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# MSOs Offer Solid OTT Service But Take Few Subscribers from Netflix

Companies: AAPL, AMZN, CBS, CMCSA, CSTR, CVC, DIS, DISH, DTV, GOOG, NFLX, NWS, T, TWC, TWX, TYO:6758/SNE, VIA, VZ

**December 14, 2012**

Research Question:

**Are Internet subscription services like Netflix and Hulu Plus losing out as MSOs introduce more OTT content?**

## Summary of Findings

- Fourteen of 20 sources do not think MSOs' expanded OTT services will lead to a subscription decline for Netflix Inc. (NFLX) or Hulu Plus (a joint venture by Comcast Corp./CMCSA, The Walt Disney Co./DIS and News Corp./NWS). Three sources said MSOs' OTT services could lead to fewer subscribers for Netflix and Hulu, but two others said Netflix and Hulu may even post a subscription increase because they are meeting customers' demands.
- Netflix's recent deal with Disney was considered a positive move by cable operators, content distributor professionals and industry specialists. The deal places Netflix on a more level playing field with premium channels and may lead to other content deals.
- MSOs are well positioned to offer OTT services that meet customer demands because of their live sports content, large subscriber base, strong relationships with and revenue for content producers.
- Comcast leads the MSOs in providing OTT services. Verizon Communications Inc.'s (VZ) FiOS, DISH Network Corp. (DISH) and AT&T Inc.'s (T) U-verse also offer strong OTT content. However, providing such services merely helps MSOs to retain their subscriber base rather than to generate new customers.
- MSOs' top content distribution spot will be challenged by high pay-TV pricing, content producers distributing directly to consumers, demand for a la cart services and a crowded OTT market.
- OTT players are plentiful. Possible contenders include Apple Inc.'s (AAPL) Apple TV, Google Inc.'s (GOOG) YouTube, Amazon.com Inc.'s (AMZN) Amazon Prime. M-Go, expected in Q4, also was discussed.
- OTT users and industry specialists said OTT viewing is becoming more mainstream. Simple, reasonably priced solutions will reign.

| | NFLX, Hulu Losing to MSO OTT | NFLX/DIS Deal | MSOs Well Positioned to Offer OTT |
|---|---|---|---|
| Cable Operator Executives | ↓ | → | ↑ |
| Content Distribution Professionals | ↑ | ↑ | ↑ |
| Industry Specialists | ↓ | ↑ | ↑ |
| OTT Users | ↓ | N/A | N/A |

## Silo Summaries

### 1) CABLE OPERATOR EXECUTIVES

None of these five sources expects OTT program expansion to create major subscription increases or decreases for their services or those offered by Netflix or Hulu Plus, which provide viable add-on services. One source said Netflix and Hulu do not compete directly with OTT services while another said Netflix's deal with Disney places it more in competition with premium channels like HBO and Starz. Most cable providers are adding additional OTT and TV Everywhere-type services to meet consumer demand, and believe they have an advantage because they offer live content, including sports, and have solid relationships with content producers.

### 2) CONTENT DISTRIBUTION PROFESSIONALS

Three of four sources said Netflix and Hulu will be challenged by the MSOs' ease of use, consumer familiarity and fresh content. The other source said Netflix and Hulu offer a la carte viewing at a low cost with easy terms, and added that the Disney deal puts Netflix on a level playing field with premium channels. Three sources think cable providers have a strong competitive edge through their content producer relationships and the ability to provide these producers a guaranteed revenue stream.

### 3) INDUSTRY SPECIALISTS

Three of four sources do not think MSOs' OTT offerings have hurt Netflix or Hulu; the remaining source said it was too soon to tell. The Disney deal is a positive for Netflix. One source said the partnership is the start of OTT providers getting high-quality content, and another said it makes Netflix a more formidable competitor. One source forecasts industry consolidation, with YouTube, Amazon, Netflix and Hulu emerging as winners.

### 4) OTT USERS

Blueshift interviewed seven OTT sources, four of whom also have pay TV, ranging from 21 to 43 years old. One pay TV user is planning to "cut the cord," and another has pay TV services included in his rent but would drop the subscription if that was to change because of cost. Six of the seven sources do not expect cable providers' expanded OTT services to decrease OTT providers' subscriptions.

### 5) OTT ONLINE SURVEY

Using SurveyMonkey, Blueshift gathered data from 185 OTT users during Nov. 27–Dec.6. Approximately 46.4% said they would consider canceling their pay TV subscriptions and only using OTT services, while 30.2% said they would cancel their OTT subscriptions and use pay TV if the provider's OTT content increased. However, 75.8% of respondents expect pay TV providers to experience a decline in subscriptions as OTT providers add more services.

## Background

Sources in Blueshift Research's Aug. 23 OTT report said MSOs, studios and telecoms were emerging as the OTT winners over Netflix and set-top box makers. Cord cutting remained limited, and MSOs' heightened on-demand and streaming video services were meeting consumer demand for increased content and mobile viewing.

### CURRENT RESEARCH

In this next study, Blueshift assessed whether Internet viewing subscription services like Netflix and Hulu Plus were losing customers as MSOs add more OTT access and content. We employed our pattern mining approach to establish and interview sources in six independent silos:

1) Cable operator executives(5)
2) Content distribution professionals (4)
3) Industry specialists (4)
4) OTT users (7)
5) Online survey (185)
6) Secondary sources (6)

We interviewed 20 primary sources, including nine repeat sources, and identified six of the most relevant secondary sources focused on the entertainment industry including movies, sports, TV and OTT content.

