Perspectives from FSF Scholars
September 29, 2021
Vol. 16, No. 52

Pixel by Pixel, Video Streaming's Ascension Comes Into Focus

by

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I. Introduction and Summary

Like a Magic Eye® pattern or a stand of individual trees, the overall transformative impact of Internet-streamed video consists of a collection of small, individually unremarkable elements. And just as recognition of the hidden 3D image or forest requires a change in focus, so, too, does a full appreciation of streaming video services' disruption of the video distribution marketplace demand a new big-picture perspective. Viewed in the appropriate context, a seemingly unrelated series of recent news events – the unprecedented success of Netflix and Apple TV+ at this year's Emmys, the availability of data highlighting the ongoing shift in consumer preferences away from monolithic multichannel video programming distributor (MVPD) bundles and toward a self-selected collection of streaming offerings, and the seeming end of the decades-long era during which live sports, especially the NFL Sunday Ticket, effectively drove traditional MVPD subscriptions – collectively reveal a dramatically altered competitive landscape.

Without question, the use of the Internet to distribute video content is transforming the consumer viewing experience at an ever-accelerating velocity. Additional pieces of evidence refuting long-held assumptions regarding undue competitive power seemingly emerge with each passing day. It therefore is essential that policymakers acknowledge these discrete developments, appreciate how they combine to paint a vibrant picture of competition and choice, and in response take timely steps to remove outdated statutes and rules from the books.

Specifically, the expanding economic muscle of both streaming services (Netflix, Amazon Prime Video, Disney Plus, Hulu, Apple TV+, HBO Max, and numerous others) and the hardware/software platforms (including Roku, Amazon Fire, and Apple TV) that enable their apps demand the swift elimination of legacy regulations premised upon the misguided notion that traditional MVPDs enjoy some unique anticompetitive advantage. In recent years, the Federal Communications Commission has made significant strides in this area, for example by formally terminating the so-called "unlock the box" navigation device proceeding initiated by former Chairman Tom Wheeler in 2016. However, there is more work that Congress and the FCC can and should do, including eliminating altogether the navigation device law or officially sunsetting its implementing rules, terminating the MVPD definition proceeding, and removing rules relating to program access and carriage.

The list of the most significant developments demonstrating the changed competitive environment includes the following:

- Roku and The Harris Poll conducted a survey in August revealing that each week Americans watch, on average, 78 more minutes of streaming content than linear programming services (that is, traditional television "channels");
- According to that same survey, 86 percent of consumers stream video content – and a third do not subscribe to a traditional video package; and
- As I noted in a June 25 post to the *FSF Blog*, Nielsen reports that viewers now spend more time watching streamed content than broadcast television.

In this piece, I address three additional data points of note. First is the impressive number of awards won by streaming services, in particular Netflix and Apple TV+, at the recently held 2021 Emmy Awards.

Second is the emergence of data revealing that consumer preferences are shifting away from a single, monolithic MVPD offering, whether traditional or Internet-based, to a self-curated collection of multiple, focused streaming options. Facilities-based MVPDs – cable, DBS, and telco – have been shedding subscribers for nearly a decade, and while virtual MVPDs (vMVPDs) have had success capturing a portion of that audience, the bigger story is that, overall, the number of Americans subscribing to an MVPD is in meaningful decline. At the same time, consumers are signing up for monthly streaming offerings by the hundreds of millions – and in many cases not just one, but multiple (that is, three or more) services.

The third relates to news that Amazon and Apple are serious contenders to secure the rights to NFL Sunday Ticket, a package that only recently served as the key to substantial subscriber growth for DIRECTV at the zero-sum expense of rival MVPDs. Neither Amazon Prime Video nor Apple TV+ competes in the comprehensive-package MVPD space. Instead, both offerings consist primarily of library content, licensed and original. That Amazon or Apple might outbid DIRECTV and other MVPDs for this "must-have" content underscores the relatively diminished allure of the classic MVPD offering for purchasers of video programming.

As the combination of these and previous data points approaches a critical mass, a picture of a transforming video distribution marketplace emerges. One defined by numerous large and non-exclusive competitors, empowered consumers, and evolving viewing habits. The challenge for policymakers is to focus on, and react to in a timely fashion, this altered and still-evolving image – and, in response, take appropriate and decisive deregulatory actions.

