Local Content Survey Results

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Forward

It has been Viodi's belief that local content will be a long-term way to keep, "independent telcos independent and strengthen rural communities at the same time." Viodi's mission the past few years has been to help independent telcos embrace local content.

The motivation for this survey was to both quantify and get a better understanding of the local content creation efforts of independent telcos and their communities. Another driver for this survey was the upcoming Content Pavilion at TelecomNEXT, http://www.contentpavilion.com/. The Content Pavilion will showcase content from independent telcos from around the country.

The final driver for this survey was due diligence for a concept Viodi has had for awhile; a concept that is starting to take shape. That is, Viodi believes there is an opportunity to stitch together the local content efforts of the independent telcos into a national network. What is envisioned is a sort of Independent Content Exchange that would help independent telcos and their respective communities organize, create, distribute, share and promote local content. In short, the Independent Content Exchange would be:

The Independent Channel for Independent Telcos

If the Independent Content Exchange concept is of interest, please contact Ken Pyle at either ken.pyle@viodi.com or 408 551 0320 to find out how your company could participate.

Overview:

This document provides commentary and the responses to a survey regarding the creation and distribution of local content by independent telcos. Over the past few years, there has been a great deal of discussion as to how local content is a great differentiator from satellite and cable television offerings from larger, out-of-town competitors. To Viodi's knowledge, this is the first time that an attempt has been made to get a definitive view of the local content market size and opportunity as it relates to independent telcos.

If content is king, then the creation and distribution of local content represents an independent telco's empire according to the latest survey results from Viodi, LLC. Viodi's January, 2006 survey indicates that independent telcos around the United States are using local content to differentiate their product offering from that of their larger competition. Of the survey respondents, 53% are already providing some form of local content to their subscribers. The remaining 2/3 of the respondents plan on providing local content to their subscribers within the next 24 months.

As would be expected of these community-based organizations, the number one reason these independent telcos are providing local content is to help their community. The top three local content categories that are being produced are sports, advertising and government meetings. The survey indicated that telcos are providing a number of other unique content offerings, from documentaries to cooking shows.

Some other findings from this survey that should be of interest:

- The biggest perceived impediment to creating local content is the lack of resources and experience.
- In general, the impediments to creating local content are perceived to be greater by those people who are not currently creating local content as compared to those who are.
- It is a revenue-generating activity for 9 of the 24 respondents and is an activity that is directly profitable for 2 of the 24 respondents.
- The majority of the respondents (35 of 45) are interested in licensing from other telcos. Fewer are interested in licensing content to other telcos (10 of 24 respondents). It is not clear whether this is because of a lack of interest or whether the respondents did not think there would be an interest in their content.

The results of this survey, combined with information in Viodi's database, indicate that there are more than 50 independent telephone companies which are currently providing local content in one form or another.

Methodology

The survey was intended to understand the challenges and opportunities of local content creation and distribution as it relates to independent telephone companies. The survey was sent via email on January, 2005 to over 1,015 operators whose contact information resides in Viodi's database. No reminder emails were sent, other than a single sentence buried in the January 11th, 2006 issue of the Viodi View.

A link was provided within the initial email, which led to an introductory web page and a list of nineteen questions. There were a common set of questions for all respondents and different sets of questions for those companies that are creating local content versus those who are not.

The survey used the program ***PHP Surveyor***. All responses were automatically stored and compiled in a php database. The results were later downloaded as a csv format file and were then imported into Microsoft Excel™ for further analysis. By examining email addresses, it appears that all of the responses came from different individuals from different companies.

Recipients of the survey were told they would receive the results of the survey. This incentive may have biased the survey to some extent to include only people who are extremely interested in the topic of local content.

Who Responded to the Survey?

397 people opened the email, while forty eight (48) people responded to the survey. Based on analysis of the email data, 45 of these people work for operators, while three work for engineering firms. This represents approximately four (4%) to five (5%) percent of the independent telephone company base.

The majority of the respondents were General Managers, as shown in the following table.

What is your role within your company?	
Marketing or Sales	10
Operations	4
General Management	24
Engineering	3
Other	4

Some people listed their titles, which provides additional flavor for some of the people who responded:

- I have broad responsibilities for the implementation of headend, middleware, service delivery, and content agreements.
- Product Development
- Video Production Manager

- I am so small I fill in all of those roles
- consulting engineer
- Info Tech
- Product/Project Manager for Video

Although it was felt that the survey would be going exclusively to independent telephone companies, it is useful to understand how these operators characterize their operations.

