

# *What Impact Will Over-the-Top Video Have On My Bottom Line?*



**Moss & Barnett**  
A Professional Association

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# Nothing May Change

- **It is possible that cable TV as we know it will:**
  - Remain available primarily via cable and DBS
  - People will continue to pay for bundled services
  - Young adults will come back to Cable TV
- **But it is also possible that change will occur**
  - Perhaps not overnight – but slowly over time
- **Better to be prepared**
  - Ahead of the change
  - Rather than reacting after the fact

# What is Happening Now?

- **Subscribers are disconnecting from cable**
  - Growth of DBS has been significant
  - “Over the Top” cable is having an impact
    - Wireless devices (iPad, Smart Phones)
    - Netflix
    - Hulu, YouTube, Apple TV, Roku
  - Economy – high cost
- **New generation not dependant on cable**
  - Few college students subscribe to cable
  - All college students have broadband service

# Cable Marketplace

- Homes Passed 130.7 M
- Basic Cable Subscribers 57.3 M
- Basic Cable Penetration **44.4%**
- Homes Passed by Internet 125.4 M
- **High Speed Internet subs 50.3 M**
- Cable Phone subs 26.7 M
- 2011 cable operator revenue
  - Video revenue = \$57 B
  - Broadband/telephone revenue = \$41B
    - No programming costs for non-video services

Source: SNL Kagan – NCTA website (visited August 2013)

# Cable Industry Revenue (,000s)

| Year          | Res Video       | Other Rev       | Total Rev       |
|---------------|-----------------|-----------------|-----------------|
| • 1996        | \$24,136        | \$2,984         | \$27,120        |
| • 1997        | \$26,270        | \$3,532         | \$29,802        |
| • 1998        | \$27,626        | \$6,152         | \$33,778        |
| • 1999        | \$30,050        | \$7,341         | \$37,391        |
| • 2000        | \$32,541        | \$9,575         | \$42,116        |
| • 2001        | \$35,734        | \$9,743         | \$45,477        |
| • 2002        | \$36,738        | \$11,160        | \$47,898        |
| • 2003        | \$39,338        | \$15,056        | \$54,394        |
| • 2004        | \$41,813        | \$18,212        | \$60,025        |
| • 2005        | \$43,832        | \$21,846        | \$65,678        |
| • 2006        | \$46,518        | \$25,354        | \$71,872        |
| • 2007        | \$49,105        | \$29,719        | \$78,824        |
| • 2008        | \$51,467        | \$34,470        | \$86,281        |
| • 2009        | \$53,040        | \$36,861        | \$89,901        |
| • <u>2010</u> | <u>\$55,470</u> | <u>\$38,310</u> | <u>\$93,780</u> |
| • <u>2011</u> | <u>\$56,938</u> | <u>\$40,660</u> | <u>\$97,598</u> |

Source: SNL Kagan – NCTA website (in millions)

# Marketplace Challenges

- **Decreasing Subscriber Base**
  - Over the top (OTT) competition
  - Satellite competition
- **Cable Revenues Nearly Flat**
  - Subscribers decreasing
  - Programming rates increasing
  - Is the “cable pie” getting smaller?
- **Will 2014 CATV revenues decrease?**

