Barriers fall between TV, Internet

February 9 2012, By Scott Canon

You say TV, I say Internet. Toe-mate-o, toe-mah-to.

Technology increasingly blurs the lines between computer, television, phone and tablet. Online video options grow almost by the hour. A screen, in the era of cyber choice, is a screen is a screen.

You can now plug the Internet straight into the newest TVs. You can buy gadgets that will bring the Web to your old set. Or you can use your phone, tablet or other electronic gizmos to tap into the Internet to give you TV on the go.

Still, to fill your screen with popular sports, comedies and dramas from the brands that dominate your television, generations-old economic models will have to be rearranged for the wild, wild Web.

Some entrepreneurs are toying with new models that tap into an Internet specialty - the ability to tailor choices to the individual viewer - that might give advertisers a better platform on the Internet than they have in one-size-fits-all cable TV audiences.

But true Internet TV is facing a big obstacle: It's the old-school cable and cable-like services, after all, that have got the makers of programming locked up in mega-contracts.

"There's technology, and then there's commerce," said Jim Barry of the Consumer Electronics Association. "The technology is ahead."

Commerce, meanwhile, hasn't fully figured out the best way to make a buck off Internet video.

Some yet-unproven business ideas have begun to bubble up. Broadcast networks created Hulu to accommodate people who want to go online and stream video, but it typically makes shows available later than you can get on traditional TV and makes it impossible to skip commercials.

Web surfers watch about 4 billion YouTube videos a day. And YouTube, owned by Google Inc., is launching dozens of "channels" with programming minted in Hollywood.

But the vast majority of choices at the website are still amateur and amateurish, and the coming professional YouTube channels from Hollywood are tightly focused niches. You still won't get feature-length movies or popular sitcoms. You still won't find the National Football League, Major League Baseball or the National Basketball Association. (This year the Super Bowl was a notable exception. NBC live-streamed the Giants-Patriots game, making it the first Super Bowl offered online in the United States.)

So if you're in the market for a new TV, think about getting a set that can handle a Wi-Fi signal or that comes with a plug for an Internet cable. Many now ship with Web browsers, allowing you to wander the Internet the way Explorer, Chrome and Safari do on your computer.

The choices will only grow. Already, one in five Americans watches some video online every week.

Even if cable remains your chief source of programming - it probably will - the Internet could make it better.

That said, just a fraction of consumers are cutting the cord with Time

Warner Cable, Comcast or the rest and settling for Internet-only video. Marginal losses in cable TV subscriptions have more than been offset by new customers signing up for satellite TV or TV packages sold by telephone companies.

As a threat to the industry, said media analyst Judah Rifkin of ISI Group, the market share that might soon dump cable service and find stuff to watch on the Internet is "most probably going to be a rounding error."

Rather, the near future will find the Internet supplementing what we're watching through the cable box, not replacing it.

Consider Austin Falley, a 23-year-old in Lawrence, Kan., on a budget and unashamed to admit he likes to watch a little TV. He finds a good amount of video to watch online, whether it's streaming movies through Netflix or watching recent network programming on Hulu Plus.

But he still splits a cable TV and broadband bill with a roommate. There's simply too much - basketball games involving his beloved Jayhawks, cable news, the serendipity of browsing channels - that he can only get with a conventional pay-TV service.

"There are times when it's just nice to channel-surf," he said. "It's sort of like" - he laughs - "using StumbleUpon," the Web service that refers people to nearly random sites they presumably wouldn't discover on their own.

At the same time, the Internet sways what he watches over his cable box. Online he recently discovered "Downton Abbey," the guilty-pleasure British period soap, and watched some old episodes. Hooked, he now sets his digital video recorder, or DVR, to capture every Sunday night episode on public television.

Some cable programming, notably ESPN and HBO, can be had online - but only for people who first pay for a conventional pay-TV package that includes the two popular networks.

A range of long-standing partnerships between content providers and distributors - Hollywood's studios and your local cable company - have created the pact that makes hundreds of channels available at a flat price.

