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The Streaming Wars: Its Models, Surprises, and Remaining Opportunities

By MATTHEW BALL July 12, 2019

Three decades in and a lot of bucks spent, OTT competition has clarified. Though not in ways that were expected.

The first public video stream was in 1995. A decade later, YouTube was founded. In 2007, Netflix and Hulu launched. A decade after that, Sony launched the first virtual MVPD. We're now in the third decade of OTT video and there are many clear winners.

What's more interesting are the prognostications that never came to pass. The two big ones concern Netflix – the startup streamer was never bought, nor did it ever implode.

Even more fascinating is the fact that no one ever really tried to replicate Netflix. For years, Wall Street believed Amazon would do everything Netflix did, just with even greater spend, no risk of defaulting on its debt, a better subscriber acquisition funnel, and a longer time horizon. And if Amazon didn't, Apple or Facebook would. Hulu was thought to be a Netflix competitor, but it instead stayed domestic and leaned even further into advertising and add-ons – two things Netflix doesn't do. Barry Diller's IAC reportedly considered launching a proper Netflix competitor under its Vimeo brand but ultimately decided against entering such a cash burn-driven business. And of course, Netflix has been saying since late 2012 that its "goal" was "to become HBO faster than HBO can become us." HBO never tried.

Which is to say, "who" does "what" in SVOD and under "which" business models and "why" all ended up rather differently than expected. This outcome was mostly good for Netflix, as it has been and is the only one pursuing its business model. And rather than try to replicate Netflix, most of the company's competitors seem to be pursuing a bundle-based business model instead. This approach makes sense, given the fundamental value in aggregation (to both the platform and the consumer), not to mention the fact television has spent most of its life as a bundled product. But as the companies in this group (Apple, Amazon, Hulu, Disney and AT&T) are in video for different reasons and video is of variable importance to them, their individual approaches to bundling are both distinct and likely to diverge even further over time. Another group of OTT competitors consists of the premium cable networks, HBO, Showtime, Starz and CBS All Access, which share business models and objectives. And then finally, there are the Pay-TV incrementalists, including NBCUniversal and AMC.

This essay has three parts. **Part One** outlines what's happening in video, who is pursuing which business models, why, and what it will take to be successful. **Part Two** examines the viability of new market entrants, the lessons from early OTT winners, AVOD services, and the question of "how many services the average household will subscribe to?" **Part Three** looks at the culture that brought us here, the importance of timing, Big Media's core mistake, the (non-)potential of niche services and where the opportunities still remain. Each part can be read individually.

PART ONE: THE SVOD MODELS

Core SVOD Models in 2019
(Simplified)

	SVOD Natives	*The Bundlers*					*Premium Nets*	*Incrementalists*	*Niche Players*
Examples	**Netflix**	**Hulu**	**Amazon**	**Apple**	**AT&T**	**Disney**	**Starz/Showtime**	**NBCU/AMC**	**Crunchyroll/Acorn**
Role of SVOD	Entire business	Anchor to video bundle	Anchor to video & ecosystem bundles				Digital version of old business	Incremental profits (+ optionality)	Core business (+ anchor to adjacent content)
Ambition in Video	Maximize ownership of premium video viewing	Deliver as much premium video viewing as possible			Deliver AND (i.e. mostly) own as much premium video viewing as possible	Be the new core of The Walt Disney Company	Earn incremental role in viewers' video diets	Grow share of viewers' video time and build D2C relationship	Be the best at given genre / style (maximize license arbitrage)
Primary Profit Driver	• Prices • Subscribers	• Add-on video subscriptions • CPMs	• Add-on video subscriptions • Content transactions • Device sales • Ecosystem		• Add-on video subscriptions • Ecosystem bundle • Ads	• Add-on video and content subscriptions • Disney-related transactions • Ecosystem bundle (Disney)	• Prices • Subscribers	• Prices • Subscribers • CPMs	• Prices • Subscribers
Market	Global				US + select markets (ecosystem bundle US only)	Global		US + select Markets	Varies

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Model 1: SVOD is about Replacing (non-live) TV at Large (Netflix)

Strategy

Netflix's objective and business model is clear. It wants to be the largest video subscription on earth and be the primary source of premium video to each of its subscribers. Its goal is therefore unprecedented scale in terms of both reach and usage, which would in turn provide the company with never-before-seen control of costs, supply, pricing and optionality. The service will cover all scripted and unscripted genres and styles, at all levels of production quality and durations, and in all languages. In that sense, Netflix will be what many used to just consider "TV" overall – except all in one brand rather than a package of AMC and Discovery and CBS and Showtime and PBS, and so on (with the exception of live sports and news). For at least the foreseeable future, Netflix will be a purely on-demand, non-live, non-sports, and ad-free service. It will generate revenue through direct a la carte user subscriptions, with growth coming through increases in penetration and higher prices. The company has been consistent and open about this since 2007.

You can also see this strategy in the company's spend. Netflix now spends more on content than Amazon ($4-6B), Hulu ($3B), HBO ($2B), Apple ($1B), Showtime ($1.5B), Starz ($1B), CBS All Access ($500MM) and YouTube combined. Furthermore, the spending gap between Netflix and typically identified competitors (say, Amazon, Apple, Hulu and HBO) has only grown over time. The logic behind such a strategy is reasonable. If more people have Netflix than, say, Starz (and certainly all Starz subscribers have Netflix), and Netflix offers Starz-style shows in addition to droves of other titles, it should be able to steal both Starz's share of wallet and its share of TV time. Netflix also has a strong cost advantage here. Even if it were to grow its prices by 50% (to $20), it would still be less than a third of the price of all of the above services due to their individual operating inefficiencies and need for margin. This matters whether you're a consumer buying this basket of services, or one whose video strategy is predicated upon selling batches of them (Model #2, below). On a volume-weighted basis, Netflix's relative "quality" of programming might be lower than these other services (though its share of "Best Series" Emmy nominees is 30%, second only to HBO). However, this problem is generally overhyped, closing over time and only really true in the US.

