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OTT Video Providers Just Another Media Middleman, TWC's Britt Says

Over-the-top online video distributors are setting themselves up to be another middleman in a long chain of media industry transactions that bring content to consumers, Time Warner Cable CEO Glenn Britt said Thursday. It's unclear whether the OTT distributors add any other value than an improved user-interface to the pay-TV market, he said on the company's Q4 earnings conference call. Britt was asked by an analyst what he thought about news reports that Hulu is considering an OTT linear pay-TV service. "What we're talking about are attempts to separate the sale of the content with the sale of the infrastructure," Britt said. "You need both, you can't survive without both and what you're really doing is creating a new middleman in a business, which if you start at the production level, there's already a whole lot of middlemen." Hulu owners News Corp., Disney and NBC Universal didn't immediately respond to our query.

The question is whether OTT services add any value and "maybe all they have is a better user interface," Britt said. That's why Time Warner Cable is working on services that will let customers watch its video products on any Internet-connected device in the home, he said. "For years our video user interfaces have been constrained by the limited capabilities of set-top boxes," he said. "We're building processes that will allow us to rapidly update the user interface in response to customer feedback." A service such as Netflix has "a wonderful interface, which anybody can hire a bunch of Web designers and do that," Britt said. "I question what the ultimate real value-add of what they're doing is."

Beyond responding to the threat of online video distributors, delivering cable's video service to more devices in the home will also help keep costs down, Britt said. Over the coming decades as "these devices replace all the TV's that are in people's homes today ... we may be able not to have set-tops at all," he said. "That means a less-capital-intensive business, fewer service calls and happier customers."

TWC is experimenting with how wireless service will fit with its traditional offerings, Britt said. "We're trying different models and different products and to date our results have are not very impressive and pretty inconclusive." So the company will continue to test new ideas and hopefully not spend too much doing it, he said. Meanwhile, Time Warner Cable has no plans to sell, lease or use its AWS spectrum licenses, said Chief Operating Officer Rob Marcus. The recent AT&T acquisition of Qualcomm's MediaFLO spectrum bodes well for the value of the cable operator's spectrum holdings.

The attention the dispute between Comcast and Level 3 over backbone Internet payments has received is overblown relative to the value of those types of transactions, Britt said. "The amounts of money that change hands in this whole space are pretty small." He said getting paid by content-delivery networks who want to connect to Time Warner Cable's network is not a material revenue opportunity for the company.

The number of broadband subscribers last quarter rose 1 percent to 9.8 million from Q3, Time Warner Cable said. It also gained 1.6 percent more phone subscribers, for 4.5 million total. The company lost 141,000 video subscribers, a 1.1 percent decrease to 12.3 million. Q4 sales gained 5.9 percent from a year earlier to \$4.8 billion and profit rose 22 percent to \$393 million. Time Warner Cable said it raised the quarterly dividend 20 percent to 48 cents a share. — *Josh Wein*