When Bruce Springsteen sang "57 channels and nothin' on" in 1992, the implication was that 57 seemed like a heck of a lot of channels.

Indeed, research shows that although households routinely have hundreds of choices, most tend to watch fewer 24 channels with any regularity. That drives complaints from consumers wondering why, for instance, they have to buy more than they want.

Yet look at ESPN, the Disney-owned sports buffet that forms the most popular part of any multichannel video services - the Time Warners, the Dish Networks, the AT&T Uverses that nearly nine in 10 American households subscribe to. Because ESPN is so popular, it can command more than $4 per subscriber per month from the companies that pipe programming to your TV.

So why wouldn't ESPN just sell you an online subscription to its programming and cut out the middle man?

First, it would have to spend more money marketing its product, filling up your mailbox with offers the same way cable companies do now. It would likely get far fewer subscribers than it has now, critically losing a significant audience that tunes into a ball game is unwilling to buy a sports channel a la carte.

Suddenly the sports network would have to demand far more than its $4 per monthly subscriber to make up for the shrunken audience. Likewise, advertisers wouldn't pony up so many millions to fill the timeouts if fewer eyeballs were trained to a game broadcast.

"The actual costs of the programming" - on-camera personalities, studio time and the gasp-worthy contracts for the rights to carry a league's games - "don't go away just because somebody's streaming the signal over their computer," said cable industry consultant and analyst Steve Effros.

He noted that some networks, notably Fox, have trimmed back what they offer online. A potential viewer can go to a network's website, where they find that a show can be streamed - to a computer, tablet or Internet-capable TV. That offers the network another way to hook viewers and another place to sell commercial time. But if too many viewers see that programming on the Web, Effros said, a network risks cannibalizing the audience drawn from a place on a cable lineup.

Television advertising remains a $76 billion industry, and steady. Still, notes Forrester Research in a recent report, some networks have begun bundling their broadcast and online advertising sales. It's recognition of an emerging Internet viewer. Some 93 percent of CWTV.com viewers only watch its shows online rather than on the CW Television Network's broadcast parent. The struggling network appeals mostly to a younger audience.

Another Forrester report last spring noted that almost 25 million Americans had watched online video on their TVs, mostly the streaming of movies over a videogame console or other gadget channeling a feed from a Netflix subscription.

What if advertisers knew not only that you are watching the basketball game tonight, but that you regularly tune into do-it-yourself and nature shows? They might show you a different commercial than the person across the street watching the same game, but who gravitates more often to reality TV and sitcoms.

Suddenly that advertising becomes more valuable, creating more revenue for the people who produce the programming.

"Targeted advertising has worked very well online. You can imagine the potential," said Bruce Leichtman, whose Leichtman Research Group tracks the media and entertainment industries. "But the programmers aren't ready to kill their own business model."

A fledgling Kansas City business is looking at teaming the Internet and TV to blaze a shortcut between advertisers and consumers - by turning programming into virtual shopping trips. By some estimates, more than 40 percent of American TV watching is over a DVR-style recording device. That's great for skipping commercials, but not for networks and their advertisers. Meantime, a Nielsen study last year found that about 70 percent of smartphone or electronic tablet owners use the gadgets while watching TV. In fact, tablet users say they are most likely to use the device while watching TV.

That, says TiBi.tv co-founder David Windhausen, makes the television commercial increasingly obsolete. We're either going to skip past it or turn our attention to what's on our iPad during those TV interruptions. So TiBi is working with TV manufacturers to install its application - an Internet overlap on programming allowing for instant purchases.

Say an advertiser has paid for product placement, and as the camera focuses on an actresses shoes as she crosses a room a TiBi icon lights up in the corner of your TV screen. Grab your remote, click, and you've bought a pair. Somebody makes a sale, part of the cost of producing a show is defrayed without the interruption of traditional commercial.

"We see this in the marketplace now where there are different ideas and thoughts to see how to make it possible for TV and the Internet to meld," Windhausen said. "It's inevitable."