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Get ready to pay for online TV

By David Goldman, staff writer February 24, 2010: 4:26 PM ET

NEW YORK (CNNMoney.com) -- In the near future, TV is going to be available anywhere, on any device, at any time. Just don't expect it to be free.

That's because of the big, unanswered question being asked by networks, cable companies, advertisers and technology providers: How do we make money from it?

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Viewers are already taking full advantage of online television. Broadcast networks make many of their shows available on Web sites like Hulu and YouTube a day after they air, and many cable stations also put their shows on the Web.

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In December, more than 178 million Americans watched TV online, streaming 33 billion shows, according to online data tracker comScore.

But the business model for free Internet television doesn't work yet. Networks can't get advertisers to pay the same as they do for broadcast

and cable TV, and networks and cable providers are reluctant to lose their mutually beneficial partnerships.

In the traditional TV model, networks get paid tens of billions of dollars by advertisers and billions more in retransmission fees by cable and satellite providers. Satellite and cable providers get paid in subscription fees by customers.

The free Internet TV model cuts out the middle man: Networks post their content directly online and advertisers pay for the right to place their ads on the Web site and within the video. Satellite and cable providers aren't part of the equation, and networks lose out on their licensing fees.

Advertisers hesitant to join in

The loss of revenue from cable and satellite companies isn't the only reason why free Internet TV isn't working yet. Advertisers remain coy: Broadcast and cable TV advertising is a \$70 billion a year business, but

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Internet TV advertising has yet to crack \$1 billion, according to Matt Wasserlauf, chief executive of online advertising network BBE.

Many advertisers are wary of sponsoring online TV, primarily because the measures of those ads' effectiveness and reach are still up in the air, say media analysts.

"Advertisers aren't going to pay for the right to sponsor content unless they know how many people are watching it," said Todd Dagres, general partner at Spark Capital. "The technology is available, but it is still in the process of being implemented."

The online video ad world is also a different ball game than the TV commercial sphere. Internet TV ads are interactive, unlike traditional TV ads, and effective Internet TV ads require a whole new level of creativity. Advertisers are still trying to determine the best way to reach potential customers online.

"The way people approach online ads is qualitatively different from the way they approach TV ads," said Shishir Mehrotra, director of video monetization at Google (GOOG, Fortune 500). "The biggest blockers to advertisers from making the jump to the Internet from TV are creative ones."

The lack of live TV online -- and the big advertising bucks that come with it -- is another huge factor preventing online TV from being successful. Though some networks have begun to air some live content online, notably CBS's online coverage of the NCAA basketball tournament, live Internet TV is far from pervasive.

Live sporting events like the Super Bowl and live shows like American Idol command the biggest advertising dollars. But separate licensing fees, bandwidth limitations and a low return on investment have held networks back from putting more live content online thus far.

With the business model still shaky, media company CEOs have suggested that free online TV is coming to an end.

How the online TV business can work

With free heading out the door soon, subscription services are the likely replacement.

Media CEOs like News Corp's (NWS, Fortune 500) Rupert Murdoch, Disney's Bob Iger and NBC's Jeff Zucker, who co-own Hulu, have all hinted at making Hulu a subscription-based service. They just haven't said how much users will have to pay.

Netflix (NFLX) has been operating a successful subscription-based streaming service for quite some time, and on Monday, Walmart (WMT, Fortune 500) announced that it had purchased Netflix's online streaming video competitor Vudu. In December, Apple said it had negotiated deals with CBS (CBS, Fortune 500) and Disney (DIS, Fortune 500) to launch a streaming subscription-based service for Apple TV.

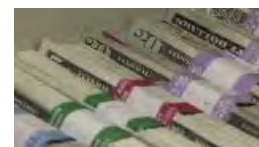
Cable companies have gotten in on the action as well. CNNMoney.com parent company Time Warner (TWX, Fortune 500) partnered with Comcast (CMCSA, Fortune 500) last summer to test its subscription-based "TV Everywhere," which made Time Warner content available online to Comcast subscribers for no additional charge. Comcast deemed the project a success, and has continued the TV Everywhere partnership on its Fancast Web site.

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Subscription services generally bring more content to the Web than free services, including some cable shows that have been exclusively available on TV or for purchase on iTunes.


There's something in it for the cable companies too: As technology improves and consumers begin watching more online, on-demand content directly on their television sets, cable and satellite providers could have a role in bringing that content to consumers by providing customer service for Internet TV like they do for "regular" TV.

"If consumers want high-quality content with a high-quality experience and high-quality service, there's a place and a role for companies that have cables piped into your house," said David Wertheimer, executive director of the Entertainment Technology Center at the University of Southern California.

In the end, experts say that the free, advertising-supported model may exist for some content, but the subscription model will have to at least run along side it.

Experts say commoditized programming like news, cooking programs and how-to shows will stay free, because there will always be another site offering the same content for free. But your favorite shows that can't be duplicated and cost millions of dollars to produce are something you will have to pay for.

"Every piece of content that is commoditized by nature has to be free," said Ran Harnevo, chief executive of 5min Media, an independent digital media group. "On the other hand, if everything were free, you would lose the production value of good shows. So people will have to pay for content that's not commoditized." ■

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