How do you characterize your company?	Yes	No
[Independent Telco	33	3
Cable Television Operator	7	29
Other Service Provider	6	30
Not a service provider	1	35

The majority of the respondents characterize their companies as "independent telcos", as seen in the above table. In many cases, respondents characterized their companies as both telcos, as well as cable television operators. This is probably due to the fact that some have separate subsidiaries that provide cable television services only (typically using traditional Hybrid Fiber Coax as the transport method). Additionally, some are using CLEC subsidiaries as their vehicle for deploying video, telephony and Internet outside their exchange areas.

These are small operators, with most of them having less than 5,000 subscribers today:

Approximately how many video subscribers do you have?	
0 today, but have plans to implement video	10
<5,000	23
5000 to 24,999	12
25,000 to 100,000	0
>100,000	0

Most of these operators will likely remain small. This is indicated by the responses to the following question.

Approximately how many video subscribers do you plan on having a year from now?	
Zero	3
<5,000	27
5000 – 24,999	15
25,000 to 100,000	0
>100,000	0

Still, these smaller, mostly independent operators have repeatedly provided a litmus test for the larger telco market and are generally good indicators as to the market direction for new types of services.

Local – Some Do, Some Want To

The first question of substance regarding local content was whether or not the operator is currently providing content.

Do you currently provide local video content of any form on your broadband network?	Yes	No
	24	21

The intent of this question was to differentiate between the operators that are providing content versus those that are not. Different sets of questions were provided, depending upon how the respondent responded to the aforementioned question. As can be seen, twenty four (24) or 53% of the respondents affirmed that they are either creating themselves or working with local producers to distribute local content to their communities.

Of the twenty-one (21) who responded that they are not currently providing local content, 2/3 or fourteen (14) have plans to provide local content within the next 24 months.

Does your company have plans to create a local channel with content produced either by your company or local institutions, such as schools, churches, etc.?	
No Responses	4
Not in our plans	3
Within the next 12 months	5
Within the next 24 months	9

Local Content Drivers

The number one reason independent telcos provide local content is to benefit their community, as shown in the responses to the following question regarding telcos' local content motivations.

Why does your company provide local content?	yes
A differentiator from satellite and/or cable operator	16
It's a profitable stand-alone business	2
As a service to the community	22
Other	1

Multiple responses were allowed for this question and the majority of the responses indicated that local content is provided, "as a service to the community."

Only two responded that local content is a profitable endeavor. Interestingly, Viodi further investigated and found that these providers are fairly diverse in terms of size, with one provider having less than 5,000, while the other has less than 25,000 cable subscribers. The second biggest motivator for providing local content was to differentiate one's product offering from that of the competition. Implicit in this response is the idea that a differentiated product will help reduce churn to cable and DBS competition.

One marketing manager of a telco, who didn't respond to the survey, told Viodi that their local weather application is the fifth highest rated channel on their cable system (they have a mechanism for measuring actual views). He said his company sells still-image advertisements on this channel and have more demand than inventory. They have found the demand from advertisers is coming from word of mouth from subscribers.

Some of the comments to this question from respondents who are currently providing content include:

- Community calendar / civil meetings
- Community web cams, some sports events on webserver
- Maintain access lines
- Content promotes LOGO! [editor's note: This is assumed to mean building the brand]

The responses to a similar question from those people who are not yet providing local content was not much different than those who are already providing content. The significant difference was the number of responses indicating that this will be a profitable business. The increased number of responses suggesting it could be a profitable venture may be indicative of the optimism surrounding a new, un-chartered business.

What will motivate your company to provide local content?	Yes
A differentiator from satellite and/or cable operator	13
It will be a profitable stand-alone business	4
As a service to the community	17
Other	0

Local Content Roadblocks

Given that independent telcos believe that creating local content is important, what are the impediments to independent telcos' realizing their content dreams? This question was posed to both respondents who are providing local content today as well as those who are not. People were asked to respond on a scale of one to ten with the most difficult challenges to creating content.

Please rank, with 1 being the least and 10 being the biggest, the impediments you have seen in the creation and distribution of local content on your broadband network.	# of Responses	Median	Average
Costs too much	23	6	6.04
Lack of Resources	24	7	7.13
Lack of experience	23	7	6.52
Technology challenges	23	5	5.70
Company and/or community is too small to sustain the on-going effort	22	7	6.00
Clearing rights to music & getting talent releases	19	6	5.26
Other	0	0	0.00

Based on both the number of responses and the average score, the lack of resources was the biggest concern with an average rating of 7.13. The second highest average response, lack of experience, is probably fairly closely related to resources. Without experience, it isn't always clear where the resources are.

