CableFAX Daily™

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It's War Out There: Rutledge Talks Russian Roulette with Programmers

Want to know how bad things have gotten between programmers and distributors? Check out **Charter** CEO *Tom Rutledge*'s comments on dealing with programmers at **Deutsche Bank**'s media conference Wed. "It's kind of like that scene in the *Deer Hunter* where you're in that cage in the river with the rats crawling all over you, and every once in a while you get pulled up to play Russian roulette. That's what it's like. And we're all sort of trapped in the cage with the rats." If that image wasn't clear enough, he went on to explain that Charter "struggles" with programming costs and that there is "tension." Ya think? The MSO has renewed most of its agreements this year with the major programmers. "Charter has historically, I think, paid more than other companies for the same content," Rutledge said. "I've always thought that was inherently unfair. I think to some extent we've had a little bit of success reducing our rate of growth relative to some other providers, but it doesn't necessarily mean we're paying less than anybody else." Despite his qualms over costs, it doesn't sound like Charter will join **DirecTV, Verizon** and **Cablevision** in charging a sports surcharge fee of around $3/month for RSNs. The CEO said it's not the biggest driver in the programming cost structure, though it is a factor. "I understand the desire to do it, but it's a rate increase," he said, warning that making the bill "confusing and unfriendly" has disadvantages and could look like the much-griped about surcharges in a phone bill. But Charter hasn't completely nixed surcharges. In 2010, before Rutledge joined the company, it started breaking out retrans costs with a "broadcast TV surcharge" that continues today. DirecTV CFO *Patrick Doyle*, speaking at the same conference Wed, said customer reaction to the RSN fee has been pretty mild. "Honestly, we have seen very little reaction from those price increases," he said. "It helps that now I think we're starting to see some of our competitors go that same route." In general, fairly aggressive price increases for all distributors is going to be the "new norm" with programming costs rising, he said. Rutledge didn't offer up any great insights on Cablevision's antitrust suit against **Viacom**. He brought up how he testified before Congress as COO of Cablevision against the tying of networks following the company's dispute with Fox that shut customers out of the first 2 games of the World Series. Charter's position in the retrans NPRM pending (stalled?) at the **FCC** is that programmers shouldn't be allowed to tie, and while that's broadcast focused, he said it's not that different. In other programming news, DirecTV's Doyle was quizzed on the status of **NFL** Sunday Ticket talks. If the price is right, the DBS provider will renew. If it includes an unreasonable increase, DirecTV

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would think about not carrying Ticket or sharing it with others. "We're not necessarily concerned about going to nonexclusive, if it's structured properly," he said. "Our goal would always be to keep it exclusive if we can." (Question: Does cable care as much about offering Sun Ticket now that it has **NFL Net's Redzone**?) On the competition front, maybe that will be Deer Hunter the Sequel, with Doyle characterizing the landscape as "intense." He particularly hates the cash back promos that so many of DirecTV's rivals are offering. "Honestly, from our view, it's just not sustainable to continue to offer cash back to customers," he said. "On the flip side, we continue to compete in that environment... and feel comfortable that we've got the right strategy and product to continue to compete." Rutledge is similarly confident in Charter's product, saying the challenge is to unburden its network from legacy analog service. One way to do that is with the cloud, with Charter on track to launch this year the ability to search and queue up programming to watch later on TV using a device such as a smart phone.

Deals: **Rovi** struck a license deal with **Hulu**, resolving outstanding patent litigation. Terms weren't disclosed. Rovi filed a complaint in 2011, claiming that Hulu infringed on 3 patents related to its electronic program guide patents.

Media Summit: So is 4G a threat to cable operators? Perhaps if you look long-term, said **Standard & Poor**'s dir *Michael Altberg*. "Cable operators continue to have the best pipe in the home," he said at **Digital Hollywood**'s Media Summit in NY Wed. And "in terms of cable networks, device penetration is not a viable competition to broadband," he said. Ultimately, cable ops' immediate access to households still trumps any risk. "I don't think there's anything out there that's going to displace that," he said. S&P's dir *Naveen Sarma* noted **Cablevision**'s WiFi push. "It's not like the cable ops are sitting back and letting 4G happen," he said. Altberg agreed, noting that programming costs are rising for MSOs like **Time Warner Cable** and **Comcast** because they're buying up digital rights. Reporting on overall online advertising, S&P's dir *Andy Liu* said he expects a 50% increase in ad spend for 2013, matching the growth he's seen in 2012. According to S&P's managing dir *Heather Goodchild*, "by 2015, total online ad spending will surpass that of national television." -- In a panel on hyper-targeted advertising, *Carole Hart*, svp of enterprise sales, TWC Media, said it's "still leading everything with the 30-second spot" but targets local markets with the "best sales people on the street"—specifically, 500 account executives across the TWC footprint. *Bob Bress*, **Visible World**'s sr dir of product management and analytics, praised **Cablevision**'s household addressable system, which uses 1st-party data to create more efficient, targeted ads. The MSO has "been able to eliminate a tremendous amount of wasteful ads" that way, he said. Increasingly important is finding the right balance for a campaign's "reach and composition," said *James Colborn*, **Microsoft Advertising**'s dir, of targeting & exchange. He said being too specific can diminish reach—and therefore minimize value and return.

