Should Shareholders of Rogers Communications Inc. Worry About the CRTC's Pick-And-Pay TV Plan?

Description

Late last week, the CRTC released its working discussion document on the future on the television industry. Canadians will have until September 19th, the last public hearing date, to provide feedback and comments to the CRTC.

What do investors need to know?

1. Basic package

Canadians would be able to purchase a basic cable or satellite package between $20 and $30.

The actual impact on telecom companies would most likely be small. Good content remains key. American networks usually have bigger budgets to produce larger shows, thus attracting a larger audience that includes Canadians. Most customers do not watch four to five hours of Canadian content every night. Customers would most likely subscribe to other channels in the pick-and-pay scenario.

2. Pick-and-pay

Canadians would be able to purchase channels on an individual basis.

Based on an analysis from Nielsen, the number of channels that consumers watch consistently stays at around 17. Based on **Rogers Communications Inc.'s** (TSX: RCI.B)(NYSE: RCI) latest quarterly results, it generated $437 million in television revenue on a base of slightly over two million television subscribers, for an average TV revenue per user of about $70.

Based on this, quick math would show that if Rogers priced each channel individually at $2.65, it would stay revenue-neutral per user ($2.65 x 17 channels + $25 basic package = $70.05). However, some of the 17 channels would probably be consumed as part of the basic package. Thus, Rogers should price each channel higher than $2.65.

How much higher?

There should to be a way to differentiate between premium demand channels like those for sports and less mainstream specialty channels, such as the Food Network. Thus, it would not surprise me if Rogers were to split pick-and-pay options based on a range, for example, between $3.50 for the less in-demand channels and $5.00 for the premium channels — and even higher for some multicultural channels.

For example, say the average Canadian purchases a basic package at $25 and decides to pick 10 additional channels at a mix of $4.25 per channel; the final bill would be $67.50. All of a sudden, pick-and-pay looks acceptable for telecom companies as it's close to the original $70 target. In addition, there may be the added benefit that fewer TV customers would cancel.

3. Build your own package

Canadians would be able to build their own packages made up of channels of their choosing.

In 2011, Rogers tested such packages in London, Ontario. It started with a "digital starter pack" and allowed customers to add packages of additional channels starting at bundles of 15, 20, and 30 channels. It then tried to upsell customers with additional theme and premium packs such as a "movies pack" for $26.34, which included TMN, HBO, MPIX, U.S Superstations, and Feature Guide Magazine.

For example, if a customer picked a digital starter pack at $20.29 per month, plus 20 channels at $28.41 per month, and added the movies pack for $26.34 per month, the total would have been about $75.

Investors may expect Rogers and other TV providers to price build-your-own packages profitably. While consumers may gain more choice in terms of selecting their own personal TV packages, Rogers already has enough data to price each bundle perfectly so that it averages out to around $70.

Ultimately, as the CRTC changes the rules on content delivery, telecommunications companies will reinvent themselves by being innovative with their business models. Investors should not worry.

CATEGORY

1. Investing

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1. NYSE:RCI (Rogers Communications Inc.)
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