Cord-Cutting Won't Get Worse — or Better: Study

1M Will Cancel Service, But Won't Watch More

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TakeAway

A new report sees more cord-cutting in TV's future, but no uptick in watching shows online.

Cord-cutters are expected to grow their ranks by more than 1 million households in 2014, but they aren't expected to watch more television, according to a report issued by Canadian research firm The Convergence Consulting Group.

According to Convergence, about 5.1 million pay TV subscribers canceled their subscriptions between 2008 and 2013, with 1.25 million cutting the cord in 2013 alone. Those ranks are expected to grow to 6.23 million by the end of 2014, meaning an additional 1.1 million homes will have dropped their pay TV subscriptions.

While the ranks of cord-cutters are growing at about the same pace, the amount of television they watch is expected to stay flat, according to Convergence. The research house estimates that about 18% of the weekly viewing audience watched an average of two to three free online episodes via the websites of a broadcast network, cable channel or at one of their distribution partner's websites. That's the same number as in 2012, and Convergence expects it to remain flat at 18% during 2014.

In its report — *The Battle for the American Couch Potato: Online and Traditional TV and Movie Distribution*, Convergence attributes the leveling off of online viewing to the growth of online video services like Netflix, Amazon and Hulu Plus; increasing DVR penetration, online advertising loads and less free and more authenticated online shows behind cable, broadcast and satellite walled gardens.

“It’s not that it’s going to get worse, but it isn’t going to get better,” Convergence president Brahm Eiley said.

Pivotal Research Group principal and media & communications analyst Jeff Wlodarczak agreed, adding that while he doesn’t expect cord-cutting to slow down, he isn’t anticipating a major increase either.

“I doubt that cord-cutting slows, because video prices are going up so much that it is just pricing people out of the multichannel market even if the relative entertainment alternative gets somewhat less attractive,” Wlodarczak said. “I doubt it turns into a flood, as there are natural barriers to swapping (higher standalone data fees, quality of service, etc.) but the more video fees continue to rise, the more it pushes consumers hard to come up with credible alternatives.”

Programmers are beginning to see the value of authenticating content, Eiley added — Convergence estimates that broadcasters make about 75% of their content available for free online, vs. about 35% for cable networks. But broadcasters are beginning to add restrictions to free online shows, extending the period between original air and online availability. For example, Eiley said that ABC and Fox now restrict online access to shows for nonauthenticated viewers to seven days after its original broadcast.

“There has been a movement by broadcasters and cable networks to make less content available for free and also create authentication windows,” Eiley said. “That’s positive. What’s negative is the amount of content that Netflix has and the fact that their pricing has stayed where it has.”

A bigger factor in the cord-cutting phenomenon would depend on Netflix’s ability to maintain the amount of content it provides, Eiley added. With new players coming into the market — Yahoo is even considering investing in original content for its own service, according to reports — that could be increasingly difficult.

Netflix has a five-year programming obligation of $7.2 billion, $3 billion of which comes due in 2014, Eiley noted. At the same time, the streaming- video giant operates on razor-thin 5% operating-income margins. Publicly traded cable operators, in contrast, had margins of 35% to 40% in 2013.

“Netflix is overstretched without subscriber growth, a price increase or a cut in programming,” Eiley said, adding that a price increase appears to be inevitable. “There’s no guarantee that Netflix lasts.”

However, he added that Convergence has been particularly skeptical of Netflix’s survival chances for years, “and every year they prove us wrong.”

Convergence estimates that the online video ad business is expected to grow to about 3.7% of total TV broadcast and cable advertising in 2014, up from 3.4% ($2.517 billion) in 2013.

But the real money is in subscription television.

In an interview, Eiley estimated that the total TV ad market, including online, was about $80 billion last year, compared to $99 billion for access fees
- See more at: http://www.multichannel.com/news/ott/cord-cutting-won-t-get-worse-or-better-study/373820#sthash.D8M8LXTq.dpuf

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