Video-Tiering

Adding Value to Video Offerings

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EXECUTIVE SUMMARY

With subscribers increasingly abandoning cable and other alternative pay TV outlets, cable operators must examine their video offerings and ask how to proceed knowing that rate increases are not sustainable, that subscriber losses are increasing and that à la carte is not a viable solution.

FULL ARTICLE

Second quarter 2011 filings from four of the five top cable companies indicate that consumers are cutting the cord and opting out of paying for cable with losses totaling more than 468,000[1] subscribers; third quarter results produced little relief with subscriber attrition totaling 316,800[2]. Subscribers are abandoning cable companies by the hundreds of thousands, with consumers crying out for more choice.

To compound matters, in the 2011 second quarter, alternative pay TV providers such as satellite sustained major subscriber losses with DirecTV sustaining an all-time low growth rate with only 26,000 new net additions[3] and DISH network reporting subscriber losses of 135,000 compared to losses of 19,000 in the prior year[4]. As consumers are increasingly thinking outside of the box (and, in some cases, the dish) to find alternative, and perceptually cheaper ways of getting content, rate increases and current portfolio options are not sustainable.

	Company	2Q '11 Net Sub Losses	3Q '11 Net Sub Losses
4 of top 5 Cable Companies	Comcast	275,00	165,000
	Time Warner Cable	128,000	155,000
	Charter Communications	79,900	64,800
	Cablevision	23,000	19,000
	Total Losses	**505,900**	**403,800**

Source: 2011 10-Q SEC Filings

1 2Q 2011 10-Q SEC Filings for Comcast, TWC, Charter and Cablevision
2 3Q 2011 10-Q SEC Filings for Comcast, TWC, Charter and Cablevision
3 2Q 2011 10-Q Filing for DirecTV
4 2Q 2011 10-Q Filing for DISH Network

Inevitably, some consumers continue to rally for à la carte programming, believing that a higher number of available options will translate into a better value. Cable companies should recognize that while consumers want choice, they also want simplicity.

À la carte programming would be the ultimate menu of choice for consumers; however unbundled pricing, though providing the consumer with increased choice, would lower the level of simplicity associated with the transaction. As subscribers voice their belief that there is not enough value and choice, programmers should rest assured knowing that offering more choice does not necessarily correlate to more value or better options.

How should cable companies proceed knowing that rate increases are not sustainable, that subscriber losses are increasing and that à la carte is not a viable solution? There are other options, both locally and internationally, that peers have explored to create a balance of choice and simplicity.

Attempting to grow the subscriber base in a slowing economy

In an effort to hold on to customers during tough economic times or to attract those who might not have been able to afford cable in the past, Time Warner Cable is rolling out "TV Essentials", following a trial in New York and Ohio. The programming package includes a basic tier of local broadcast channels (ABC, CBS, Fox, NBC and PBS), 12 of the top 20 Nielsen-rated cable networks such as AMC, CNN and HGTV, plus other channels from major genres: news/information, kids, music, lifestyle, shopping, and general entertainment. The package is priced at $39.99 per month in New York City, and $29.95 per month in northeast Ohio, for a promotional period of 12 months; upon further rollout the package could be priced differently in different markets.

At the launch, President, CEO and Chairman of Time Warner Cable Glenn Britt said that Time Warner "understands that people are under pretty serious economic duress and would like to have more choice and the option of paying for less programming...this video-only package isn't for everyone, but we hope that some of those most hard-hit by the current economic conditions find it to be a helpful option."[5] The low-cost TV Essentials package will generate additional subscribers looking to save on their content costs but will result in lower revenue per customer and does not fully address the underlying issues with video value and why subscribers are disconnecting their cable service.

5 Glenn Britt as quoted in Time Warner Cable Press Release,11/22/2010

Transitioning from a regional monopoly to customer-centric brand in a competitive marketplace

Shaw Communications in Canada provides a basic package that can be added to depending on consumer preferences. This Standard cable package dubbed “Personal TV” offers 40 channels, including 12 HD channels with two cable boxes included and a variety of “theme packs” to customize the purchase that range in price from $5-20 per month. Shaw has struck a balance between pure à la carte offerings and adding value to the customer by increasing their offerings while keeping choices manageable.

Technology as part of the value proposition

Australian provider Foxtel offers consumers two ways to create and personalize entertainment packages based on preferences and budgets, the first of which is a “Get Started” pack coupled with add-on packs such as “Kids & Music”, “Sports”, and “Drama & Lifestyle” for $16 per month. Consumers can also pick from their choice of eight genre-based “value packs” that can be substituted monthly with varying pack inclusions ranging in price from $75 to $115 per month. This approach of allowing consumers to “Build Your Own” package around theme offerings is designed to suit the varying needs of consumers.

Foxtel has taken the video value proposition one step further with “Foxtel Download” giving subscribers the ability to legally download films and TV shows within their subscription package to their computer. This wider array of programming choices and interactive features along with a willingness to adapt to new technology to provide subscribers the power to tailor their viewing needs places Foxtel in a position where subscribers are empowered and value is added.

In reviewing competitor offerings, both internationally and regionally, SKP has seen that successful cable operators balance choice and simplicity, in content and pricing, while providing portfolio guidance to the customer to keep the experience as simple and streamlined as possible. Additionally, providing customers with the ability to watch nearly anywhere will be an integral part of a company’s value proposition.

Cable companies must be proactive to drive new subscribers, increase loyalty and upsell while playing up their key strengths (i.e., bundle customization, high-speed data, etc.). This can begin to be achieved by allowing customers the ability to customize based on their changing needs thereby getting the most value for their money through increasing video offerings while always keeping in mind what the next level of TV viewing will be.