

# Memo 3

To: National Sales Manager, Cable Operations

From: Vice President, Cable Operations

Re: HDTV Promotion

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The provision of high-definition TV (HDTV) service is an important component of our digital cable strategy. As you know, it provides significant improvements in visual and audio quality compared to traditional cable TV, and the value added is a promising new source of revenue for the company.

Currently, we offer HD programming with standard definition counterparts for free to our digital service subscribers. In certain areas, we also offer a separate package devoted exclusively to HD programming for a monthly price of \$5.99. Although we do not charge extra fees for some HD channels, we still benefit because of the higher advertising revenues it generates. According to estimates by our product development division, the extra advertising revenue that each HDTV subscriber brings us is about \$10/month, compared to a traditional TV customer.

The development of our HDTV business remains slow. According to a recent survey by the product development department, two major factors attribute to the sluggish market. The first is the high price of HDTV sets. Currently, a typical HDTV set costs well over \$1,000 and this keeps many customers from upgrading their equipment. The second factor is the lack of HDTV programming. Customers indicate a very strong preference for viewing sporting events (such as NFL and NBA games) in HD format. We expect that more HDTV programming will boost the sales of HDTV sets, and in turn, stimulate subscriptions to our HDTV services.

My goal is that, within three years, a significant fraction of our digital cable subscribers will be equipped with HDTV sets and signed up for our new program tier devoted to HDTV programming. Please formulate a plan that will permit us to profitably achieve this goal.