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What the Industry Reads First

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Forward Looking: Rutledge Describes Pay TV's 'Video Store' Future

Charter CEO *Tom Rutledge* described the future of pay TV as “a video store” during an appearance at the Goldman Sachs Communicopia conference Wednesday. The MVPD shocked when it ended 2Q20 with a 102K video subscriber gain, the first it had seen in more than two years. Rutledge said it was driven by the strength of Charter’s broadband growth, because the macro-trend of cord-cutting isn’t going anywhere.

“We look at the future of video as more of a video store, offering a whole range of kinds of products,” Rutledge said. That would include everything from tiers of sports channels to traditional video products and AVOD services. “That’s the fundamental aspect of video we’re interested in,” Rutledge added. “There is margin in the traditional video business still, but to keep it requires continuous price increases.” He reiterated that Charter should continue to carry video in order to ensure the company can satisfy the need of every customer.

When asked whether Charter would introduce something similar to **Comcast’s** Xfinity Flex set-top for broadband-only customers, Rutledge said there’s no need to act immediately because of the company’s app-based strategy.

“We have millions of customers who subscribe to us through smart TVs and through **Roku** and other devices that are app-based, and the Charter app is the highest-rated linear app in the marketplace,” Rutledge said. “So we don’t feel like we need to have an equipment strategy in the IP place necessarily.” Should folks begin building walled gardens around their hardware and operating systems, Rutledge is confident Charter can use its integrated set-top boxes to introduce the apps customers want.

Though video may have been an unexpected bright spot, broadband growth is still very much the focus for Charter. Rutledge said that approximately 50% of people living in the company’s footprint are Charter subscribers. The rest of that pie are potential customers that won’t cost Charter much on the bottom line to acquire. Rutledge added that as Charter’s penetration grows, its average cost to serve each customer goes down and each customer then becomes more valuable.

“The continued decline of satellite video actually helps us in the marketplace,” Rutledge said. “A lot of video customers who downgrade or kept **DirecTV** or **DISH** didn’t subscribe to our broadband, and as they come loose from their satellite relationships, they’re re-evaluating their broadband connections as well.”

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- David Atman, President, Lindsay Broadband

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FCC Proposes Station Forfeitures Over Failure to Negotiate in Good Faith: The FCC voted to deny an appeal of its determination that a number of station groups failed to negotiate retransmission consent in good faith and has proposed a forfeiture of over \$512K against each station. This marks the first time the Commission has issued a forfeiture order over failure to negotiate retrans consent in good faith. The complaint from **AT&T** was filed in June 2019 against **Deerfield Media, GoCom Media, Howard Stirk Holdings, HSH, Mercury Broadcasting, MPS Media, KMTR Television, Second Generation of Iowa** and **Waitt Broadcasting**, all of which have been found to have failed to meet the FCC's standards for good faith negotiation. Howard Stirk previously agreed to pay a \$100K penalty. The stations were represented by *Duane Lammers* from **Max Retrans**. The Media Bureau found that the stations had failed to negotiate in good faith with AT&T's **DirectTV** and **U-Verse**. The Commission said it was appropriate to fine each station rather than Lammers or the station groups as the individual stations are the negotiating entities subject to the FCC's rules. "Just as importantly, the harm to viewers is multiplied with each station that goes dark, regardless of the number of corporate parents involved in a carriage dispute, underscoring the importance of our focus on individual stations," the Commission said. The vote was nearly unanimous. Commish *Michael O'Rielly* voted to approve in part, concur in part, disagreeing with the amount of the proposed forfeitures. "Even during better days, when our country is not facing the challenges of a global pandemic, imposing the statutory maximum on individual stations by way of a novel, first-time application of the rules could be disproportionately punitive and significantly threaten the operations of these stations," O'Rielly said in a statement.

Trump To Nominate Simington to FCC: President Trump announced his intent to nominate *Nathan Simington* to serve as an FCC commissioner. Simington is currently a senior adviser at the **NTIA** specializing in network and telecommunications policy. The news comes a month after the White House withdrew the nomination of Republican FCC commish *Michael O'Rielly* to serve a third term. That withdrawal came after O'Rielly made public comments seemingly questioning Trump's May executive order requiring the NTIA to petition the FCC and ask it to clarify the scope of Section 230 of the Communications Decency Act. Simington reportedly helped draft the executive order. Prior to his NTIA appointment, Simington served as senior counsel to **Brightstar Corporation**. "I extend my sincere congrats to Mr. Simington for selection to join @FCC, and offer best wishes for a smooth confirmation process and successful term at the Commission," O'Rielly tweeted Tuesday.

Tubi Hits Record Numbers: Tubi reached a record monthly active user count of 33mln in August, a 65% YOY gain. In April, the AVOD passed 200mln hours streamed for the first time, and has been above that threshold for every month since. The company saw an average household increase in hours streamed of 104%. Internationally, Tubi saw record

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growth in all countries which it operates. YOY, it gained 95% in Canada and 242% in Australia. In June, it launched in Mexico and has since seen 9x growth rates.