Role of Ads

Speculation that Netflix is either planning or needs to roll out an advertising-supported plan continues to persist. Nothing is assured on a long-enough time horizon, but at least for the next 18-24 months, ads are almost impossibly unlikely. For one, we'll know long in advance if Netflix is planning an ad service as they'll need to begin hiring specialized ad delivery engineers and a global ad sales staff. And even if Netflix could do this in secret, it wouldn't want to. Advertisers lock most of their spend a year in advance and would be thrilled at the opportunity to buy inventory on Netflix (which would also come at the expense of Netflix's ad-focused competitors).

The technical challenge of this change is also enormous. Netflix was never built to support ads, and every ad means a new stream and thus a new opportunity for a crash or buffering problem (dynamic ad delivery is far more complex than "play next episode"). This doesn't mean failures would be frequent, but Netflix has always been *obsessed* with reducing all viewing friction and minimizing every point of failure in order to keep viewers watching. This is because Netflix's primary path to growing ARPU is from growing watch time, which advertising would reduce. There's also not yet any evidence that Netflix's current pricing (or its potential headroom) is a barrier to growth in most mature markets. True, Netflix is expensive in emerging markets such as India – but it's not clear that ad-supported ARPU in those markets would be meaningful. And it would need to be *so* meaningful that it would justify the complexity/burden of operating a fragmented pair of tech stacks and analyzing content performance against two different monetization models. Lastly, Netflix has been consistent and clear about having no plans to introduce advertising (and the company has a well-documented history of specifically saying what it is going to do, when, and why). What's more, advertising would force the company to report its viewership statistics to third parties – something it has long resisted.

The Plausible Success of the SVOD as SVOD Model

As with the company itself, Netflix's ad-free, single-tier model didn't need to work. There were many path dependencies that might have aligned the industry around different principles, leaders and price points. The Hulu joint venture, for example, was once intended to have even more corporate parents (and thus controlled more potential supply), serve as a hub for each of their TV Everywhere experiences, and launch a virtual Pay-TV service as early as 2014. This would have dramatically changed both the marketplace and Netflix's prospects. Alternatively, Netflix might have been bought in the early 2010s. Or been crushed by an untimely aftershock recession. One can debate how profitable of a business Netflix will become, or whether another service might grow larger over time, but its position as a leader is stable. It was enabled to grow for too long and is now too insulated from competition thanks to legacy content rights and digital feedback loops.

Model 2: SVOD is an Anchor for New Bundles (Hulu, AMZN, Apple, AT&T, Disney)

To understand this group, we need to consider two ideas: (1) why these SVOD services exists; and (2) what will lead these services to be successful.

Here, the best place to start is with pricing. While some bundlers do charge for SVOD (Hulu, WarnerMedia, Disney) and others don't (Amazon, and maybe Apple), these companies don't consider SVOD itself their primary profit driver.

Hulu

From 2010 to 2019, Hulu charged $8 per month for its core SVOD service. Then in January 2019, it dropped its price 25% across its entire subscriber base (at a cost of $600MM+ in forgone annual revenue from these subscribers). Furthermore, Hulu has repeatedly run a promotion where new *or* returning subscribers pay only $1/month for the first year (Netflix gives only one month free to new subscribers, HBO gives seven days). For two months earlier this year, paid Spotify subscribers could add Hulu for no additional cost (Spotify would be paying Hulu roughly $2-3 per month for *active* subscribers). Paid Spotify users on student accounts can (still) add Hulu to their subscription for an extra $4.99 – and they get Showtime for free (Hulu would probably receive $1-2 per month from Spotify here but also need to pay Showtime $5+). And if a Hulu SVOD subscriber adds Hulu's Live TV plan (which is $45), they pay only $39 more on top their $6 plan.

This last example is the clearest – Hulu is literally giving SVOD away for free – but the moral is the same across each. For Hulu, SVOD is less a business in and of itself, but about establishing a large scale platform upon which other services and products can be sold. For Hulu, SVOD is no longer a business in and of itself but a gateway to other video services that will be sold on top of it. This includes premium subscriptions such as Showtime or HBO ($11-15 per month), Hulu's live Pay-TV service ($45), and in the months to come, also other Disney video services, such as ESPN+ ($5) and Disney+ ($6). The company doesn't even market its ad-free plan, as it prefers to grow ARPU through digital advertising. This logically suggests Hulu is generating at least $6 per month in ads from these subscribers (and reportedly $10+) – which makes its *subscription* video on demand ("SVOD") actually about ads.

Hulu's add-on model works because, unlike Pay-TV, SVOD content costs are fixed. As a result, every additional subscriber (even the $1 ones) drives down the per-customer costs of all subscribers (thus improving unit economics) and provides a new opportunity to drive (mostly) gross-margin positive add-ons.

