Broadcasters adapt to Web, but fear its encroachment

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Last fall, Apple Inc.'s head of Internet services began making the Hollywood rounds with a proposal to launch a subscription television service that would offer a package of broadcast shows for $10 a month.

The service was intended as a dazzling new entertainment feature to spark sales of Apple's soon-to-be-launched iPad. But the plan fizzled when several of the biggest studios rejected the concept out of hand. They also dismissed Apple's comeback pitch: to charge 99 cents per TV episode.

Apple's plan conjured a nightmare scenario for the TV industry, which worried it would suffer the same dismal fate as the music business. Apple's iTunes service, after all, had created a market for 99-cent single downloads, helping cripple the sale of $12 music CDs. Some feared that Apple's proposition would wreak the same havoc upon the average $70-a-month cable-TV customer.

That's not to say that Apple has dropped its ambitions in television. At the annual cable convention in Los Angeles last week, Brian Roberts, the chief executive of Comcast Corp., the nation's largest cable company, predicted a robust future for watching TV shows on the iPad.

Just not in the way Apple envisioned. The cable industry and the studios are working to hold Apple at bay, racing to come up with an alternative that will keep their business intact. As consumers increasingly expect to watch TV on their computers and portable devices, the future of online television is up for grabs.

One solution: TV Everywhere, which is intended to address changing viewer habits while preserving the profitable status quo for program producers and the networks that carry the shows.

The idea, presented by Time Warner Inc. CEO Jeff Bewkes at last year's cable-TV industry trade show, was straightforward. Consumer could watch TV shows free, any time and on any device, as long as they were already paying customers.

But in the year since Bewkes introduced TV Everywhere, his grand plan has hit resistance, even from within his own industry. Three of the most powerful players in cable -- Disney, NBC and Fox parent News Corp. -- have championed another alternative, Hulu, and a host of other smaller networks and operators have yet to sign on.

Speaking last week before thousands of cable executives, Roberts acknowledged that acceptance of TV Everywhere -- which Comcast supports -- has been slow. He blamed technology that makes the authentication process cumbersome and promised it would improve.

"We have made real progress," Roberts said. "Would I like it to be faster and ubiquitous? Sure."

TV Everywhere has taken tentative steps, with early tests by cable, satellite and telecommunications companies offering a smattering of programming from nearly 30 networks, such as powerhouses like HBO and Fox News and struggling channels like Epix.

Bewkes sees substantial support for the idea.

"Just about all of the distribution companies ... have endorsed it or implemented it in tests or actual launches," Bewkes said, calling it a "huge change" since last year.

The initiative is important to Bewkes because his company, Time Warner, owns popular cable channels -- including TNT, TBS, CNN, Cartoon Network and HBO -- that customers already pay to receive. TV executives worry that conditioning viewers to go online will lead them to cancel their cable service, seeing no need to pay for channels they don't watch when they can cherry-pick the shows they want.

Last summer Comcast signed on to Bewkes' vision. At the time, Comcast was determined not to let free services, such as the fast-growing Hulu, get more traction.

But for now, the initiative might more aptly be described as TV Somewhere.

Time Warner Cable, for instance, is conducting limited trials with a total of 6,000 subscribers in Syracuse, N.Y., New York City and Columbus, Ohio. Satellite-TV operator Dish Network plans to test TV Everywhere as early as this summer. Time Warner announced last week that phone company Verizon will offer the service to the 3 million subscribers of its FiOS television service.

Comcast is by far the most aggressive, having rolled out an early version of TV Everywhere -- which it brands Fancast Xfinity TV -- to all of its 16 million broadband Internet subscribers last December. Those who have tried the service to watch movies or shows such as HBO's "True Blood" are online addicts, watching nearly three times as long as the average visitor to the site, according to Comcast.

But few people have tried the service. Comcast hasn't promoted it to subscribers because it's still getting the kinks out. For example, it takes

11 steps to determine which cable programs an online viewer pays to receive. Comcast is trying to simplify this authentication process to a single click.

Although two dozen networks have signed on during the test phase, there are obvious gaps in the TV Everywhere lineup, including Time Warner's CNN and Viacom Inc.'s Nickelodeon.

Seemingly minor issues -- such as whether online viewers would be part of Nielsen's program ratings, or whether the same TV commercials would appear online -- have stymied the process. Even the partners have debated whether to allow heavily trafficked portals, such as MSN or Yahoo, to be included.

And only one of the four major broadcast networks, CBS, is participating in the trials.

The three other networks -- ABC parent Walt Disney Co., NBC Universal, and Fox parent News Corp. -- are owners of Hulu. Hulu's owners plan to begin offering a premium service for $10 a month that would provide a greater library of TV shows to watch.

One person familiar with the issue said those networks aren't part of TV Everywhere because, initially, they didn't know what it was going to look like. But now it appears they're holding back online distribution rights as leverage in the retransmission fee negotiations.

ABC is in an unusual spot. Although parent company Disney is a partner in Hulu, its largest individual shareholder is Steve Jobs, the head of Apple. Not surprisingly, ABC was the only broadcast network to have an app on the iPad when it debuted for users to watch ABC shows.

While the cable industry sees TV Everywhere as a way to offer subscribers broad access to programming online, others see a far more sinister motivation: snuffing out free online TV.

Their fear is that the cable industry is determined to maintain its control as television gatekeeper, locking out competition.

"TV Everywhere is just a tactic to keep people paying," said Mike Vorhaus, president of Magid Advisors, a media consulting firm. "The cable companies want more customers. They want to build a wall and penalize us if we don't pay."

But a wall that keeps out nonpaying viewers is exactly want Bewkes wants. And he thinks the threat of cord-cutting is pretty much bluster in a country where 93 percent of households pay to get TV.

"The viewing of television is going up, not down. More people are paying for it and watching it, in terms of absolute millions of people." Bewkes said. "What we're saying now is, let's take that very powerful incoming tide of TV and put it online."