## Next Steps

**Blueshift will continue to monitor MSOs' development of OTT services and the related effects on Netflix and Hulu Plus. We will monitor Netflix's content deal with Disney to see if it becomes a segue for other premium content deals. Finally, we will reassess the prevalence of cord cutting and consumers' preferred method for accessing TV and video content.**

## Silos

### 1) CABLE OPERATOR EXECUTIVES

**None of these five sources expects OTT program expansion to create major subscription increases or decreases for their services or those offered by Netflix or Hulu Plus, which provide viable add-on services. One source said Netflix and Hulu do not compete directly with OTT services while another said Netflix's deal with Disney places it more in competition with premium channels like Time Warner Inc.'s (TWX) HBO and Liberty Media Corp.'s Starz. Most cable providers are adding additional OTT and TV Everywhere-type services to meet consumer demand, and believe they have an advantage because they offer live content, including sports, and have solid relationships with content producers. Movie studios' efforts to interact directly with consumers through the UltraViolet initiative and M-Go are insignificant and will only become add-on services for viewers. One cable executive for a small regional cable company said the cost of content, especially sports, is driving up rates, which could be hurting his company's subscriptions. Content remains king though, and producers have the upper hand given the number of companies looking to add content. Two sources mentioned Apple TV but added that they know little about the device's development or future.**

- **Product development executive for a large MSO; repeat source**
  Netflix and Hulu Plus will remain viable subscription services but will experience slower growth as MSOs increase their own OTT offerings. With the Disney deal, Netflix shifts its competitive focus away from MSOs and toward HBO, Starz and Time Warner's Showtime. Content and, therefore, studios have the advantage while MSOs, especially Comcast, currently remain the best option for comprehensive, fluid content delivery. The M-Go and UltraViolet initiatives could give studios direct access to consumers but only serve as an add-on. Consumers still want complete integration to avoid the use of

multiple devices and viewing experiences. Google and Apple are in the best position to provide an integrated backend infrastructure and singular viewing experience.

- "Netflix has not grown as quickly as it could have with the growth in OTT services offered by MSOs. But then Netflix has repositioned itself and is no longer competing with MSOs in the same way. Now it competes more directly with HBO and Starz. As a premium content subscription service, it is not really competing against the MSO as much as against content providers, but it won't have anything unique like HBO, Showtime or Starz. They offer content, but it's a different viewing option."
- "With the Disney deal, Netflix has positioned itself to fit better into the evolving ecosystem rather than taking on an HBO, for example, outside of the system. The Disney deal is a big risk for Netflix. Disney will make money either way because they are just adding another piece to their existing revenue stream in theaters and such. I have not solidified my opinion of the Disney/Netflix partnership yet except to say that it solidifies my belief that they are going after HBO and Starz. In fact, the final two bidders on the Disney deal were Netflix and Starz. Obviously, Netflix decided to invest in becoming a premium provider of theatrical content."
- "This gives Netflix greater ability to play in the HBO and Starz space, but they do not have original content. They have tried some little things, but none have had a significant impact or following. Netflix has made a big financial commitment with Disney, and to pay it back they will need subscriptions. You may recall they had and then withdrew from a Starz deal for $300 million. That deal gave them an array of content. Most people believe Netflix is paying five to 10 times [the amount of the Starz deal], and that's just for the limited content from Disney."
- "Hulu will be viable. It is not growing by gangbusters, but the people who want it have found it and more will discover it. Netflix will be there as the HBO of its category. It remains to be seen who will put it all together. Maybe it will be someone like the Aereo [Inc.] folks who will put it all together with Netflix, HBO and sports. If Aereo [which is available only in New York City] clears the legal barriers, I could see Apple or Google buying them."
- "The MSOs have done a good job in expanding their OTT services. There is no one service with the most impact because it depends on the consumer interest and price range."

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>
> *Product Development Executive*
> *Large MSO*

- "[Disney's] ESPN is a very valuable piece of OTT in its streaming service. You can get it through an MSO or satellite, and it has the sports from cable/TV as well as other original stuff. HBO has HBO Go, but it's not different or unique from the subscriber content available in the home. … It is not attracting new subscribers. It's more an effort to address the reduction in churn."
- "The content providers [movie studios and production houses] are in a good spot. Lots of them are trying to build up their content libraries. The studios have the advantage now because people are in line bidding for their stuff."
- "There is no true leader in OTT at this time. Netflix is big and its streaming is doing well, but customers who use it very quickly figure out there is nothing they want to see beyond a handful of titles. Right now there is nothing clearly out there of value to consider."
- "Comcast is still in front among the MSOs. They have a lot of content, and they own a good deal of the platform and infrastructure used to provide content."
- "The telcos have made little or no progress with OTT. They still have not figured out the video space. Verizon is OK with FiOS, but it doesn't have a great impact on the cable providers."
- "The best business model is to give the consumer what they want, and what the consumer wants is easy access. They want all of their [content] in one place, and they don't want to deal with different devices or different remotes. … If anyone can unite things in a better way that would do the best job, it would be MSOs. With the current MSOs, you get OTT services. You can get HBO, ESPN and you have access to all of that content even if you don't want it."
- "DECE [Digital Entertainment Content Ecosystem LLC] is the company behind UltraViolet. M-Go involves Technicolor [EPA:TCH] and studios. They are trying to build the connector, with the software and the [network] system, but it's not just applicable to the movie studios. It also would enable and serve the record companies.

The question I have with M-Go is whether they can aggregate enough content that worth signing up for. … UltraViolet makes sense."

- "I think of M-Go as an add-on. M-Go helps you organize and search content. UltraViolet is like the interstate banking system. UltraViolet is the back-end network. No matter where you bought your content, it would enable you to use it anywhere. With UltraViolet, the studios for example could set up their own stores and be part of the UltraViolet network. Sony [Corp./TYO:6758/SNE] could set up a Sony store in the cloud through the UltraViolet. Actually, Sony is trying it now, but we're not sure it's worth the money."
- "We will see more people buy in to UltraViolet. But it's not a competing delivery system. It is an added feature, the same way your bank allows account holders to take money out of any ATM machine from any bank, anywhere. But it's still taking the money from your bank and out of your personal account."
- "Apple TV is all a big mystery. No one knows what they are doing."

➤ **VP of video product development for a large multisystem cable operator; repeat source**

Cable operators, telecoms and satellite companies continue to make progress with OTT services but are not in direct competition with subscriber services like Netflix and Hulu Plus. The Disney deal gives Netflix a short-term boost, but Netflix's library is still dominated by older titles. Netflix and other OTT services largely lack the all-important category of sports, and in most cases OTT services require a broadband connection and MSO portal. Movie studios are making progress with direct-to-consumer streaming through the UltraViolet initiative. M-Go has yet to launch. This source doubts the UltraViolet formats are intended to replace or capable of replacing MSO delivery platforms.

