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Cable Prices Keep Rising, and Customers Keep Paying

By [MATT RICHTEL](#), May 24, 2008

Americans discouraged by higher gas prices and airline fares may decide to spend more vacation time at home, perhaps watching television.

But that, too, will cost them more than ever.

Cable prices have risen 77 percent since 1996, roughly double the rate of inflation, the [Bureau of Labor Statistics](#) reported this month.

Cable customers, who typically pay at least \$60 a month, watch only a fraction of what they pay for — on average, a mere 13 percent of the 118 channels available to them. And the number of subscribers keeps growing.



The resiliency of cable is all the more remarkable because the Internet was supposed to change all things digital. Technology has led to more choices and lower prices for news and music as well as cellphone and landline minutes — not to mention computers, cameras, music players and phones themselves.

Yet here is a rare instance where Silicon Valley has failed to break a traditional media juggernaut. And not for lack of trying. Technology companies keep insisting they will provide new low-cost ways to get video into the home, but so far their efforts have created more black boxes to stash under the TV, not real competition for cable that could bring prices down.

“A couple of years ago, there was a thesis that we were at the twilight of [Comcast](#) as the gatekeeper,” said Craig Moffett, a cable industry analyst at Sanford C. Bernstein & Company. “That thesis still titillates some. But technologically and economically, it’s probably not going to happen.”

So why hasn't technology had a bigger impact? One answer is the alliance between cable companies and Hollywood producers of content to sell channels in bundles, rather than letting consumers pay only for the channels they want.

The producers of cable television content share \$15 billion to \$20 billion a year in fees from cable subscribers, roughly equal to the \$20 billion they receive in advertising revenue, Mr. Moffett said.

Without those fees, the cable companies say, prices would go up.

"If each channel depended on individual consumers electing to pay individually for it, this would slash potential viewership and seriously hurt the ability of most channels to attract their current level of advertising dollars," said Jenni Moyer, a spokeswoman for Comcast. "Lost ad revenue would have to be replaced by higher license fees."

The industry says the digital era has brought its customers better image quality, more on-demand services and solid value through packages that combine cable, phone and Internet service. It also says consumers are actually getting more viewing value for their dollar, at least relative to inflation. The National Cable & Telecommunications Association says that from 1998 to 2006, the price consumers paid for each viewing hour was essentially flat.

The chief economist of the [Federal Communications Commission](#), Gregory S. Crawford, disagrees, saying the industry is not factoring in the real cost of the programming that subscribers are watching. By his analysis, the increase has been around 50 percent from 1997 to 2005.

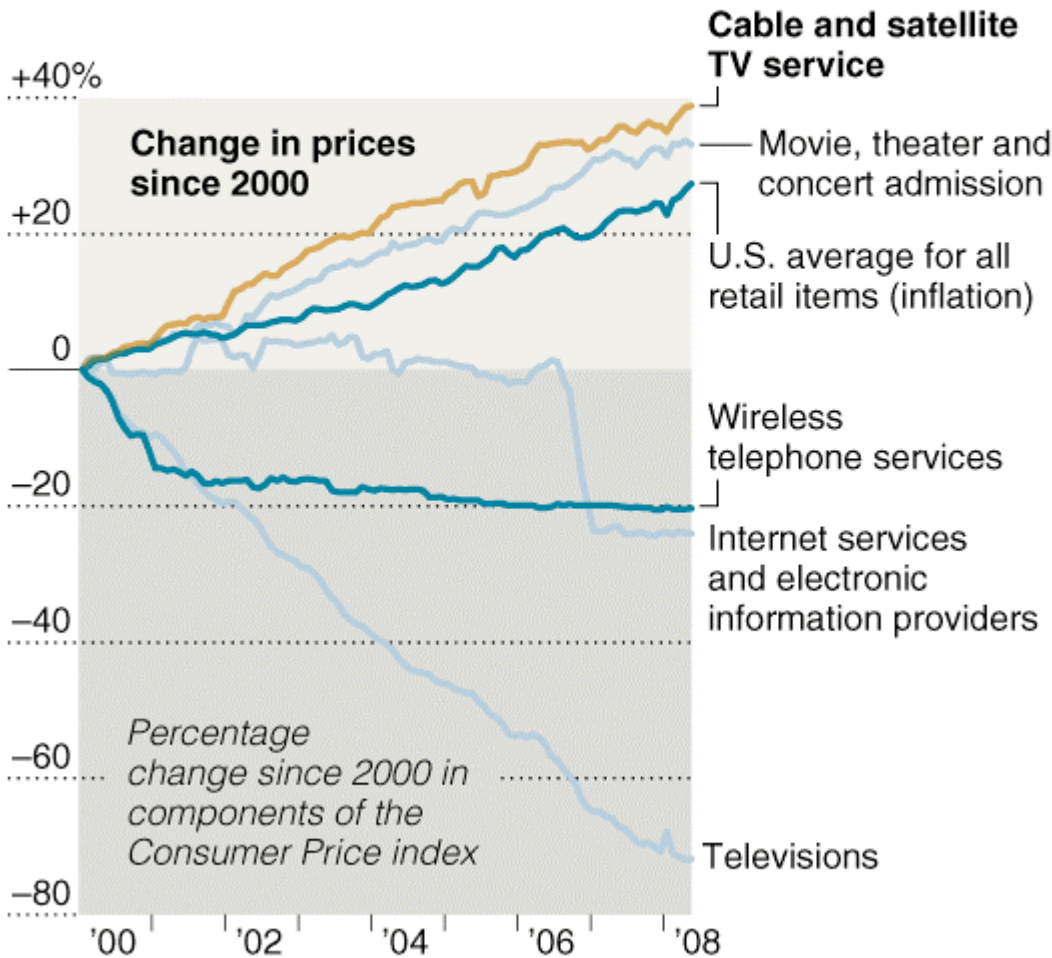
The F.C.C. and some politicians have been in a pitched battle with the cable industry, trying to get it voluntarily to offer so-called à la carte pricing. But cable companies insist that this is not economically feasible.