This doesn't mean Hulu's top priority isn't its SVOD service. It clearly is. The majority of the company's spend, staff and subscribers are focused on this offering. Furthermore, Hulu needs to first maximize the reach and differentiation of its SVOD in order to execute against its bundling strategy. The fewer customers Hulu's SVOD has, and less its used, the fewer ads it will deliver and fewer incremental services it will sell (there are many competing bundlers, after all). And with enough growth, even its SVOD service can deliver modest profits. But unlike Netflix (which has never cut prices and instead hikes them 20% every six quarters), Hulu isn't set on maximizing its ownership of video viewing or SVOD profits. It isn't spending enough to do so and is instead driving consumption and profits to other services, where Hulu's role is just managing billing and delivery. And as Disney's core SVOD, Disney+, launches, and ESPN converts ESPN+ into a fuller sports offering, Hulu's role as a pure play SVOD will diminish further. Suddenly, it will be just one part of a multi-service wheel at Disney. To this end, Hulu looks far more similar to Amazon's Prime Video than Netflix.

Amazon

For Amazon, SVOD isn't about generating direct profits, but driving the Prime subscription flywheel (either by reinforcing it in well-penetrated markets or by driving new subscriptions in newer ones) and overall Amazon Video flywheel (which includes its digital video downloads store, Amazon Channels and FireTV/Alexa). This strategy seems to have been a success. In 2012, iTunes held a 50% share in the US digital video downloads and rental market. By 2017, share had fallen to 20-35% (and was still declining) while Amazon had surged to 20%+, according to *Wall Street Journal*. On the hardware front, Fire TV (which launched in 2014) is now the largest connected TV device in the world, beating Roku (which launched in 2008) and Apple TV (2007). Amazon Channels, meanwhile, is believed to have well over 50% of total unbundled subscriptions to the likes of HBO, Showtime and Starz, compared to 15-20% for iTunes (which has 2.5x more devices in the United States and had initial exclusivity to several of these subscriptions), per BTIG. Many expect Amazon to expand into live sports add-ons in the coming years, too. And the Prime bundle itself continues to grow (e.g. Prime Music Unlimited, Twitch Prime).

Apple

With its new Apple TV+ app and forthcoming originals, Apple seems to have recognized Amazon's success and chosen to replicate the company's video model almost exactly. And even if the company chooses to charge for its original content, it's clearly not replicating Netflix's model with only a dozen or so original series and films per year and no licensed catalogue. What's more, Apple is likely to diverge even further from Netflix over time by bundling itself with other Apple subscriptions, such as Apple Music, Apple Arcade, and its hardware upgrade program.

AT&T

With the $15-per-month-HBO at the core of its OTT video offering, AT&T doesn't appear to be replicating the zero/low-cost SVOD anchor approach of Hulu, Amazon or Apple. But functionally speaking, it still is – only in this model, it's added atop an existing service rather than just having others added atop it.

To take a step back: AT&T was once believed to be launching a standalone WarnerMedia SVOD service that could be bundled with each of AT&T's other services. Since then, these plans have pivoted (or were always; it doesn't matter) to instead fold HBO directly into a bigger WarnerMedia service, HBO Max. This plus-sized offering will then give HBO's subscribers access to a substantially larger catalogue of WarnerMedia's library of films and TV series, as well as new exclusive original series. But even though HBO Max's content offering will be several times larger than HBO, it may cost only $1-3 more per month (and be a free upgrade to AT&T subscribers). At this price point, it's unlikely AT&T will be able to recoup its foregone licensing revenues – let alone incremental investment in originals – even if the expanded service drives meaningful growth in HBO penetration.

But that's where other bundles come in. The company (reportedly) has plans to append a reconstituted version of its (deeply unprofitable) live TV product, DirecTV now, to this service – as well as other WarnerMedia video services, such as Crunchyroll and rumored Turner Sports and CNN subscriptions, in addition to third-party subscriptions such as Showtime and Starz. And more broadly, many of these services are already offered at discounts when bundled with AT&T's core business: mobile data and satellite TV. HBO, for example, is often free or only $5 per month for AT&T's higher ARPU wireless subscribers. Further, AT&T plans to use its SVOD to generate ad revenue and data for/through its advertising arm, Xandr.

Put another way, the goal of the "Max" in HBO Max is the same as Prime Video, Apple's Originals and Hulu's SVOD offering – to drive mass adoption of a baseline service that will be used to drive a bigger bundle. This reiterates AT&T's disinterest in 1:1 competition with Netflix. And notably, this model also means AT&T's video service will be primarily US-centric, as it does not offer wireless services abroad.

Disney+

Disney+ has the most unique and unreplicable model, even though it looks like a hybridized version of every other service. Like Netflix, Disney+ will be ad-free, global and focused on generating a direct profit in SVOD (Model #1). But, through its plans to offer a modestly-sized but only top-quality library, it will also feel like the premium cable networks such as Showtime & Starz (Model #3). And by maintaining traditional content windows, some argue it's incrementalist in ambition (Model #4, though this criticism overblown). Yet, the right way to think of the service is as the core of a bundle (#2), albeit one more abstract than those deployed by its competitors.

To point, Disney+ is likely be part of a broader Disney video bundle that includes both ESPN+ and Hulu (which is itself a bundle of other video services). In addition, Disney has suggested it will likely add the ability to purchase theater tickets and digital rentals to the service (though not at launch). This second point seems counter-intuitive (and has the potential to make customers feel "nickel & dimed"), but it would allow the company to provide customers with access to films Disney hasn't yet reclaimed the rights to (e.g. *Black Panther*, which is locked at Netflix for years), doesn't own (the MCU Spider-Man films, which are owned by Sony) or are still in the home video window (which Disney has said it will preserve, at least for now). But more importantly, Disney+ is likely to become a broader hub for all of Disney's digital content over time, including comics subscriptions and eBooks, as well as buying Disney consumer products. It will be, in an effect, the Disney bundle.

