



PayTV Operators Must Embrace Expanded Consumer Choice – That is, if They Hope to Avoid Becoming ‘Dumb Pipe’ Providers

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When TDG was first founded in 2004, the issue of a la carte versus pre-packaged PayTV subscription tiers was on fire, primarily due to fact that then-FCC Chairman, Kevin Martin, considered this to be a defining issue. TDG weighed in on the side of a la carte – not because our clients are all “new video” players (nothing could be further from the truth), but because we strongly believe that, given the inevitability of quantum media, consumers will increasingly seek (and ultimately demand) greater control over the types of media for which they pay and enjoy. As this happens, and as technology further alters the economics of video delivery, the value of non-personalized non-flexible channel bundles is severely diluted.

On Friday of last week, Rob Pegoraro at *The Washington Post* [argued](#) that the days of “57 Channels and Nothing On” are quickly becoming a historical relic. Yes, he quotes the title of a Bruce Springsteen from 1992, itself a bit of a relic. Rob, we now live in the age of “500 channels and Nothing On” (apologies to Sir Springsteen).

I'm not dissing Rob, not at all. His article mirrored several themes that TDG first introduced more than four years ago, so it seems we are in agreement. Despite new competition from both telco operators such as AT&T and Verizon and online upstarts such as Hulu, it would appear that cable operators are still set in their ways, with TV subscription rates increasing and program relevance declining. In Rob's words, “(W)hile we've never paid less per channel we receive, we've also never had to pay for so much stuff we don't watch.”

PayTV operators, of course, focus on the first part of the equation. In other words, even if monthly subscription rates continue to increase, consumers have access to more content than ever before. Bizarre notions of “greater variety and choice” (words some believe still hold value even though consumers often pay for 10 to 15 times the number of channels they actually watch) are then muddled with antiquated economic “logic” to justify the continuation of current TV package and pricing strategies. Damn, it's good to be an incumbent!

Of course, it is incumbent upon that these same operators to offer up a sustainable business model – one which addresses emerging needs and incorporates the latest technologies and business principles. And therein the irony lies. Cable operators such as Time Warner Cable and Comcast have long preached the virtues of choice, their fundamental value proposition over free-to-air broadcast services and the fundamental logic behind their legal positions. When it comes to new media, however, they are anti-choice, working aggressively to limit access to online video by imposing punitive “bandwidth management” policies and usage-based metering on those that choose to take advantage of alternative video services.

