



# The Next Ten Years - The Evolution of Programmers And How This Will Impact Operators

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Private cable operators, cable television operators, and video programmers will spend many billions of dollars over the next ten years attempting to maximize customer satisfaction and their own corporate bottom lines. During this period, mega trends now underway will buffet these industries. Epic battles will be fought, won, and lost, as both operators and programmers vie to capture the upper hand in what has been one of the most successful symbiotic relations creating hundreds of billions of dollars in value for these industries' companies.

Who will be the winners and who will be the losers, and how should you place your bets so as to take advantage of the mega trends taking place over the next ten years? It's been many years since any magazine has attempted to provide a comprehensive glimpse into the future directions of programming – and how they will affect operators. This article offers twenty surprising predictions to help you chart your course through the swirling and murky waters of the future, and reach the homeport of corporate profitability, fame, and an option created fortune.

1. Nightmare on VOD Street. VOD, it's not just about programming reuse and pushing digital converters in consumers' homes anymore. As operators upgrade their infrastructure and as VOD proliferates, this and other brand shredding technologies become programmers' – many of which that have spent millions of dollars creating



their brand – worst nightmare. VOD and other technological "improvements" require programmers to struggle to protect their brands and themselves from becoming commoditized. In this brave new world, some programmers will discover too late that the old strategies just don't work any more. Consumers appreciate VOD's increased flexibility. Many programmers, especially those that rely on syndicated programming and those that offer little in the way of original programming,

will find themselves frantically searching for a Plan B to calm these turbulent waters. Larger players have integrated strategies that enable them to win, no matter how their content is distributed. Look for watermarks, branded intros, and other tactics that help identify content as belonging to a branded company.

2. There's no such thing as a free lunch. The interactive guide becomes increasingly important – especially with VOD stripping away

programmers' identities. One of the three premium service providers launches a guide for "free" to operators so that they are able to better promote their own brands. This free service receives mixed reviews, and some programmers, operators, and lawyers alike wane nostalgically about "the good old days" when Gemstar was the 800-pound interactive program guide gorilla and life was so much simpler (and more litigious) back then.

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3. There's a browser on Channel Four. Call it technology envy – broadband morphs into video's look and vice versa. Atom TV is the first of many as companies attempt to extend their brand onto other mediums and get more "bang for the buck" via programming reuse. Tech TV is an example of the converse – and is well positioned to expand its online presence.

4. Some programmers strike back – with their own version of the NCTC. Programmers are under pressure – cable operator consolidations cause affiliate staff reductions. No surprises here. But some smaller and/or independent programmers will try to band together a la an NCTC clone and establish a national affiliate sales force. It's a great idea, but infighting and differing priorities doom the project from launching.

5. New programming service start-ups surprise! In the future, it becomes easier rather than more difficult to launch a new service. The continuing consolidation of DBS and cable operators create distributors that can enable a new service to launch and become instantly profitable. Since operators will attempt to extract a considerable ownership interest in these new companies,

they will realize significant values, and this tactic will help them monetize their video customers.

6. Those who snooze – may lose. Some well established programmers will find their businesses more vulnerable to competition than they thought. Imagine the battle between Country Music Television and Great American Country, but on steroids. For services that lack exclusive content, replicating their genres will be much easier than some executives in their corner offices may appreciate. Programming services from

music to weather genres will look to further cement their relationships with the larger operators through extraordinary means, realizing that if a couple operators with 30-40 million users sign up with a substitute product, life might become far too exciting and threaten their existence. When Encore surprised Showtime with Starz!, there was enough content and eyeballs to go around so that they both still were able to prosper. The next decade won't be so forgiving, and you can bet that there will be a handful of battles in this arena.

7. Some local broadcasters begin to close their doors. But they will reopen them elsewhere so they can operate more efficiently. In smaller markets, dwindling advertising revenues squeeze the local broadcasters, causing them to establish regional stations to improve their bottom line. In highly penetrated and smaller marketplaces, some broadcasters will shut their broadcasting operations down and distribute their programming via cable, the Internet, and satellite.