You can see this macro-bundle strategy in Disney+'s $7 monthly price (or $5.80 on an annual subscription). This price is certainly not revenue-maximizing for Disney+ and will make it hard for Disney to recoup the billions in forgone (and virtually 100% margin) revenue it could have received by simply licensing this content to third-party SVOD services. But, Disney has always been an IP ecosystem play. Its theme parks division, for example, does nearly 100% more revenue and 60% more profit than its studio group, but the latter drives the former (and all other business units, like consumer products). Everything flows together, starting from theatrical releases.

The goal of Disney+ is to be the new core, or anchor, for Disney. And it will drive the overall health of everything Disney does, whether it's sold through Disney+ or outside it through traditional third-party channels. Disney+ will achieve this by enabling The Walt Disney Company (for the first time ever) to know exactly who interacts with its content, how frequently and in what categories, and through which characters – and to know exactly what these subscribers buy, at which (targeted) prices and when. This should then allow Disney to increase consumption of its content, drive additional cross-upsell of its other products and experiences, disintermediate its traditional channel partners (e.g. travel agencies, movie ticket sellers, retailers) and improve margins across the entirety of its non-Pay-TV business. It can't do this if it's disintermediated by a third party in video. And as a result, the service is about maximizing Disney ARPU, not Disney+ ARPU or total video revenue. Generating $70 or $100 a year from Disney+ is irrelevant when you can use the service to drive a $5,000 Disney cruise vacation (and these customers will assuredly get Disney+ for free anyhow as it has no marginal cost).

To view Disney+ as a Netflix killer is thus to misidentify its business model, ambitions and role. The real casualties from Disney+ are likely Netflix's competitors (new, such as Apple and WarnerMedia, and old, such as Starz and Showtime), which have undoubtedly been forced to lower their launch prices and/or long-term pricing as a result of Disney+'s $6.99 monthly (and $5.8 annualized) subscription fee.

Driving "BundleVOD" Success

The models of Apple and Amazon will always work as long as three things are true. One, abundant capital is made available to their video initiatives. Two, there are other video channels in need of bundled/aggregated distribution and which are desired by customers. And three, these companies, at large, remain relevant; their inherited advantages (userbase and balance sheet), plus the fact they don't need to directly monetize video, mean they can "buy" success.

Hulu is a little different. Execution is still very important as the service is not yet global and will be entering non-US markets late and with many rights claimed for years to come (it doesn't even hold the foreign rights to many of its signature US originals, such as *The Handmaid's Tale).* In addition, it will never be able to replicate the strength of its US catalogue/access abroad. Still, the core of its success will be the collective production output of its parents (Disney, Fox and NBCUniversal), which will be subsidized by the "legacy" Pay-TV system for years to come.

AT&T's position is a little more precarious. If you're entering the scaled video business in 2019, there's no better starting ground than HBO (even Disney, for all its content, is starting from zero). And even as a standalone service, HBO can thrive in the D2C SVOD era (though changes and a lot of reinvestment is required). Still, there are many challenges to using HBO as the foundation of a broader SVOD service. For example, HBO's pricing contracts mean any expanded service can't be cheaper than $16 per month (or 3x Disney+). In addition, HBO has major holes in its global footprint (there is no HBO in the UK, Germany or Italy), and its brand has always been centered around an ad-free offering that consists only of the best-of-the-best in entertainment. This makes it tricky to build around. And as an aspiring bundling platform, AT&T has a relatively modest customer base (30% of US homes have AT&T service and 30% of TV homes have HBO v. 80%+ for Amazon and Apple; AT&T is a domestic-only service). Its content pipeline is also comparatively limited (Hulu accesses Disney & Fox & NBCUniversal's original output; Amazon and Apple will buy from anyone; WarnerMedia is focused mostly on its own productions).

Furthermore, AT&T's model is not quite as platform-centric as Apple, Amazon or Hulu; it's mostly focused on driving other WarnerMedia assets and AT&T products and services. While the benefits of self-dealing are clear, this strategy has always been tough to pull off. Distributors drive value through exclusivity and by withholding their differentiated assets from competitors, but media companies always maximize value by maximizing reach. As a result, what's best of AT&T may do greater harm to the likes of HBO, Turner and Warner Bros. (and raise the ire of the Department of Justice, which specifically warned against such moves before approving AT&T's acquisition of Time Warner). Regardless, AT&T's bundling model faces significantly greater execution risk. While Apple, Amazon and, to a lesser extent, Hulu don't care which add-on services their customers add, AT&T does – which also means that not only does its platform need to scale, its sister services need to be winners, too.

And more broadly, AT&T's strategy is also predicated upon the extent to which its video offerings drive AT&T's core wireless business. The economic case may not ultimately be here – and even if it is, it might not last. And of course, AT&T Mobility is only in the United States, which means a different model is required abroad (which could just be to license).

This doesn't mean AT&T's approach won't work. It's just more complex, less clear and harder than those of the other bundlers. At the same time, the widespread claim that a "telephone company will destroy HBO and/or Time Warner" is both unfair and myopic. It wasn't long ago that no one believed that Netflix or Amazon, both of which were logistics and digital delivery technology companies, could make good content either. And they didn't enter the premium content spaces with existing content pipelines, talent deals and hundreds of creative executives already at work. It's about approach, not history. If AT&T invests enough, for long enough, and adds the right programming atop HBO, there is *a* future. Ultimate profitability here is unclear.

And as for Disney, the strength of its content is so strong it's usually underestimated. For this reason, and many more (I detail nine here), success seems nearly assured.

