Cutting the Cable Cord

Nigel C. Stewart

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Cutting the Cable Cord

'Cutting the cord' is not a new phrase, and at differing points in our history has stood for many things. It used to mean becoming independent from one's parents. For a while, it was slang for disconnecting land line phone service. Today, many are using the term to signify a new phenomenon in the way consumers watch entertainment in their homes and elsewhere. A growing number of people are dumping their cable coverage because of the availability and affordability of other video options. Innovations in media and broadcasting now allows people to buy digital and HD antennas, watch streaming video online, or buy more expensive televisions and devices that work via internet. This trend is having a major effect on how media companies go about reaching their target audiences. The purpose of this paper is to explain how people can enjoy television and film entertainment at a lower cost than subscribing to a local cable company, as well as to explain many of the options available to do so.

Alternatives to Cable

Several things have happened over recent years to open the door for cable to lose customers to broadcast and streaming. One of these was the transition to digital broadcasting as the industry standard. According to the Federal Communications Commission's website, "Congress has mandated that after February 17, 2009, television stations across the country must transmit only in digital signals, and may no longer transmit analog signals" (2014). Although customers had the choice to switch to cable set top boxes (which would convert the broadcast for any television), customers without cable would now be able to purchase a digital antenna to receive cable-clear over-the-air broadcasts.

A second change that contributed to the shift was the increasing availability of high speed internet. This allowed in home streaming of content to become more prevalent. With high speed internet, streaming media could be as clear as broadcast and cable video. TV channels like MTV, Comedy Central and ESPN could now host video on their own websites to bring in more eyes to their content. Subscription companies like Netflix and Hulu, as well as on-demand services like iTunes and Amazon could now open up their streaming catalogues to paid customers. Sites like YouTube became extremely popular and valuable.

The streaming video increase almost single-handedly led to the final big paradigm shift in home entertainment: internet integration into entertainment systems. Laptops, gaming consoles (like Microsoft Xbox 360 and Sony Playstation 3), and digital media players (Roku, Apple TV and Blu-Ray players) could bring streaming media to TV sets via the aforementioned subscription services and websites. Newer ‘smart’ TVs are internet-ready without the need for an additional player. These new technologies slowly began to replace cable boxes around the U.S. According to *Consumer Reports*, 11% of streaming video service subscribers moved to a lower priced pay-TV tier with fewer channels. An additional 15% of them dropped some or all premium TV channels (2014).

Why drop cable?

Now, these advances in streaming media delivery would be moot if not for the state of cable service itself. The list of cable channels is growing every year, and so is the cost of cable. According to a study published by the FCC in February 2014, basic cable prices rose by 4.8 percent between January 2012 and January 2013. Over a 17 year span, prices increased at a compound average rate of 6.1% annually, but only .2% per channel overall (Baumgartner, 2014).

“This month marks the five-year anniversary of the Telecommunications Reform Act, which promised consumers lower rates for cable television,” said David Butler of the Consumers Union. “This report shows what happens when you deregulate a monopoly before competition can take hold” (Baumgartner, 2014). The act was supposed to introduce competition into the cable provider space, but has instead led to more media mergers than before, and less competition.

Attempts by providers to stay competitive by offering more channel choices have hurt customer wallets. But many consumers are finding that there choice is abundant, and the price tag is usually cheaper once one leaves cable. Instead of renting a set-top box from a cable provider, customers can make a onetime purchase of a digital player for as little as $35, and then purchase subscription services at a low monthly rate. Amazon Prime, Hulu Plus, Netflix and Redbox Instant would cost $368 annually, combined (Gernster, 2013). Factored in with other sources offering free video streaming (FOX, CBS, NBC, ABC, PBS, CNN, FOX News, ESPN and more) customers have an enormous amount of choices for on-demand entertainment at a fraction of the cost of a cable and DVR setup. *Forbes* contributor Amadou Diallo stated that his annual bill for internet and cable services/fees came to $1932 per year, but dropped the total to $576 by switching to a Roku and paying his provider for internet service only. That was a reduction of more than 70% (2013).

