

TV's Set-Top Battle Royale

There are huge consequences for multichannel distributors and programmers if the FCC's set-top-box plan goes into effect. **BY MEREDITH SENTER**

A battle is raging at the Federal Communications Commission over set-top boxes. The outcome could fundamentally change how consumers discover and select what TV programs they want to watch and the environment in which TV stations and networks compete.

On one side are Amazon, Google and the Obama Administration. On the other side are the cable, telco and satellite distributors, allied with their traditional adversaries, broadcast and cable networks as well as TV stations.

The FCC would like to eliminate the multichannel video program distributors' (MVPDs') monopoly on set-top boxes, something Congress directed the commission to do in 1996. The FCC cites estimates that 99% of MVPD subscribers currently rent the boxes, and the average American household pays \$231 each year for them. MVPDs reportedly receive more than \$19.5 billion a year from the rentals.

In the view of President Obama and the FCC, MVPDs over-charge for a not very complicated device. They point out that while distributors have steadily increased the rent for set-top boxes, which use old technology, the prices for other electronic devices have decreased even as their technology has improved.

If the commission's proposal stopped here, the programmers wouldn't be involved. After all, they don't share in the rental revenue stream. But the FCC also wants to create a competitive market for navigation devices – that is, the menus consumers view to discover and select what TV channels to watch. This could fundamentally change the environment in which TV stations and networks compete.

Under the FCC plan, consumers will be able to access programming distributed by MVPDs as well as over-the-top (OTT) services like Netflix and Amazon on

one box. Or they may not need a box at all. Under the commission's proposal, a competitive navigation device may be software that exists in the form of an app



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downloaded to a smart TV set or other screen.

To make this work, the FCC would require MVPDs to provide their content to third parties, which could aggregate it with content from services like Netflix and Hulu. More importantly, a provider of a competitive navigation device could replace an MVPD's menu with its own.

It's not clear whether the FCC's plan is feasible. Standards need to be developed for the interface between MVPDs and competitive navigation device providers. Of particular importance to TV networks, the standards must protect the copyright and other intellectual property rights of content providers. And the FCC and other governmental agencies need assurance that consumer privacy rights will also be protected.

Assuming these complex technical issues can be resolved, TV stations and networks still have reason for concern. They have invested heavily in creating branded program lineups that are presented

linearly in MVPD program guides. The distributors typically organize channels in different groupings. TV stations occupy one "neighborhood;" popular mass-appeal cable networks occupy another close by.

A competitive navigation device might, however, use a completely different type of guide; it might not be organized by channel, but operate more like a search engine. If I want to watch ABC's *Modern Family*, rather than scrolling through a linear guide, I might use a voice command and ask for the program by name.

In addition to seeing that *Modern Family* will air at 9 PM on Time Warner Cable's channel 507 (occupied by an ABC station affiliate), I would also see that it is also available on demand from Hulu, and the series' first season is available for rent on Amazon Prime. I wouldn't see the other shows on ABC's schedule running before and after *Modern Family*. Google or Amazon might include sponsored links to other programs. For example, they could include on-screen recommendations ("you may also like") based on their knowledge of what I've viewed in the past. And that could lead me to other content they offer and navigate me away from what I might otherwise watch.

The battle is, therefore, about much more than monthly rental fees for set-top boxes. It is over whether the FCC can or should force MVPDs to make their programming services available for free to potential competitors, changing how consumers access TV programs and the economies of the TV station and network business.



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