

[EE Times:](#)

New wave of Internet set-top content threatens to upset pay TV status quo

Antonette Goroch

(12/01/2008 12:01 AM EST)

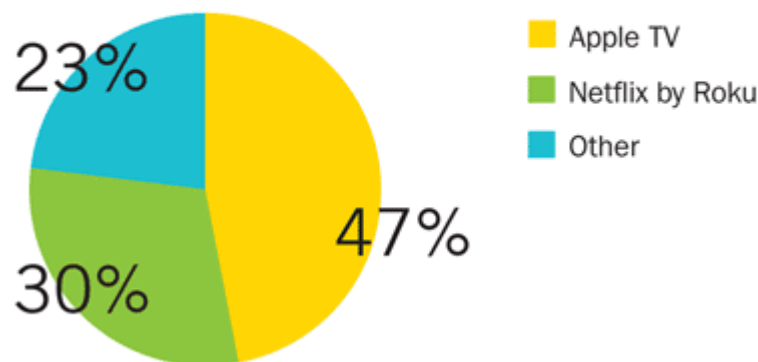
URL: <http://www.eetimes.com/showArticle.jhtml?articleID=212200698>

With a revival of interest in the Internet set-top box (STB)--due in part to the recent success of the Netflix box from Roku--the consumer electronics and the pay TV content industry need to examine what this could mean for commercial content distribution as a whole.

It's easy to dismiss the Internet STB as a viable threat to the business of commercial content distribution. Market researchers expect only modest unit shipments of Internet STB. Digital Tech Consulting (DTC), for example, expects annual unit shipments to finally surpass the million mark in 2009.

Also, history does not support the idea of Internet STB acting as a disruptive influence. Actually, the idea of a STB that can deliver online or Internet access to the TV, with potential to displace traditional pay TV, is not a new one; the first WebTV set-top box debuted in 1996.

2009 Digital Content Appliances market share



SOURCE: Digital Tech Consulting

Researchers transfer silicon circuitry to flexible polymer substrates from silicon-on-insulator wafers.

Though they have advanced admirably since then, dedicated Internet TV STBs have failed to pierce the mainstream, remaining a niche product with annual shipments in the tens of thousands until very recently.

So what has changed? Stated plainly, these would be price, established customer base, and content availability. One clear area of difference among successful Internet STBs is the price. The Netflix Player, the breakaway market leader from Roku, is just \$99, while others, such as AppleTV or VUDU, are still retailing for about \$300 despite recent price drops.

Another key element of success is access to existing customers and accounts. This has been a source of strength for the market leaders, including Apple and Roku, which have both benefited from the Web-based customer/commerce infrastructure of the iTunes Store and Netflix, respectively.

Content availability has also become less of an issue since large content owners are licensing assets to a wide variety of online platforms, from Hulu to iTunes or YouTube, as well as their own websites. As a result, programming has become available through a number of different outlets using subscription, video-on-demand and ad supported business models.

Gone are the days of cumbersome WebTV where 56K modems fed email to your TV--hardly a threat for traditional pay TV providers. Broadband access, via the competing forces of cable and DSL, is far more widespread than it was only five years ago, allowing Internet TV to create a traditional TV viewing environment and pose a genuine threat to traditional pay TV providers.

Ultimately DTC believes that the prospects for these standalone Internet STBs will be limited. Unit shipments are not expected to be more than 2.5 million over the next five years. Really, how many consumers want yet another STB that does only one thing to add to the stack?

So the Internet STB is not the next big thing; their significance, however, far outweighs their shipment numbers. The impact lies in the implications for content distribution more broadly. Fundamentally, it's clear that consumers will pay for a variety of content, including professionally produced content, through a Web-PC-TV integrated platform, if they can get it.

The Roku/Netflix effect

Roku/Netflix proved the demand was there.

But this is likely to push existing STB manufacturers to integrate new features into their own products to remain competitive rather than give rise to a whole new mass market product category. This will require a major rethinking of what it means to be a content gatekeeper particularly among pay TV providers, but also among the CE vendors participating in that industry. After all, if consumers can select the content they want directly via the Internet, why would they keep their pay TV packages?

Pay TV networks are in an inherently strong position because of the favorable relationship they already have with customers. To leverage this into success in a next-generation content landscape, however, they will need to find ways to differentiate themselves beyond merely providing access to traditional content packages.

Overall, DTC believes that pay TV is safe, for now, but broadcasters should definitely revisit the drawing board using Internet TV and the accompanying hardware as a sketch for what the future of content viewing will look like.

Antonette Goroch is senior analyst at Digital Tech Consulting, a research firm that specializes in tracking and analyzing the consumer digital video market.