REVENGE OF THE CABLE GUYS

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If you think online TV will be free forever, think again. The cable companies have a plan to keep control—and stick you with the bill

By Ronald Grover, Tom Lowry, and Cliff Edwards
Illustrations by Matt Mahurin

Once upon a time, not so long ago, a bunch of small companies in Silicon Valley thought the future of television was theirs. Soon, the thinking went, TV would be everywhere. Frequent fliers would tune in on laptops and vacationers on tablets from the beach. If so inclined, you'd be able to watch _Glee_ on a cell phone in a tree house. The network suits and the cable guys just didn't have the digital chops to make it happen. Fueled with venture money, tech companies with names like Boxee, Roku, and Sezmi pursued their dream of untethering viewers from their TV sets—and owning a piece of the advertising revenue. As the big picture comes into focus though, it looks like the cable guys are
playing the lead roles, using the $32 billion they pay content providers each year as leverage. The alphabet soup of newbies is still waiting in the wings for a moment that might never come.

What happened? Part of the answer is TV Everywhere, a service in its infancy, conjured up in quiet strategy sessions by Jeff Bewkes and Brian Roberts, the CEOs of Time Warner and Comcast. They took a lesson from the music labels, which looked up one day to find that Steve Jobs and Apple had taken control of their inventory. The cable guys came up with a quick fix, one so technologically simple that you don’t have to be a geek to get it: Viewers can watch shows for free, but only if they’re cable subscribers first. In other words, as long as you tap a subscription code into your device — any device — you can watch anything you want, whenever you want.

It’s worth hitting pause here for a moment. Right now, Time Warner is offering the service in only a few markets. Comcast has rolled out a trial, or beta, version to about 80% of its subscribers. There are plenty of kinks to be sorted out. And as usual when it comes to show business, nothing is quite as simple as it appears. For TV Everywhere to work, the behemoths of the business must stand together and stamp out the rampaging weed called free. After all, if you can get programming for free — real free — why would you ever pay a cable bill?

SELF-PRESERVATION

That’s what was worrying Time Warner’s Bewkes in the fall of 2008. Back then, Time Warner ran the country’s second-largest cable operator ( spun off in March 2009) and was also a content provider. Bewkes had previously been in charge of the company’s HBO unit, turning the premium cable channel into a profit machine with 30 million subscribers.

Bewkes watched with growing alarm as Hollywood stamped online to offer TV shows and movies for free, say two Time Warner executives. At the time, Hulu, a video site operated by Fox, NBC Universal, and Disney, was about a year old. For TV addicts, Hulu was a near miracle. Miss the latest episode of Damages on the FX channel? If so, you could watch Glenn Close play a conniving lawyer on Hulu 24 hours later for free. Hulu’s owners shared the advertising revenue from the site, but everyone knew it wasn’t making money and there was no clear path to profitability. As he watched one entertainment company after another put their TV shows and movies online for free, say the executives, Bewkes began to fear that the pay TV industry would eventually find itself in the same untenable position as newspapers.

That’s when the scene shifts to Wisconsin, where HBO was running an experiment in Milwaukee and Green Bay. HBO was letting people watch its programming online as long as they could prove they were HBO subscribers. The results of the test were unexpected: Viewers who tuned into Big Love on their laptops didn’t spend any less time watching HBO on their TV sets. Bewkes was buoyed by the possibility that the same model might work more widely and that his cable properties might be able to keep subscribers from gravitating elsewhere, says a Time Warner executive involved in the discussions. Bewkes told his team: “We can’t just talk about it, or play the victim. We need to build a model,” the executive recalls. The Time Warner CEO was unavailable for comment.

It wasn’t the first time the cable industry had found itself in danger of being outflanked by tech-savvy rivals. In 1999, TiVo began selling a handy little box that allowed people to record dozens of hours of TV shows on a hard drive. After a certain amount of handwringing, the cable guys struck back with overwhelming force. They figured out the technology
and marketed their own digital video recorders, for which they charged subscribers an extra $10 or so a month. Next came Apple. Along with Amazon.com and others, Steve Jobs began renting TV shows online. The cable companies beat back that onslaught by beefing up their video-on-demand offerings and giving subscribers a bunch of free shows with a few clicks of the remote. “The cable industry has been very good at not jumping too early on a technology, and watching

it play out first,” says Colin Gounden of Grail Research, which advises companies on new products. “They have a knack for getting the timing right.”

The new attack from Silicon Valley was the most serious yet, because it threatened to permanently cut the coaxial connecting the cable companies and their subscribers. “We woke up every day and there is some new competitor out there—a Roku or a Boxee,” says Melinda Witmer, Time Warner Cable’s programming chief. “People like to think of cable operators as monopolists, but we face a lot of competition just to keep the business we have.” Technically there was nothing too complicated about Bewkes plan to expand the Milwaukee experiment. The new service would need a way to automatically confirm that people were paid-up subscribers. Other than that, TV Everywhere, as Bewkes called it, would mostly use existing online infrastructure and established user interfaces.