Kevin J. Martin, chairman of the F.C.C., said in an interview that since 1996, when Congress increased competition in telecommunications, prices have dropped for many other services.

"We've seen the opposite occur in the cable industry," he said. "The dramatic increases in pricing we've seen are one of the most troubling issues from a consumer point of view."

Paying the Most to Watch the Tube

During this decade, cable TV has gone up in price faster than overall inflation as well as other major types of entertainment like movie tickets. In comparison, other electronic services like cell phones and Internet access have gone down in price, while the cost of a TV has plummeted.



Source: Bureau of Labor Statistics

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In 2007, average monthly revenue for each [Cablevision](#) subscriber was \$75, up from \$65 in 2005, according to SNL Kagan, a research company. At [Time Warner](#) it was \$64, up from \$54.50.

The cable industry has never felt the pricing pressures the music industry is feeling. The most obvious reason is that Internet speeds have not been fast enough to permit easy downloading of movies and other video material.

That is changing, though. People are viewing millions of videos online each month — albeit mostly short video clips, and not Hollywood movies. At the same time, the use of file-sharing tools like BitTorrent to download illegally popular movies and television shows is growing.

Another factor helping the cable industry is the difficulty of getting video from the computer onto the TV. That may not be a deterrent for those who have grown accustomed to watching movies on their laptop. But the last thing many consumers want to do is hook up wires or program a new box before sitting back to relax and watch TV.

In that sense, the lure of cable appears to have a sociological component. In a stress-filled life, cable television is easy to use.

“I work eight hours a day facing a computer. When I come home, the last thing I want to do is mess with another computer,” said Eric Yu, 24, a college student in San Francisco who pays around \$80 a month for cable.

Mr. Yu said he watches only a handful of channels, including some in high definition like National Geographic. But to get them, he has to pay for a premium package. “I just pay the bill and try to forget about it,” he said. “It lessens the pain.”

Evelyn Tan, 22, a friend of Mr. Yu, takes a different approach. She pays Comcast \$33 a month for Internet access and does not get cable television — but she does watch TV programming.

In fact, she watches ABC shows like “Desperate Housewives” and “Gray’s Anatomy,” which are free on the Web. When she wants to watch shows or movies that are not readily available online, she says she easily pirates them. “I would not pay for cable TV at all,” she said.

Broadcast networks like ABC, NBC and Fox are starting to put their programming on the Internet. But most cable channels do not because they depend on subscriber revenue.

Albert Cheng, executive vice president for digital media at the [Disney](#)-ABC Television Group, said the industry was trying to prepare for an era in which more video is watched on computers.

“It wasn’t lost on us what happened to the music industry,” Mr. Cheng said. Even though the audience is growing for ABC shows online, he said, this is supplementing, rather than undercutting, the television audience.

Enter Silicon Valley. It is trying to marry the content people want with their preferred setting for viewing it. There is a host of new set-top boxes and consumer devices aimed at bringing video and other content from the Internet to the TV.

[Apple](#)'s iTunes store offers 20,000 episodes of some 800 shows at typically \$1.99 or \$2.99 an episode, effectively creating an à la carte option. But consumers must either watch on their computers, wire the computer to the television or get an Apple TV.

This week Roku, a Silicon Valley start-up, began selling a \$99 box that streams movies from [Netflix](#) straight to the TV. And this summer [Hewlett-Packard](#) is expected to introduce a device called the MediaSmart Connect, a sleek box connecting computer and TV that lets users watch Internet videos as well as rent or buy some 6,000 movies through CinemaNow, an H.P. partner.

But the box will also demonstrate how much of a gap still separates the computer screen and the TV screen.

Carlos Montalvo, vice president for marketing of connected entertainment at H.P., said the MediaSmart Connect and similar devices would not offer much of the programming provided over cable, or even programming that content companies allow to be delivered over the Internet to computers. The reason, he said, is that this content is licensed to be shown only on a computer, not delivered via computer to a TV.

“Simply because the technology is there doesn't mean that the large opus of content — both television and movies — that is available on the two-foot screen can move automatically to the large-screen TV,” he said.

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