8. The Mother of all Battles. Making the Cablevision vs. YES and the Disney vs. Time Warner spat appear like merely a playground scuffle, one

large programmer and operator will really "get it on." You can guess the programmer because that company will be no surprise. The operator will be a shocker, but it will eventually come out (later, after it's too late to do much good) that there might have been some sort of a gentleman's agreement that a medium sized and particularly sympathetic appearing cable operator would take them on this particular programmer. The public will howl. Congress will hold hearings. Law suites and counter suites will be filed. Re-regula-

tion will be threatened, as will laws that eliminate the practice that operators consider to be "multiple programming service tying" are argued. And the winner is? No one, really – the sometimes-uneasy symbiotic relationship will continue. What saves the day for programmers on this issue? A series of counter intuitive articles and studies (the first written in 2000) proves that if programmers were required to offer their services on the lowest level of basic, on an a la carte basis, and without penetration minimums, consumers would actually pay more and receive less programming. Gasp! How can this be? Send me some emails and I may write an article about it in an upcoming issue of "Broadband Properties."

9. Consumers get choice, and choose not to exercise it. In a shocker to some and as one of the outcomes of the Mother of all Battles (above), several reputable research companies show that consumers don't want to choose their channels on an a la carte basis. This is one of two turning points in this epic battle between operator and programmer. While consumers say that they want infinite flexibility, when confronted with that type of choice, they

complain that it's too time consuming and confusing to make hundreds of individual choices. What type of packaging do consumers most appreciate? And the survey says – they like genre related packages (e.g., channels of content divided by genres such as sports, movies, news, family, and so forth – packaged together and available to them on this basis). Some programmers allow operators some new flexibility, but once all that is said is done, it turns out that much more gets said than is actually done.

10. Premier, Act II. Premier was a consortium of studios that attempted an ill-fated effort in the 1980's to launch a premium programming service that would combat HBO and better help them monetize the films that they create. The business folded after the DOJ shut them down. Act II will occur via the Net rather than in "cableland" – and will be moderately successful (although through this process, the studios will figure out that being an operator is not the money machine that they once imagined). The net result will be an eventual increased pressure on content acquisition fees for DBS, cable, and private operators.

11. Cable never really makes it to 500 channels – but the Net offers 5000 channels. Should the video programmers be worried – nope, because they will be the direct beneficiaries of the new 5000-channel cable system on the Net. With tens of thousands of hours of programming that has only been shown a couple of times – they are sitting on a treasure chest of value. See how the Net-blocked programming due to a Gideon knot of rights agreements will be freed up in the next prediction below.

12. Now playing on a computer near you. An ugly rights issue is resolved to no ones' satisfaction. Tens and tens of thousands of hours of valuable programming exists without any Internet rights. They can be distributed via cable and satellite, but owners never granted Internet rights (because the Internet

didn't really exist until just a few years ago). In a grand compromise sure to spawn numerous lawsuits and years of grousing, a "copyright tribunal" like settlement eventually enables operators to distribute programming over the Internet and pay the rights holders (a pittance or far too much depending upon ones perspective) for this privilege. The consumers win this one.

13. Retransmission consent or must carry – who cares? It is only the considerable clout of cable operators that allows them to obtain valuable broadcaster programming at no cost (aka "free"). The tide will slowly turn, as distribution is further comoditized with DBS and later via the Net. Already, many operators pay for retransmission consent with a wink and quasi "non-cash" benefits. As the FCC loosens ownership maximums for the networks and as local broadcast affiliates' economic model sputters – cable will begin routinely paying cash for carriage for this valuable programming. "Must carry" will slowly subside to becoming a non-issue for all but the smallest of local and unaffiliated broadcasters.

14. Video programmers lose eyeballs to the Net – but all is not lost. Programmers have availed themselves of direct broadcast satellite as a distribution channel and the Net is seen as yet another avenue to distribute their product. As broadband proliferates and technology improves, some programmers will try to ride the increasingly efficient compression algorithms that allow streaming video to be viewed more efficiently with reduced bandwidth. Taking a page out of the Gateway computer book, they wonder why they must cut the cable and DBS distributors in for a share of their revenues when the Net allows them to distribute it directly themselves. Nice in principal, but it just doesn't catch on. Consumers don't want to be bothered with a relationship and by paying 20 separate programming services. Moral of the story: after investing lots of dollars, a couple programmers learn that

consumers feel that their lives are already far too complicate. They are willing to pay a few extra dollars for companies that aggregate and package info-entertainment services so that these consumers' lives are made a little more convenient.