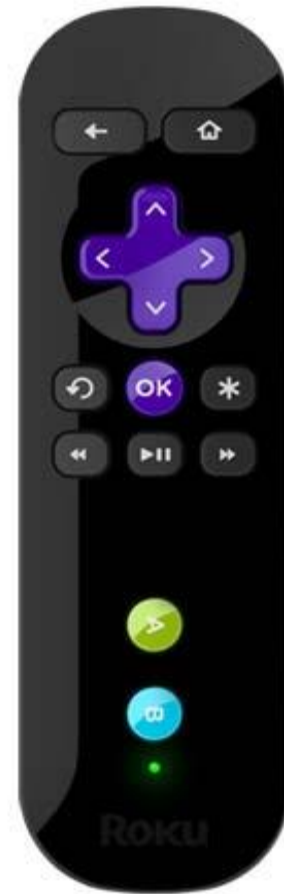
# Chromecast OTT Video Device

**\$35**



# Roku Streaming Stick - \$50

Roku  
Streaming Stick™





# OTT Devices

- Chromecast
- Apple TV,
- Boxee Box (with Live TV dongle),
- Xbox 360 (with Kinect),
- Nintendo Wii,
- Roku XDS, streaming stick,
- Seagate GoFlex TV,
- Sony PS3,
- Logitech Revue,
- Sony SMP-N200,
- TiVo Premiere,
- ViewSonic NexTV,
- WD TV Live,
- OnLive
- All DVD players

# OTT Platforms



# OTT Platforms

- **Netflix,**
- **Hulu Plus,**
- **HBO GO,**
- **iTunes,**
- **VUDU,**
- **Zune Video,**
- **Amazon Prime Streaming,**
- **DISH/Blockbuster**
- **Sony PlayStation Network,**
- **Google TV,**
- **MLB.TV,**
- **EPIX, UFC,**
- **ESPN,**
- **YouTube,**
- **EPIXHD,**
- **OnLive and others.**

# Dish and Disney

- Opens the way for Dish to live-stream Disney-owned channels
  - ESPN and ABC over the Internet to customers' smartphones, tablets, video game consoles
  - Dish's offering will target:
    - people ages 18 to 34
    - who live in apartment buildings,
    - don't have multiple TV sets and
    - are looking at something that is lower-priced and doesn't come with the traditional pay TV commitment.

# More Competitors

- January 2014 Verizon Communications Inc. bought Intel Corp.'s media group
  - with an eye toward launching an Internet-delivered TV service over mobile devices.
- Sony Corp. also said in January that it would launch an Internet-based TV service in the U.S. in 2014.

# How Do You Watch TV?

- Adults are watching their TVs
  - Four hours and 31 minutes in 2013
  - Seven minutes less than in 2012
    - 2013 survey from eMarketer – per WSJ 10/9/13
- International Journal of Communication (2012)
  - the average TV household has over 130 channels
  - but watches just 18 of them... around 14%
- **What would you pay to watch your 18 channels?**
- **Is Cable over the Top the answer?**

# Cable Over the Top Models

- **Advertising**
  - **About 2% of viewers click on ads**
  - \$30-\$60 per every 1000 viewers
    - Internet views (about the same as TV rates)
- **Cost of an average show = \$2-5 million**
  - Excludes reality shows – lower budget
  - \$60 x 5 ads/hr @ 6 million viewers = \$1.8 million
  - CSI Miami = 13 million viewers
  - Mad Men – maybe 3 million viewers
    - Source = David Colarusso March 2010
    - [http://www.huffingtonpost.com/david-colarusso/the-future-of-cable-telev\\_b\\_501895.html](http://www.huffingtonpost.com/david-colarusso/the-future-of-cable-telev_b_501895.html)