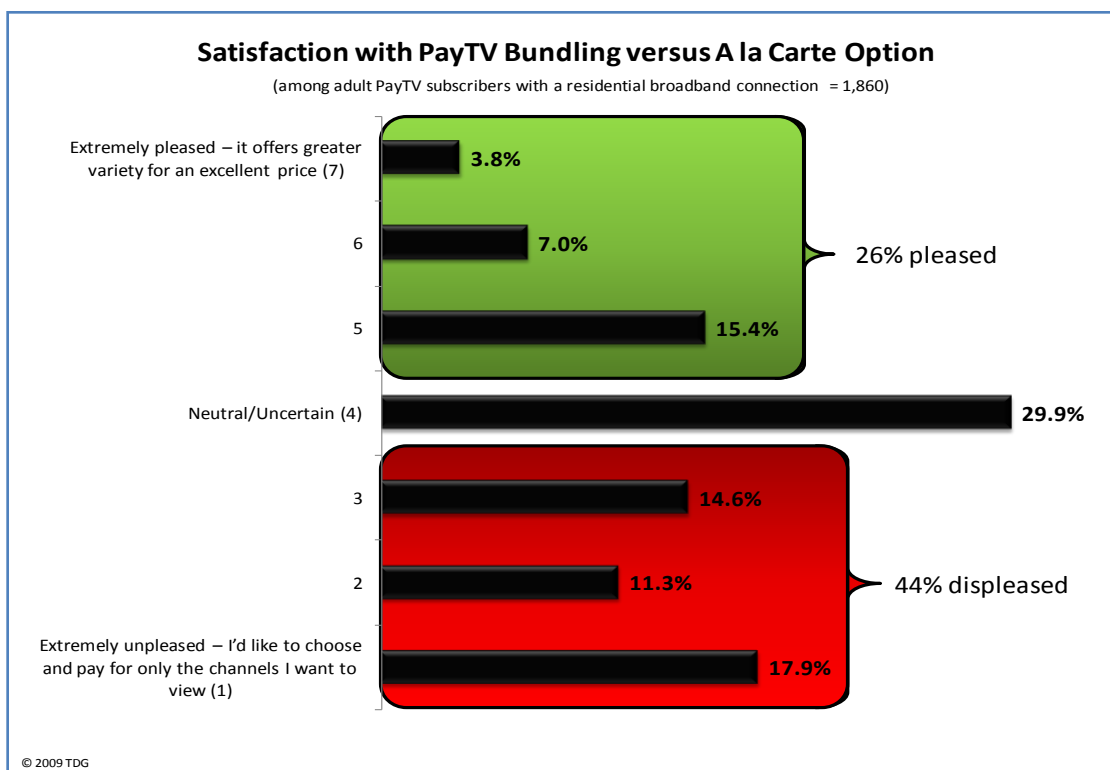
The tiered content strategy of PayTV operators is becoming increasingly inadequate – either too expensive to get what you want, or too restrictive for the amount you want to pay. In other words, there is in reality little room for individual choice. Rob Pegoraro even goes so far as to call this strategy “a corporate-run welfare program” in which TV channels that only a few watch are paid for by the majority who never watch that programming (and I’d say he’s pretty much on the money with this description).

The question, then, is at what point will a significant number of PayTV subscribers threaten to jump ship from the pre-scheduled, pre-determined tiered content offerings of incumbent PayTV providers to alternative home TV services. That is not just a question; it is the question. If you think I am overstating its significance, a simple glance at the highlights of last week’s Cable Show should be enough to convince the staunchest antagonist that the threat from alternative broadband-enabled TV services is real. A number of companies are poised to roll over-the-top video delivery services which, while imperfect, will speak to the needs of a growing number of consumers.

Given the inevitable threat from online video (and its ability to serve up specific programming that consumers want, when they want it, and to the screen they want), incumbents would be wise to pay greater attention to the a la carte tissue. In many ways, the two are substantively intertwined. A la carte, while but a decision regarding the specific channels for which one pays, has long been cast as an uneconomical means of video delivery which, according to the operators, is much less preferable to a bundled offering. The message: greater monthly fees, yes, but greater variety at a much lower cost per channel – in other words, “better value.”

Online video, in contrast, is emerging as the antithesis of pre-packaged, pre-bundled PayTV services; permitting unprecedented levels of user choice and control, with free or per-title costs but no forced subscription plan.

If you think consumers are lost on the difference, take a look at TDG’s latest research on a la carte versus channel bundles. After a very balanced description of the costs and benefits of bundled packaging and pricing, TDG asked consumers how pleased they are with the current system.



As illustrated, 44% of consumers are (to varying degrees) displeased with the current arrangement, with 18% being “extremely displeased.” On the other hand, 26% are (to varying degrees) satisfied with their tiered TV bundles, with 4% being “extremely pleased.”)

I won't belabor the question as to why this insight is important. Whether you're an incumbent, an emergent upstart, or just someone with an interest in how all this plays out, there is no doubt that the home TV environment is about to get more competitive – and sooner rather than later. With a variety of alternative “over the top” video providers looking for ways to pilfer revenue from incumbent operators, and incumbents looking for ways to defend against these new competitors while expanding their own service roster, the future of consumer video is about to be redefined.

Welcome to the age of quantum media – like it or not.

About TDG

TDG is the leading voice in the digital video ecosystem providing market planning and research services to keep our clients In Front of the Curve™. Since 2004, TDG has helped more than 250 technology leaders, media companies, and service providers to master the quantum shifts impacting how consumers access, navigate, distribute, and consume broadband media - whenever and wherever they may be.