15. Okay, who wins the Starz! vs. Comcast battle? Well of course it's John Malone. But how he does it shows his prowess as "The King of the Deal." Donald Trump, watch out – because while Comcast is able to significantly reduce the guarantees that TCI originally made to itself when Malone owned both Liberty (the owner of Starz!) and TCI, Malone proves once again that he is a Jedi Master. The new deal will include carriage guarantees of Liberty owned programming, the "give back" of 6 MHz of bandwidth Liberty owns on the AT&T systems, several new Liberty-Comcast ventures, and a surprise. Classic John Malone stuff – long live the King of the Deal.

16. The advertising battles - PVR vs. the programmers. Who wins (besides the lawyers, that is)? At the last minute, there's a pre-trial settlement but PVRs actually win and add yet another complexity for programmers. But since technology both gives and takes, programmers mitigate their losses by dubbing in advertisers that pay a pretty penny for this pleasure. On one showing, our hero is enjoying a refreshing bottle of Coke. At the same time and on another channel, the bottle of Coke has been transformed into a Pepsi and our hero seems to enjoy it just as much. Shows will eventually be designed in template form to allow distributors to make minor changes to the programs to sell advertising. But technology, of which PVRs are merely the first of many, will doom the traditional 30 and 60 second advertising spots.

17. Will eCablevision be available to the masses within our lifetime? A couple of years ago, an earlier reincarnation of this very magazine suggested that cable television programming would be distributed via the Net (or

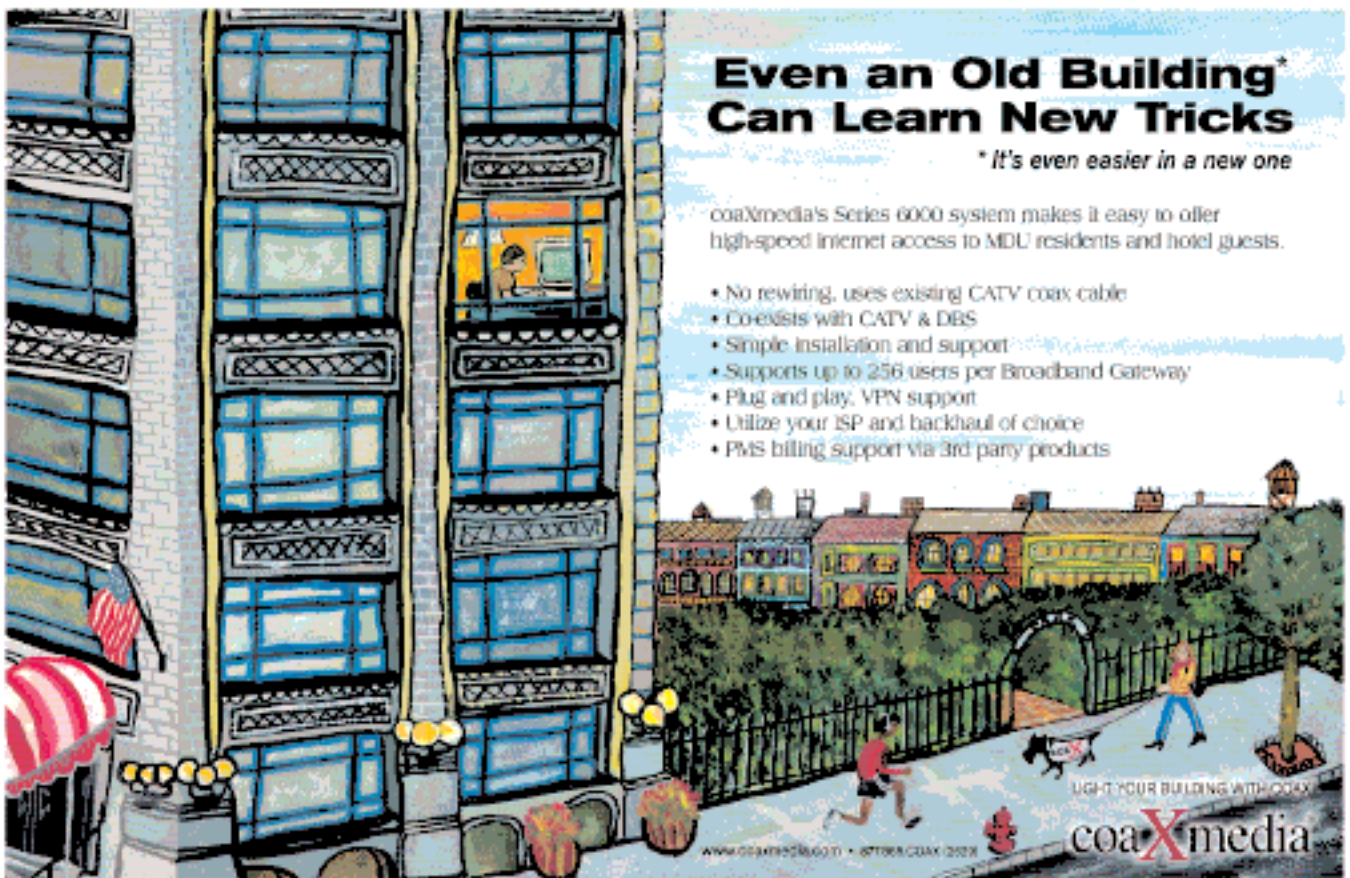
eCablevision), and arguably Real Networks is the advanced scout of this new form of delivery. However, Real Networks has real problems and they start with Microsoft and progress to content availability and delivering a consistently high quality picture. But Real Networks proves that Netizens will pay real money for content that they find compelling and is unavailable through other distribution sources. It's hard to predict what will happen to Real Networks (perhaps Microsoft will make a big investment in them, as they did Apple), but over time, video programming will be streamed via the Net to an audience that cares little about any particular distribution channel and only that they get to watch what they want to watch, when they want to watch it, and at the best value. So color this answer "yes," although it will not replace the other forms of video distribution.