- "In most respects we don't think of the OTT subscription services as competitors. In regard to their impact on traditional video, we believe the spectrum of cord cutting is a nonissue. There is no question that some customers are thinning services or removing cable, but it's insignificant. The effect of our added video services on their services is a nonissue."
- "We believe the appeal of subscription OTT is less about services or being fully competitive with us and more about the fact they are cheaper. As those services and broadband services improve, viewers are getting good variety and good quality of entertainment for whatever device they want. … But the subscription OTT is largely additive and a function of price."
- "If you look down the compendium of [OTT] services, very few offer access to live, linear channel content. If you are interested in the immediacy of live viewing and you live in an area without good reception, you have to have a MSO provider. Sporting events are largely carried by cable channels and the networks. You don't get that access with OTT services. You can buy MLB, but that's just a one-sport offering."
- "I suspect Netflix paid a lot of money for the rights to Disney [content]. The studios follow the money, figure out where the maximum revenue is and go there. If it were to undermine their more traditional [distribution] channels, then clearly that would create tension. There's not a lot of overlap in the Netflix content library. … Mostly Netflix has older content."
- "In contrast to Netflix, most of our [OTT/VOD] content is newer. These are different services that are not in direct competition. We are happy either way, whether customers use our OTT offerings or Netflix, because most use of Netflix requires broadband and, therefore, it goes through our MSO portal."
- "There is no clear MSO leader with regard to OTT offerings. We all have some form of OTT service whether we are talking about Comcast, Time Warner Cable or Cox [Communications Inc.]."
- "I wouldn't call it a business model, per se, but we [MSOs] are trying to expand access on devices and to multiple locations for our customers. By doing this we retain existing paying customers and get new customers, and I think we do a better job of it than everyone else."
- "There is an old expression that 'content is king.' I'll admit I subscribe to the assertion. If it's valuable, it can command a certain amount of money. We see it in the purchase of sports content, and we see it in the Disney/Netflix deal. There is a tilt in the value equation toward the content creator. It is not binary by any means.

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*VP of Video Product Development*
*Large Multisystem Cable Operator*

If there is no delivery system, the content does you no good. Diversity of content has found a following, but it's across an increasingly fragmented viewer base."

- "The most direct progress we have seen in studio streaming directly to consumers is through the UltraViolet initiative. For example, if you go to Wal-Mart to buy a DVD, you also get a copy in the cloud that you can stream to other devices wherever you are. You own it and can access it on a virtual versus physical basis. [Studios'] driver is as a group. They don't like the decline in DVD purchases so what they now give the viewer is an opportunity to own it, versus offering it as a VOD. But I don't see them aggregating their OTT services in competition with us or any MSO or multichannel service."
- "Apple TV has had limited commercial impact. Its single most fatal flaw to date is connecting to TV and to video without offering much in the way of content."

- **President of a small regional cable operator; repeat source**

This company's cable service has increased its VOD library and offers about a dozen networks that customers can stream to mobile devices, but the source does not think such offerings will make much dent in the demand for OTT providers like Netflix and Hulu Plus. Live sports keep some people tethered to their cable subscription but add so much in programming costs that other people are being driven away. Premium cable networks are fighting back against Netflix through original programming. Studios selling directly to consumers is not a big threat because tremendous volume would be needed to ensure success.

- "I don't know that [OTT efforts from cable operators are] going to stop people from subscribing to Netflix. HBO Go and Max Go are available, and Showtime and Starz are working on their [streaming options]. There may be 1,000 movies out there if you're an HBO subscriber. But for the fairly small incremental cost of Netflix, I don't think [demand] is going to change much. Netflix has proven itself to be very popular."
- "This year we made a pretty big push to replace our VOD platform, and we now offer VOD content from 50 basic cable networks, a pretty substantial number. One of my concerns is that some of the program networks want to charge extra … if you want VOD access."
- "[The number of customers using the streaming option is] really quite small. Even our most popular TV Everywhere networks might be looked at by 8% or 10% of customers in a given month."
- "I don't know how much Netflix viewing really takes place on the go. I suspect people are finding ways to hook that up to their big-screen TV because they want to watch those movies in HD and with better sound."
- "In terms of entertainment content, the cable networks are the ones who are really starting to exert power and influence. As they're renewing their contracts with cable operators, they're including TV Everywhere and VOD [fees] and saying this content won't be available on Netflix or Hulu. … They're saying they can make money if they cram this new content onto the cable operators and force them to pay across all their customers. Then they don't have to care if anybody watches it."
- "Until there's a major tectonic shift in the six [studios] that control all the content, I don't think [a la carte programming] is going to be a major threat because they all rely so heavily on their bundle of content. Take someone like [Comcast's] NBC that has 25 or 30 linear networks. They know if they try to sell them individually, nobody is going to buy that. NBC has Telemundo, Mundos, the Golf Channel and Style. If they ever tried to make those into standalone networks, they'd be gone in a heartbeat."
- "As a one-off, buy-a-movie type of thing, [studios selling directly to consumers] really has to gain an awful lot of mass for that to work. They're doing something similar right now through the cable networks, but nobody is buying it."
- "What the networks are all gambling on right now is sports. That's really the big thing because it can't go through the Internet. There's not enough bandwidth, and people want to watch it on their big screens. … It's all about the sports fees."

> **If there's a real threat to TV subscriptions, it's the overall cost that's being driven onto the basic cable customer by the networks. I just had a renewal proposal from one of the big six [studios], and over the next four years it calls for an 88% increase in cost. I've got another one with an over 50% increase over three years. More and more people are starting to say this is unsustainable. And when customers reach that breaking point, when they disconnect from one, they disconnect from all.**
>
> *President*
> *Small Regional Cable Operator*

- "[Live sports programming] is also reaching the point now where it's driving some people away [from cable]. There's a fairly rapidly growing segment of the population that doesn't have enough disposable income to afford a cable subscription. Every cable operator is saying, 'We need more consumer choice, so the folks who say they don't watch sports but really like reality programming or Turner Classic Movies would have access to choices that would let them purchase what they want and not spend as much.' What would happen to my subscriptions if I had a $40 cable package that included everything but the sports networks? I might have a lot of takers for that."
- "Sports accounts for about 40% of my total program costs. … It doesn't count TBS, TNT [both owned by Time Warner] or others that have a mixture of sports and general entertainment. The cost of sports in a typical cable subscription is probably half of all the programming costs. If I could eliminate that $12 to $15 per month, there are a lot of people who would say they don't need it."
- "If there's a real threat to TV subscriptions, it's the overall cost that's being driven onto the basic cable customer by the networks. I just had a renewal proposal from one of the big six [studios], and over the next four years it calls for an 88% increase in cost. I've got another one with an over 50% increase over three years. More and more people are starting to say this is unsustainable. And when customers reach that breaking point, when they disconnect from one, they disconnect from all. This bundle [the programmers] have created is both a blessing and a curse because they could very easily lose it all."
- "I don't know that we lost a huge number of our premium movie customers to Netflix. They seem to be sticking around, and the premium guys are starting to figure it out and execute against it. The most popular stuff on-demand is the HBO, Showtime original series—*Boardwalk Empire*, *Spartacus*, *True Blood*. They can withhold that from Netflix and Hulu and can keep customers with it. We do see seasonal spikes in those subscriptions [based on series starting and ending]. Starz must have six or eight original series in development."

