Cable companies to give clues on Internet impact

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(AP) -- Are people really cancelling cable to watch TV and movies from the Internet instead?

It's a question that has dogged the pay-TV industry for a year, and a spate of quarterly reports over the next few weeks, starting with Time Warner Cable Inc. on Thursday, could provide important clues.

Much lies in the balance. If online video really is taking TV service subscribers from cable, satellite and phone providers, it's not just bad news for those companies. Analysts also see it leading to more restrictions and higher prices for online video and broadband access, a trend that has already started.

This month, Netflix Inc.'s streaming video service went from being a freebie thrown in with its DVD-by-mail service to something the company charges for separately.

On Tuesday, News Corp.'s Fox broadcasting company said that only paying subscribers of Hulu.com or satellite-TV company Dish Network Corp. will be able to watch new episodes of its shows, which include "Glee" and "Family Guy," online the day after they air. Non-paying viewers can catch them online eight days later.

Hollywood studios and other content producers have so far seen online video as an addition to the revenue they get from cable and satellite companies, and they've charged less for it. Consumer surveys showed that people didn't watch less TV just because they went to Hulu.com or Youtube.com sometimes.

But in June, The Nielsen Co. said it found that Americans who watch the most video online tend to watch less TV. The ratings agency said it started noticing last fall that a segment of consumers were starting to make a trade-off between online video and regular TV. The activity was more pronounced among people ages 18-34, a slice of the population advertisers are particularly eager to target.

That doesn't necessarily mean that people are starting to think they can get by without conventional pay-TV. While sitcoms and movies are easy to get through online services, sports aren't. But if studios and TV networks start seeing online video as something that's siphoning off their flow of cash, then it's in their interest to further restrict online viewing, like Fox did, or start charging for it.

"It appears that Fox isn't waiting for second quarter Pay TV subscriber numbers to disappoint," wrote Sanford Bernstein analyst Craig Moffett.

Cable companies have their own way of replacing lost revenue: charging more for broadband Internet access, which is essential to online video. Internet service providers are starting to charge extra when subscribers go above a certain monthly traffic allotment. These charges that will hit households that guzzle online video before they hit people who use mainly the Web and email.

The pay-TV industry first lost paying subscribers in last year's second quarter. The industry and most analysts concluded that the "cord cutting" was due to the poor economy, which forced people to cut back on spending and combine households. The second quarter is also the year's weakest quarter, because college students often cancel their service at the end of the semester.

The third quarter also showed a loss of subscribers. But then the seasonally strong fourth and first quarters showed growth, and fears subsided. Now, analysts believe the second quarter will show another decline. Cable companies lose subscribers every quarter, so the real question is whether satellite companies Dish and DirecTV Group Inc. and phone companies AT&T Inc. and Verizon Communications Inc. will make up for those losses. Thomas Eagan at Collins Stewart expects the industry as whole to show a loss of 31,000 subscribers, compared to an estimated of loss of 173,000 last year.

Time Warner Cable might give an early read on the trend Thursday. Analysts expect a loss of only slightly more than the 111,000 it lost in the same period last year.

Most analysts still think the economy and ever-increasing monthly programming fees are to blame for last year's subscriber losses. A survey this spring by Leichtman Research Group Inc. found that of the 13 percent of U.S. households that don't subscribe to some form of pay-TV service, about 60 percent have broadband. But very few of them cite online video as the reason for not subscribing to pay-TV. The households were much more likely to say the cable was just too expensive or that they just don't watch much TV. These households tend to watch online video about as much as households that do pay for TV, and they tend to earn less, Leichtman reported.

"It is erroneous to think of this group as making decisions driven by online video," said Bruce Leichtman, president of the research firm. "These decisions tend to be more based on economics."

The firm called 1,500 households for the survey, which had a margin of error of plus or minus 2.5 percent.

Research firm SNL Kagan is on the other side of the debate, estimating that 2.5 million households had already given up their pay-TV subscriptions in favor of online video at the start of this year. It thinks 2 million more will do so this year. By 2015, it sees 10 percent of households as online-only. That would be a big enough number to force big changes in the pay-TV industry.