II. It's Official: The Streaming Age Has Arrived

The 2021 Emmy Awards ceremony, held on Sunday, September 19, 2021, represents a defining moment in the Internet's relentless disruption of the video marketplace. Streaming video services for years have dominated in terms of subscriber growth: the number of offerings that singlehandedly overshadow the combined total customers of the top seven cable operators (less than 43 million) includes Netflix and Amazon Prime Video, both with more than 200 million; Disney Plus, with over 100 million; HBO Max, and Hulu. Paramount+, Apple TV+, and Peacock are not far behind.

However, this is the first year that that success translated into a commensurate number of statuettes. Netflix broke records with 44 trophies, including the awards for outstanding drama series (The Crown) and outstanding limited series (The Queen's Gambit). Apple TV+ took home the Emmy for outstanding comedy series (Ted Lasso). That Amazon Prime Video's The Underground Railroad and Hulu's The Handmaid's Tale failed to capitalize on their numerous nominations (7 and 21, respectively) drove headlines.

III. Consumers Increasingly Prefer Self-Curated Collections of Streaming Services

Unprecedented subscriber totals and formal recognition by the Academy of Television Arts & Sciences® is one thing. Equally significant, however, is the growing number of consumers who are choosing to subscribe to multiple streaming services.

This is a big change from the situation that existed when the 1992 Cable Act was passed. At that time, Congress perceived significant technological challenges preventing consumers from even watching over-the-air broadcast signals and cable television service on the same device, formally finding that:

> Most subscribers to cable television systems do not or cannot maintain antennas to receive broadcast television services, do not have input selector switches to convert from a cable to antenna reception system, or cannot otherwise receive broadcast television services. A Government mandate for a substantial societal investment in alternative distribution systems for cable subscribers, such as the "A/B" input selector antenna system, is not an enduring or feasible method of distribution and is not in the public interest.

By contrast, today streaming platforms such as Roku and Amazon provide tens of millions of consumers with the ability to install and access multiple video-provider applications on a low-cost piece of hardware (or directly on a so-called Smart TV), a gatekeeping role that, incidentally, has led to numerous "app carriage disputes," an emerging issue that I addressed in the recent *Perspectives* referenced above.

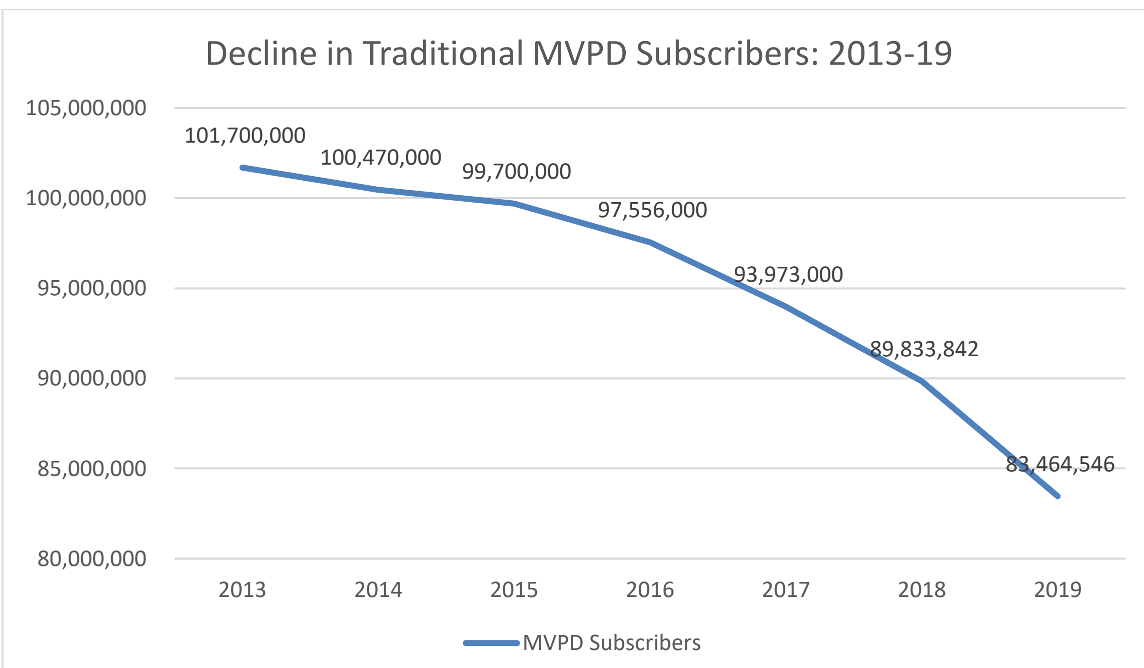
Thus empowered, consumers increasingly are choosing to subscribe to numerous streaming services. According to Leichtman Research Group, 78 percent of U.S. households subscribe to Netflix, Amazon Prime Video, or Hulu, up from 59 percent in 2016, an increase of nearly one-third in just five years. 58 percent of all households subscribe to two or all three, up from 28 percent in 2016. 74 percent of those that subscribe to at least one of these three offerings subscribe to at least one of the other two.