Costs and technology are not major issues, according to this experienced group. In fact, technology challenges had the lowest median score (5) of any of the response, which may indicate a difference in experience level between the operators. From an average score and number of responses standpoint, clearing rights to music and getting talent releases are the least of an operators' impediments to creating local content. This could be due to a number of factors including the generally accepted notion that people like to see themselves on television.

People who work for telcos that are not involved in the creation of content perceive the challenges to be much greater than those that are already creating content. This is evidenced by the higher ratings for each of the listed impediments. The biggest challenge, at least for three of the respondents, was "other". Unfortunately, the question did not allow for comments, so we don't know the impediments that were overlooked.

Please rank, with 1 being the least and 10 being the biggest, the impediments you see to creating and putting local content on your broadband network?	# of Responses	Median	Average
Costs too much	18	7	6.94
Lack of resources	19	8	7.42
Lack of experience	19	8	7.32
Technology challenges	19	6	6.00
Company and/or community is too small to sustain the on-going effort]	17	7	6.59
Clearing rights to music & getting talent releases]	19	7	6.68
other	3	9	8.67

As with the experienced local producers, lack of resources and experience are the number one concern for the respondents. Cost and technology were lesser concerns, but still more of a concern to the content neophyte than it would be to the experienced producer. Rights clearance ranked higher than technology and community size impediments, as well as compared to the responses from operators that currently provide content.

Leveraging the Community

Leveraging the community is critical to the resource limited independent telco if they are going to overcome hurdles such as inexperience and lack of resources. The responses to the question as to which local institutions work with independent telcos on local content were in line with anecdotal feedback Viodi has received over the years. That is, schools, government agencies and churches were the top three local institutions that telcos work with to create content.

Does your company work with any of the following local institutions to produce content? [please select all that apply] [K-12 schools]	Yes
K-12 schools	17
Colleges	3
Community Organizations (e.g. Kiwanas)	5
Churches	9
Local governments or municipal agencies	11
Local Businesses	7
Videographers	4
Public Access Groups	1
Film Festival Groups	0
Others	1

That only one person responded that his or her company is working with a public access group probably indicates that very few of the small communities represented in this survey can support a public access group.

The following are some of the unedited comments combined with the particular institution (in parentheses) to which the respondent referred.

- Wrestling videos (K-12 Schools)
- High School Sports (K-12 Schools)
- trying to work on this relationship (K-12 Schools, Colleges)
- employee (Colleges)
- content (Community Organizations, Local governments or municipal agencies, K-12 Schools)
- ad & content (Working with local businesses, churches)
- looking into it (Churches)
- meetings (Local governments or municipal agencies)
- Golf pros, local chefs (Others)

What Are They Showing?

Again, the responses match this author's expectations as far as the type of content that is being created and distributed at a local level. Live sporting events are first followed closely be advertisements and government agency meetings. The large number of responses in each category indicates that independent telcos, which are producing content, are offering a variety of content that reflects the desires of their community.

What sort of local content do you produce or air on your broadband network?	Yes
Advertisements (video)	10
Advertisements (billboard - e.g. rotating static ads on an assigned channel)	9
Live or taped sporting events	16
Live events, such as local fairs	8
Cooking Shows	4
Instructional (e.g. Home & Garden, Fix-it shows, etc.	4
School/Educational	8
Talk shows	5
Documentaries/Biographies/Historical Re-enactments	2
Music shows	3
Church services	8
News	4
Government agency meetings	10
Other	7

The comments regarding the above question provide examples of some of the other kinds of content that is being produced.

- Insert [assumed this means advertising insertion]
- Only advertise non profit events and community events, school lunch menus and events

- school sports -- taped
- Wrestling videos
- 3Q 2006
- Two live video camers at our lake and also of an opsprey hack box during the summer release program
- WebCams
- Local HS Sports Show- Taped
- local weather conditions
- Senior education
- Focus on the Arts, Public Affairs
- How to use the remote and menu screen

Local Content Revenue Sources

The question regarding how telcos generate revenue from local content was a multiple selection question. That is, many of those telcos that are generating revenue from local content are creating multiple revenue streams. Of those that responded, 62.5% (15 out of 24) are not currently generating revenue from local content. The nine telcos that are generating revenue from local content have an average of 1.66 streams of income (15 total responses divided by nine companies).

