channels has skyrocketed on most cable and dish systems with the average offering now exceeding 90 channels.
- Obviously, while this level of fragmentation is good for targeting narrow sliver audiences, advertisers seeking adequate reach goals may have difficulty.
- Similarly, a medium like radio, which was once thought of as a highly targeted “frequency” medium (in comparison to broadcast networks or newspaper) is now getting increasing respect as a reach vehicle. In a world of ever increasing cable television options, internet sites and magazine titles, radio has emerged as one of the strongest local market reach vehicles.



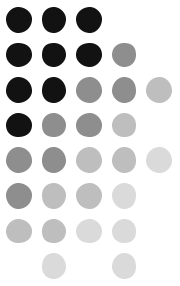
Commercial Clutter

% of Commercial Time on Television



- Commercial clutter is always a concern for advertisers regardless of the medium.
- On television, approximately 25% of all programming time is given to commercials. Both cable and broadcast networks show similar commercial loads.
- Last year, according to Nielsen, cable averaged 15 minutes per hour of non-programming content; Network Television averaged 15.2 minutes per hour.
- In comparison, Radio averaged 8.7 minutes per hour of programming time for stations in the Top 10 radio metros.* This is about 40% fewer commercial minutes than cable TV.

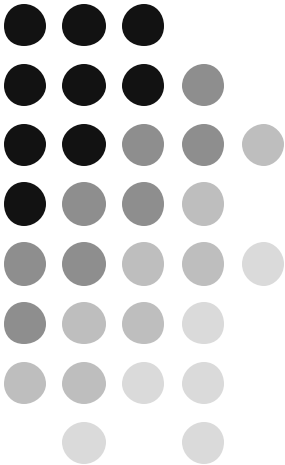
Graph Source: TV Dimension; 2005 figures from Nielsen Monitor Plus, 4th Quarter '05
* Harris Nesbitt and Media Monitor estimates, February 2006.

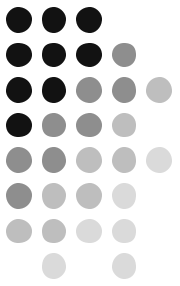


The True Cost of Cable TV

- Cable Television is sometimes positioned as “discount television”
- It is true that because of the high level of inventory, rotator spots that run across dayparts and programs may actually deliver low cost-per-thousands
- However, for advertisers interested in taking advantage of cable’s most watched or high profile programs, most find that rates for these “must buy” shows are quite high. Rates per spot are brought down by selling run of network campaigns. In other words, a network or cable system can use their vast inventory to bring down an advertiser’s cost-per-spot, but the majority of dollars are going to buy the “hot” programs, and the incremental dollars are buying up the chaff.

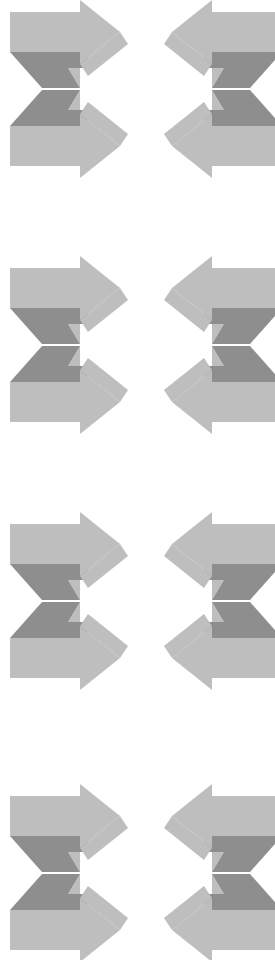
Can Radio and Cable Advertising Offer Complementary Advantages?





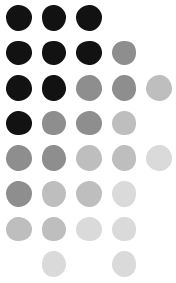
Complementary Marketing Benefits

- Creative audio effects can paint a mental picture in a listener's mind
- Radio is everywhere... in 99% of homes.
- Radio is used all through the day... Including in-car and at-work
- Mobile... heard in car, at work, shopping
- In-car listening "steers" consumer to your business
- Radio's "Less is More" effort has been steadily reducing ad clutter
- Ads can be produced quickly
- Relatively low production costs
- Limited stations in market reduce fragmentation and increase reach
- Excellent local ties-in, events and flexible sponsorship opportunities