Factoring in 11 additional services – Apple TV+, BET+, Curiosity Stream, Discovery+, Disney+, EPIX, ESPN+, HBO Max, Paramount+, Showtime, and Starz – 82 percent of homes subscribe to at least one streaming service, 53 percent to three or more, and 27 percent to five or more.

IV. Consumer Interest in the Monolithic MVPD Package Is Waning

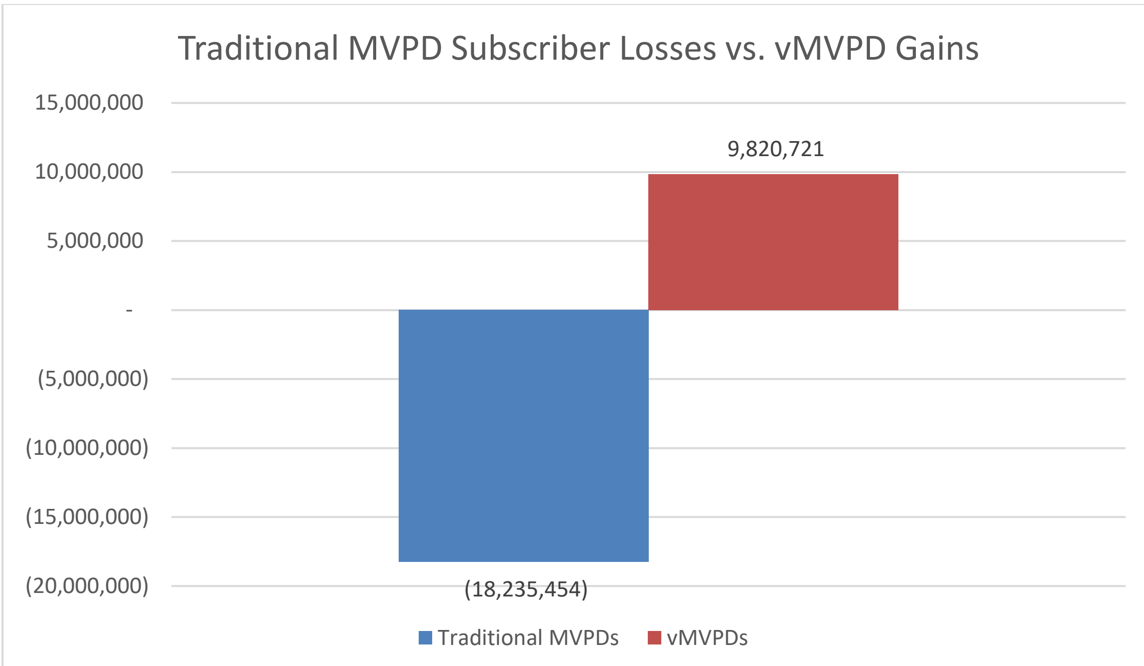
As the FCC noted in the 2020 Communications Marketplace Report, MVPD total subscribers (cable, DBS, telco) have been on the decline since 2013. This further supports the conclusion above that consumer preferences are shifting away from bundles centered upon live linear channels toward services with compelling content libraries such as Netflix, Hulu, and Amazon Prime Video.