Model 3: SVOD is Just About Moving to a New Screen (Premium Cable Nets)

In the digital era, most of the premium cable networks are applying the same strategy that they did during the heyday of Pay-TV. Each presumes a world where video viewers want and access many individual networks (or rather, video services) and where various distributors compete to repackage these services together atop a broader video offering (hence the strategy of Amazon, Apple, Hulu, etc.).

The goal for these services is thus to earn an incremental role in audiences' TV diets. This has typically been done through specialization. HBO, Showtime and Starz focused only low volumes of content at the utmost quality (creatively and in terms of production levels) and targeted the most valuable TV time: Sunday night. Historically, 25-35% of Pay-TV homes have responded to this value proposition – even though they had to spend $50-70 per month (and thus already had access to untold hours of content) before being able to buy these networks. Accordingly, the recent ability to purchase these networks atop smaller bundles (e.g. Hulu, Amazon) has allowed these networks to grow their penetration by as much as 5%, and enabled the launch of brand "new premium cable networks" such as CBS All Access.

Given this history, it's reasonable to believe this model will continue to work in the era of Netflix, Prime Video and Apple Video, and so on. However, it is nevertheless likely to be squeezed in the years to come (financially or in terms of number of supported players). Since there are no limits to distribution (i.e. Netflix and others can air as many different shows to as many different people at the same time, versus offering only one show in a given style at 9PM on Sundays), better-funded competitors (such as Amazon and Apple) are going after the very types/styles of content HBO, Showtime and Starz historically focused on but with lower prices, better reach, typically higher budgets, and more overall content. In addition, these networks never really scaled or succeeded as individual services; more than three-quarters of their customers were acquired collectively (a Pay-TV subscriber would simply add $30-40 per month to get HBO, Showtime, Starz, Cinemax and Epix altogether). This raised the pricing hurdle to consumers, but through bundling, it improved their individual price:value equation, reduced churn, sheltered them from programming doldrums, and reduced the need for marketing. In addition, these networks must now contend with Disney+, which is coming to the market with a larger catalogue, better film collection (roughly 40% of the top 10 films each year), more marquee originals… and at a dramatically lower price.

To this end, we're likely to see Showtime, Starz and CBS All Access fold into and become the core of their parents' video offerings – similar to how AT&T/WarnerMedia has used HBO. This will have many benefits, from reduced marketing spend (you no longer need to acquire the same subscriber twice), to better leverage on all programming investments (many more people would have watched *Star Trek: Discovery* if it was on the CBS-owned Showtime rather than CBS All Access).

Regardless, these services are also largely US-centric in both footprint and certainly in terms of subscribers. Which means in sum, they're hardly pursuing the Netflix model – even if the DVD-turned-OTT-streamer long believed they would.

Model 4: Pay-TV Adjuncts (NBCUniversal, AMC)

The least proven SVOD model is the also newest, least common, and most modest in its (medium-term) ambition. Rather than attempt to build tens of billions of dollars in new enterprise value (and/or reorient entire businesses), this model is primarily focused on extracting incremental revenues out of the legacy Pay-TV ecosystem, improving monetization of (mostly unsold) library content rights, and building long-term optionality.

The simplest example here is AMC Premiere, which is only available to Pay-TV subscribers with AMC, and comes at an additional monthly fee of $4.99 (AMC itself is roughly $1.5 per month, as per Wall Street estimates). By purchasing Premiere, customers get access to more in-season episodes on AMC's TV Everywhere app, as well as access to some shows/episodes before they air on linear television, plus select catalogue titles (though not *Breaking Bad*, *The Walking Dead*, *Killing Eve*, etc., which were sold at top dollar to Netflix and Hulu). FX (inclusive of FX, FXX and FXM) has a similar offering, FX+. It's unlikely these companies envisioned substantial short-term upside to these video services, let alone tens of millions of subscribers. However, they provided each network with the opportunity to generate incremental revenue without significant added cost, and the chance to build their first ever D2C relationships – which could later be used to jumpstart a non-Pay-TV service (similar to HBO Now) when needed.

The most substantial attempt at this model will launch next year and comes from mega-conglomerate Comcast/NBCUniversal. And with four versions, it's also the most complex: (1) the service's core offering is available only to Comcast/Sky's 52MM customers, at no additional fee, but it is inclusive of targeted advertising. (2) For a small monthly fee, these Comcast/Sky customers will be able to watch ad-free. (3) Non-Comcast/Sky customers will also be able to purchase the ad-supported and ad-free versions of the service, though presumably at higher prices than Comcast/Sky customers. Comcast also hopes (4) to make the ad-supported version of the service free to Pay-TV customers with other providers, though, presumably, this would require these providers to pay a small $1-2 monthly fee to Comcast.

By anchoring its service around its own Pay-TV offering (and the Pay-TV system overall), Comcast/NBCUniversal seems primarily focused on incremental monetization – like AMC & FX, and unlike Netflix, Disney or AT&T. This is reiterated by the company's stated content plans. NBCUniversal recently affirmed a long-term deal to supply Hulu with content (though both parties can effectively terminate this deal) and the company's CEO, Steve Burke, has reiterated that unlike Disney/Fox and WarnerMedia, it will not stop sales to third parties. Instead, the media giant will "constantly be looking at all the alternatives and put shows where they belong and where they maximize value". Comcast CEO Brian Roberts has made similar statements, telling *Hollywood Reporter,* "Lots [of our content] will monetize best with [our OTT service]. And [other content] will [monetize] best on third party platforms".

