

À La Carte Television: Friend or Foe?

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There is currently a wide-ranging debate over the format of cable television delivery. At present, cable service in the U.S. is predominantly sold through tiered programming: consumers pay for packages of channels, and have no choice over what individual channels they receive. However, growing dissatisfaction among consumers with the current model has led to the proposal of an “à la carte” distribution system, where channels can be subscribed to separately. Many valid arguments have been presented for and against this new system, but there is no consensus on whether or not it would be an improvement over the existing model. Unless companies have the opportunity to experiment with the service, consensus may never be determined.

Those arguing the different sides of the issue are generally consumers or cable operators and programming providers. Consumers have strongly indicated that they would prefer an à la carte model, but those in the cable industry have resisted any changes. A recent poll published by The Associated Press / Ipsos found that 78% of participants indicated that they would favor choosing the television channels they receive individually (TV Industry, 2006). Groups such as the Parents Television Council have even started campaigns to promote consumer choice (Parents, n.d.). On the other end of the spectrum, The National Cable & Telecommunications Association, a trade association representing cable operators, is also campaigning. A section of its website features the tagline “A La Carte - Fewer Choices, Less Diversity, Higher Prices” (National Cable, 2006). Cable programmers, from Disney and its holdings to Oxygen Media, argue against à la carte distribution using largely the same claims as the cable operators.

One of the first hurdles to introducing à la carte cable television would be upgrading consumer televisions to support the new technology. Cable operators have

declared that such a system would require everyone to purchase new set-top boxes to decode the television signal, incurring considerable expense. Yet the advent of the personal video recorder (PVR), like the VCR in the 1980s, has demonstrated that consumers will purchase new television-related technology if the prospects are enticing enough. PVRs, external devices which digitally record television shows, are now offered with digital television packages by many cable companies. Yankee Group predicted that by 2006 19.1 million U.S. households would own such a device (Greenspan, 2003); a more recent study predicted 47.8 million by 2010. The rapid proliferation of these devices suggests that a similar device, such as a set-top box which enables à la carte programming, would also find a place in the market in spite of upgrade expenses.

There is also a new form of television distribution technology, called Internet Protocol Television (IPTV), which can be much better adapted to à la carte television than cable. The signal is sent over the same network that hosts broadband internet connections and a variety of other technologies, and companies such as AT&T and Verizon have been exploring its capabilities. IPTV can be encrypted, inhibiting piracy, and could potentially offer television operators and consumers the same type of control over media on their televisions as they do on the computer. Whether à la carte programming is delivered through set-top boxes or IPTV networks, such a distribution model is certainly technologically feasible.

Cable operators claim that billing customers would become an enormous burden with an à la carte system. Again, this is a minor inconvenience. Much of the billing process can be automated with computer programs, and shouldn't be any more complex than the existing system used to handle premium channels. In addition, programming

providers and cable operators should be able to coordinate program production and distribution more efficiently with an à la carte system. Since the exact number of customers subscribing to a particular channel would be known, programming fees could be more accurately calculated. It would also be possible to build profiles of consumers based on the type of channels they subscribe to. This would allow content producers to tailor programming to various demographics and gain a deeper understanding of their viewer's preferences. More importantly, the statistical advantages of an à la carte system would create a lucrative system for advertisers. Advertisers could use this information to make more efficient use of their marketing dollars through highly targeted advertising. Generating precise television usage data may require some initial investments by cable operators, but the tremendous number of applications for that data makes it worthwhile.

In a letter to Ted Stevens and Daniel Inouye, Co-Chairmen of the Senate Committee on Commerce, Science and Transportation, Geraldine Laybourne, Chairman and Founder of Oxygen Media, claimed that "In an *a la carte* world, networks like TLC, Discovery and Oxygen will need to spend millions of dollars just to get people to subscribe. Thus, more money will be spent on marketing and less money on programming" (Laybourne, 2006). She presented no evidence to support the claim, so it could be just as easily said that less money would be spent on marketing because stations would depend more heavily on obtaining attractive content. One could also say that tiered programming is not structured for the best content offering, but to make the most money, so the focus was never on offering the best content possible in the first place.

In the current tiered system, large popular channels support smaller channels. Without that extra support, cable operators and cable programmers say that the smaller

channels would not be able to operate, resulting in fewer channels and less choice for consumers. Yet many consumers counter that this is something that should be left for the market to decide; that if a channel is worthwhile, it will succeed in the market. Past experience has shown that competition improves quality of the product, so perhaps some smaller stations would fall by the wayside, but the quality of the remaining stations would improve.

