Cable subscribers flee, but is Internet to blame?

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In this Feb. 2, 2009 file photo, a Time Warner Cable truck is parked in New York. Time Warner Cable Inc., the country's second-largest cable company said Thursday, Nov. 4, 2010, it lost more video subscribers in the latest quarter than it ever has before, (AP Photo/Mark Lennihan, file)

(AP) -- Cable companies have been losing TV subscribers at an ever faster rate in the last few months, and satellite TV isn't picking up the slack.

That could be a sign that Internet TV services such as Netflix and Hulu are finally starting to entice people to cancel cable, though company executives are pointing to the weak economy and housing market for now.

Third-quarter results reported Thursday by major cable TV companies

show major losses, but don't settle the question of what's causing them.

If "cord-cutting" in favor of Internet video is finally taking hold, that has wide-ranging implications. Consumers who use the Internet to get their movies and TV shows bypass not just the cable companies, but the cable networks that produce the content. The move could have the same disruptive effect on the TV and movie industries as digital downloads have already had on music.

A few weeks ago, the CEO of phone company Verizon Communications Inc. likened cord-cutting to what started happening to the local-phone companies five or six years ago, when people started giving up their landlines in favor of relying solely on their cell phones.

"The first thing when that happens is you deny it," Ivan Seidenberg said. "I know the drill. I have been there."

On Thursday, Time Warner Cable Inc.'s chief operating officer, Landel Hobbs, said the company doesn't see evidence of people dropping cable in favor of the Internet. He said the biggest subscriber losses have been among people who don't have cable broadband services; high-speed Internet - from cable or a competitor - is key to watching video online. These people seem to be going to satellite or giving up on pay TV entirely.

On the theory that college students might be among the first to drop cable TV, the company looked at changes in subscriber figures in college towns such as Austin, Texas, and Columbus, Ohio. They weren't out of line with previous years, and they corresponded to the level of student enrollment, he said.

"We'll continue to monitor cord-cutting, but haven't found evidence where you might expect to see it," Hobbs told analysts on a conference

call.

Time Warner Cable lost 155,000 video subscribers in the July-September quarter, compared with 64,000 a year ago.

The only larger cable company, Comcast Corp., reported last week that its subscriber loss more than doubled in the third quarter, to 275,000. Comcast said many of those leaving had taken advantage of low introductory rates that the company offered last year when the analog TV broadcast network as shut down.

All together, seven of the country's nine largest pay-TV companies, representing about 75 percent of the subscriber total, had reported their results for the third quarter by Thursday. They showed a combined gain of 55,700 video subscribers, or a 0.3 percent increase at an annualized rate, far smaller than the growth of the population. In the third quarter of last year, they gained 405,800 subscribers.

(Missing from the top nine: the third-largest cable company, Cox Communications, which is privately held and doesn't report subscriber counts publicly; and the second-largest satellite TV company, Dish Network Corp., which reports results Friday.)

Cable companies have been losing video subscribers for some time, but they have been compensating by upgrading basic subscribers to more expensive digital tiers, as well as adding broadband and phone subscribers.

However, both Time Warner Cable and Cablevision Systems Corp. lost digital video subscribers in the third quarter. Both added record-low number of phone subscribers, as years of growth are coming to an end.

Meanwhile, Netflix Inc.'s streaming service has become so popular that

it is now the largest source of U.S. Internet traffic during peak evening hours, according to Sandvine Inc., a Canadian company that supplies traffic-management equipment to Internet service providers.

A variety of gadgets can send Netflix's streams to the living room TV, including game consoles and the $99 Apple TV box. Many high-end TVs now come with the built-in ability to play Internet content.

Thomas Clancy Jr., 35, in Long Beach, N.Y., canceled the family's Cablevision subscription this spring. He said he has been happy with Netflix and other Internet video services since then, even though there isn't a lot of live sports to be had online.

"The amount of sports that I watched certainly didn't justify a hundred-dollar-a-month expense for all this stuff. I mean, that's twelve hundred dollars a year," Clancy said. "Twelve hundred dollars is ... near a vacation."

But Clancy - who has no relation to the thriller writer - is also an example of the hurdles cord cutters face. He uses an Internet-connected Blu-ray player to get Netflix movies to the TV. And he pulls a cable from his computer to the TV for Internet content Netflix doesn't have. Clancy owns a computer consulting firm and is tech-savvy enough to do all that. Most people wouldn't know how.

Cablevision wanted to raise Clancy's Internet bill when he canceled TV service. That would have made cord-cutting less attractive, but he happens to live in an area where Verizon provides Internet service at speeds that are comparable with the best cable has to offer. He got a better deal from Verizon and switched to that provider.

Most people who have the technological skills to take advantage of Internet video find that the selection of movies and shows isn't broad

enough to make the jump worth it, Sanford Bernstein analyst Craig Moffett said.

On the other hand, poor people have an excellent motive to cut cable and simply replace it with an antenna or nothing at all, he said.

"The price cable TV has risen to the point where it's simply not affordable to lots of lower-income homes. And right now there are an awful lot of lower-income homes," Moffett said. "The evidence suggests that what we're seeing is a poverty problem rather than a technology phenomenon."

In addition, high unemployment means fewer new households, as kids are probably delaying moving out of their parents' houses, or people move in with roommates. That can reduce the number of households that pay for TV.

Cable companies would like to get low-income customers back with cheaper cable packages, but their hands are tied. Content providers such as The Walt Disney Co. and News Corp. won't license their channels one by one, so subscribers have to take big, expensive channel packages, or very basic ones, which offer little beyond what's available with an antenna.

Content providers now get billions of dollars in fees from cable service providers, and they want to make sure that whatever new industry model comes along, they'll get paid. It's not obvious yet that Internet video will let them sustain their profit levels.

Six companies create the content that consumes 85 percent of U.S. viewing hours, Moffett said. "Until they get on board, the train's not leaving the station."