As a result, NBCUniversal's offering looks like an effort to better monetize assets the company believes are being undervalued by third parties (such as *Heroes*, which is on Netflix), monetize library assets that haven't sold (*Just Shoot Me*) and extract additional value from Pay-TV subscriptions through additional fees, churn reduction and advertising. True, the company has reclaimed the rights to *The Office* (which will cost $500MM over five years), but this should be seen as a "base coat" content investment to ensure the platform is viable. Still, this incremental approach doesn't mean NBCUniversal doesn't have larger hopes for the service. As with AMC and FX, the company may be looking to use its S/AVOD service to build a foundation for a more disruptive platform later on. And to some extent, this delay is strategically necessary. The company's feature film outputs are the longest in the industry (locked at HBO until 2023, which means only films released in 2024 will start to be available), with most TV rights locked until 2021 and 2022.

Netflix Killers

When we look at the companies that have invested most heavily in premium digital video, they've tended to enter for one of three reasons: some did so because they had to (old media), others because they saw opportunity to gain share in a previously impenetrable industry (Netflix, YouTube), with a final group motivated by their customers' affinity for video media (Apple/Amazon).

This has produced a world with far more business model diversity than video has ever seen before. For all their supposed differences, broadcast, basic cable and premium cable networks have held incredibly similar goals for decades – maximize distribution, maximize viewership of your content, and maximize pricing – and have always done so together (even the supposed a la carte channels HBO/Showtime/Starz were usually bought together and as part of just-give-me-everything tier of Pay-TV). There's far more variety today, not just in monetization, but packaging and objective as well. Further, the major players are pursuing different models than were ever anticipated. And crucially, no one ever went after Netflix.

PART TWO: THE IMPORTANCE OF SOLVING PROBLEMS AND WHAT THAT MEANS FOR THE CHALLENGERS TO COME

Success in Solving; Solving for Success

As myriad A/SVOD services launch, I retreat to the core question of what consumer problem they solve. Every media company wants a scaled D2C SVOD service – that's basically a tautology. But most of the services being launched in 2019/2020 are being launched to solve an internal business need, not any unmet audience wants.

You can tell this because the business need is now: Pay-TV is collapsing, and most believe there will only be a few successful scaled D2C SVOD services. However, the audience want for simple, low-priced digital video without ads has been clear, present and vocal for years now. Corporate brands are only now pushing these services because they only now feel the financial or strategic need for it.

This is what makes timing important. You can control what you do – and sometimes you can even ignore what your consumers want – but you can't control what your competitors do. Netflix doesn't serve an incrementally necessary role in audiences lives in 2021; there will be many, many video services that its subscribers could use instead. But Netflix has earned a role in its customers lives because it was first to address the core audience wants for better access, lower prices, better experiences, and so on. It may not need to exist today, but it solved a consumer problem at scale – and so it will exist.

Like Netflix, Hulu also solved a consumer problem, only it wasn't the one it originally focused on: next day VOD and "trailing five" episodes. The company's growth only really picked up when it shifted its focus to being a low-cost store of deep catalogue and rerun television (with 3x more TV episodes than Netflix and Amazon combined) – much of which was never before available online (let alone in one place) and thus had generationally pent up demand. Another company/service could have filled this role – and indeed Netflix was initially focused on this content before moving to owned originals – but no one else was. And with guaranteed access to Fox and Disney, and a strategic partnership with NBCUniversal, Hulu's supply of this content isn't going anywhere, nor is viewership.

Amazon, too, solved a real problem. It aggregated vast amounts of digitally delivered content across windows (e.g. purchase, rental, SVOD) and providers (e.g. HBO, Showtime, Starz) into a single, easy-to-use and distributed experience. And to delight customers further, it then gave away Emmy-grade exclusives for free. Apple may be replicating the same model, but many consumers have yet to begin re-aggregating their traditional TV content into digital subscriptions, so that problem is still not fully solved. And many Apple households still prefer to do as much as possible within Apple (meaning even for some happy Amazon users, Apple will solve a problem).

The major premium networks, such as HBO, have always succeeded through specialization. They offer the very best content, focus everything they do around it, and consumers continue to make room in their lives and budgets for this. Now, that doesn't mean there's an infinite opportunity for new brands to make room. Indeed, I don't think there's room for as many who operate there today. But they were born and scaled out of solving a real consumer need – for the types of content broadcast and basic cable couldn't provide. That's why they existed.

Success Through Problem Creation

My challenge with the rest, including not-yet-announced but inevitable corporate rollups, is the why. It's not enough to have a good catalogue, or even good new originals and a known brand. Consumers in 2020 already have a baseline layer of Netflix ($12, 50% penetration in the US), plus Prime Video (free, estimated 70% US penetration), plus Apple (likely free, 90%+), and at least Disney ($7) or Hulu ($6), perhaps one premium cable network ($8-15) and a specialty subscription or two, such as Fox Nation or Crunchyroll (if not also a free AVOD service from a connected device company, such as IMDb TV for Fire TV or The Roku Channel on Roku). This is a tremendous volume of baseline content. Why might a household need yet another new service? What problem does it solve? And if it doesn't actually solve a problem, save for "I want to watch this season of 'X' and it's on service 'Y'", are these services really subscriptions – or just in the business of selling individual shows to a given TV watcher from time to time, after which they then cancel (this is essentially like selling a season of TV via iTunes).

For the most part, most of the new entrants are actually *creating* problems so that their services can then solve them (i.e. taking content consumers already like watching on Netflix and Hulu and moving it elsewhere for a new fee and requiring a new app). To this end, Quibi receives a lot of pre-launch criticism (the majority of it unfair and uninformed), but it at least has a unique hypothesis and is trying to solve a new consumer problem and address a new opportunity.