The chart below displays FCC data from 2013 to 2019:



Sources: 2020 Communications Marketplace Report, 2018 Communications Marketplace Report, Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming, Eighteenth Report (2017), Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming, Seventeenth Report (2016).

As the chart illustrates, traditional MVPDs shed over 18 million subscribers between the end of 2013 and year-end 2019. Some, but by no means all, of those losses were offset by the gains of the relatively new product category of vMPVDs. Leichtman Research Group currently reports data on three of the top vMVPDs: Hulu + Live TV, Sling TV, and fuboTV. A the end of the second quarter of this year, they had a combined total of 6,820,721 subscribers. As of the end of 2020, Google claimed that YouTube TV had 3 million subscribers, which would bring the total for the vMVPD category closer to 10 million – which is still just over half of the number of subscribers traditional MVPDs have lost.



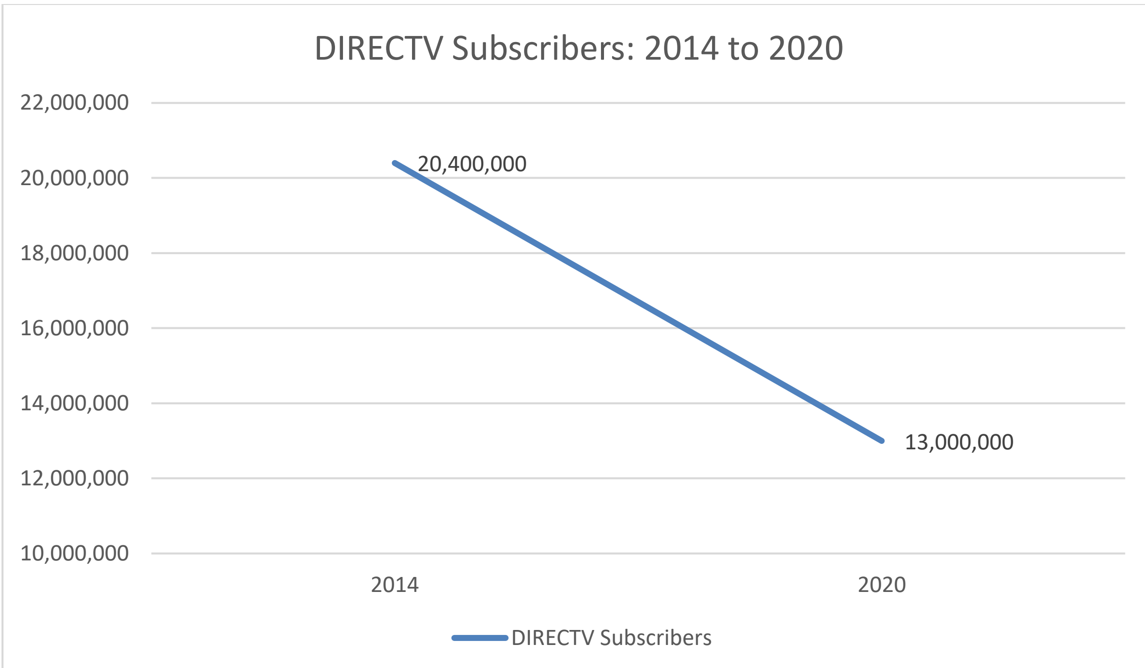
Moreover, even vMVPD growth is slowing. Google chose not to report first quarter 2021 results, a fact that is notable in its own right, but MoffettNathanson estimates that it added only 75,000 subscribers, its slowest rate of growth since the beginning of 2017. MoffettNathanson also reports that Hulu + Live TV lost 200,000 subscribers, and Sling TV 100,000 subscribers, during the first three months of this year, while fuboTV added only 43,000.

In other words, the monolithic MVPD bundle is losing consumer appeal, no matter how it is delivered.