NBCU Reorg: A month into her new role as head of NBCU's entertainment business unit, *Frances Berwick* is filling out the leadership team. *Jeff Bader* will lead program planning, and also add the six cable entertainment nets to his purview. *Val Boreland* is expanding her responsibilities of buying and curating content across the entertainment and lifestyle groups to oversee acquisitions across all platforms and nets, including **Peacock**. *Lauren McColleston* was named head of business affairs, and *Jenny Storms*, current CMO of **NBC Sports**, is adding entertainment marketing. *Chip Sullivan* is now the head of comms across all entertainment networks, both internal and external, alongside publicity and talent relations. *Holly Tang* will now lead finance across the entertainment content and business division. In a separate announcement, *Chris McCumber*, pres, entertainment networks, **USA & SYFY**, is leaving NBCU after 19 years with the company.

College Football Returns: In an abrupt 180, The Big Ten will play a 2020-21 football season. The season will open the weekend of Oct 24 with eight regular season games alongside a Big Ten Championship game and six consultation games. Tickets will not be sold, and fans will not be able to attend. The conference has extensive safety measures including daily, rapid COVID-19 testing, beginning Sept 30. The league will also screen for myocarditis in the wake of any positive tests. Big Ten currently has a TV rights deal worth over \$1bln with **Fox Sports**, and **ESPN** has rights to the league as well. Combined, the six-year deal is worth around \$2.64bln. **Big Ten Network** is a JV between the conference and Fox Sports. Other Power 5 conferences have already returned to play. The ACC and Big 12 both kicked off their season two weeks ago, and the SEC opens on Sept 26. As of now, the Pac-12 does not have a return-to-play plan, complicated by governmental restrictions in California and Oregon as well as wildfires raging across the West Coast. Fox and ESPN collectively pay \$250mln a year to air Pac-12 events, in a deal that runs through 2024. Currently, the **Pac-12 Network**, owned by the conference, is only in about 17.9mln households across the country.

Pivotal Ups Comcast Target: **Pivotal** raised its target price for **Comcast** by \$8 to a Street high of \$60 following CEO *Brian Roberts*'s public comments on the company's expected 3Q20 broadband sub growth. "We raised our 2H net new data forecast from +685K to +930K implying full year +~25% y/y growth," Pivotal said in a note. "We also raised our 2H cable EBITDA forecast growth from +3.5% to +8.0%, reflecting lower marketing spend and the increasing effect of losing low margin video subscribers for dramatically higher margin data subscribers."

More Orgs Back Cable-Tec Expo: **Liberty Global, Midco, Millicom, Rogers, Shaw** and the **NCTC** have become attendee registration sponsors of the SCTE-ISBE Cable-Tec Expo. **Charter, Comcast, Cox** and the **SCTE Foundation** had previously committed sponsorship dollars to make the virtual Expo free for all attendees. Cable-Tec Expo is scheduled for Oct 12-15.

Must Haves: During a pandemic, good entertainment is essential. A report from **Beta Research** found that the top-ranked basic networks were **Food Network** and **History**, with 34% of respondents citing the network as a "must have," a 4 or 5 on a 5-point scale. **ESPN** followed with 33%, then **Discovery Channel** and **CNN** with 32% and **Nat Geo** with 31%.

Distribution: **Herring's One America News** and **A Wealth of Entertainment** reached a long-term distribution agreement with **Buckeye Broadband** and **MaxxSouth Broadband** for the continued distribution of the two nets.-- **Tubi en Espanol** made its debut in the US, now available on *Roku* devices. The free AVOD has more than 1K titles and 3K hours of content, with additional titles to be added later this year. -- **DISH** is launching a new Google Nest app on its Hopper platform, rolling out in the coming weeks. It builds on the existing Nest integration, but now customers can view live video feeds from any of their Nest cameras directly onto their TVs. -- **NAGRA** is launching a new Watch.Hockey app, creating a digital "home of hockey" for 30mln fans and players. The app will be available Thursday, delivering engagement for fans with access to hockey content, free live matches, scores, stats and more.

Ratings: The return of "MNF" averaged 10.76mln viewers for **ESPN**, delivering cable third-highest audience for a sporting event this year. However, viewership is down more than 17% from last year's first Monday night game between the Saints and Texans.

Doing Good: **Charter** doubled its original 2020 commitment to digital education, now warding \$1mln in grants to organizations working to provide broadband education, technology and training. The company has now given 48 Spectrum Digital Education grants to nonprofit orgs doing work such as teaching seniors digital skills and providing online classes for families that need homework and job support. Charter also increased the number of orgs it originally planned to support.

