



In Front of the Curve™

In the Rush to Push Cable Programming Online, Are Operators Leaving Money on the Table?

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Good news – Cable and satellite TV operators will soon push current high-value programs to the Internet for delivery to PCs and eventually mobile phones – all for free.

Bad news – In their sprint to head-off the threat of alternative video services and online video viewing, they are very likely leaving money on the table.

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Comcast, Time Warner Cable, Cox Communications, DirecTV, and other Pay TV operators are in the process of building an online presence that will feature the latest and greatest shows from cable networks such as Discovery and Disney. Some operators may choose to develop brands for their own online service – as in Comcast's On-Demand Online offering – or operators can unify behind a single back-end mechanism which can then be sub-branded and offered to their subscribers as an extension to their current Pay TV services. Cable operators appear to be unifying beyond Comcast's thePlatform for these “authentication” or “entitlement” offerings; little is known about whether satellite TV operators will be invited to join in (doubtful but uncertain at this point).

The aim of these TV-to-PC offerings? To stem the growing threat of online video (both PC-based and Over-the-Top) and the inevitable erosion of traditional Pay TV viewership. It is interesting that the buzz surrounding these efforts came at the same time Nielsen released data suggesting that TV viewing is actually increasing despite new video viewing. TV advertising evangelists are spinning this data to suggest that “the death of TV” has been widely exaggerated and that linear TV can withstand any supposed threat from online video. If you haven't been hiding under a rock for the last few months, you know that consumers are simply not “consuming”; they are spending more time at home and less time (and money) going out. Though a minimal TV viewer just six months ago, I now find myself sitting in front of TV more than four hours per weeknight (working on my notebook PC, but the video is still playing!). Yes, I'm watching more TV, but I'm also watching more online video. To twist the fact that I'm watching more TV as somehow negating the argument that online video is a threat to TV viewing is completely absurd. Some of these folks sound a bit like David Lereah, former chief economist of the National Association of Realtors, who for the last two years continued to spew overly-optimistic reports about the real estate market even as signs were mounting that the bubble

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was about to burst. As [The Business Insider](#) recently noted, Lereah now admits that his evangelism was done merely to please the realtors he represented¹.

Let's assume for the moment that this argument is true; that TV operators and advertisers should dismiss the notion that online video will soon threaten the viability of traditional Pay TV models. Why, then, would Pay TV operators feel compelled to push their highest value content online for free? Answer: because Internet video will dilute the time consumers spend in front of the TV. It may take a few years to materialize in a sufficiently persuasive form to sway some of these obstinate old-school thinkers, but it will happen. Even the incumbent Pay TV operators (who have been the antithesis of fast-movers when it comes to Internet video) know that very soon their one-stop, one-screen TV services will be challenged by alternative conduits and new screens. Once they recognized this truth, it became clear that they embrace these new technologies and stake their own (branded) online claim, pushing their own (branded) content to new screens (versus toying with an online aggregator like Hulu). TDG believes this is absolutely the right move at absolutely the right time. Yes, we're actually giving kudos to the cable companies for a change!

Nonetheless, we must note that this "On-Demand Online" strategy is a purely defensive move on the part of incumbent Pay TV operators – no one is talking about "new subscribers" or "new revenue." They are not looking to grow their audience (at least not directly), but instead are hoping to protect what they have - a legitimate strategy, for sure. Pay TV operators are rightly concerned that, as consumers gravitate toward online video and [second- and third-screen viewing](#), they will slip from within the subscriber lock that Pay TV operators have long enjoyed. To avoid this scenario and preserve monthly subscription revenue, it seems logical to include all "connected" video screens including the PC monitor.

But is free the way to be? Yes, Pay TV operators are correct to (finally) acknowledge the inevitable impact of Internet video on their long-term viability. The remedy prescribed, however, is dangerously short-sighted: a knee-jerk reaction that undervalues the very content that makes Pay TV a compelling experience; a plan fueled more by fear of online video than a rational understanding of why consumers value it.

TDG has been researching the nature and impact of online video viewing (and its Over-the-Top potential) for almost five years, long before other research organizations or the industry press began paying attention. The same has been the case with regards to two- and three-screen video offerings. For example, TDG recently studied the extent to which broadband and Pay TV subscribers would actually pay to have their linear TV lineups available on their PCs (yes, [primary consumer research](#) on precisely the services now under consideration by cable and satellite operators). The results are persuasive: approximately 43% of consumers are to varying degrees interested in such a TV-to-PC service. **Here's the best part: they'll pay extra for this privilege.** In other words, they do not view a TV-to-PC video service as something they are entitled to due to the fact they are a Pay TV subscriber. This directly contradicts the logic upon which incumbents used to rationalize the current strategy (they even use the term "entitlement" in their public relations materials). Specifically, to enjoy their TV content on their desktop and laptop PCs:

¹ TBI selected David Lereah as #25 in its new Hall of Shame which pinned those individuals culpable for the economic mess we're in today. See "The Hall of Shame Slideshow" at <http://www.businessinsider.com/2009/1/the-hall-of-shame-2008-financial-crisis-slideshow>.

- 48% of those interested would spend as much as \$10 per month above their current Pay TV fees;
- 12% would spend as much as \$15 per month; and
- 7% would spend \$20 or more per month.

Only one-third of those interested in a TV-to-PC service would not pay an additional monthly fee for such a service. You heard it right: approximately 29% of broadband users (99% of whom currently subscribe to a Pay TV service) would spend at least \$10 extra each month to get their TV programming delivered to their PCs. To date, focus has been upon delivering online video to the TV. Few have paid attention to the business proposition for delivering TV programming to the PC (to their detriment, for sure).

Comcast has close to 17 million digital TV subscribers and 15 million broadband Internet subscribers. If 29% of Comcast's broadband Internet subscribers (4.35 million) would spend an extra \$10 per month to have their current TV programming delivered to their PCs, that's an additional \$43.5 million in gross revenue each month. That's ~\$130 million per quarter or ~\$522 million per year in additional revenue. Made you blink, made you think, didn't it? It times like these – where simply maintaining revenues and profits would be considered an accomplishment – an extra \$500 million in additional revenue can make a huge difference.

Using Internet technology to expand consumer video access goes far beyond delivering online video to the PC or TV, a subject which TDG will be examining in a forthcoming report on incumbent operators and over-the-top video. In the Internet age, video can be “shifted” to any place you find an Internet-connected screen. Two years after TDG first analyzed the opportunities and challenges associated with [video place-shifting](#), Comcast, Cox, Time Warner Cable, DirecTV, and others are poised to institute place-shifting strategies, pushing some of today's most valuable TV programs to viewers wherever they may be, on whatever screen they may be using at that time. It is nice to see these “dinosaurs” paying attention to cutting-edge opportunities, but in this case a pause is warranted.

Their current strategy, while innovative, is not optimal. In fact, it may very well end up leaving a lot of money on the table at a time when it is most needed.

About The Diffusion Group (TDG):

TDG is a market planning and research firm dedicated to keeping our clients In Front of the Curve™. Since 2004, TDG has helped more than 250 technology leaders, media companies, and service providers to understand and manage the quantum shifts now impacting how consumers access, navigate, distribute and consume media – whenever and wherever they may be.

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