Andrew Kantor, a technology columnist for *USA Today*, has said that “In terms of television content, offering people only what they already know they like, you prevent them from expanding their horizons.” (Kantor, 2006, ¶ 21). Proponents of tiered programming believe this to be a hidden benefit of the current distribution structure. This claim makes the assumption that consumers are isolated from each other and never discuss programs they watch or that they’ve heard about. Yet in the movie industry, word of mouth is the most coveted publicity mechanism for advertising a film. If a movie spreads via word of mouth, it will earn a much higher return than others promoted strictly through traditional advertising. Popular television shows also spread via word of mouth, but it is simply too much of a hassle for most consumers to subscribe to a new programming package if the channel is not offered in their current subscription. With à la carte television it would be easier for consumers to experiment with new channels and shows. Rather than preventing them from expanding their horizons, à la carte would encourage it.

Many parents are concerned about the sexual and violent content they see on TV. While there are currently methods available to censor what their children see, many do not wish to subsidize these channels; they don’t wish to support channels they find

offensive. With tiered programming, they have little choice but to drop cable television altogether if they wish to protest its content. Calling the FCC to file a complaint is a slow and ineffective way to communicate with the television producers. À la carte would provide a more immediate, significant form of feedback for the content producers and cable companies, and would hopefully address many parents' concerns.

Programming producers claim that à la carte programming would result in higher costs for consumers, but studies on the issue have produced conflicting reports. A 2004 report by the FCC found that the average household would see a 14% to 30% increase in cost (United States, 2004), whereas a subsequent report in 2005 concluded that à la carte pricing would produce a decrease in price (United States, 2005). Studies funded by the NCTA supported its claim of higher prices. In any case, the price of both basic and expanded tiers of cable packages has been increasing far beyond that of inflation in recent years. If and when à la carte television is introduced, it could very well be the an economically comparable choice for many consumers.

Currently available services, including per-per-view and premium channels, are quite similar to à la carte television. Per-per-view has proven to be a successful venue for certain programming and make up more than half of a cable operator's income (Dominick, 2005). Premium channels, such as Cinemax and Showtime, have wide viewing audiences and have demonstrated that people are willing to pay a bit more for content they especially enjoy. While most of these premium channels offer movie content, HBO has had a number of hit series, including *Sex and the City* and *The Sopranos*. These precedents, although good for proponents of à la carte television, have largely been unaddressed by cable operators.

À la carte television has been introduced in other countries to varying degrees of success, most notably in France, Hong Kong, and Canada. Iliad SA in France and Pacific Century Cyberworks Limited in Hong Kong are both telecommunications companies that deliver the content over digital networks. Both companies have had moderate success, and are still growing. The system in Canada is run by cable operators and has low market penetration. Though Iliad SA and Pacific Century Cyberworks Limited must still prove that they can compete in the long term, their success suggests that à la carte over digital networks may be a feasible enterprise.

In a capitalist society such as that in the United States, one expects the supply to meet the demand; for the market to maintain itself through competition. The cable and broadcast television providers have become so concentrated, however, that a monopolistic environment has been created, where in any individual market there are few distinct companies to choose from. It is true even more so among content producers. The Walt Disney Company, for example, owns a wide array of television channels, including ESPN, Touchstone Television, ABC Entertainment, and Lifetime. If there is no competition, producers have little incentive to innovate and improve their product. Secondly, content producers gain unreasonable leverage over cable providers, allowing them to dictate conditions on the distribution of their content. In cases such as this, government regulation is necessary to ensure that consumers are not taken advantage of by the cable and content providers and that cable providers can choose the most fitting programming delivery method.

With the uncertainty surrounding à la carte television, it would be unreasonably hazardous for any hard measures to be put into place forcing cable operators to offer such

plans. The NCTA has claimed that any government legislation forcing the cable operators to offer à la carte television would violate the First Amendment (Stone, 2004). Whether this is true or not, it seems more logical for the government to enable competition and to let the market decide.

Large companies will always fight a disruptive technology that upsets their business models. They do so even at the expense of ignoring consumer demand. The demand for à la carte seems unlikely to go away, and unless something is done, there will probably not be any changes in the tiered systems of today. If the government and FCC were to pass legislation that would ensure that companies like AT&T could obtain content and distribute it à la carte, it would not only serve as an experiment to prove whether or not the model works, but if it is successful, it would also prompt the cable companies to compete and match the new service.

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