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Broadcast TV Needs a New Business Model

by Rita McGrath | 2:00 PM April 24, 2013

Broadcasters have had it tough in business model terms. The rise of cable and the proliferation of content have shaken off their grip on consumers' attention and schedules. The vastly expanding worlds of alternatives for entertainment and education have put them in a position of struggling to hang on to audiences. And all this has basically ended the dominance of "appointment TV," when you would know that a certain show was on at a certain time and clear your calendar to watch it. With the exception of "big event TV," which includes programs such as the Super Bowl or the American Idol finals, viewers can increasingly customize what they are watching to their own interests and on their own schedules. The future of broadcast is indeed unclear.

The recent National Association of Broadcasters' annual meeting made at least that much clear. I typically don't go to this meeting, but was asked to speak this year and decided to stick around afterwards to learn more about the strategies broadcasters are using to remain viable in the face of technological progress and competitive pressures. (Also among the highlights was hearing Dorie Clark talk about her new book on personal branding (http://www.amazon.com/Reinventing-You-Define-Imagine-Future/dp/1422144135/ref=sr_1_1?s=books&ie=UTF8&qid=1366722603&sr=1-1&keywords=Dorie+Clark). Key takeaway: We all need to build a brand!) My key impressions from the conference are, that relative to the folks from the broadband/wireless world where I have a good deal of experience helping executive teams develop new strategies and business models, the broadcasters are a much more fragmented lot, and that the pressures of unbundling (the separate pricing of goods and services as opposed to purchasing them in a package) could conceivably wreak havoc on their business models.

The basic problem is that the constraints which broadcasters have historically used to protect their profits have now been relaxed — or have even disappeared. Indeed, the *New York Times* recently noted (http://www.nytimes.com/2013/04/15/business/media/more-cracks-in-televisions-business-model.html?_r=0&adxnnl=1&adxnnlx=1366722844-6umstUrFFAVXxBg3su4rHA) that the profit model for broadcasters is under assault, citing "cracks in the citadel of TV profits." The issue is that when you sell things in bundles you can charge for a whole bunch of things nobody really wants — customers will pay for the entire bundle in order to get the one or two things they actually want. This worked for years in cable television — give customers hundreds of channels they won't watch but will pay for anyway in order to obtain ESPN or HBO. It worked in music — make customers purchase an entire album when all they actually want is the hit song. It works in other industries as well, such as education. Think of it — we get charged for a degree, when perhaps all we want is a course or two.

This is exactly what's happening in the broadcast industry right now. Upstart Aereo (<https://www.aereo.com/>) has a potentially devastating business model where, using teeny antennas, they snatch "free" content that broadcasters send over the airwaves, then charge customers subscription fees to have that content directed to their own TV sets. While the channels are a lot more limited, the fees are much less than a cable subscription. The broadcasters, obviously, have cried foul, arguing that they pay to create the high-quality content that is re-broadcast and should be compensated for it. Aereo's argument, which the courts have so far supported, is that those signals are free for the taking and that all they are doing is offering a sort of souped up set of rabbit ears to their customers. To understand just how disruptive this is, consider one of the more dramatic moments of the conference when News Corp.'s president, Chase Carey, (<http://www.hollywoodreporter.com/news/fox-broadcast-chase-carey-warns-434745>) very calmly said that if the networks lose the right to charge re-transmission fees, they would consider abandoning the business model of sending content over the airwaves and instead adopt a pay-only model.

Once the bundled model begins to erode, consumers flee it to go to a model where they are buying only what they want. That's what happened in music, fundamentally transforming the nature of the business. Increasingly, that's what's happening with movies, as video on demand and streaming fundamentally shift power to consumers. So, will broadcasters be able to throw up the barricades and keep the bundled model going strong? My guess is not. It will be interesting to watch and see what happens.