More U.S. consumers spurn cable TV bills

October 10 2011, By Mike Snider

In July, the Benediktssons of Chandler, Ariz., declared their independence from cable television.

After watching their monthly bill steadily increase to $90, the family dropped their pay-TV subscription. But they didn't totally cut the cord.

Instead, they kept their Internet service from Cox Communications and use it to connect to Netflix for movies and TV shows such as "Grey's Anatomy." "We decided to start trimming where we could, and the cable bill was low-hanging fruit," says Baldur Benediktsson, 44, a website content manager.

He and wife, Kristin, also use a Roku set-top box to stream programs to their living room TV. A pair of rabbit-ear antennas receive local over-the-air digital TV signals displayed on 23-inch and 27-inch computer monitors that double as HDTVs.

Cable TV, he says, "gave us too much service for too much money, and we really didn't need it at all."

Lots of other viewers out there feel the same way. Nearly every pay-TV provider is leaking subscribers.

The nation's largest cable company, Comcast, lost 238,000 TV subscribers in the second quarter of this year; and No. 2 Time Warner Cable lost 130,000. Satellite TV provider Dish Network lost 135,000 subscribers. Its larger competitor, DirecTV, added 26,000, but that's down from the 100,000 it added in the second quarter last year.

Obviously, one of the primary drivers of cord cutting is the nation's economic woes. The unemployment rate is stuck at 9.1 percent, and U.S. economic growth slowed to 1 percent in the most recent quarter. "People that are unemployed or underemployed ... have to cut their expenses," says Norm Bogen, analyst at market research firm In-Stat, "and one of the things they can cut is their pay TV."

But there's also tumultuous change going on in the TV business. The number of U.S. homes with traditional TVs has dropped slightly, from 115.9 million to 114.7 million, says Nielsen Media Research. Yet, total TV viewing is on the rise, because more viewers are watching Internet-delivered video on a PC, tablet computer or smartphone, Nielsen says.

As Internet video options evolve, an increasing number of pay-TV customers are dropping their service or sliding to a lower tier of service - and using the Web to get their entertainment content. Some, like the Benediktssons, are adding antennas to watch local channels live via free, over-the-air digital TV signals. "The lock over the consumer that the cable companies once enjoyed ... has been blown to pieces," says Michael Greeson of market strategy firm The Diffusion Group.

For years, consumer advocates have argued for la carte programming options for consumers on the theory that paying for only the cable channels you wanted - instead of a package of a hundred-plus channels - would be cheaper. Cable companies never budged.

Now, consumers have the technology to cobble together their own programming packages. But it's not all in one place.

"If you drop pay TV, you've got a couple places to go to get what you want," Bogen says.

For instance, a home with broadband connectivity can get current TV episodes from major networks on websites such as NBC.com, while older episodes are available at video destinations such as Amazon.com's On Demand video service. Many newer smart TVs let viewers bypass the computer with built-in apps for Netflix, Hulu and Vudu, a Walmart-owned video-rental website, which has new movie releases such as "Rio," along with classics from the Criterion Collection, and TV series "The Walking Dead" and "Weeds."

Video game systems have emerged as programming hubs, too. Sony's PlayStation 3 and Microsoft's Xbox 360 can be used to access Hulu and Netflix; the PS3 also gets Vudu, while the Xbox 360 has ESPN on Xbox Live. Even Nintendo's Wii streams Netflix, which has more than 25 million subscribers.

With three game systems, a Roku and an iPad, "we can pretty much watch our shows in any room in the house," says Derek Doss of McDonough, Ga. "What we have been missing on shows that aren't covered by Hulu and Netflix, we just hook up the laptop to the TV - and watch (on) the network's Internet site."

McDonough and others are impressed with digital TV reception. "We seem to have no problem receiving all of our local channels," says Katie Syroney of Cincinnati. She and husband Jeff truly cut the cord on their $100 monthly Time Warner Cable bill by switching to Clear, a wireless 4G Net service that costs $35 per month. They use it to connect their Roku to Amazon, Netflix, Hulu and Pandora's music service.

