Disney and Hulu face battle to close the gap with Netflix

Study shows scale of struggle by streaming service to catch up to industry leader

3 hours ago

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Tim Bradshaw in Los Angeles

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Netflix is widening the gap with its Hollywood-backed rival Hulu in the battle for viewers, researchers said, as Walt Disneymoves to take full control of the video streaming service through its 20th Century Fox acquisition.

Netflix's American audience is approaching the size of the entire US pay-TV market, according to a new survey by PwC, while separate research by IHS Markit suggests the maker of *Stranger Things* and *House of Cards* is widening its lead over Hulu in paying subscribers.

The findings point to the scale of the challenge facing Walt Disney in the fight to win new subscribers. After its planned $66bn takeover of 21st Century Fox's entertainment businesses it will become Hulu's majority owner, as US cable subscriptions continue to ebb.

Bob Iger, chief executive of Disney, said last week on a conference call announcing its bid for Fox that creating direct-to-consumer streaming services is "vital" to its future and his "highest priority".

He said Hulu would be a "more adult-oriented product" than the family-friendly Disney-branded streaming service planned for launch in 2019, when the first phase of its current content licensing deal with Netflix expires.

Disney and Fox are currently joint owners of Los Angeles-based Hulu alongside Comcast's NBC unit. The three each have an equal stake; Time Warner bought 10 per cent of Hulu last year.

"Owning roughly a third of it was great, but having control of it will enable us to greatly accelerate Hulu into that [direct-to-consumer] space and become an even more viable competitor to those that are already out there," Mr Iger said.

Market researchers suggest Disney and Hulu have a long way to close the gap with the industry's leader, Netflix.

Analyst group IHS predicts Netflix will increase its US subscribers to 54m by the end of this year, increasing its lead over Hulu from 33m a year ago to

37m. Hulu does not disclose its paid subscriber numbers but IHS's estimates are higher than others in the industry at 17m.

Other studies also point to Netflix's growing stranglehold on the market for online video. A survey of about 2,000 Americans in October by PwC found that 73 per cent of respondents subscribe to pay-TV services, including cable and satellite, while 73 per cent also subscribe to Netflix.

Netflix reported 53m domestic streaming customers at the end of the last quarter, which is still significantly behind IHS's calculation that total pay-TV homes stand at roughly 95m.

The discrepancy between the reported figures and PwC's survey responses may reflect the extent of password-sharing among Netflix customers.

Hulu was launched 10 years ago as Hollywood's response to the growth of YouTube. In recent years, it has become the traditional media industry's best hope against Netflix and Amazon, which are investing billions of dollars to produce their own content and reduce their dependence on Hollywood.

"Hulu historically has tracked the major strategic worries of its corporate parents," said Dan Cryan, research director at IHS Markit. "To grow that business going forward, it is going to need a clear point of differentiation. What is not entirely clear is where that comes from."

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Hulu has been best known as a way to catch up on broadcast TV shows that viewers missed, Mr Cryan said, but other US media companies such as NBC and CBS are increasingly building their own standalone apps.

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>
> ***Dan Cryan, research director at IHS Markit***

Mr Iger said he believes Hulu's differentiation will come from Disney and Fox's shows, which are being pulled from rival platforms, as well as Hulu's own original programming, such as its Emmy Award-winning *The Handmaid's Tale*.

"Hulu has been increasing its investment in original programming and in licensed programming," Mr Iger said last week. "If we decide to increase our spending on original content at Hulu, we certainly have the intellectual property-creating capabilities far more than we did before this acquisition."

Disney is also planning a standalone streaming service for ESPN, its sports network.

PwC's study found live sports on cable and satellite are still the main reason preventing most consumers from cutting the cord, with 82 per cent of sports fans saying they would end or trim back their pay-TV services if they could watch the game online.

However, hopes in the traditional media industry that consumers will replace their cable and satellite subscriptions with an array of streaming services and online channels may be overly optimistic. Most "cord cutters" and "cord nevers" — youngsters who have never signed up for traditional pay-TV — regularly watch just two services.