Pipeline
Technology for Service Providers.
www.pipelinepub.com Volume 14, Issue 2

Turning a Stumble Into a Run: Pay TV Lifelines for CSPs

By: Tim Young

There's an old Ellen Degeneres stand-up bit that cracks me up. It's from her 2003 HBO special *Here and Now*. I'd link to a YouTube clip of it, but OTT nonsense is how we got into this mess in the first place, isn't it?

I'm kidding. I'll leave the jokes to Ellen.

Anyway, she's talking about the relatable sensation of walking down the street, feeling good on a high self-esteem day. "You're happy with your outfit, happy with your hair, feeling really good about yourself."

"It just takes one tiny trip to suck the coolness right out of you."

And what can you do after that ill-timed, cool-breaking stumble?

Well, you can look back right away, making a big show of pointing out the pebble that precipitated your stumble. Or you can go into denial mode, turning the stumble into a job.

"Oh, I was just going to start running anyway, I didn't trip. I was just gonna run."

And that, in a nutshell, is where pay TV operators are as cord-cutting transitions from a blip to a bona fide alternative. They're trying to find ways to turn a stumble into a run.

According to Q4 2017 results, the US pay TV industry, as a whole, dropped 3.4% from the previous year. That's the highest rate of decline since the cord-cutting trend started to take off back in 2010, says analyst Craig Moffett.

Those results weren't wholly surprising after many quarters of subscriber losses for operators of every access technology. AT&T, for example, reported that it lost 90,000 subs in Q3 2017, but that number was only that low because it also added 300,000 subs to its DirecTV NOW streaming service. So the real number of traditional TV subscribers lost was closer to 390,000.

That same quarter, Charter lost 104,000. Comcast lost 38,000 in Q4.

Things may be particularly bad for satellite providers. The industry lost as many as 1.7 million subs in the US last year, according to reports. So the stumble is real. The question is, how can operators turn that stumble into a run?

Can we embrace being the pipe yet?

Every couple months, someone pipes up with the honest proposal that service providers look for ways to stop trying to be a digital media company and look for the beauty of being a smart, optimized delivery system for content created and managed by others.

I am certain that I have heard every response to this, and I know that few CSPs are willing to resign themselves to this future. But it is a distinct possibility, and a significant opportunity.

Take Comcast: Down 38,000 pay TV subs in Q4. Cord-cutting is happening and it's affecting those lucrative subs. However, in that same quarter, Comcast added a net of 318,000 high-speed internet customers. Comcast claims that it had over 1 million net customer adds for the *12th consecutive year.* (Here's their Q4 report. PDF alert.) The company also added 380,000 Xfinity Mobile subs, according to the LA Times.

So there's something to be said for facilitating access, generally. But Comcast isn't stopping there.

Sleeping with the enemy

And it wasn't that long ago that Comcast and Netflix had a relationship that could only be best described as adversarial. Their dispute over excessive traffic and accused throttling was settled through a "paid peering" agreement just over four years ago.

But by 2016, Comcast launched Netflix on its X1 platform, and a few days ago, it was announced that Comcast would begin bundling Netflix with new and existing Xfinity X1 packages.

"Netflix offers one of the most popular on demand services and is an important supplement to the content offering and value proposition of the X1 platform," said Sam Schwartz, Comcast's chief business development officer, in a statement. "Netflix is a great partner, and we are excited to offer its services to our customers in new ways that provide them with more choice, value and flexibility. The seamless integration of Netflix with the vast Xfinity entertainment library on X1 presents a unique and comprehensive experience for customers."

Netflix already had relationships like this in place with CSPs like Suddenlink and Atlantic Broadband, but the scope and size of this deal suggests a thawing of the traditionally chilly relationships between service providers and OTT players.

But for those CSPs who aren't ready to take on such an arrangement yet, there is middle ground to be found between the Sole Provider and the Humble Pipe.