True, the above should apply to Disney+, as many consumers would rather continue to watch Disney content on Netflix and without an additional fee. But there's a strong case that this specific branding (Disney) with deep integration into other Disney content and experiences, plus a specialized UI, will be valued by consumers. It will solve a need for brand trust, brand access and IP-based storytelling.

This leads into the big OTT video question: how many services will the average household subscribe to? No one knows; consumers have never faced this decision before. Five years ago, it was controversial to think consumers might only subscribe to a few services. Today, it has become a consensus concern. At a town hall in 2018, WarnerMedia CEO John Stankey told HBO staffers there would only be a few viable D2C services, adding, "It's not going to be 10, probably won't be two. Now is it eight, six or four? I don't know". In most consumer digital markets, we see one or two winners take most of the value (e.g. Uber & Lyft, Seamless, Airbnb, Facebook, YouTube, Spotify & Apple Music, iOS and Android, etc.). This degree of concentration is unlikely as the network effects aren't as strong, a major player can neither access all content nor acquire it, and the inputs (content) are far from commodity.

Still, consumers don't need infinite services, lock in effects are still real, and attention is finite. We haven't seen families cut back on the number of subscriptions yet, but that's partly because cord-cutters are still freeing up $80-150 in monthly Pay-TV spend and 450+ in monthly video viewing. As the shift to OTT matures, wallet competition will commence. And whether the average family has four or six services matters a lot, especially if two are already taken (say, Netflix and Hulu) and another two (Amazon and Apple) are effectively purchased by their corporate parents through indirect monetization. To this end, the real question should not be "how many will households subscribe to", but "how many *more* will they subscribe to".

AVOD

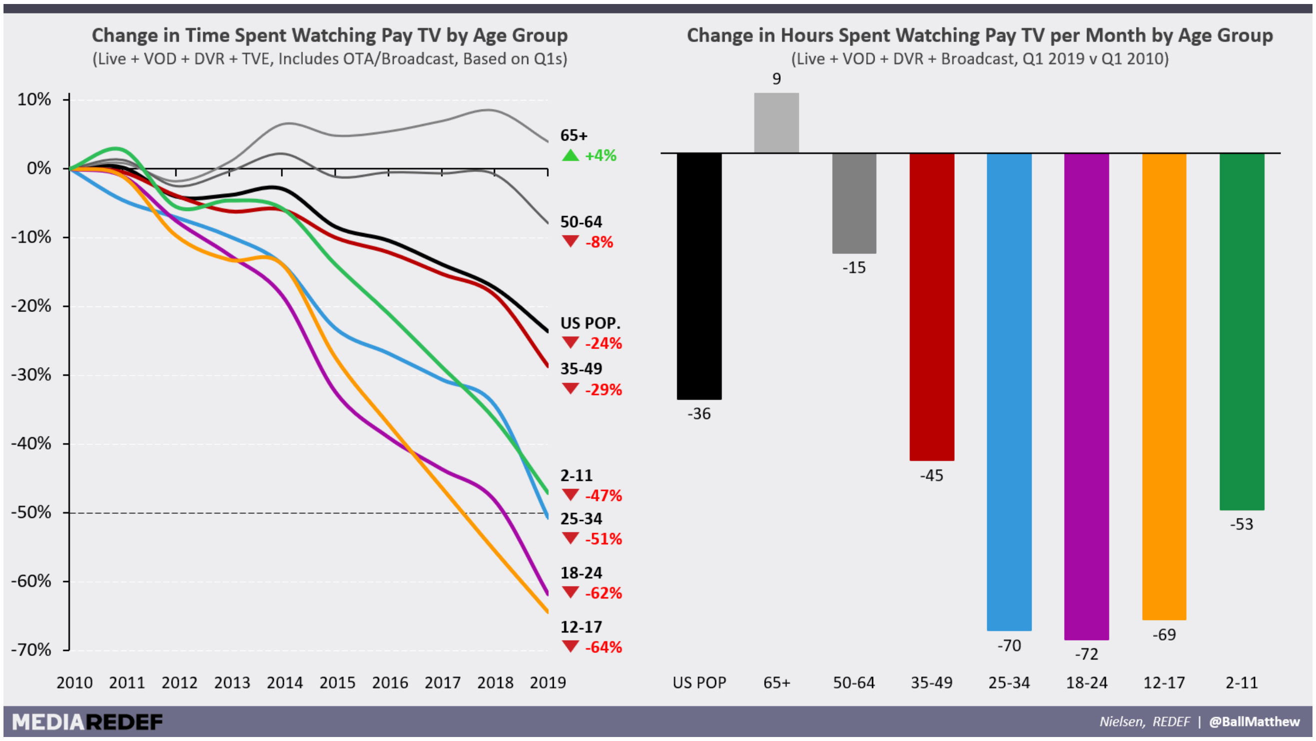
I'm not convinced AVOD is a solution to this frame. Not charging certainly feels less daunting at this point than asking for another $10 per month, but it doesn't solve for something new or outstanding. How many homes with the above 5-7 services say, "I wish I had another service, but this one would be free and with ads" (and keep in mind, several of these services are already free and *still* don't have ads). This doesn't mean there isn't some money here, especially when these services are pre-loaded onto well-distributed devices such as the Fire TV (IMDb TV) or Roku (Roku Channel), but by definition these services, too, are actually about something else. They do get good, brand-name titles, but they are – by definition – only titles that were picked over by the major streaming services, or where the rights-holders felt that the streamers weren't valuing them appropriately (i.e. highly enough). In addition, further M&A and verticalization should slowly stifle much of this supply (MGM, Lionsgate, Starz, Sony and Paramount are the primary suppliers to these services).

