

## **Yes, PayTV Operators, Be Afraid – Be Very, Very Afraid!**

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Four or five years ago, I attended a CTAM panel discussion on the digital transition featuring, among others, the SVP of technology for Comcast. During Q&A, I asked this gentleman what he and his company would do when Internet-based video providers started to use his own broadband network to compete directly with his cable TV services. His response was unbelievably dismissive: "It will never happen!"

I suspect his answer – and attitude – has changed a bit since that time. Given the pace at which new Internet video services targeting the television are springing up, it's hard for even cable operators to ignore the potential threat posed by these services.

The latest entrant in the Internet video delivery sweepstakes is Netflix, which just this week announced the availability of a \$99 set-top box through which consumers could stream movies directly to their television sets over the open Internet. TDG's president, Michael Greeson, took a [close look at the Netflix offering](#) earlier this week, warning incumbent video providers that Netflix is hardly alone. With the likes of Vudu and Apple TV already trying to carve out space in the living room, Netflix is just another face in the nascent over-the-top (OTT) movie download space.

Yes, one of the key challenges facing these OTT services is that they're burdened with the cost of yet another set-top box (STB), another "black box" to be placed beneath/on top of/around the TV. But this approach doesn't exhaust OTT models; in fact, it's just the tip of the approaching iceberg. A variety of other OTT models leverage existing in-home CE platforms to enable broadband video

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to be delivered directly to the living room TV. For example, TiVo users can download movies and TV shows from Amazon Unbox, while AT&T Homezone users can do the same with Movielink and Akimbo. Likewise with Microsoft's Xbox Live service, which turns a network-connected Xbox 360 into an online movie download server. A key difference between these augmentation models and the dedicated platform model used by Netflix, Apple TV, or Vudu is that consumers have other reasons to purchase and connect the necessary hardware (e.g., to perform digital video recording or play games). As well, these core applications enjoy an established user base of tens of millions of consumers. In such cases, consumers already own a platform capable of enabling an online movie download service, thus lessening the barriers to service adoption (e.g., the additional cost of yet another "black box").

But the OTT threat doesn't stop at online movie download services. In the ultimate slight to the cable companies, Internet PayTV (iPayTV) operators can now provide the same services as cable and satellite TV with pretty much the same business model. In fact, the only difference between the iPayTV business model and cable/DBS is that the web-based players do not own (or pay for) the network; in fact, the network is actually owned (and paid for) by their #1 competitor – the incumbent PayTV provider.

SkyAngel is an example of one such service. For \$24.99 a month, you get a wide variety of television channels which, while generally targeted for Christian households, also includes much mainstream content such as Fox News and The Hallmark Channel. The technology provider for the service is NeuLion, and if my personal experience of the service is typical, it works great – if, that is, you can live without HD.

Regardless of whether the service requires a new STB or leverages an existing platform, all of these OTT services share a common bond. They make use of the broadband connections provided in many cases by the incumbent PayTV provider. And the impact has been telling.

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According to TDG's most recent research, PayTV viewers are spending more and more time watching broadband video. Specifically, TDG found that 40% of broadband users report watching at least an hour of video per week on the Internet. More surprising is that 30% of those are watching 25% or more of their TV online. Imagine what will happen when tens of millions of households are capable of watching broadband video on their big-screen, high-dollar, high-definition TVs and home theater systems. Imagine customized, personalized channels of content being delivered to the same TV that receives linear, non-personalized PayTV content. Imagine the impact this could have on today's incumbent PayTV operators.

For incumbent operators such as Comcast and Verizon, the wake-up call for broadband video has long since passed. After years of hitting the snooze button, it's time to get serious about the very real threat presented by OTT video. If incumbents chose to (yet again) ignore the seriousness of this threat, broadband video could end up stealing their core business right out from underneath them.

Yes, PayTV operators, be afraid...be very, very afraid.

**About The Diffusion Group ( TDG ) -**

TDG is a leading analytics and advisory firm specializing in the broadband media and digital home markets. Using a unique blend of executive-level expertise and unrivaled market research, TDG helps clients master the challenges and opportunities associated with emerging consumer technologies. TDG produces more than "research" - we generate Intelligence in Action®.

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