Even though some consumers are cutting, or at least shaving down, the cord, that's not necessarily all bad news for cable companies. Comcast, for instance, added 144,000 broadband customers and, as remaining video customers spend nearly $140 per month, saw video revenue increase 10 percent.

Pay-TV companies are adapting to the new digital world order in other ways, too. Last month, Time Warner Cable began giving rebates to customers for the full price of a $300 Slingbox, a set-top box that lets them access home TV programming on any Net-connected computer. The offer is only available to the company's best broadband customers who pay at least $99 monthly.

In May, Comcast added on-demand movies to its free Xfinity app for iPhones and iPads; the standard app, also available for Android devices, lets subscribers watch live TV shows and movies. Similarly, Time Warner Cable and Verizon FiOS TV subscribers can access ESPN on portable devices, too.

By constantly upgrading its features, Comcast aims to "make you more satisfied with the service," says Comcast's Jennifer Khoury. "And if you are satisfied with the service, why would you go to another provider?"

Other new free features recently out include Cox TV Online, which delivers live content to computers, and HBO Go for watching shows such as "A Game of Thrones" and "True Blood" on iPads, iPhones and Android phones, as well as computers.

DirecTV is developing an app for moving programming stored on DVRs onto the iPad (available in some markets by year's end) and another for streaming live content to the iPad.

And as the fall TV season gets going, the online TV landscape is shifting. Fox recently began delaying availability of episodes of its new shows on Hulu by eight days for anyone who isn't a pay-TV subscriber. That means hit series such as "House" and "Bones" won't be available immediately.

"What these 'TV Everywhere' services actually do is reinforce the tethering to some type of subscription," says PricewaterhouseCoopers consultant Howard Homonoff.

Meanwhile, Netflix has increased the prices for its DVD rental and streaming plans. Originally, unlimited DVDs (one checked out at a time) and streaming cost $9.99; each now separately costs $7.99 monthly, or about $16 for both. And Showtime will quit allowing streaming of first-run episodes next year; Starz recently began holding those back for 90 days.

Pay TV is not going away. In fact, total spending on TV subscriptions, PricewaterhouseCoopers projects, will increase from about $75 billion in 2010 to $99 billion in 2015. Cable homes will drop slightly, and homes with Internet TV services such as Verizon FiOS and AT&T's U-verse are expected to grow, the firm estimates.

Customers may be cutting the cable, "but they are not getting rid of the TV experience," says Jeff Weber, vice president of video product and strategy at AT&T, which added 400,000 U-verse subscribers in the first six months of 2011. "They want even more content and more control in what they watch."

To that end, U-verse has added a multi-view feature that lets viewers watch four channels of their choice simultaneously, and the U-verse Mobile feature that lets customers watch programs on portable devices. Says Weber, "It's almost the opposite of cord cutting."

Also expected to rise is spending on Netflix and other for-fee Internet content - from about $244 million to $1.1 billion in 2015, PwC estimates.

About 13 percent of adult broadband users who subscribe to a pay-TV service expect to cancel in the next six months - but only 1.5 percent say they definitely will, says the Diffusion Group's Greeson, citing research that the firm has yet to make public.

Least likely to cancel? Diehard sports fans and lovers of premium channels such as HBO and Showtime, who want to watch first-run episodes of "True Blood" or "Dexter" before friends and co-workers divulge plot twists. Nearly 70 percent of broadband homes put themselves in that category, says Bogen, so for now, "they are not likely to cut their service."

But as many as 29 percent might cut back on their service in the next six months, Greeson estimates. Eventually, the shifting TV landscape will produce a Net-based programmer that competes with current pay-TV services. "When that happens," Greeson says, "maybe we will start to see more people want to so-called cut the cord."