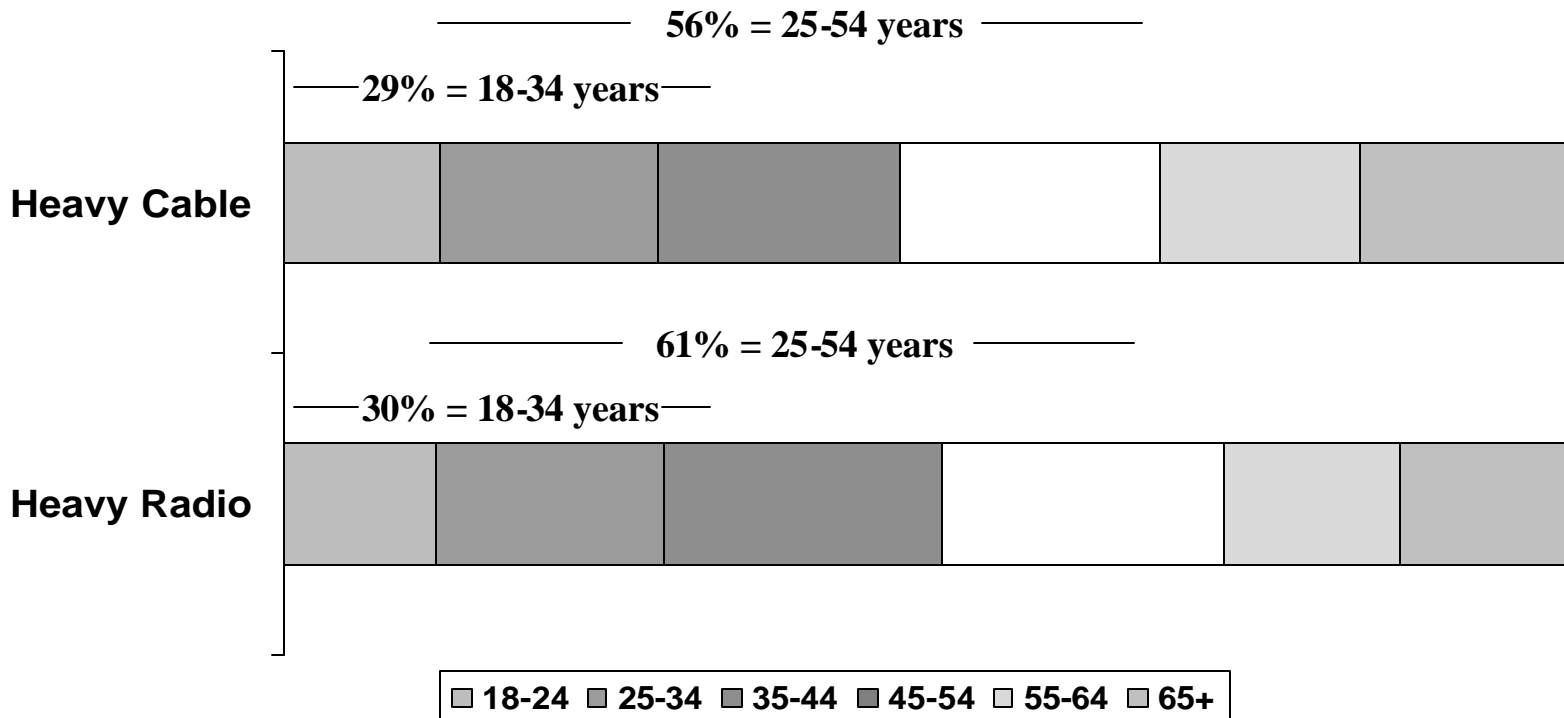


- ◆ Cable's visuals allow additional creative such as product display
- ◆ Cable penetration average is 68% of U.S. homes
- ◆ Like broadcast TV, cable has low daytime listening
- ◆ Stationary... little out-of-home reach
- ◆ Limited viewing locations mean longer time between seeing ad and point-of-purchase.
- ◆ Commercial clutter high – 25% of airtime
- ◆ Generally require longer production time
- ◆ Higher production costs for quality ads
- ◆ Reach is limited by subscriber base
- ◆ Local Cable further limited by satellite services
- ◆ Proliferation of cable channels fragments viewing, limiting reach
- ◆ Few local sponsorships or promotions; structured ad insert opportunities

Demographic Compatibility



Heavy radio listeners and heavy cable users are demographically compatible, especially in reaching the important younger demographics.