➤ **Executive for a cable marketing group; repeat source**

Cable operators are going to continue to expand TV Everywhere options in response to consumer demand. Cord cutting is not significant at this point, and MSOs can continue to fight OTT alternatives with better programming and an easier interface. Cable providers need to work with content owners to educate consumers about the streaming options available through a cable subscription, and they also have to make sure their platforms remain simple to use.

- "Distributors, specifically cable companies, are responding to customers who are asking for the capability to watch the programming and shows when and where they wish. Most cable companies are offering TV Everywhere programming and are looking to expand this service in the coming months. You'll see more programming become accessible over more devices in the coming months."
- "Cable … is partnering with technology companies as well as studios and content providers to enable the delivery of rich video content over the powerful cable broadband pipe. We'll continue to see the relationships between distribution channels, hardware, software and content provider companies develop to deliver innovative access for consumers."
- "The better the offering and the easier the service is for consumers to use from the MSOs, the less likely their customers will go to other OTT providers for programming. Recent studies have shown that cord cutting is having little impact on subscription-based TV."
- "It's important that the cable companies and the content providers continue to collaborate to drive awareness through consistent marketing and communications. It's also very important that the cable companies keep the consumer experience easy to understand and to use across the platforms and devices."
- "Different types of consumers will want different types of content. … So I don't necessarily believe that one specific genre or category of content will win over another; rather, there will be more content available across all the content categories in the future."
- "The living room/den is still the location of the most popular screen, but the extension of the consumer experience with some shows will drive a deeper relationship with certain programming. Second-screen gaming

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>
> *Executive, Cable Marketing Group*

or social interaction introduces a whole new level of consumer engagement with the content provider and the distributor."

- "[Studios selling directly to consumers] is already happening. UltraViolet, albeit still in a nascent stage, enables consumers to own studio content as a part of a one-time purchase. This is expanding to Amazon and even connected Blu-ray players."

➤ **President of a mid-Atlantic cable TV association**
This source, who represents more than a dozen cable TV companies, said cable still holds the competitive edge and that the industry is moving rapidly to add OTT offerings. Advertiser preference ultimately will dictate how cable companies and the entire televised entertainment industry position themselves. Cable companies have longstanding relationships with valued content providers, especially networks that carry sporting events and popular TV programming. Internet subscription services typically carry older content. Cable companies are rapidly adding OTT as a delivery mechanism but are working to "get it right" so subscribers can depend on the service and content.

- "I don't know if Internet subscription services are still viable. It's not live TV you're watching most of the time, nor sporting events. With an Internet service, it's a rerun in many cases or a movie that's been out for at least a year. Live sporting events are one area where cable companies have a real advantage—and longstanding agreements in place with the networks that carry the events. Also, we carry the reality shows that people have to see as it happens. The jury is still out, but cable is in a great position for continuing to grow."
- The Internet model is still new, and so often advertising drives how the delivery mechanism occurs. TV has always been the first choice. Where advertising migrates, companies will follow."
- "We have not seen a lot of our cable providers moving into OTT. We recognize what Netflix is doing, but they're still using our pipes to do it. We're thinking about OTT, getting it right. I haven't seen many telecom companies rolling out OTT, but I'm sure they're looking at it too."
- "Because of the bundled services that cable companies provide ... and because we're in so many more homes already, we have the competitive advantage."
- "Cable companies are still the market leader. We were the content providers' first delivery vehicle, and we have a longstanding history with those content providers."

**Besides Disney, I haven't seen a lot of studios trying to connect directly with consumers. I expect that will change.**

*President*
*Mid-Atlantic Cable TV Association*

- "Nationally, I would say no one is really lagging behind in OTT. All the players are running hard. Cablevision [Systems Corp./CVC] out of New York is doing some good things. All of our companies are moving quickly and upgrading technology. It's very dynamic."
- "Besides Disney, I haven't seen a lot of studios trying to connect directly with consumers. I expect that will change."
- "There are so many different cable rates available to so many different people, I don't see a massive trend in consumer drop-offs."

## 2) CONTENT DISTRIBUTION PROFESSIONALS

**Three of four sources said Netflix and Hulu will be challenged by the MSOs' ease of use, consumer familiarity and fresh content. The other source said Netflix and Hulu offer a la carte viewing at a low cost with easy terms, and added that the Disney deal puts Netflix on a level playing field with premium channels. Three sources think cable providers have a strong competitive edge through their content producer relationships and the ability to provide these producers a guaranteed revenue stream. Studios' direct-to-consumer efforts are threats to MSOs and OTT providers alike, according to one source. Another said live sports are an area of strength for MSOs that would tip the scales within the industry if shifted to OTT providers. Content producers are no longer being cavalier about OTT viewing rights, so the OTT business model is expected to change to include higher fees for content. One source said Apple TV is a delivery mechanism that content providers might use in place of MSOs.**

- **CTO of a content streaming company with 16 years of industry experience, Michigan**
  MSOs are in the best position to dominate OTT services because of their broad customer base and relationships with content providers. Fresh content and ease of use will be the determining factors in winning share. Industry consolidation is inevitable because consumers want only one or two subscription services.
  - "There will be an impact on services like Netflix and Hulu as MSOs expand their OTT service."
  - "I don't see anybody dominating OTT, but all the major players you would expect to see are trying to get into this."
  - "Hulu still dominates TV streaming, but it's mostly reruns. If they are seriously going to compete with MSOs, they will need to work on content. Netflix is having a tough time, but still has availability and content selection."
  - "The major TV networks and movie studios are trying to control delivery of their content directly to the consumer. The challenge with this is, who can satisfy the content creators, deliver the content and still generate a profit? I really believe consumers want to subscribe to only one or two services. It's about convenience."
  - "Everyone is making the same moves. Eventually, it's going to be one line coming into your house, and you'll get everything through it—TV, Internet, phone. It's a crowded field right now with no clear frontrunner. … But I am confident that whoever has the subscribers, they are theirs to lose."
  - "Cable companies … are in a good position to expand with OTT. Actually, they have to. … I should be able to watch anything on Comcast with my iPad. That's what consumers are going to demand."
  - "The content creators are going to work with MSOs or a competing streaming entity—the delivery mechanism—to get their content to the consumer. Apple TV is fairly successful at this."
  - "The challenge for Netflix and Hulu is to keep content fresh. Always has been. Netflix is making the right moves with their Disney deal. I think this will be closely watched as a kind of test case for direct partnerships with content providers and delivery channels outside MSOs."
  - "A majority of consumers just want something to come into their home and entertain them. The delivery mechanism, so long as it works, is of secondary importance."
  - "OTT services that offer sporting events and current TV shows, not reruns, are having the most impact on companies like Hulu."
  - "More and more people are turning to online versions of everything, so as MSOs provide more content it must be made available outside the traditional set-top box. There will be entities competing with or replacing Netflix."