“FRIEND, NOT A FOE”

Far more daunting was the prospect of persuading the rest of the industry to join up. Unless most of the pay TV and content players banded together, TV Everywhere wouldn’t work; viewers could simply flock to sites that didn’t require a cable subscription. Bewkes, say two Time Warner executives, decided to float his proposal with Roberts, the chief of Comcast, the largest cable system in the U.S., with 24 million subscribers. In early 2009, Bewkes began wooing Roberts, traveling from his New York City office on Columbus Circle to Comcast’s imposing 57-story headquarters in Philadelphia.

Roberts long ago realized that online video was important to the future of his company. In 2006, Comcast had created an interactive media unit that poached heavily from Silicon Valley. The company’s first major development project was Fancast, a video site like Hulu that offered hundreds of shows free to all comers. Roberts, who declined to be interviewed for this story, had unveiled Fancast at the Consumer Electronics Show in Las Vegas in early 2008. Before long, says one Comcast executive, he began thinking about a service that would offer much more content—but only to Comcast subscribers.

**FANCAST XFINITY TV**

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<th>WHO CAN LOG ON</th>
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<td>Subscribers to Comcast’s digital cable and broadband.</td>
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<th>WHAT YOU GET</th>
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<td>Nearly 20,000 TV shows and movies from two dozen channels, including HBO, Discovery, AMC, FX, and NBC. With clips and trailers, the catalog amounts to 80,000 videos. As Comcast cuts deals with other programmers, more content will become available.</td>
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<th>WHERE YOU SEE IT</th>
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<td>Subscribers can use the service on three PCs and open secondary accounts for their kids; eventually Xfinity will be available on smartphones and tablet PCs.</td>
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When Bewkes came calling he didn’t have to convince Roberts of the importance of preserving the subscription model online. And like most everybody in the cable industry, Roberts was aware of HBO’s online experiment in Wisconsin.

Roberts and Bewkes initially disagreed on one big point, say two Time Warner executives who say they can’t speak on the record because the discussions were sensitive. Roberts believed subscribers should be required to go to a central site operated by their pay TV provider in order to view cable shows. Bewkes, true to his divided soul as a content creator and distributor, felt users should be allowed to tap into any cable channel’s Web site as long as it was part of the TV Everywhere ecosystem. Bewkes, say the executives, reasoned that letting individual channels keep their own sites would allow them to maintain their brands. Eventually, Roberts agreed.

WINING AND DINING
The Time Warner executives say Roberts and Bewkes saw the cable industry’s annual convention, held last April in Washington, D.C., as an opportunity to proselytize about TV Everywhere to the rest of the industry. During one panel discussion, Roberts told his audience that online video was “a friend, not a foe” and that for Hollywood it represented a new way to make money “in this horrific advertising environment.”

In Hollywood, studios and cable channels were hearing a very different message from the Silicon Valley upstarts who wanted deals for their programming. Netflix’s Ted Sarandos pushed studio executives to give his company the latest movies for its online video service. Steve Jobs proposed launching a stripped-down cable service that would cost consumers $30 a month. Boxee founder Avner Ronen says he traveled to Los Angeles from his base in New York so many times that his “plane knew the way.”

Phil Wiser, founder of Sezmi, an online TV subscription service, says his goal was simple: to “replace cable and satellite.” He flew executives from NBC Universal, Sony, the Discovery Channel, and others to Sezmi’s offices in a converted horse barn in Northern California, where he wined, dined, and pitched them. Sezmi wanted the content creators to allow him to use their movies and TV shows for an à la carte service that would give customers the freedom to pay for only what they wanted to watch. The studios declined, so he decided to borrow the industry’s subscription model. Owners of Sezmi’s $299 set-top box would receive network and cable shows for $19.99 a month, about a third the cost of a typical cable subscription.

Wiser told the studios that he would match what cable was paying for episodes of such shows such as The Real World, Top Chef, and Damages. It was an unprecedented offer for a
MAKERS OF MOVIES AND TV SHOWS ARE ATTACHED TO THE BILLIONS THEY RECEIVE FROM CABLE COMPANIES AND RELUCTANT TO ENGAGE IN GRAND EXPERIMENTS WITH UPSTARTS

Back at Time Warner Center in New York and One Comcast Center in Philadelphia, the cable operators began to realize they had the studios locked down. As Frank Biondi, former president of the media giant Viacom, puts it: "Why would [the studios] make a deal with a competitor to their largest customer and risk angering them?"