What forms of revenue do you generate with local content?	Yes
Sponsorships (e.g. "this program brought to you by….")	6
Advertising (e.g. ad insertion or static ads)	7
On-Demand, DVD or VHS sales of programs	2
Other Revenue Sources	0
No explicit revenue at this time, but have plans	7
No revenue	8

The following are some of the unedited comments combined with the particular institution (in parentheses) to which the respondent referred.

- Generally not very successful with this. (Sponsorships)
- Insertion (Advertising)
- some (On-Demand, DVD or VHS Sales of Programs)
- Will offer ads on local weather station (No explicit revenue at this time, but have plans)

To License or Not to License

Viodi believes that increasingly local content will be the bedrock for a differentiated service that distinguishes the independent telco from their out-of-town competitor. Another Viodi belief is that a portion of the content produced at the community level will have a regional and national appeal. To create an exchange for content that allows independent telcos to share the best of the best holds promise as a way to strengthen the entire independent telco industry.

For this sort of independent content exchange to occur, independent telcos will have to be willing to license content to and from other telcos. The purpose of this next question, which was posed to only those telcos that are local content purveyors, was to determine the interest in licensing content to other telcos.

Would you be interested in licensing content you have created TO other telcos?	Yes	No
	10	3

More than 40% (10 out of 24) of the telcos have an interest in licensing their content to other telcos. Three (3) definitely do not want to license content to others. What is not known is whether the other 11 respondents have an interest in licensing their, but believe their content would not have value to other telcos. Or, it may be that they feel the rewards for licensing content are exceeded by the hassles of protecting intellectual property. Or, they may have felt they did not feel they had sufficient information to adequately answer this question or the lack of response may be just another way of saying no

On the flip side, most (35 out of 45) of the respondents want to be able to license content from other telcos. There was only one response which explicitly stated that they did not want to license content from other telcos. This means nine (9) people did not respond to this question, which may be because they did not feel they had sufficient information to adequately answer this question or the lack of response may be just another way of saying no.

Would you be interested in licensing content FROM other telcos to enhance your local channels, if their content was relevant to your community?	Yes	No
	35	1

Other Comments

The final question provided respondents to offer general comments regarding the survey or on the topic of local content. Comment two, below, is interesting because this person had indicated that they were not producing local content earlier in the survey. In this comment, he/she indicates that they have local origination via a character generator (most likely static ads).

Viodi would consider local origination via static images to be a form of local content. Changing this respondents' answer to reflect the fact that they are producing local content would change the survey results slightly and would only strengthen the conclusion that the majority of independent telcos who responded to this survey are providing some form of local content. The survey should have defined local content to ensure that everyone had a common definition.

Survey Comments from the people NOT producing Local Content

1. Our model includes distribution of video via our fiber network to other companies and we expect to produce and secure local content and ad insertion to meet individual needs.
2. We have a small (200 subs) analog CATV system. We have a local origination channel with a character generator that we carry local community info.
3. Because "local content" is equated with PEG channels, clearly just a cost/loss leader to us to assist and contribute.

Survey Comments from people producing Local Content

4. Ken: This is good way of getting us looking at the concept. We are still moving forward with getting a local channel on our system that is operated by the schools.
5. Would love info on what works best - what kind of equipment - what kinds of content - software for editing - camera and sound solutions (mostly sound)
6. With ITVN (http://www.itvn.com) [editor's note: This is something that every telco should check out – as a competitive threat, ala a Video Vonage or it could be a potential complement)]providing some evidence to my view that content will soon be available via a variety of outside providers, I believe our focus as a company will be in providing transport and maybe stream our own local content channel via a web or media server. With MovieLink.com, I think VOD offerings from Telcos may be undermined.
7. We are new into the local content arena but have a strong desire to expand via VOD and a local channel and use it to seprate us from our competition.

Conclusions

To some extent, this survey reaffirmed commonly held assumptions regarding local content and independent telcos. The 45 respondents represent approximate 4 to 5% of the number independent telcos. To some extent, the results are probably biased in favor of the idea that independent telcos want to have a local content element to their business.

Despite this bias, the results from this survey, combined with information in Viodi's database, indicate that there are more than 50 independent telephone companies which are currently providing local content in one form or another. If the leading edge companies represented in this survey are indicative of the general independent telco market, then it is probably a fair assumption to extrapolate that the market size for local content is much greater than this survey's sample size.

[Note: Viodi wishes to thank all of the operators that responded to this survey.]