18. Be careful of what you wish for.

Because it might come true, as it did for the broadcast industry that convinced Congress the world was ready for HDTV. Unfortunately, the broadcasters forgot to ask their accountants' opinion, because it turns out that the required capital investment is unlikely to be paid for in incremental advertising or other revenues for a long time, if ever. The unintended consequence of this was to topple a row of cascading dominoes that ended up with operators being required to carry HDTV formatted content and consumers being required to pay for fancy and wider television screens. The pictures look great, but the result of this is that HDTV will end up making consumer electronic companies much more money than the broadcasters will realize from their effective lobbying efforts. And back in the 1990's when this idea was first hatched, the reality will be that it will take much longer and cost consumers

and operators a lot more money than was ever predicted, for HDTV to penetrate the consumer marketplace.

19. One box, one screen, one experience. Eventually, video and broadband will converge. It won't necessarily be like many of today's pundits predict, because it will be more like a marriage and blending of technologies that maximizes the consumers' experience. The one box will be a combination of modem and set-top converter. The one screen will be a combination of computer and television. The one experience combines the best of both – the "lean forward" and interactive experience of the Internet together with the familiar and comfortable "lean back" experience of television. Therefore, there will be something for anyone and plenty for everyone. This convergence will help keep today's current programming and distribution titans riding tall in the saddle for years to come.



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20. The next ten years – how the evolution of programmers will impact operators. Okay, this column could have been just as easily been called "the next ten years – how the evolution of operators will impact programmers." The symbiotic relationship will continue to make each industry lots of money, notwithstanding a couple of hiccup that happen as mega trends described above buffet both industries. Power will slowly ebb from the video operators as the Net opens a new distribution channel. Mitigating this will be that the operators will control much of the Internet's gateway and that their continuing consolidation will give them increasing leverage over the programmers. When the top few operators

control an increasing number of eyeballs, programmers will feel real pressure to mitigate programming fee increases. As the planet Earth grows smaller, programmers will find new international opportunities. Technology will empower them to sell advertising in new and compelling ways. Life will be good for almost everyone.

Programmers and operators need each other to be successful. Like siblings that occasionally take whacks at each other, they'll actually spend most of the time over the next ten years working in collaboration rather than in a form of competitive destruction. Wise executives lead many of the most powerful companies in both these verticals; and they know that it's better to cooperate and

subsequently provide consumers a valuable product, reaping the money that customers will gratefully pay for such marvelous info-entertainment. ■

**About the Author**

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