V. The NFL Sunday Ticket Is a Bellwether of Change

The evolving saga of the NFL Sunday Ticket, an exclusive package of out-of-market football games that not that long ago played a central role in DIRECTV's successful customer acquisition strategy, presents still more evidence of foundational change. When most consumers subscribed to one – and only one – package of primarily live, linear cable and broadcast channels from a facilities-based MVPD, DIRECTV's longstanding exclusive agreement to distribute the NFL Sunday Ticket was seen as the quintessential example of "must-have" content, a crown jewel able to win customers from rival distributors. So much so that in 2014, AT&T's offer to acquire DIRECTV for $48.5 billion hinged upon the DBS provider's ability to renew its deal with the NFL.

In the seven years since, things have changed dramatically. According to the FCC, at the end of 2014, DIRECTV had 20.4 million subscribers, a slight gain from twelve months prior. AT&T stopped disclosing DIRECTV numbers separate from its U-verse and AT&T offerings at the end of last year, but at that time the Leichtman Research Group reported that that number had plummeted to 13 million, a 36 percent drop.



Sources: Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming, Seventeenth Report (2016), Leichtman Research Group Press Release, "Major Pay-TV Providers Lost About 5,120,000 Subscribers in 2020" (March 4, 2021).

Ultimately, AT&T spun off its video distribution assets altogether in a transaction that closed in August 2021. Prior to that, however, it reportedly "considered abandoning its exclusive arrangement with the NFL for the popular NFL Sunday Ticket … [which] has become a money loser for AT&T, given the high cost of sports rights." It would seem that substantially less subscribers overall translated into fewer customers willing to pay for the NFL Sunday Ticket, resulting in a scenario where revenues cannot cover the high licensing fees.

This is not to suggest, however, that NFL Sunday Ticket is no longer a high-value arrow. What seems to have changed is the quiver. Earlier this year there were rumblings that Apple was interested in NFL Sunday Ticket for its Apple TV+ streaming service. More recently, it appears that Amazon, which already holds the rights to stream NFL games on Thursday nights, may be in the lead. Critically, however, neither Amazon Prime Video nor Apple TV+ markets itself as a one-stop source for all things video, at least at present. Both lack many inputs that, from a traditional (or even virtual) MVPD perspective, would be seen as essential: local broadcast stations; live, linear cable programming services; programming guides; and more. The strategy, therefore, does not appear to be centered upon "owning" the customer. And that well could be because consumers increasingly are rejecting the monolithic MVPD bundle, a topic I addressed in a previous section.

Instead – and, to be clear, this is purely speculative – the end game for Apple and Amazon may not be entirely related to video per se. Apple primarily is known for its hardware, specifically iPhones. With the purchase of a new iPhone, iPad, iPod Touch, Apple TV, or Mac comes three months free of Apple TV+, which could serve as a compelling incentive on the margin. And access to Amazon Prime Video is offered exclusively as one of many benefits that come with an Amazon Prime subscription, currently $12.99 per month or $119 per year (plus taxes). Amazon Prime's core offering, of course, is free shipping on items purchased from amazon.com.

VI. Conclusion

Megabit by megabit, Internet streaming radically redefines both available products and consumer preferences. Traditional MVPDs watch as customers increasingly cut the cord and subscribe instead to multiple streaming services. Virtual MVPDs enjoy a certain degree of success, but not at a sufficient level to offset the losses of facilities-based providers. DIRECTV appears willing to relinquish its twenty-five-year hold on the NFL Sunday Ticket, that package's power to drive subscriptions apparently no longer sufficient to cover the high licensing fees. Amazon and Apple reportedly are eager to take DIRECTV's place, presumably able to cover the price tag through revenues not derived from a monolithic video package, and perhaps not directly related to video at all, or at least not entirely. And as this year's Emmy Awards attest, streaming services officially have arrived.

The perspective of policymakers must evolve in response. Foundational assumptions regarding provider and consumer behavior that may (or may not) have been accurate at various points in the past do not survive scrutiny in today's marketplace. The primacy of the traditional MVPD wanes while the economic might of streaming services and platforms expands. As a consequence, and as I argued in "Streaming Continues to Redefine the Video Landscape: It's Past Time to Eliminate Legacy Regulations," a June 2021 *Perspectives from FSF Scholars*, Congress and the FCC have a duty to identify and remove legacy statutes and regulations premised upon factual details wholly absent from today's highly competitive view.

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Further Readings

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