PART THREE: CULTURE, TIMING AND REMNANT OPPORTUNITIES

None of this intended to be a specific criticism to any player. Rather, it's a reflection of the challenges involved in launching in 2020 – long after key consumer problems were solved. And making matters worse, it has also been decades since the major media companies really had a culture focused on consumer needs. For decades, all a cable group needed to do to grow revenue and profits was to just stand up a new network and force distributors to carry it. Whether audiences wanted it didn't matter; they would pay anyway (how many homes wanted FX to split into FX & FXX in 2013?).

This type of thinking doesn't work in direct-to-consumer over-the-top video. Audiences need to make room in their lives for you. Whether you have a strong library of catalogue content is beside the point, which is why I struggle to be optimistic about the remaining corporate SVODs. I'm just not convinced they're wanted by many people outside their corporate offices.

At the same time, it is also not quite fair to say media executives weren't willing to shift earlier than strictly necessary, or were unaware of consumer wants. The issue is that they all thought that there would be one more deal cycle (i.e. those for Pay-TV distribution, Pay-1 film output, live sports) before Pay-TV died.



This assumption was wrong. And it cost these companies much of their cash and content advantages, and harmed their ability to use Pay-TV to subsidize their digital efforts. That's all it really took – one wave of decision making. Which is why you now see companies aggressively burning their boats (in a good way, AT&T seems to have recently decided they don't care about affiliate revenue, licensing, or DirecTV's satellite business – all that matters is HBO Max).

"Niches"

While the major niche services have grown substantially over the past few years (though several died and much of the growth was secular), the category still seems more challenged and less viable today. The core reason here is that while niche services are often framed as specialization and/or super-serving specific audiences, they're ultimately about arbitrage. The business model is predicated on a service's ability to offer the same customers as the major services (no one who has Crunchyroll doesn't have Netflix and Amazon)… far less content (80-90% fewer titles, 95%+ less spend)… for a comparatively modest discount (30-60%)… based on the premise of focus, community, brand and potentially non-video content. To succeed, these services therefore need at least one of two conditions. First, the ability to generate so much revenue per title that they can more effectively monetize the license than the larger services, such as Netflix, even though these latter services have a much larger audience to amortize the title against. For example, AcornTV has only 1MM subscribers in the US, compared to Netflix's 60MM, but may generate $1 per subscriber from title X, while Netflix might generate $0.005. The second condition is for the category to be either too small, or relatively too invaluable compared to other genres/audiences.

As anime subscription services have grown, for example, licensing costs have surged in part due to increased attention from Netflix and Hulu. Over the past two years, Netflix has commissioned dozens of original anime series, announced live action adaptations of major classics, and outbid market leaders Crunchyroll and Funimation for one of the genre's most important titles, *Neon Genesis Evangelion* (something Funimation Founder and President Gen Fukunaga framed as bad for the industry and its fans). In addition, Funimation formed a license sharing agreement with Hulu that will cover at least 20 series per year, day and date. DC Universe (a subscription service focused on super-serving fans of DC Comics with video, podcasts, comics and merchandise) seems even more troubled. AT&T is believed to be considering shutting down the service (having done so with most of its other niche services, such as FilmStruck and DramaFever, but not Crunchyroll) in order to fold its content into the company's forthcoming and more broadly-targeted service (where, presumably, the company will get better financial leverage over content investments). And even if the service survives, it's unlikely to get the DC universe's most valuable content, such as *Aquaman*, *Wonder Woman* and *The Dark Knight* trilogy. Regardless of whether niche SVOD services such as Crunchyroll, AcornTV or DC Universe will exist in ten years, they will still be modest in both subscribers and revenue – especially compared to the operating scale of their owners. And accordingly, they'll look more like hobbies than the foundation of a digital, D2C corporate strategy.

Despite this, I do still think there's an opportunity for larger, better, more inspiring ethnic SVODs. You can't look at AcornTV and Crunchyroll and not believe there can be a much, much bigger version focused on the Latinx or the black American identities (BET is trying this). With Disney focused on Disney+ and YouTube mired in controversy and constant programming and monetization shifts (music! Live TV! No ads! Original content!), there should also be an opportunity for a focused pre-school SVOD (again, Viacom is targeting this with Noggin). Fox Nation has a similar upside (and an opportunity for a version on the left also exists), as can sports/team/league-based OTT video services. But notably, these aren't really about serving a niche so much as consolidating around brand or customer identity in the same way Coke and Pepsi aren't really about cola, and Disney+ isn't about family content.

Interactive

I do find interactivity interesting as an opportunity for competition. In many countries, gaming is already a bigger category than video, and the lines between video games and lean-back TV will only continue to blur. There is too great a mismatch between the static linear content being created and the capabilities/sensors/experiences afforded by today's video-playing devices, not to mention the wants, expectations and attention spans of today's consumers. And at a macro level, the greatest opportunity to leap-frog competition has always been during times of format/platform shifts. Interactivity and gaming look like that opportunity, even if an existing media giant only uses them to drive its laggard video service. Sadly, however, Netflix seems to know this. It is learning hardest from these capabilities and has the easiest ability to test and therefore learn from them. Based on reports that Spielberg is writing a horror series that can only be watched at night, Quibi may be planning a similar play. And there is a lot of opportunity here as a mobile-only platform.

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Watch out.
(Marvel)