

Cord Cutters and Cord Nevers

Broadband Communities' exclusive new survey of MDU residents shows substantial growth in the use of video over the Internet. Use of over-the-air video is growing, too. What's the strategy for network providers in a post-Aereo age?

By Steven S. Ross / *Broadband Communities*

As noted in the detailed survey report in this issue, consumers are increasing their viewing of over-the-top video. They also have renewed interest, which the recent Supreme Court decision against Aereo has not cooled, in receiving video over the air.

These trends are likely to have major impacts, both good and bad, on network economics – particularly in the MDU space and among smaller Internet service providers. Though most commentary has concentrated on technology, the real enabler is, frankly, the lust for easy dollars. When the recession hit bottom in 2009, local broadcasters were collecting about \$900 million a year in fees from cable operators. The operators can negotiate with broadcasters but only at a significant disadvantage. The FCC (and the law) requires that local video providers pay for the privilege of rebroadcasting channels they choose to carry.

In 2009, as local broadcast ad revenue dried up, the 738 local broadcasters started raising their rates, which amount to about \$5 billion today. That's a fivefold increase in only five years! Ad revenue is back to prerecession levels, about \$16 billion in 2013 for those stations and an expected \$18 billion this year, thanks to campaign spending. So the retransmission consent fees, in most cases hidden in subscribers' cable bills, are a quarter of all local broadcast revenue. They are a "tax" on cable/telco video households that averages close to \$100 a year – 10 to 20 percent of a monthly video bill.

The money is not going for quality programming at the local level. Broadcasters generally have cut their independent programming (mainly local news and weather). Cutting local news coverage has the additional benefit of not jeopardizing all that new campaign advertising revenue unleashed by various Supreme Court rulings. The local service providers, not the broadcasters, have added community channels and local programming.

GAMING THE SYSTEM

Hence the quest to beat an increasingly unfair system – unfair to consumers and unfair to small providers of video

over cable or fiber to the home. (Large MSOs have more bargaining power with local broadcasters.) Only 83 percent of the broadband MDU users in the survey sample said they still had traditional pay-TV services. The others never had traditional pay TV ("cord nevers") or subscribed to pay TV at some time in the past but not now ("cord cutters"). An estimated 7 percent of MDU residents are cord cutters, and 10 percent never had pay TV of any kind. In the youngest and oldest age groups, the percentages are even higher. Retransmission fees particularly impact MDU residents because they are more likely to live in urban areas with more broadcast channels to pay for.

Consumers can access some cable stations through Netflix, Hulu and similar services, but local broadcast is a bit tougher to bypass. Aereo thought it had found a loophole. Consumers have long been allowed to freely use broadcast signals in their homes and to record broadcast programming for their own use. But what if their local reception is lousy? Aereo offered to rent them a remote antenna and send the signals to them over cable, FTTH or DSL. Three justices called that a loophole and said that the Supreme Court was not in the business of closing loopholes. The other six disagreed.

But wait. There are still more options. Simple.TV added some extra functionality to a digital over-the-air TV tuner that lets users record two broadcast channels at once, store the programming, send it into a local home network for distribution to all video devices and, for an extra fee, send it to up to five remote locations. The chipset looks standard enough for many to copy.

In addition, a "local" Aereo antenna might still be legal – say, for an MDU where residents can't get clear broadcast signals in their own dwelling units. Time for broadcasters to dial back the greed, lest they provide even more incentive for technology innovators in a gigabit world. ❖

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