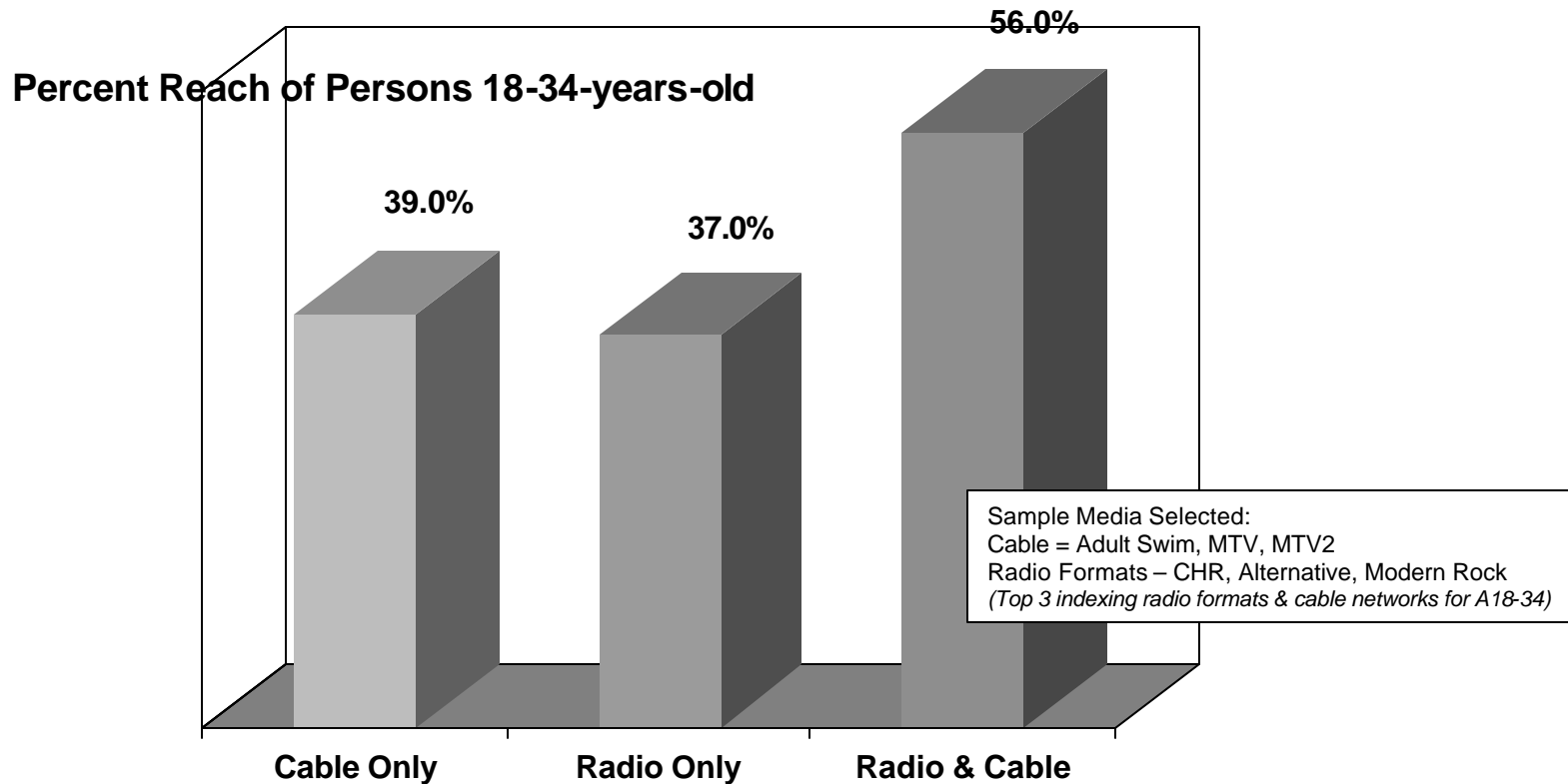
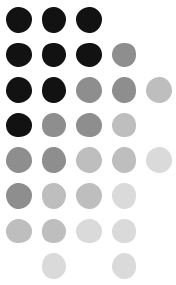


Simmons 2005 - Adults 18+
Heavy= Quintile 1 or Quintile II Listening

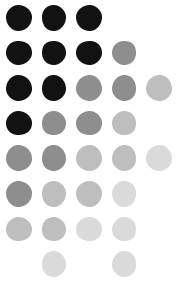


Radio & Cable Combo Dramatically Increases Young Adult Reach...