**The challenge for Netflix and Hulu is to keep content fresh. Always has been. Netflix is making the right moves with their Disney deal. I think this will be closely watched as a kind of test case for direct partnerships with content providers and delivery channels outside MSOs.**

*CTO, Content Streaming Company*

- **Cable communications and telecommunications executive**
  Cable's growing on-demand capabilities are a threat to Netflix and Hulu, partly because of the ease of use and consumer familiarity with the cable set-top box. Major OTT providers like Netflix and Hulu Plus can survive but may need to increase their investment in key content. Major live sports programming moving to an OTT model could tip the scales away from MSOs, which currently have the upper hand in content and distribution.
  - "The ease of on-demand as part of the set-top infrastructure that consumers are used to dealing with makes [OTT from cable providers] a threat to Netflix and Hulu. As the on-demand business models and pricing models change and become more competitive with Netflix and Hulu and as the number of movies and as the content grows in on-demand and as cable operators use their programming clout to create more advantageous on-demand windows, as they monetize on-demand, to make it more of a revenue source—all of those things will have an impact on Netflix and Hulu."
  - "Netflix and Hulu are strong enough to be able to adapt in some way [to the OTT competition from MSOs]—whether they take that leap for content and really step up and make that big content investment to drive their service to the next level. That would change things."
  - "Netflix and Hulu were the beneficiaries of this rather cavalier OTT mindset [among content producers] that [selling rights to Netflix] is incremental revenue and whatever we get for it is gravy. But now the content providers are seeing that this is real business."

- "The thing that would change the landscape dramatically would be if a major live sporting entity were to turn its back on cable revenue and try to [stream directly to consumers]. Look at what the NFL did for DirecTV [DTV]. … There's only a few properties; the NFL is one, the Olympics could be one. To take the Super Bowl and put it on an OTT platform, that would be a game changer."
- "I think it's too soon to tell [the effects of the Netflix/Disney deal]. It's good programming, but it's only one package. It doesn't involve the premier Disney product these days, which is ESPN. The cable operators would have more of an issue with that because they know that the live events are what's really driving viewing and value. The cable operators would fight ESPN [content going to OTT providers]. With Netflix, that would be hard to do anyway since it's an on-demand [model] as opposed to sports, which is appointment viewing."
- "The studios certainly have some clout, but ultimately cable still has the upper hand. The cable guys have the ability, unlike a Netflix or Hulu, to guarantee revenue streams to the studios and to the broadcast networks. … Netflix and Hulu can't match that same scope of distribution."
- "If you're talking about an on-demand, pay-per-title type of distribution, there will be some movies and some events that people just have to see and will pay some decent amount of money for, but … [the studios are] not going to be assured of the same type of revenue."
- "Comcast has done the best of all of them. They seem really to have done some interesting things in terms of building out their lineup, enabling content to second screens. … Time Warner has done a good job, but I think Comcast just has more scale. They own the content, so they have more flexibility."

**The thing that would change the landscape dramatically would be if a major live sporting entity were to turn its back on cable revenue and try to [stream directly to consumers]. Look at what the NFL did for DirecTV [DTV]. … There's only a few properties; the NFL is one, the Olympics could be one. To take the Super Bowl and put it on an OTT platform, that would be a game changer.**

*Cable Communications & Telecommunications Executive*

**Co-founder of an IPTV software development firm; repeat source**

MSOs increasing their OTT services is a positive development for consumers but does not meet the fundamental demand that is fueling OTT growth: only having to pay for the content you want. As long as cable and satellite providers control certain key content such as live sports, it will be hard for many subscribers to cut the cord. The content deal between Netflix and Disney represents a big shakeup in the industry and is likely the start of a trend of studios bypassing MSOs.

- "It's great what cable and satellite providers are doing [in terms of OTT options]. Who's winning right now is the consumer because we have unlimited options whether we use cable, satellite or augment that with OTT service."
- "It's good that these cable and satellite companies are meeting the demand for what started the whole OTT space—watching what you want, when you want. But I think a fundamental problem still exists with the cable and satellite models. You're paying for bundled content that you don't watch."
- "MSOs have figured out how to allow you to watch what you want, when you want, but they need to combine that with only selling you what you want. If they could do that together, then they would have a winning model. There's nothing more intuitive than using a cable or satellite setup. It's a lot more difficult to piece together your own OTT solutions."
- "I'm looking forward to someone figuring out how to offer an a la carte model because then people aren't paying for the content they aren't watching that's getting clumped together with ESPN or TBS."
- "[Cable providers offering OTT] is a reactive strategy. Their model has been in place for decades, and you can't just change it overnight. … As their model is now, I don't think it's a winning approach [long term]."
- "The cable and satellite companies definitely have the content. They've always had the content, whether we were watching it on one TV 20 years ago or on different devices today. That's the last obstacle to cutting the cord. How else are we going to access HBO, Showtime or live sports?"

