Comcast, NBC deal opens door for online video

February 28 2011, By JOELLE TESSLER , AP Technology Writer

In this Feb. 15, 2011 file photo, a Comcast logo is displayed on an installation truck in Pittsburgh. To win government approval to take over NBC Universal last month, cable giant Comcast Corp. agreed to let online rivals license NBC programming, including hit shows such as “30 Rock” and “The Office.” Comcast also agreed not to block its 17 million broadband subscribers from watching video online through Netflix, Apple’s iTunes and other rivals yet to come. (AP Photo/Gene J. Puskar, file)

New Internet video services from companies such as Netflix and Apple are offering a glimpse of a home entertainment future that doesn't include a pricey monthly cable bill.

To challenge the cable TV industry's dominance in the living room, though, online video services need popular movies and TV shows to lure viewers, and access to high-speed Internet networks to reach them.

Yet they have had no rights to either - until now.

To win government approval to take over NBC Universal last month, cable giant Comcast Corp. agreed to let online rivals license NBC programming, including hit shows such as "30 Rock" and "The Office." Comcast also agreed not to block its 17 million broadband subscribers from watching video online through Netflix, Apple's iTunes and other rivals yet to come.

Those requirements aim to ensure that the nation's largest cable TV company, with nearly 23 million video subscribers in 39 states, cannot stifle the growth of the nascent Internet video business. Although they apply only to Comcast and NBC, these conditions could serve as a model for other big entertainment companies in dealing with new online competitors. They also send a powerful message that the government believes these promising young rivals deserve an opportunity to take on established media companies.

"These conditions are not just window dressing," said Paul Gallant, an analyst for MF Global, a financial brokerage. "They come across as a pretty comprehensive effort to give Internet TV a real shot at taking off."

The Federal Communications Commission and the Justice Department spent more than a year reviewing Comcast's plan to buy a 51 percent stake in NBC Universal from General Electric. The deal gives Comcast control over the NBC and Telemundo broadcast networks, cable channels such as CNBC and Bravo, the Universal Pictures movie studio and a stake in Hulu.com, which distributes NBC and other broadcast programming online.

Government officials wanted to ensure that Comcast could not crush competition through its control over both a major media empire and the pipes that deliver cable and Internet services to millions of American homes.

But figuring out how to protect online video was tricky because the market is still taking shape.

Netflix offers subscription plans with unlimited online viewing for $8 a month. Apple and Amazon.com let customers rent or buy individual movies and TV shows for as little as a few dollars apiece - providing an alternative for people who don't want big bundles of cable channels they may never watch. Apple and Google make set-top boxes and software that transfer online video to television sets, freeing it from computer screens. TV makers are also building in Internet capabilities.

All these options could make it easier to cut the cable cord - and the cable bill. In 2010, Comcast's cable customers paid an average of $70 per month for video services.

But with control of NBC Universal, Comcast could handicap Web rivals by overcharging for - or simply withholding - all sorts of marquee content. A "Top Chef" fan, for instance, might not drop cable if the show weren't available online. Comcast could also block or slow online video traffic on its massive broadband network. ITunes can't compete with cable if programs stutter online.

None of the big online video companies would comment about Comcast. And Comcast itself insists it does not see online video as a threat - but rather a way to expand its own reach.

Still, in approving the deal, federal officials attached dozens of conditions, including several big ones to protect Internet video:

- Comcast must sell its content to online video services. That gives them access to marquee NBC Universal programming.

- Comcast can't interfere with Internet video traffic flowing over its broadband network. That means that it cannot prevent its subscribers from accessing Netflix and other Web video services, or slow down traffic from these services to make them jerky, unreliable and hard to watch.

- Comcast must sell stand-alone Internet access at a reasonable price, without tying it to a cable TV package, to enable cord-cutting. That includes offering a standard 6-megabit-per-second plan, which is fast enough to handle Internet video, for roughly $50 a month.

Although these requirements offer no guarantees of success for new online video services, they aim to ensure that Comcast cannot impede the online businesses. They also break new ground by giving Internet rivals some of the same protections that have long been available to satellite companies and other subscription TV competitors.

Existing FCC rules require cable TV companies to license the channels they own to such rivals. Now, new Internet video services can license big packages of NBC Universal programming for the same price that a traditional rival pays. Or they can buy specific shows or channels if they are already licensing comparable programming from another major media company. For example, if Netflix strikes a deal to license children's programming from The Walt Disney Co., Comcast must make comparable children's programming from NBC available to Netflix under similar terms.

Only Comcast and NBC are bound by these conditions, yet they could pressure other media companies to make their programming available to online services, too. They could also serve as a blueprint for future government merger reviews and even shape new FCC rules affecting the whole industry.

"Before this deal, online video distributors had no rights to programming at all," Stifel Nicolaus analyst Rebecca Arbogast said. "This opens the door."

That said, the rules make no promises. Internet companies may not be able to afford the full NBC Universal programming package as satellite TV and other rivals now do, said Thomas Eagan, an analyst with Collins Stewart. Even Netflix, with more than 20 million subscribers, would have trouble paying a tab that Eagan estimates at $1.5 billion a year.

This approach also shackles these new companies to traditional business models and inhibits innovation, added Philip Leigh, an analyst with research firm Inside Digital Media.

What's more, a lot is open to interpretation with the requirement that Comcast follow the lead of other big media companies that license comparable programming - say, comedies or reality shows - to online services. For instance, should Bravo have to license "The Real Housewives of Beverly Hills" to an online distributor just because MTV is providing "Jersey Shore"?

And what is to stop all the big media companies from simply operating in lockstep and withholding all programming from online distributors, which would prevent that option from being triggered?

David Cohen, Comcast executive vice president, has said the company could use various arguments to limit the types of programming it must supply. Disputes could wind up in arbitration.

Meanwhile Corie Wright, policy counsel for the public interest group Free Press, said she is disappointed that the government conditions do not attempt to break up a new online service being pioneered by Comcast and other subscription-television providers. This service, which Comcast calls Xfinity, puts popular cable shows on the Internet, but restricts access to subscribers.

"The government may have effectively blessed a business model that forces consumers to pay for a cable subscription to watch video online," she said.

At this early juncture, it's impossible to predict just how the market will evolve. Will Netflix and Apple squeeze the cable industry out of the living room? Will cable companies successfully fend off new online challengers? Or will there be room for both?

Consumers will ultimately decide. But at least viewers will have a choice.

Citation: Comcast, NBC deal opens door for online video (2011, February 28) retrieved 25 April 2024 from https://phys.org/news/2011-02-comcast-nbc-door-online-video.html