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Is the era of free video content on the Web coming to end?

Client Advisories

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Two news reports regarding the MSOs and their media company partners caught our eye last week. One provided details on Time Warner's "TV Everywhere" initiative. The other discussed Viacom's efforts to work with cable operators to develop an authentication process to ensure that only users paying a monthly cable bill will have online access to certain content. Taken together the reports revealed that these two players–which don't always see eye-to-eye– are in agreement on an evolving business strategy that could–depending on whether you view the glass has half–full or half-empty–lead to either a severe limitation or an opening of the floodgates with respect to free content available on the Web.

"TV Everywhere", the brainchild of Jeff Bewkes, CEO of Time Warner, the largest owner of cable networks, including TNT, Cartoon Network, CNN and HBO, would put all cable programming on the Web in places such as Hulu, MySpace and Yahoo TV. The catch—viewers will have to prove that they already pay for the content through a TV subscription with a cable, satellite or telephone company. And like the dry cleaner, no ticket, no shirt (or, in this case, show).

The initiative is, in many ways, the product of a "perfect storm" of the realities, opportunities and challenges facing not just the cable/satellite/telco industry and content owners, but the advertising industry and advertisers themselves. Here's what is at play:
•Cable, satellite and telco TV is one of the few sources of subscription content that people are willing to pay for.
•That fact keeps most video content and programming off the Web as cable networks fight to preserve the 50% of revenue that comes from subscribers. Their fear is that, with content freely available on the Web, many viewers may decide to simply terminate their pay TV service.
•The content owners and networks are often reluctant to put content directly online for fear that the cable companies will not want to pay top dollar to the media companies who are, in effect, undermining the cable subscription model.
•Yet the content owners and Web publishers recognize that there are ad dollars to be made by placing more and more content and programming on the Web.

TV Everywhere is intended to address all of these points. In theory, pay TV subscribers would have online (and perhaps mobile) access to all of the TV programming included in their pay TV package. You would log in, provide information regarding your pay TV subscription (perhaps via an "unlock" key you get from your pay TV company) and can have access to a robust library of programming.

Viacom and ESPN, two of the largest programmers, appear to be open to such an initiative. According to the report in MediaDailyNews, Viacom is working with cable operators to develop an authentication process. ESPN is also evaluating certain technology that might be deployed. And Time Warner Cable has been testing a system in Wisconsin which enables HBO subscribers to watch shows online.

New research seems to support claims of the cable industry that making cable programming available to subscribers regardless of which of the "three screens" viewed—TV, PC and mobile—would lead to increased market demand. The Diffusion Group found that 16% if cable subscribers who spend more than $100 per month for TV service would spend an additional $20 per month to deliver that same content to their PCs. (No word from Diffusion about how the other 84% of subscribers feel.) The research revealed that the percentage of cable subscribers willing to pay more for additional access on other screens increased as the added cost for the access decreased.

With broad participation by pay TV providers and Web sites offering the video content (presumably any site with an agreement with the media content providers), this initiative could be entirely system and provider agnostic. The clear advantage to subscribers is added access to video content that they already pay for. For the Web sites, perhaps an opportunity to provide targeted advertising—after all, the log-in process could provide information about the subscriber.

However, the hurdles are substantial. Put aside for a minute the enormous endeavor needed to develop and implement a system that could process and authenticate information from millions of pay TV subscribers with hundreds of plans offered from dozens of providers that would need to be integrated onto perhaps thousands of platforms across the Web. (Now that I've written that sentence, it seems absurd to "put it aside.") But the cooperation needed by all of the stakeholders—pay TV providers, broadband service providers, Web site operators—is substantial, to say the least. Reconciling issues such as sharing consumer information will be tremendously difficult, both from the consumer facing (privacy policies, anyone?) and business intelligence standpoints. Certain legal restrictions on the use and/or disclosure of such information may also apply.

Moreover, what type of information would be provided to the Web site operators? They would likely want access to subscriber information in order to sell targeted advertising, an interest shared by the programming providers. However, will pay TV providers want to share such information—giving the Web sites a revenue advantage—without participating?

Lastly, are consumers willing to go along here, undertaking yet another login and authentication process, exposing themselves to yet more advertising and eroding privacy a bit further, all to watch more TV outside of the comfort of their own living rooms?

We will watch developments here closely as these are some BIG questions.

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