**[The Netflix/Disney deal will] level the playing field [among OTT providers and cable stations like HBO and Showtime] and bypass the intermediaries, the cable and satellite providers. I do think it's the start of a trend. There are going to have to be some business models restructured.**

*Co-founder*
*IPTV Software Development Firm*

- "My video consumption is probably 95% Netflix, 3% other OTT services and maybe 2% cable, but I still pay that cable bill because I need to watch live sports."
- "[The Netflix/Disney deal will] level the playing field [among OTT providers and cable stations like HBO and Showtime] and bypass the intermediaries, the cable and satellite providers. I do think it's the start of a trend. There are going to have to be some business models restructured."
- "It makes sense at a high level for studios to offer their content directly to consumers and cut out the intermediary, which is the cable or satellite companies. But understanding the costs that go into the production and filming of the movies, the studios have to make up those costs as soon as possible. The MSOs offset those costs [by paying for the rights to the content] and absorbing the costs on the distribution side of things."
- "When we started [in OTT app development], the only people looking to get on these devices [like Roku Inc.] were companies that were already streaming on the web and wanted to expand it to Roku or Boxee [Inc.] or a Samsung [connected TV]. Their only need was someone to build them an app."
- "But over the past year or so, we've been focused not just on TV app development but in offering a 'build your own TV network' type of service, where anyone can come to us and create their own OTT distribution network and reach all these platforms. They can upload their content, assemble their apps and control it through a centralized location and distribute to these types of platforms."

➤ **Executive with BCi, Europe's leading IPTV and VOD systems integrator; repeat source**
Studios streaming content directly to consumers is a huge threat to cable operators and current OTT leaders like Netflix. Cable operators would be smart to offer an OTT-only service to combat the growing consumer demand for streaming content. MSOs still have some key advantages, including having set-top boxes in the home, which allows for better collection of consumer data and add-on services. Many OTT-only consumers choose that option because of lower costs and lack of a contract, so the question of who has the best content is not necessarily important to those decisions.

- "Cable operators should be worried about [studios selling directly to consumers] but are likely to sit back and play catch up again, a la OTT. It is a huge threat and it is likely to become more mainstream in the near future."
- "There's strong evidence, if you extrapolate the music industry trend, that consumers want to own content and not just rent it. The MSOs earn their money on the premium content so [studios bypassing premium cable networks] is an issue, but the MSOs are also generating huge revenues for the studios. It is likely that this is going to become a real threat, but not yet. The studios are still dependent on the MSOs for distribution."
- "[OTT providers like Netflix and Hulu] will be here for a while. They offer a simple service for low cost and easy terms. However, you can see threats just around the corner in the form of studios going direct to consumers and if MSOs decide to offer an OTT-only service."
- "The whole space will go through a cannibalistic stage until all the clear lines of revenue extraction are understood."
- "OTT costs less—but you get less—and has easy in-out terms. In cash-strapped times, the savvy consumer will and should be looking for a deal. One defensive strategy for the MSO is to have a comparable offer of OTT only. In the case of most cable operators and even some satellite operators, I suspect there are always 'off-net' locations that they cannot serve directly but could serve with an OTT offering."

> **Cable operators should be worried about [studios selling directly to consumers] but are likely to sit back and play catch up again, a la OTT. It is a huge threat and it is likely to become more mainstream in the near future.**
>
> *Executive*
> *Leading IPTV & VOD Systems Integrator*
> *Europe*

- "The MSOs need to ensure the experience [between traditional pay TV and OTT offerings] is seamless. The consumer shouldn't feel they are having to switch between platforms."
- "The second element [the MSOs need] to create is to allow the content to be from multiple and diverse sources—or at least create the illusion."
- "The final point concerns hardware, which has recently fallen out of favor with a shift to turning everything into an app on a viewing device. … Sometimes the app model is appropriate, but not always. Having a hardware platform in the home allows a myriad of possibilities. It could act as a DLNA gateway to share content across devices, as a host for another device for an as-yet unknown purpose. … And let's not forget a TV purchase is in the order of once every seven years because of its cost, versus a much shorter window for a set-top box."
- "The biggest advantage for the MSOs could be that they own the relationship with the consumer in linear and on-demand services. Viewing habits collected only from one or the other area is useful, but the real power

comes from the blending of both. Of course, it's even more powerful than that for many of the MSOs as they have the ability to blend their consumer data from many areas [besides TV watching]. All this matters as one of the biggest battlegrounds is in the dominance of controlling—or at least being a huge influencer of—the advertising space. It's likely to be dominated and influenced most by those that control the underlying decision making: the consumer data."

- "The winners will be the ones who have access to the best data—metadata—as this will drive out the additional revenues in advertising but also in other areas. Perhaps MSOs can link the data to providing other services beyond the realms of TV."
- "Most people looking for an OTT solution won't be comparing who has what deal with which studio. Who has time for that? The OTT guys have a low entry price, which means it is a less 'considered purchase,' and they generally provide it on easy in-out terms—one month often. This is a big advantage to the consumer, but it also means they're likely to be lazy on the research of the best content option."
- "The shift is away from blockbuster movies and has broadened into [Google's] YouTube, [InterActive Corp.'s/IACI] Vimeo, etc. … There's a lag between what's being made available to the consumer via OTT and how they currently view online content. I'm not suggesting there should be a free-for-all on content availability … but closed systems that force consumers to get their content fix in another way seems like a missed opportunity."

## 3) INDUSTRY SPECIALISTS

**Three of four sources do not think MSOs' OTT offerings have hurt Netflix or Hulu; the remaining source said it was too soon to tell. The Disney deal is a positive for Netflix. One source said the partnership is the start of OTT providers getting high-quality content, and another said it makes Netflix a more formidable competitor. Still, a third questioned the quality of the Disney content. Comcast, Verizon/Redbox (Coinstar Inc./CSTR) and DISH are leading MSOs because they offer OTT services to their subscribers. Another source said MSOs need to offer an OTT service separate from pay TV and at a reasonable price. Major studios are expected to offer content streaming directly to consumers and are working on apps now. One source forecasts industry consolidation, with YouTube, Amazon, Netflix and Hulu emerging as winners.**