A sample selection of youth-oriented radio formats & cable networks has the potential to reach **56% of all young adults 18-34-years-old each week**

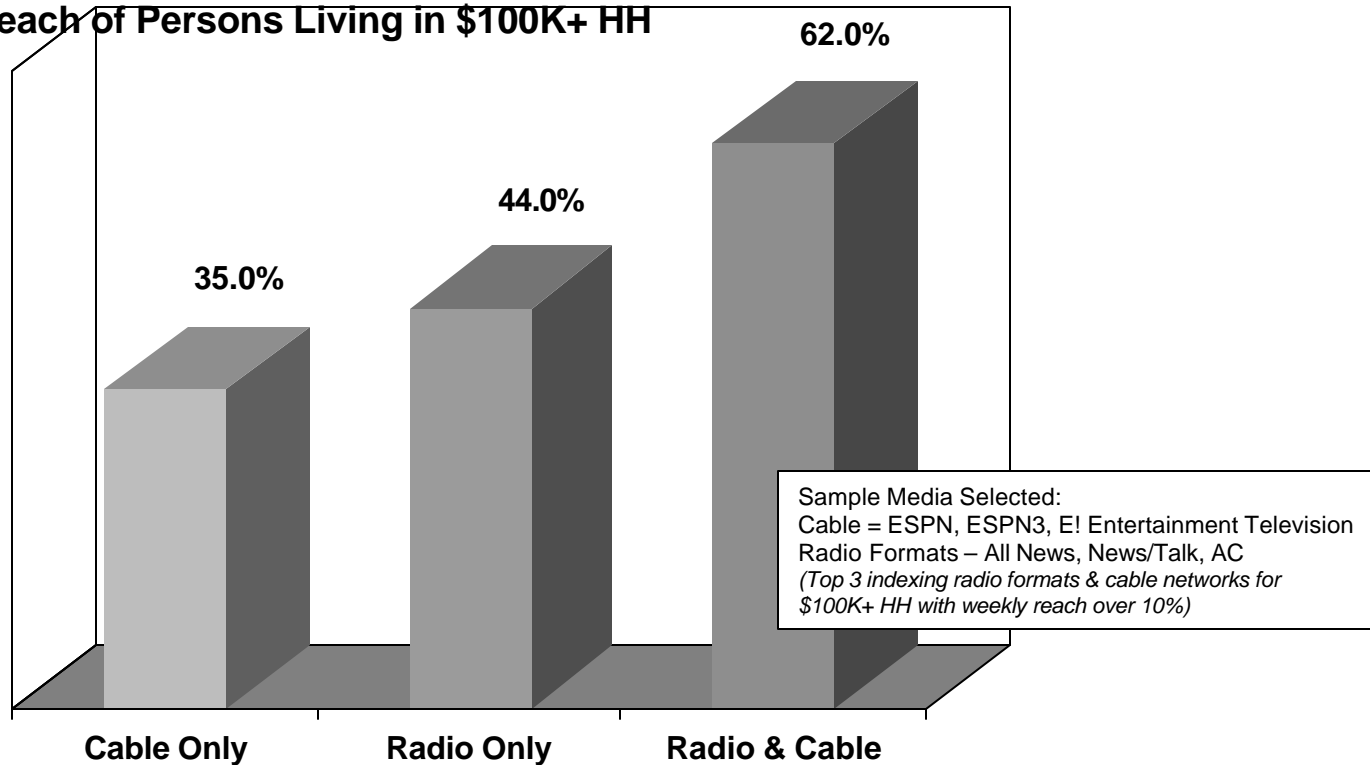


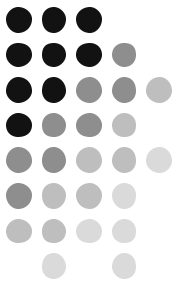
Radio & Cable Combo Dramatically Increase Upscale Adult Reach...



A sample selection of upscale radio formats & cable networks has the potential to reach **62% of all adults in \$100,000+ households each week**

Percent Reach of Persons Living in \$100K+ HH





Appendix:

Some Basics of Cable Television Advertising

- There are five basic types of programming available via cable television:
 - *Broadcast* - same shows that could be received via broadcast television
 - *Cable Originals* - programming made available by the cable operator
 - *Distant Signals* - broadcast television geographically too distant to receive over the air
 - *Pay Cable* - channels for which a subscriber pays extra and normally contain no advertising
 - *Pay-Per-View* - individual programs for which a subscriber pays a one time fee
- National and market specific television ratings are measured by the A.C. Nielsen Ratings Service
- As with broadcast television, audience estimates are given in terms of ratings and share. Share may be a measure of HUTs (households using television), or PUTs (persons using television)
- Cable commercials are generally :30 to :60 second spots, however, longer units are available and more frequently utilized than on standard broadcast television
- Cable advertising can be purchased on a local, regional or national basis
- On a national basis, commercials are purchased by an upfront or scatter buy. On a local or regional level, cable is purchased either on a system by system basis or via an *interconnect*, which consists of two or more systems united for sales purposes.

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