

## Issue Brief

# Cable Embraces Shifting Competitive Landscape

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New competitive threats including rising programming costs and over-the-top (OTT) offerings such as Netflix have altered cable television's landscape in recent years. Now facing a battle similar to the one that telecom companies confronted in the early 2000s with the decline of the telephony market, cable managers are trying to avoid comparable losses of video subscribers. After several years of subscriber losses, cable now has begun to fight back. Cable managers are increasingly focusing on growing new and alternative sources of revenue in the high-speed data (HSD) and commercial segments of the market. Verizon, on behalf of the entire telecom industry, is aggressively litigating against the FCC's net neutrality principles, and TVEverywhere may have finally matured as the industry battles OTT threats.

### Mitigating the losses from cord cutters

While video subscriber losses are continuing with no end in sight, cable is learning to mitigate the losses by focusing on the growth markets of HSD and commercial market segments in order to offset residential cord cutters. According to SNL Kagan, approximately 2.0 million video subscribers "cut the cord" and cancelled their cable subscription during the year ending 3Q2013 which represented a 3.5 percent decline and brought the total number of U.S. cable video subscribers down to 54.8 million.<sup>1</sup> However, cable operators mitigated their losses by adding 476,000 broadband subscribers during that same period, boosting the total to 34.2 million HSD subscribers. HSD revenues for cable companies grew by 4.6 percent in the year ending Q3 2013 and made up 25.8 percent of total cable industry revenues.<sup>2</sup>

Going forward, HSD is expected to continue to grow at a brisk pace as viewers consume more à la carte video content over the internet. SNL Kagan estimates that HSD will continue to make up a larger share of cable industry revenues and may reach as high as 35.7 percent by 2023.<sup>3</sup> Cable is continually looking for ways to further bolster revenues, and cable operators will likely begin metering data consumption for broadband customers in order to generate premiums on the heaviest data consumers. Several operators (most notably Comcast) are presently testing metered billing and are priming customers for the eventual change with bills reflecting usage implying data caps.<sup>4</sup> Based on the expected data demand growth for OTT content, metered consumption could significantly fuel revenue growth of HSD. Furthermore, the next generation of ultra HD televisions will likely consume massive amounts of data and will only accelerate this trend. Netflix is experimenting with streaming ultra HD movies which consume about 50 GB for a standard 2 hour movie as compared to a HD movie that takes up only 4 GB.<sup>5</sup>

Cable has also continued fighting back against OTT. Cable's TVEverywhere (TVE) may have finally matured in 2013, with many smaller cable companies joining the initiative. (TVE is an aggregation of current online television content offered to existing cable subscribers through the individual websites and apps of content providers such as ESPN and HBO as opposed to through the cable provider.) Many of the issues relating to market segmentation and user authentication were resolved by the participating companies. But despite the relatively small viewership of only 2.5 million unique viewers in 2013, TVE is beginning to impact the market noticeably.<sup>6</sup>