- **Entertainment industry consultant and former finance executive for a major movie studio; repeat source**
  Cable operators are not doing anything significant with OTT, though the Verizon/Redbox partnership has a chance to make waves. The Netflix/Disney deal is only the start of OTT providers gaining sought-after content rights. Major movie studios eventually could stream directly to consumers. This source also expects some consolidation among all the content outlets, with the long-term winners being YouTube, Amazon, Netflix and Hulu.
  - "I don't see MSOs cutting into the appeal of Netflix and Hulu with their own OTT services in a meaningful way."
  - "I don't see Time Warner Cable doing much [in terms of OTT offerings] to keep me. I do have an app on my phone from Time Warner that if I'm connected to my home wireless network, I can watch TV on my phone or on my tablet. That works OK for some stuff. There's still nothing better than watching it on a larger screen."
  - "If anyone is doing OTT in any kind of meaningful way, I'd say it's Comcast because of what they own."
  - "Verizon and Redbox have a deal coming up. I think that's got an opportunity [to be significant] in part because Verizon's FiOS … has a lot better broadband than AT&T."
  - "The cable operators want to hang onto as many bundled cable packages as they can [rather than provide OTT options]. Sooner or later, that bundling has to become unbundled. Overall, they'd be smart to go a la carte all around."
  - "There's all sorts of stuff that I never watch that I'm paying for, and it's outrageous. I spend over $100 a month on that whole cable package. I'd be willing to spend maybe $5 on Sunday afternoon to watch a really good stream of an NFL game. Or maybe I would subscribe to a couple of things if it gave me all I could eat."
  - "It's still easier to watch live sports on [pay TV] than to do what we did a couple of weeks ago. [An NFL game we wanted to watch] wasn't being broadcast on the CBS or Fox affiliates in Los Angeles, so we connected to a site out of Europe and streamed the game through the PC. It could've been a better picture, but it worked."
  - "Charge me a little less for [cable TV], a little more for broadband and let me get whatever I want."

> **I don't see MSOs cutting into the appeal of Netflix and Hulu with their own OTT services in a meaningful way.**
>
> *Entertainment Industry Consultant & Former Finance Executive for a Major Movie Studio*

- "Content owners of all sorts will be the winners going forward in one way, shape or form. It's all a matter of how it gets monetized."
- "The studios certainly have a lot of leverage. That studio content is not just movies but all the TV content they produce. If they knew they could get X dollars on that tomorrow, they'd loosen up the strings real fast. The movies are the primary part of that because that stuff lives on a little longer."
- "That's Disney's package [that Netflix just won]. Pretty soon there's going to be a package that someone like YouTube is going to get from [Viacom Inc.'s/VIA] Paramount or Warner Bros. At some point, Hulu might get a package from Sony. That content is going to be out there in a lot of different ways."
- "At a certain point in time the studios could stream content directly to consumers. The challenge will be for consumers to find that content. If you're subscribing to Netflix, Hulu or Amazon Prime, you can scroll through their catalogs."
- "I can't imagine why Disney, Fox or somebody else doesn't just have it on their own server somewhere. You wake up one day and say, 'I want to watch *Life of Pi*.' Then you type it into your browser on your Internet-connected TV and it gives you three choices [from which to watch the movie]."
- "I call them 'the next four networks'—YouTube, Amazon, Netflix and Hulu. There are so many channels out there right now, people are going to get tired of [searching hundreds of channels for content]. There's going to be something on one of those four channels that will attract people."
- "The two that are going to have the best longevity are Amazon and YouTube, with Hulu and Netflix just below that. Google is really smart. They attract a lot of eyeballs. YouTube still has a lot of user-generated content, but they're also spending $200 million for a whole bunch of different channels [with original content]."


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*Entertainment Industry Consultant & Former Finance Executive for a Major Movie Studio*

➤ **Bruce Eisen, founder and president of Digital Advisors**

Pay TV's current OTT offerings are not sufficient enough to undercut Netflix, but pay TV companies have the subscriber base and access to top-quality content through longstanding relationships to eventually dominate OTT. Comcast and DISH are the pay TV leaders in delivery of OTT content. All other players, including telecoms, are lagging behind. Netflix remains a formidable competitor, as evidenced by its recent content deal with Disney. Netflix probably negotiated a good deal for the content, when the estimated expense is spread across the company's subscription base on an annual basis. Hulu and Amazon lag far behind in paid subscriptions and will need exclusive content to retain viewers.

- "Hulu and Netflix are still viable business models, but that's still to be determined going forward. Hulu has not had to pay for its content, but that's going to be changing. They've also had it on an exclusive basis, and that too will be changing soon. With Netflix, it's a question of how much they're spending to acquire content."
- "With the Disney deal, it potentially makes sense for Netflix. It's the only way for Netflix to get exclusive rights to the content with the earliest possible window. It's obviously a lot of kids' content, so that's good. I've seen $100 million to $300 million a year estimates for the cost of that content, which would work out to about 33¢ a subscription per month on the low end. That's not too bad."
- "For pay TV, they need a very robust OTT offering to stay competitive. For the OTT guys, they need exclusive content."
- "I don't think the OTT offerings from pay TV have had a significant impact on Hulu or Netflix."
- "MSOs are also clearly the market leader in securing high-quality content that people want to pay for. There are 100 million U.S. households paying for cable, satellite and telecom entertainment service. Compare that to Hulu with about 2 million, and Netflix has 25 million. Amazon doesn't report subscribers, but I think it's sub-10 million."


**Hulu and Netflix are still viable business models, but that's still to be determined going forward. Hulu has not had to pay for its content, but that's going to be changing. They've also had it on an exclusive basis, and that too will be changing soon. With Netflix, it's a question of how much they're spending to acquire content.**


*Founder & President, Digital Advisors*

- "All of the MSOs, with the exception of DISH and Comcast, are lagging in high-quality OTT services."
- "It would be difficult to reverse the trend in falling pay TV subscribers switching to OTT. That tends to be people who are cost-conscious, although some of them might be reversible depending on their changing circumstances. People in their 20s may not be signing up for pay TV right out of college, but when you're well established in your career, it's not a lot of money."

**Founder and principal of an Internet communications consultancy with 30 years of experience; repeat source**

A clear MSO leader in OTT content delivery has not yet surfaced, but traditional cable companies are rapidly deploying these services and telecom companies are struggling to catch up. The challenge facing old-school pay TV companies is to unbundle OTT from the cable subscription. Separating the two as distinct offerings and offering the choice to consumers will be the only way pay TV will compete effectively with existing OTT companies.

- "There are no clear winners at this time. So long as cable services bundle their OTT offerings with the regular cable subscription, I think Netflix and Hulu remain viable. Matching content with what their customers want to see will still be the main challenge facing the current OTT companies."
- "The key to success for any entertainment content, regardless of the delivery system, is to give consumers the channels and content they want, when they want it, at a reasonable cost. That's it."
- "We need to see what the MSOs do before we can gauge their impact on Netflix and Hulu. The value of Netflix and Hulu is that someone like myself, who does not have a cable subscription, can access desirable content without add-on services. A lot of cable providers still require a cable subscription to have OTT content delivered through them. Netflix and Hulu are still more compelling in that regard for people who don't want cable service."
- "Cable companies are looking to add OTT to their mix, but unless they can deliver the content at a price point consumers want, I don't see it as a threat to Netflix and Hulu."
- "If cable TV companies see a continuing drop in subscriptions, I think the studios and content providers will turn more to companies like Netflix, or the smart ones will create their own apps. I don't see a reverse in declining pay TV customers. I think it will continue to go down."
- "The telecoms are struggling with what to do. [Microsoft's] Skype and fiber companies are eating into some of the traditional telecoms. Telefonica [S.A./MCE:TEF/TEF] also has some interesting applications that are available to anyone."
- "A lot of the major studios are working on their own apps to stream directly to consumers."