In summer 2009, Bewkes and Roberts joined forces to take the TV Everywhere model out for a spin with 5,000 Comcast subscribers across the country. Those viewers were able to tap into programming provided by cable channels TNT and TBS, both owned by Time Warner. The speed with which the industry moved on from that trial balloon is a measure of just how important locking in subscriber revenue is to cable's future. In December, Comcast rolled out a beta version of the

ROKU

Streams movies, TV shows, other content from set-top box to the TV

PRICE: $79.95 for base model, up to $289.99 for high-def version

PRO
- Easy to install, wireless access eliminates need for added cable; no annual fee

CON
- Subscription fee required for premium content, including Netflix movies and Major League Baseball

Sezmi

Digital video recorder that offers local broadcast channels, on-demand content, and some cable channels

PRICE: $299 for the box/$19.95 for a monthly subscription

PRO
- Cheaper than traditional cable and satellite offerings; one box combines Internet content with cable and DVR

CON
- The box is pricey and not yet widely available

Slingbox

Streams live or recorded content from a TV to PCs and leading smartphones

PRICE: $299 and free with the Dish Network DVR service

PRO
- Works almost anywhere in the world with no monthly fees

CON
- Works best with cable or satellite service

TVo

Digital video recorder that also streams movies or TV shows from set-top box to TV

PRICE: $149 for the cheapest of three models, plus monthly or lifetime service fee

PRO
- Can be configured to use instead of cable box; highly navigable menu

CON
- Up-front equipment cost in addition to fees for some content such as Netflix

Xbox 360

Streams high-def movies and TV shows from Netflix, other content providers

PRICE: $299 for the base model, plus monthly or lifetime service fee

PRO
- Intuitive software makes it easy to download premium content

CON
- Non-Netflix content is limited and must be downloaded to hard drive, not streamed

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new service, now christened Fancast XFinity TV. Time Warner Cable has a trial going with nearly 10,000 customers in Syracuse, N.Y., New York City, and Columbus, Ohio. Verizon Communications is testing a service nationally, and DirecTV, the satellite operator, plans to as well.

Comcast's service is the furthest along and provides a window on where TV Everywhere is headed. Only subscribers who pay for digital cable—and take Comcast's broadband service—are eligible. The company is still working out how to bring XFinity TV to the third of its subscribers who get broadband from other companies. Subscribers can tune into all the free channels, from CBS to Animal Planet, and view 19,000 full-length TV shows and movies. They can use it on as many as three PCs and get most episodes 24 hours after they first air on TV. Much of that was available on Comcast's free site, but now shows on HBO and the Discovery channel have been added to the lineup. Eventually, Comcast aims to let subscribers access XFinity on their smartphones and tablets.

TV Everywhere has a ways to go before the cable guys can declare victory. There's a ton of stuff to figure out—how the ad model will work, devising a new ratings system with Nielsen. And then there's the question of profits. The cable guys like them, and they're not real comfortable with free. So chances are, down the line, the costs of the new fee will probably sneak onto subscribers' cable bills. And you know what? We'll all keep paying. IBW!

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**BREAKING UP IS HARD TO DO**

An Oregon couple quit cable but missed their favorite shows

By Ronald Grover

As the recession deepened two years ago, Tamarah Foster and Joe Fultz decided to do without cable. Like many Americans, the Portland (Ore.) couple had signed up for a “triple-play” deal, where for about $100 a month you get basic cable TV, Internet, and phone service. “It was crazy,” Foster says, “but cheaper than buying TV and Internet separately.” Foster, 26, and Fultz, 30, both had cell service and hadn’t even bothered to buy a home phone. Plus, they were already watching many of their favorite TV shows online. So they canceled the TV and phone service and began paying their cable company, Comcast, about $40 a month for Web access only.

At first, the new arrangement seemed to work out fine. The couple began surfing the Internet for their TV shows: Fultz was a big fan of *It's Always Sunny in Philadelphia*, the quirky FX comedy starring Danny DeVito. He began watching it on Hulu for free 24 hours after it appeared on TV, with only minimal commercial interruptions.

Foster was hooked on America’s Next Top Model. They didn’t have a way of connecting their computer to their big-screen television, so they turned Fultz’s 24-inch MacBook screen toward their couch and watched that way. “We could get a lot of what we wanted,” says Foster. “Better yet, it was free.”

Before long, however, the couple began to realize that a lot of what they wanted wasn’t enough to satisfy their television cravings. Foster couldn’t find enough recent episodes of the Lifetime show *Project Runway*. Fultz missed the Left-leaning political talk show *Countdown with Keith Olbermann,* that airs five nights a week on MSNBC. It began to dawn on Foster and Fultz that they couldn’t live without cable after all. “We decided to be friends again with Comcast,” says Foster.

Last fall the couple moved to a larger apartment and called the cable company. The good news was that their building had a deal with Comcast that allowed residents to take cable and Web service for only about $20 more than the Internet alone. The couple decided to pay extra for premium channels like HBO. Instead, they pay $9 a month to Netflix and stream online movies to the television through Foster’s Xbox game console. “We liked it better when it was free,” says Foster. “But we’ve gotten too used to the convenience. Families all over America are making the same kind of calculation. Breaking up with the cable guy is hard to do. IBW!”