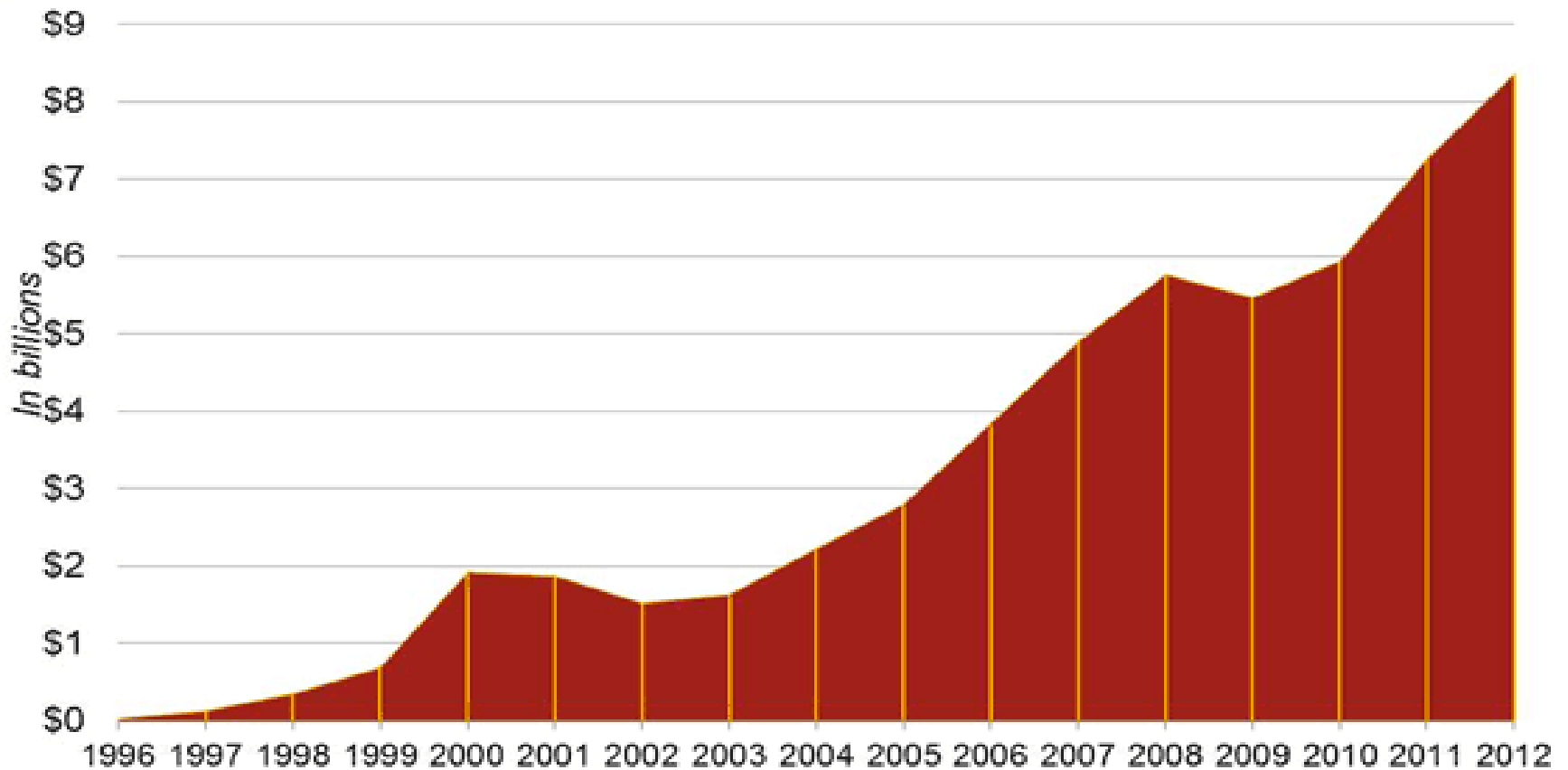
# Cable Over the Top Models

- **Pay-per-view via:**
  - micro payments;
  - Subscriptions – monthly payment - all you can eat
  - standard pay-per-view - \$5 per movie
- **\$1.99 (e.g. iTunes rate)**
  - for every hour of television watched online
  - for every show downloaded
  - Will 1.5 million people pay to view each show?
- **If you pay to view – will you accept ads?**



# Online Advertising Revenues

First Quarter Revenue Growth Trends, In billions — 1996-2012



# Conclusion

- Charles H. Duell, Director of the U.S. Patent Office 1899
  - Everything that can be invented has already been invented
  - **Charles was wrong!**
  - Every day a new threat to cable TV is developed
- **What options are available?**
  - Be careful regarding retransmission/programming agreements
  - Sports programming
    - Can't live without it – Can't afford it
    - Fox, BigTen, ESPN
  - Will subscribers pay you for programming that is offered for free over the web?
  - Carefully consider how system capacity is utilized
  - Listen to subscribers –
    - Program packaging, bundled options, value

# Thank You!

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