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When asked to describe the relationship between local TV broadcasters and cable system operators, the terms that come to mind include "contentious" and "adversarial." Recent headlines, editorials and court battles certainly support that view. But when you look at the challenges facing both of those businesses today, one can argue that there are a number of compelling reasons to rebuild those relationships to the point where terms including "mutually beneficial" or "collaborative" are the descriptors. That may seem like a tall order for stations and cable systems that find themselves battling with one another over retransmission consent fees. But if we look at the history of companies that date back to the earliest days of the two industry groups, you will find a once collaborative relationship that helped to ensure the future for both technologies some 60 years ago.

One of those examples would be Pennsylvania-based Service Electric. Like other cable operators that date back to the late 1940s, it was founded by the owner of a business that sold appliances, including television sets, in Mahanoy City. The rural location surrounded by mountains meant a rooftop antenna wasn't adequate for pulling in broadcast TV signals from the closest city, Philadelphia.

So, the company's founder, John Walson Sr., worked alongside other industry pioneers to build a community antenna television system, or CATV as it was commonly called, for the next 25 or so years. For a time, the two technologies seemed to be very compatible. Residents in rural areas had little reason to buy TV sets if they couldn't receive over-the air television. Likewise, this added reach for a broadcast station would appeal to regional advertisers.

However, retransmission also complicated the broadcast TV business. Challenges began to emerge in markets like Fairfield, Calif., which stood at the mid-point between the San Francisco and Sacramento TV markets. These situations gave rise to disputes over carriage of each market's stations and how dual carriage affected a station's content licenses. They became even more commonplace and complex as CATV operators began to "import" more distant TV signals using microwave — and then satellite — technology.

Over the ensuing years and up to present time, legislative and court battles over such topics as must-carry, syndicated exclusivity and distant signals have taken their toll on the relationship between local broadcasters and cable operators. It was one thing when the rural CATV system was adding viewers. It became quite another when cable systems became commonplace in urban markets and threatened to siphon off TV viewers through their carriage of channels like HBO, "Superstation TBS," and the dozens, then hundreds, of

as having almost no chance

York Daily Record Editorial: There is hope, we hope, in Wolf's budget

other cable networks that would be launched in the 1980s and 1990s.

My guess is that this attempt to summarize 60 years of the broadcast-cable interrelationship in one paragraph already has some heart rates rising and industry veterans recalling how these challenges affected their careers and companies in one way or another. But the point is that few relationships are ever without conflict, especially the ones that must adapt with the times in order for both parties to survive and grow.

With that in mind the question becomes, "Do local TV stations and cable system operators depend upon one another in order to survive and grow?" One way to explore the answer is by examining income statements. When we do, we see that retrans fees paid by cable operators and other MVPDs (multichannel video programming distributors), have become a very sizable source of revenue. How big? SNL Kagan reported last fall that retrans fees would amount to \$4.9 billion in 2014 and nearly double by 2020, reaching an estimated \$9.3 billion. Drilling those numbers down to the market level, the research firm said those fees would represent approximately \$1.32 per subscriber per month by 2017.

Looking at the question from cable's side of the coin, there is a reason MSOs are agreeing to pay those fees, albeit reluctantly. As Needham and Co.'s Laura Martin told attendees at our annual Media Finance Focus last spring, digital video revenues represent a \$70 billion revenue stream for the pay TV industry. At the local level however, rising programming costs and increasing competitive pressures have some independent cable operators examining abandoning their digital video offerings altogether, to focus solely on their broadband Internet revenue streams.

Their dilemma warrants watching and, given the importance of their payments to local, regional and national sources of programming, it might be wiser to collaborate on solutions that address the unique situation of these "mom and pop" operators than to see them abandon the video business. Does the decision by some members of this segment of the MVPD community serve as the canary in the coal mine and suggest that other cable operators will follow suit?

That's not what we are seeing play out in the marketplace right now. Instead, we see programming networks and cable operators collaborating on solutions that allow for the creation of digital video packages tailored to viewer interests and a mutual commitment toward serving the emerging market for "TV Everywhere" access. As a result, cable MSOs are narrowing the digital video customer losses they experienced during the "Great Recession" and some market forecasters are moderating their earlier cord-cutting predictions. That's not what we are seeing play out in the marketplace right now. Instead, we see programming networks and cable operators collaborating on solutions that allow for the creation of digital video packages tailored to viewer interests and a mutual commitment toward serving the emerging market for "TV Everywhere" access.

As a result, cable MSOs are narrowing the digital video customer losses they experienced during the "Great Recession" and some market forecasters are moderating their earlier cord-cutting predictions. Perhaps one of the most important reasons for local broadcasters and cable system operators to support one another's business models is their mutual need to remain competitive with the growing number of OTT (over-the-top) alternatives for video programming. While OTT may not result in cord cutting, it has been linked to "cord shaving," and the ability to watch network TV programming "on demand" has proven popular with millennials.

This development has the potential to affect affiliates of broadcast networks and cable networks equally. As The Street.com's Leon Lazaroff recently opined: "The licensing of old TV shows could further hasten the public's move away from traditional TV and cable networks and toward video-streaming platforms." While it's a 21st century challenge, there is a sense of déjà vu around the OTT situation. Broadcasters experienced it when some of the syndicated shows on their schedule were also available on cable channels. Cable operators experienced it when DBS providers and telecom carriers offered access to the

same cable channels. In both instances, the market's incumbents relied on locally produced original programming to serve as their differentiator. Ironically these examples of locally originated content include 24-hour news, weather and sports channels produced by local stations that became part of their retransmission consent agreements.

In an article he wrote recently for *The Financial Manager* magazine, Bruce Lazarus, a former MFM board member and CEO of Media Audits International, observed: "Only time will tell if these [OTT] events mark a watershed moment for the media industry. However, anyone in the television business who does not recognize — and respond to — the wave of change caused by cord cutting and cord shaving will most likely be fighting for survival and relevance in the not-too-distant future." We touched on this challenge again at last week's CFO Summit. When talking about the movement toward programmatic advertising, The Vertere Group's Tim Hanlon reminded attendees that consumers are going to find a way to get what they want. The marketplace for both broadcasters and cable operators is (and will continue to be) changing.

A scorched earth approach benefits no one. The best hope for two local media businesses with 20th century roots to remain relevant in the coming decades could ultimately depend upon how well they help one another to survive and grow. — **TV NewsCheck**

For those who loathe big cable, a monolithic Silicon Valley giant with a \$392 billion market cap has always been seen as a better alternative for video and broadband services. But just like everyone else offering pay-TV products, Google Fiber is being forced to raise prices because of increased programming costs.

The tech giant confirmed to *DSLReports* that it's upping the price of a 1 Gbps connection and 150 channels to \$130 a month, starting March 10. Existing customers will continue paying the old rate of \$120 a month. "Since we kicked off signups for Google Fiber in Kansas City two years ago, we've offered our Gigabit+TV product to residents at \$120/month," a Google spokesperson told *DSLReports*. "In that time, we've continued to invest in our Gig+TV offering, improving our programming, and offering new benefits (e.g., more TV boxes per home, latest devices)."

Speaking at a trade event in October, Google Fiber chief Milo Medin said content costs were the biggest "impediment" to his company's services, surpassing the burdens of laying down all that fiber and government regulation. "It is the single biggest piece of our cost structure," Medin said. — **Fierce Cable**



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