Legal and Ethical Issues

There are also several ways to ‘cheat the system’ via streaming and online media. One of the easier ways is by sharing subscriptions. Netflix and Hulu offer customers subscriptions that can stream on multiple devices at a time. Although the intent was to make it easier to go from one room to the next and continue watching a show (like a traditional cable set-up), customers have taken advantage of the multiple device option. They share login information with friends and family at different locations, essentially cutting their per capita subscription cost in half or more. These actions, though not technically illegal in most state, can have consequences. A recent Tennessee law criminalizes sharing Netflix and other entertainment subscription services in the same category as stealing cable TV. Netflix's own Terms of Use acknowledges that users will share their passwords. However, all liability for shared use is back to the account owner. If Netflix does decide that a borrower violates the Terms of Use, the owner will be the one paying (Hamburger, 2011).

A larger issue to arise is the increase in video piracy as a way to circumvent cable costs. This is perhaps exacerbated by the increase in home internet speeds. Most television shows and films are available for illegal download within hours of airing/viewing on peer-to-peer sites. Illegal streaming of live pay-per-view and out-of-market events are available with an internet search. The value of illegally downloaded copies of one film can equal 10s of millions of dollars. “The Hobbit” and “Django Unchained were each illegally downloaded from piracy sites more than 8 million times in 2013. “Fast & Furious 6” was a close third, with 7.9 million downloads (Busis, 2014). These movies are rented for $1-3 and sold for $10.00 or more in theatre and DVD stores. Video piracy potentially costs billions of dollars every year. Punishment of copyright infringement varies from case to case and country to country, but a conviction could include jail time and severe fines for each separate instance of copyright infringement. Here in the United States, fins for copyright infringement can carry a fine up to $150,000 per instance, according to the U.S. Copyright Office website (2014).

Security Issues

Traffic to illegal download sites has increased by over 500% since 2009, and analyst project another 23% growth until 2015 (Pogue, 2012). These types of sites leave the user open to cyber-attacks, viruses and other malware. Torrent sites like BitTorrent or The Pirate Bay are often used for sharing pirated videos, as well as music and software. However, these sites are also full of malware. These sites are dangerous because no one vets the download files, so someone such as a hacker can disguise malicious files into a download. Ben Edelman, a Harvard Business School assistant professor and privacy researcher, thinks torrent sites are the most dangerous places to visit because they lack a business model and don't have a reputation to defend (Mediata, 2010).

Social Issues

One of the drawbacks of leaving cable for the lower-priced online services is the increase in price for internet service. Internet service is, in most urban areas, provided by the local cable company. When these companies see a decline in one revenue stream (such as cable), they are likely to increase the prices across the board, or just in some of their higher demand services (such as internet). This increase in service (as well as increase in high demand video services like Hulu, Netflix and Amazon) begins to cut into the savings of the consumer.

Another social issue is the amount of knowledge and skills needed to function outside of a cable set-top box. These devices aren't always so simple to understand; alternative set-top boxes like Roku or Chromecast require an entirely different skill set an knowledge base to set-up, operate, optimize and maintain.

Can cable be saved?

It appears that cables' biggest problems are economic. Consumers Union found that cable rates have increased 30% since 2009, triple the rate of inflation. Ellen East of Cox Communications puts part of the blame on the cost of programming. "Our programming costs went up in double digits this year [while} average rates were up 5 percent" (Baumgartner, 2014). But providers like Cox cannot afford to drop more expensive channels, or they will lose out to competitors like satellite, where four out of five new 'traditional' video subscribers are headed. Though cable subscriptions are falling, about 86% of households with a television still subscribe to a service from Cox, Verizon, Comcast or others (Snider, 2013). Signs point to a re-evaluation of the Telecommunications Reform Act, as even former supporters of the 2009 laws are considering regulation to bring down ever-increasing monthly bills. Until that happens, more and more customers are content to turn to their internet connection to entertain themselves at a fraction of the cost.

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