If you can't beat 'em, join 'em

If you believe that the relationship between CSPs and OTT providers is zero-sum—and that's not an unreasonable position—then there's no reason CSPs shouldn't recognize that the business model that OTT players provide is valuable, and do everything they can to emulate it.

And that's more or less what's happening. Virtual Pay TV providers (vMPVDs, if you must. Ovum calls them SLINs—subscription linear) are gaining traction. We're talking Sling, Hulu, YouTube TV, Playstation Vue and the aforementioned DirecTV Now. MoffettNathanson estimates that in Q3 2017, these virtual pay TV providers saw a net gain of 962,000 subs, not including free trial subscribers and adjusted to remove the impact of the major hurricanes during that quarter.

The wild thing is that, once that crop of subs is factored in, overall pay TV subscriptions saw an increase in a quarter that was very dismal for traditional providers. It was a meager increase—0.6% to be exact—but an increase nonetheless.

And we know this is cold comfort to many CSPs. The revenue from these services isn't anything to write home about, and the numbers probably don't tell the whole story. A large chunk of those subs won't stick around that long, drawn in either by novelty or some customer acquisition gimmick. (Free Roku, anyone?)

But many are bullish on the growth and long-term success of these programs. Ovum estimates that SLINs will grow from a fifth of the global OTT market now to a third of the OTT market in 2022.

Analysts at The Diffusion Group (TDG), meanwhile, expect legacy pay TV services to decline from 81% of US households in 2017 to 60% in 2030, while virtual pay TV will grow from 4% of US households to 14% in that same timeframe. That's represents a 350% increase over an admittedly meager base. But it still indicates an overall trend.

So there is promise in the virtual pay TV model. And there's potential for another trend that could break in favor of CSPs: fatigue.

Come together, right now

I've written on numerous occasions that I've been a cord-cutter since at least 2010. Maybe earlier. In the early days, content was harder to come by, and not always above-board when you did find it. Sometimes having no cable meant reading a book or going for a walk instead of watching TV. There are worse things, right?

But this meager (and healthy, if we're honest) sacrifice just isn't necessary anymore. In fact, the opposite is often the case. A cord-cutter with access to Netflix, Hulu, and Amazon Prime Video—or any one of those, for that matter—has tens of thousands of viable entertainment options at his or her disposal. You need to go in with a plan. It's best to know what you want to watch before you go down those rabbit holes.

But there's no guarantee what you want to watch is an option—at least for the subscription cost you've already paid. You may end up having to buy a movie or episode of your show of choice, only to notice later that it was available for free on another platform.

These are the first-worldiest of First World problems, I know, but they can be annoying little time-sucks when the ultimate goal of what we're talking about is leisure and entertainment. There is a good case, however, to be made for a capable party to pull together and present content in the way that CSPs traditionally have.

"There is an aggregator role that is necessary in the industry, in economic terms and in usability terms," said Nuno Sanches, Group Head of Fixed Product Development at Vodafone, in a really interesting report from late last year by Videonet and digital TV security and monetization firm NAGRA. "Operators are uniquely positioned to capture this. The nature of the telco bundles makes it very easy to fold content in. We have billing relationships in place and an existing customer base that can be migrated from linear to SVOD or Pay TV bundles."

The report, titled "How Pay-TV can triumph in a post-OTT era" also contains insights from other CSPs, like Javier Lucendo De Gregorio, Main Screen Video Services Manager at Telefonica, who said "Now we're in a position where we can even become aggregators of aggregators. Aggregation can bring together different sources of content, but also consistent services, such as catch-up or network PVR, together with a curated content selection for every customer, plus business intelligence and targeted advertising. In the end there can be a better value proposition for the final customer at a lower added price point."

Is this enough to pull in subscribers bent on blazing their own trails in the Wild West of the cord-cutting era? Probably not yet. But there are many miles left to go, and many chances for CSPs to turn this stumble into a run.