Hiring Front: **Comcast-NBCU** met its previously announced 3-year goal to hire 1K vets as part of **US Chamber of Commerce Foundation**'s "Hiring Our Heroes" program 2 years ahead of schedule. Comcast plans to hire 1K more vets by '15.

Technology: **Roku** launched its latest streaming model, Roku 3. Priced at $99, the device features a new interface and an upgraded remote with built-in headphone jack for private listening. A streamlined layout is designed to provide quicker access and greater visibility while the Roku Channel Store and Search is already integrated into the home screen. Both have been redesigned with the new on-screen experience.

Time-less: **Time Warner**'s board authorized management to proceed with plans to separate **Time Inc** from Time Warner. Following the proposed transaction, expected to be completed by year-end, Time Inc will be an independent, publicly traded company. Time Inc CEO *Laura Lang* plans to stay on through the process and help identify a successor.

People: **Discovery Comm** upped *Eric Phillips* to pres, domestic distribution, effectively immediately. He'll continue to report to Discovery Education and Strategic Distribution pres/CEO *Bill Goodwyn*. -- **Suddenlink** promoted **Tyler Nau** to vp, finance and gm of carrier services for the company's commercial & advertising operations.

At the Portals: The **FCC** should reject several proposals by large telcos related to finding areas eligible for financial support for broadband deployment through the Connect America Fund, **ACA** said in a filing. The agency released a notice about various USF and National Broadband Map-related issues with respect to price cap carriers. The Commission should continue to "stand behind the work done on the National Broadband Map," ACA head *Matt Polka* said. Any potential under-and over-reporting can be addressed by "a reasonable and fair process... Starting over is not an option," he said.

Business Services: **Time Warner Cable**'s **NaviSite** launched a back-up service for businesses. The service enables "deduplication capabilities to reduce the amount of storage space needed" and also enables retaining off-site data storage.

BUSINESS & FINANCE

Programming: After 10 seasons, **TLC** will cancel its "What Not to Wear" series. Come July, the last eps will air on Fri nights. "After 10 incredible seasons, we felt that it was the right time to end the series," *Amy Winter,* evp/gm, said.

On the Circuit: **Smithsonian Channel** broke out the vintage wares at a swanky event at the Los Angeles County Museum of Art Tues night where party goers celebrated the Thurs premiere of "L.A. Frock Stars" about a vintage clothing store frequented by fashionistas. The net—a joint venture of **Showtime Networks** and the **Smithsonian Institute**—is developing more originals as it expands carriage, with gm *Tom Hayden* noting that the 5-year-old net is now on all major distributors except **Cox Comm**. "We haven't been able to crack that nut yet," he told the crowd. "For any Cox subscribers, you can feel free to ring their phones off the hook and ask where the Smithsonian Channel is." Something tells us the **CBS** affiliation won't hurt in upcoming negotiations. -- Kudos to **AXS TV**, which began the first of several Mon night live events at the Roxy on Sunset Blvd, L.A., with a Beatles tribute band that smartly began its set with "Sgt Pepper's Lonely Hearts Club Band" (stealing a page from our own TV Rejects, which opened with the same song at the **NCTA**'s Battle of the Bands. Look it up, people). AXS will feature a new tribute band live every Mon. Next up for rocktacular emulation: The Rolling Stones. It's a gas, gas, gas!