THE WORK CULTURE LIST PROFILE:

LEARNING & DEVELOPMENT **Comcast NBCUniversal**

Nowadays, it's not enough just to get the top talent in the door. Companies that continue investing in their workers are reaping the benefits in terms of employee retention and satisfaction. At Comcast NBCU, giving employees access to additional training opportunities through the Comcast University and NBCUniversal Talent Lab programs have allowed the workforce to keep up with the latest internal innovations with the industry as a whole.

"We are always transforming and improving and as we think about how the world continues to evolve and become more technologically advanced, the skillset that we need from our employees, both from a technical perspective as well as a mindset perspective... that changes right along with it," Comcast NBCU SVP of Learning Shawna Erdmann says. "So having a learning organization that is adaptable and ever-changing and able to meet the needs of those learners is incredibly important."

The platform also offers level-specific and role-specific talent programs employees can enroll in to prepare for leadership roles. The level-specific programs allow employees to develop with and among peers, no matter what their function is within the company. Separate business units can also use the role-specific leadership programs to prepare managers for director-level leadership.

Comcast offers a Director Readiness Program for care operations, field operations, Comcast Business, and the consumer sales organization. Each of the programs runs between 6-10 months and incorporate a mix of classroom sessions, mentoring and projects designed to solve real business issues. Boot camps are also available to prepare employees for higher-level roles. In 2018, Comcast said 2,663 leaders completed these trainings.

"We are getting so much better at addressing leadership opportunities much earlier in career as an industry," Erdmann says. "I think by having those opportunities earlier in career, you learn faster and you're ready



to take that next step when it comes available."

Collectively, Comcast NBCU employees report over 4.5 million hours of online, classroom and self-paced training per year. One of the most popular areas of study has been on growth mindset, according to Erdmann. Those courses help employees think of challenges as learning opportunities and transform the way they view failures.

Erdmann's next mission is to improve Comcast University's course curation for individual employees. "The content has to be customizable and served up in a way that's going to be most effective for that particular learner," she says.

To power that capability, Erdmann has been researching new technology around AI and machine learning so that Comcast's platform can become smart around what employees want out of the Comcast University virtual classroom experience. Eventually, those customizations could shape content based on individuals' learning style or when in the day they have free time to dedicate to the course. She's also excited about the prospects of virtual reality integration so that learners can receive hands-on experience, no matter where they are or what time of day it is.

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Think about that for a minute...

Business Models

Commentary by Steve Effros

I used to love to make models. Model airplanes, boats, rockets, space-ships, it didn't matter, so long as there weren't too many small parts that I couldn't deal with because they'd stick to the glue on my hands. Many of them didn't really come out looking like the picture on the box, but it was fun, anyway.



Today, all we hear about are "business models." So I started wondering what that really meant, and whether the folks who were making these models had the same problems I did. Turns out, they do! The model they thought they were building often doesn't quite turn out the way they thought it would. Some examples should suffice.

The business model; create a video channel, offer it directly to the public for a subscription fee, and rake in the money! By the way, if you check the definition of a "business model" in the Harvard Business Review you'll find that the simplest one is "...how you planned to make money." So how well did that first one work? Well, the obvious problem was that you had to get that video product to the viewer. Without a distribution system, and with the television networks already controlling the airwaves, that was tough. The solution: cut a deal with the cable system operator and get your "channel" put on their "system."

That worked, sometimes. Few remember that Disney's first effort at channel distribution was as a subscription service. Didn't work. They changed to being a "regular" cable channel. We all know the fraught relationship between programmers and cable operators since those early days. Does the operator pay the programmer or does the programmer pay to get on the system? Again, an historical aside; I still use my "SIN Pays" lighter. That was a promotion from the Spanish International Network when they were trying to get on cable systems in

the early days. They paid. Obviously, the ESPN's of the world saw things differently.

Today, however, things have gotten so messy that no one is quite sure what the business model should be. Disney is now both a subscription service and a channel. Roku doesn't charge the viewer, and only a third of their revenue comes from the devices they sell. The rest comes from advertising they get to insert on the channels using their platforms or payments from video providers like Amazon Prime.

Google "gives away" their search service, but makes money by selling the data on where ads should be placed to those using it. Hulu and the like are hoping that a hybrid subscription model will work. And Apple? Well, we're never quite sure where they're going other than they make a lot of money on their devices and control over the sale of applications that are usable on them.

Many of these models have yet to make any money. I suspect many of them never will. Glue on their hands. The point here is that it's just not clear what a successful "business model" is in our business any more, except for the traditional cable operator, who can still both aggregate and sell program packages and deliver video via broadband for others. We know that works.

I think the one new "model" designer we have to watch most closely, however, is Google. They're about to introduce a new model, I suspect, that combines broadband delivery with an aggregated user interface (and even remote control) that looks very much like cable and then also makes money off data and advertising. Watch for it.

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. His views do not necessarily reflect the views of Cablefax.)



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