

Networks Wary of Apple's Push to Cut Show Prices

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If Apple cut the price of each TV episode in half – to 99 cents, from \$1.99 – would sales on iTunes increase enough to offset the price drop?

Experiments are under way to find out, and the head of the nation's No. 1 television network, CBS, indicated last week that some shows, at least, would be priced under a dollar in the future.

Apple wants to ignite TV show sales, especially as it prepares to introduce the iPad tablet computer next month. But its proposals to lower prices across the board are being met by skepticism from the major networks.

Television production is expensive, and the networks are wary of selling shows for less. They are equally wary of harming their far more lucrative deals with affiliates and cable distributors, who may feel threatened by online storefronts like Apple's and those operated by Amazon, Microsoft and Sony.

But the networks do not want to ignore the 125 million customers with credit cards who have iTunes accounts, either. "We're willing to try anything, but the key word is 'try,'" said a TV network executive who requested anonymity because his company had declined to comment publicly on talks with Apple.

With the iTunes pricing debate, the television industry is facing the same question that music labels and publishers are: just how much is our content worth in a digital world? It is especially complicated for TV, given that most people already pay for TV through their cable or satellite service – and they can watch most network shows free on streaming sites like Hulu, albeit with advertisements.

The notion of selling individual TV episodes straight to the consumer is still a relatively new one. Apple added video to its music store in late 2005 and sold episodes of the ABC shows "Lost" and "Desperate Housewives" without ads for \$1.99, twice the price of a single song at the time. The store soon expanded to include virtually all of the major TV providers, with Apple insisting on a uniform \$1.99 price for episodes. NBC Universal bristled and removed its shows at the end of 2007 but returned nine months later, after Apple slightly relaxed its pricing structure.

For the most part, though, standard-definition episodes from NBC and other networks remain \$1.99, and high-definition episodes are \$2.99, whether it is a brand-new hourlong drama or a five-year-old half-hour sitcom. Movie sales and rentals are more flexible.

But iTunes remains, predominately, a music store. Consumers have downloaded nearly 10 billion songs and about 375 million TV episodes. Analysts say the TV revenue from iTunes has been marginal for producers and distributors. “It’s still a niche portion of the marketplace,” said Doug Mitchelson, a television analyst for Deutsche Bank Securities, who characterized iTunes and competing digital stores as an extension of DVD sales of TV shows.

Separately, Apple has proposed to some networks that the store sell a subscription package of popular TV shows. At a price some reports have set at \$30 a month, the subscription service would be a direct threat to entrenched cable and satellite providers. Apple has encountered trepidation from some networks, but the proposal is not off the table, according to executives at two of the networks.

What would make the iTunes sales more significant? That is where pricing science comes in. In conversations with networks, Apple representatives have cited 99 cents as the magic price point that brought digital music sales into the mainstream. The company says the same price could propel TV sales, according to the network executives. But the networks have little data about what effect 99-cent sales would have, making them more apprehensive about a change.

“If you took five things at Wal-Mart and sold them for a nickel, they’d sell really well, because they’d stand out. But if you took everything in the store and made it a nickel, nothing stands out anymore. Essentially all you’ve done is lowered the value of your content,” said a senior executive at a TV network owner.

Most other media companies declined to comment on TV pricing at iTunes last week, as did a spokesman for Apple.

Pricing is coming up now in part because Apple is keen — some TV executives privately say desperate — to line up content for the iPad, the tablet computer to be [available in March](#). Mr. Mitchelson said prices under a dollar were “very appealing to the consumer,” and he said the key for Apple was, “Can you draw in this huge swath of folks who aren’t using iTunes at all to purchase TV shows?”

The networks appear willing to try lower prices in a limited way. The Financial Times [reported this month](#) that some networks had agreed to a test of lower prices, but it did not name any.

Asked about iTunes on an earnings call with analysts on Thursday, Leslie Moonves, the chief executive of the CBS Corporation, said that “certain shows” would be sold for 99 cents, but “I don’t know yet which will be.” People in the industry doubt the discounts would apply to the newest episodes of marquee shows like “NCIS” or “Two and a Half Men.” A CBS spokesman said Friday that no new deal with Apple was imminent.

Among the few 99-cent TV shows on iTunes last week were NBC recaps of Olympic events and episodes of the PBS Kids shows “Arthur,” “Martha Speaks” and “WordGirl.” The PBS pricing is temporary. Andrew Russell, a senior vice president of the service, called it a three-week experiment to “generate buzz.” “At this point we still feel the \$1.99 price point is right for us, our audiences and our producers to help support creation of more outstanding kids’ content,” Mr. Russell said by e-mail. “But we’ll remain flexible in this fast-changing environment.”