CableFAX Daily Stockwatch

Company	03/06 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
DIRECTV:	49.00	0.06
DISH:	34.19	(0.52)
DISNEY:	56.36	(0.12)
GE:	23.67	0.08
NEWS CORP:	30.34	(0.23)
MSOS		
CABLEVISION:	13.77	(0.11)
CHARTER:	89.98	2.37
COMCAST:	40.85	(0.1)
COMCAST SPCL:	39.02	0.02
GCI:	8.22	(0.17)
LIBERTY GLOBAL:	71.01	0.19
LIBERTY INT:	21.14	(0.21)
SHAW COMM:	24.01	(0.12)
TIME WARNER CABLE:	89.29	(0.36)
VIRGIN MEDIA:	47.34	0.05
WASH POST:	407.38	(2.21)
PROGRAMMING		
AMC NETWORKS:	58.70	0.45
CBS:	44.81	(0.07)
CROWN:	2.05	0.01
DISCOVERY:	75.35	(1.25)
GRUPO TELEVISA:	26.42	(1.21)
HSN:	53.90	(0.37)
INTERACTIVE CORP:	42.30	(0.31)
LIONSGATE:	22.18	0.10
OUTDOOR:	8.72	0.01
SCRIPPS INT:	63.90	(0.64)
TIME WARNER:	55.46	0.41
VALUEVISION:	2.73	0.07
VIACOM:	62.91	(0.4)
WWE:	8.78	0.06
TECHNOLOGY		
ADDVANTAGE:	2.20	UNCH
ALCATEL LUCENT:	1.42	(0.03)
AMDOCS:	36.40	0.08
AMPHENOL:	72.79	0.21
AOL:	37.30	(0.55)
APPLE:	425.66	(5.48)
ARRIS GROUP:	17.71	0.31
AVID TECH:	6.72	0.18
BLNDER TONGUE:	1.32	0.02
BROADCOM:	33.64	0.34
CISCO:	21.71	0.50
CLEARWIRE:	3.16	0.01
CONCURRENT:	6.92	(0.08)
CONVERGYS:	16.71	(0.07)
CSG SYSTEMS:	19.54	0.04
ECHOSTAR:	38.17	0.03
GOOGLE:	831.38	(7.22)
HARMONIC:	5.72	0.02
INTEL:	21.75	0.24
JDSU:	14.15	UNCH
LEVEL 3:	20.39	0.39
MICROSOFT:	28.09	(0.26)
RENTRAK:	21.12	(0.05)
SEACHANGE:	11.20	(0.14)
SONY:	15.84	0.33
SPRINT NEXTEL:	5.87	UNCH
TIVO:	12.44	(0.15)
UNIVERSAL ELEC:	20.91	0.36
VONAGE:	2.71	0.09
YAHOO:	22.80	(0.15)
TELCOS		
AT&T:	36.29	(0.31)
VERIZON:	47.28	(0.41)
MARKET INDICES		
DOW:	14296.24	42.47
NASDAQ:	3222.37	(1.76)
S&P 500:	1541.46	1.67

Think about that for a minute...

$99.99

Commentary by Steve Effros

It always amuses me when I read claims that the cable industry is a "monopoly" or that there is "no competition." Clearly the folks who say and write that stuff need to get out a little more.

Admittedly, as I noted last week, one of the difficulties in discussing, regulating or adjudicating regarding this competition is the underlying question of "competition of what?" Since we are in several different and distinct businesses, and some of them can even be perceived to compete with each other, it's necessary to get a lot more specific than just generalizing about "the industry."

There's little question, for instance, that we are in the business of getting folks to become "subscribers" or "customers" enjoying our aggregated video service. We're not the only ones offering aggregated video services. Every broadcast network does the same thing; every television station, too. So does Netflix, Vudu, Hulu, Amazon Instant Video and the like. The second and third largest aggregated video delivery companies are DirecTV and DISH. If the reporting is to be believed, there are also a host of others coming our way as well, including, potentially, services from Microsoft, Apple and Intel. So the notion that there isn't competition in offering aggregated video service is just wrong.

Does that competition rely on the group offering the aggregated video, the "editor" if you will, also being the one who owns the network it's distributed on? I don't think so. As we have long known, consumers who want a package of video programs really don't care whether it comes to them over the air, over a coaxial cable, or fiber, or satellite, or "broadband." They care about the programming. That's why it's likely we'll see more and more competition to tie down "exclusive" product within those programming packages. Witness what Netflix has done in its package offering by highlighting "House of Cards," or DirecTV has done by promoting the NFL Sunday football package. Both exclusive offerings within the aggregated video service. The competition is going to be focused on the video product offered.

Of course there are other levels of competition as well. The delivery infrastructure is one of them. In many communities, multiple companies compete based on newer versus older technology or better customer service or price. The consumer is asked to "sign up" to a cable company's offering (sometimes more than one company) or a satellite company or a telephone company... they all deliver aggregated video product. They all compete.

Ironically, however, I think the major competition is actually coming from a different direction. Let's remember again that consumers don't care how it gets to them; they care about watching a program. DVDs started to be a serious competitor some time ago, especially when Netflix figured out how to make a special deal with the US Post Office that assured really fast delivery. They have now moved on to broadband... even faster delivery, and they get the consumer to pick up the tab for it! Sweet. DVRs also create a whole new competitive aspect to what folks watch and when. And now companies like Roku, with their easy to use WiFi enabled boxes for broadband streaming, are doing some very notable things as well. The new Roku box, with an improved search and user interface along with faster processing chips, was just announced. Hundreds of available "channels" or aggregators consumers can then subscribe to. The box is easy to use, and only $99.99. If you don't think that's "competition," you haven't been looking.

Steve

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(Steve Effros was President of CATA for 23 years and is now an advisor and consultant to the cable industry)