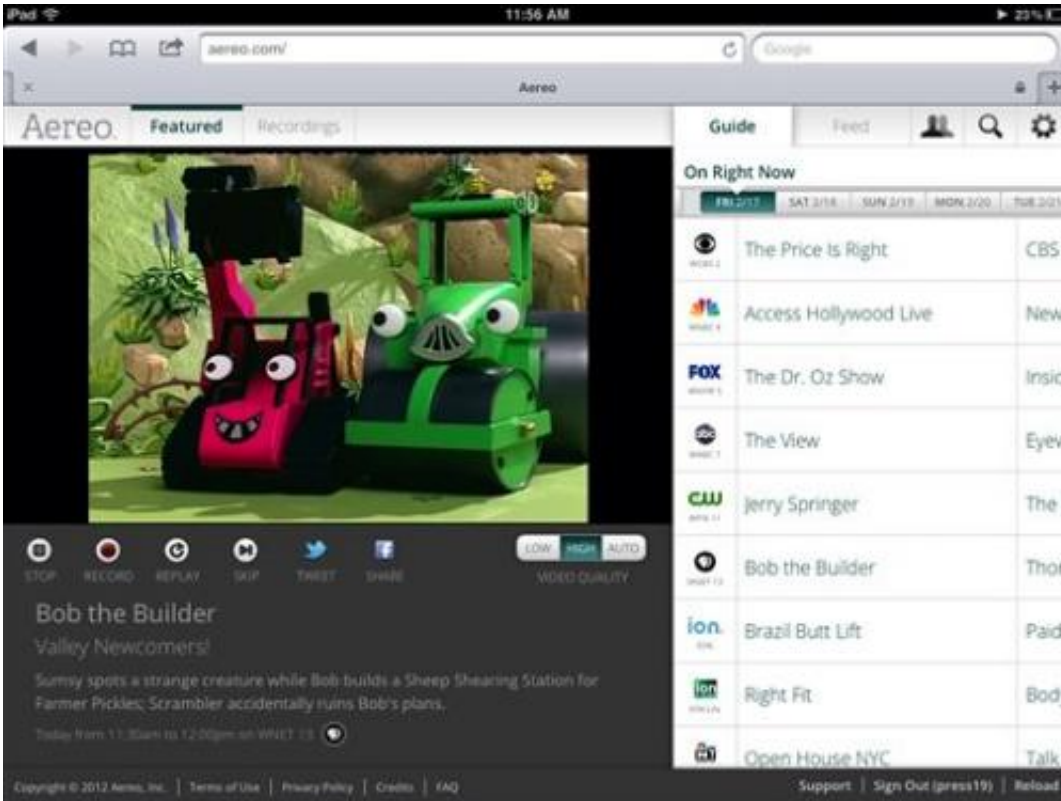


After Aereo, what's next for Internet TV?

June 26 2014, by Ryan Nakashima



This file image provided by Aereo shows a streaming broadcast of Bob the Builder on the New York PBS station, WNET 13. Just because Aereo's business model has been shot down by the Supreme Court, that doesn't mean customers' desire for a better TV experience has gone away. (AP Photo/Aereo, File)

The Supreme Court shot down Aereo's business model this week, but that doesn't mean customers' desire for a better TV experience is gone.

Americans are still fed up with huge channel bundles, high prices, poor service and the lack of ability to watch all their shows on all their devices. That's part of why Aereo was attractive: It offered a few dozen local broadcast channels and the Bloomberg TV financial channel on multiple devices for just \$8 a month.

Industry watchers say the pay TV business must continue to evolve to win over unhappy customers, even if the nation's top court said grabbing signals from the airwaves and distributing them online without content-owner permission isn't the way.

"Even without Aereo, the reason people were cutting the cord, for cost reasons and so on, those don't go away," said Robin Flynn, an analyst with market research firm SNL Kagan.

Last year, the number of pay TV subscribers in the U.S. fell for the first time, dipping 0.1 percent to 94.6 million, according to Leichtman Research Group.

SNL estimates that 5 percent of homes will substitute pay TV with one or more Internet video services by the end of the year, rising to 10 percent in 2017.

Many companies are offering quality TV content online for low cost to meet that rising demand. They include Netflix and Amazon. Hulu, which is owned by major broadcast networks ABC, NBC and Fox, offers full episodes of popular shows like "The Colbert Report" the next day for free.

While that's not live TV, which Aereo offered, for many it's a good-enough substitute.

The decision against Aereo is a setback, but not a fatal one for people

who want to break away from traditional TV, said Bill Niemeyer, senior analyst at TDG Research.

"While the content on the major broadcast networks is very important for some people, it's not important for everyone," Niemeyer said. "So it's a dent, but I don't think it's going to significantly change the trends."

If anything, the rise and fall of Aereo has highlighted an important fact—that high-quality TV signals are available on the airwaves for free—something that might have been forgotten if Aereo hadn't insisted that its technology simply replicates the antenna and wire that an average person could set up on their own.

"What Aereo has really done in our perspective is to address the lack of understanding that over-the-air is free," said Mark Buff, CEO of Mohu, a company that makes flat indoor antennas that attach to walls.

Mohu has sold 1.5 million antennas since it began in 2011 and they work in the kind of dense urban areas like New York where Aereo is believed to have had a small subscriber base. It is about to launch Mohu Channels, a device that blends Internet video services like Netflix with free-to-air TV in a single channel guide.

"We certainly do see and believe that the cord-cutting movement is on the rise," he said.

Alki David, the CEO of online streaming company FilmOn, said the Supreme Court's ruling actually creates an opportunity for startups because the court said that Aereo bears an "overwhelming likeness" to cable companies.

According to David, that means online video companies can compel broadcasters to license their TV signals under the "retransmission

consent" rules outlined in the 1976 Copyright Act.

That could help online video companies create small broadcast-channel only bundles for consumers rather than 100-plus channel packages from traditional pay TV operators that cost more than what some consumers are willing to pay.

"This might be the undoing of the bundling system," David said. "The only compulsory license we're after are the four or five local channels in the city we're in. Of course it would be great. What else can it mean?"

But it's not like the pay TV industry is standing still.

Satellite TV company Dish Network Corp. said it's preparing to launch an online TV service with channels like ESPN, ABC, Disney Channel and others for about \$20 to \$30 a month before the end of the year. The target audience is young urban professionals who don't want to watch more than 20 or 30 channels.

Since last year, Comcast Corp. has offered a slimmed down package combining Internet service, a little more than 10 local TV channels and HBO for \$40 a month for 12 months. That's just \$10 more than getting the Internet alone.

Niemeyer says the incremental \$10 charge for broadcast TV and HBO seems like a very Aereo-like offering, especially because the HBO GO app allows for online viewing, and having a pay TV subscription will allow customers to sign in to different online offerings by networks.

"It's something they wouldn't have done five years ago, but they're doing it," he said. "I think they're trying to think long-term about how to still be a big-dollar business. It means they have to change. They have to change on channel bundling, how they deliver services to people, using

what pipes and how."

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