Memo 12

To: Pricing Department

From: Regional Manager, Region 3

Re: New Channel Lineup

We are thinking of adding three networks to our basic cable lineup: Bravo, ESPNews, and MTV2. Each of these networks would charge us programming fees on a per subscriber basis, as follows:

- Bravo – 8 cents per subscriber per month

- ESPNews – 10 cents per subscriber per month

- MTV2 – 7.5 cents per subscriber per month

To offset a portion of these fees, each network would allow us to sell some local advertising time on their networks. Based on current network ratings, our advertising department estimates that the monthly advertising revenues earned would amount to $1,200 on Bravo, $1,500 on ESPNews, and $1,200 on MTV2.

Approximately 46% of the 110,000 customers in our Region 3 market currently subscribe to our basic services. Anytime the basic channel lineup is adjusted, there is a shift in the number of customers who take the basic cable package. We tend to lose a few channel loyal customers anytime we drop a channel, and likewise, gain a new group when a channel is added. Our marketing department has provided estimates of the number of loyal customers for each channel. This represents an estimate of the number of cable customers we will lose if we drop a particular network. Likewise, it also provides an estimate of the number we can gain by adding a new channel. Currently, we do not have the capacity to add new channels to our basic lineup without dropping existing channels. Our marketing department estimates the following increases in subscribers by adding these new channels: Bravo – 150, ESPNews – 300, and MTV2 – 225. Our current pricing (not including taxes) for the basic package is $34.99 per month. Our programming fees for the basic package total $14.55 per month.

The current basic cable lineup is attached. The list only includes networks that could feasibly be replaced. It excludes channels that must be retained due to governmental regulation (local access channels, etc.) as well as broadcast networks.

Using this information, please make a recommendation for whether we should add any of the proposed new networks to our basic package.

Attachment: Potential_Changes.xls