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>
> *Founder & Principal*
> *Internet Communications Consultancy*

**Executive VP and director of innovation for an international media service and consultancy; repeat source**

The effects of MSOs' OTT services are unknown so far. The Disney deal is a positive for Netflix, but the partnership's long-term viability may be hurt by Netflix's lack of licensed and original content and the absence of advertising revenue. Hulu's portal offers a good model for TV Everywhere, but its ultimate survival also is questionable. ESPN and sports channels are current winners in the OTT space. Studio clout stems from licensing, not content ownership. MSOs have remained dominant, but the increase in OTT services does not lure new subscribers.

- "It's too early to tell whether Netflix and Hulu are losing out to the MSOs as they develop OTT services. In part that's because it's difficult and confusing for the community to even define what OTT really is. There is ConnecTV, streaming services, Boxee, Roku and Hulu/Hulu Plus and they all offer something slightly different. But I can't imagine the MSO services help. It all hurts Netflix. I'm not sure about Hulu because the studios own Hulu."
- "The Disney Netflix deal is interesting. The question I have for Netflix is how much streaming content will they have? And what about original content or creating new series? Netflix has attempted to develop original content, but I don't think *Lilyhammer* meant anything to anyone living outside of Norway. And *House of Cards* … was only a 13-week-long series."

- "The Disney deal is a positive for Netflix for now. I'm not sure it positions them for future glory. My sense is that Netflix needs exclusivity to content. Does Disney have enough quantitative stuff to make subscribers want to go to Netflix for viewing? … Netflix has the problem of not being able to benefit from advertisements."
- "Everyone wonders about the future of Hulu. It's a wonderful portal for the TV Everywhere concept, but I'm not sure it will survive. I still think Hulu might become a de facto portal."
- "Sports always have the competitive advantage. We can do without AMC and Bravo but not ESPN. ESPN is always on top and also a leader for live viewing on the second screen and for multitasking. You can catch game highlights or some statistics, and they have the licensing rights to everything we need."
- "Comcast is doing well with Xfinity. Remember that the MSOs are in competition with satellite and the telcos, so they can't afford to be complacent. The idea with the value-added services is to maintain who they are, versus to grow the customer base."
- "MSOs are just trying to maintain their current position by offering OTT services. They are not gaining viewers with OTT. As for cord cutting, we still don't know what's really behind the statistics or whether they are correctly interpreted. … I think the economy is more the cause of whatever cord cutting has been seen. Pay TV is a $100 billion business, so what does it mean if there's a little weakness among young viewers? … There may be numerous reasons for that. Young people also are in a difficult position for finding gainful employment, and most are more interested in staying out all night. Some content is available now on mobile devices via the Internet, but what if the studios decided to withhold content? What if they put other requirements on the consumer to view the content?"
- "As tablets and smart devices proliferate, more cable operators will allow home entertainment to be viewed outside of the home. But most are still restricted to viewing content on other devices based somewhere in the home."

> **The Disney deal is a positive for Netflix for now. I'm not sure it positions them for future glory. My sense is that Netflix needs exclusivity to content. Does Disney have enough quantitative stuff to make subscribers want to go to Netflix for viewing?**
>
> *Executive VP & Director of Innovation*
> *Intl. Media Service & Consultancy*

- "Studios delivering content directly to consumers is problematic. Do the studio want to be about delivery, or do they simply like to get paid by others for licensing content? Do consumers want to go to many different places to find content?"
- "If M-Go is a service with value, great. Would it compete with Netflix and Hulu? I don't know. To compete in that way, all of the studios would have to get together and not allow or provide programming to different outlets. That might be an antitrust issue. What is a big deal with M-Go is that it makes it easier to get access and search for content, but I'm not sure it's a game changer. Will the viewer be willing to migrate to a studio portal platform from the current system? We are creatures of habit so I doubt it."
- "Take ConnecTV. More than 75 million smart TVs have been sold in the U.S., but very few are actually connected. You get HDTV with a connection capability that you don't use. On the other hand, CBS is selling *I Love Lucy* reruns to Netflix for $250 million. That was a good deal."
- "Apple TV to me is like iTunes but for TV. It has a lovely user interface, but there is not a lot of content. It's a pay-per-view concept versus Roku and Boxee, where you get a lot of content but most of it you don't watch."
- "People throw out numbers [about cord cutting], and they don't really have meaning. The key to integrating pay TV and OTT is to figure out how people actually watch TV and video and gather all the information so we can make more sophisticated assessments. And with more data, we can make advertisers happy."

## 4) OTT USERS

**Blueshift interviewed seven OTT sources, four of whom also have pay TV, ranging from 21 to 43 years old. One pay TV user is planning to "cut the cord," and another has pay TV services included in his rent but would drop the subscription if that was to change because of cost. Six of the seven sources do not expect cable providers' expanded OTT services to decrease OTT providers' subscriptions. The remaining source thinks Netflix and Hulu subscriptions may decline and said his friends have complained about the lack of worthwhile content on Netflix. Three sources discussed Apple TV and gave it positive reviews.**

- **37-year-old IT director in Boston**
  This source recently canceled his satellite subscription because of cost, and now gets content through streaming services and free over-the-air channels. He wishes he had access to certain live sports but not enough to go back to satellite. He would consider returning to pay TV only if it were the become the sole source of good programming. He watches about the same amount of TV as before, but does less random channel surfing.
  - "I officially cut the cord with DirecTV [in August] and shaved about $75 off my Verizon bill. Verizon was the reseller of DirecTV. It was mostly a cost issue. We were already Netflix and Hulu Plus subscribers and have an Apple TV on both sets, so those subscriptions plus the DirecTV cost was a little much."
  - "Even DirecTV's lowest-price offer, which was decent and would give us slightly more programming than over-the-air, wasn't that appealing."
  - "We were out of contract [with DirecTV] and looked at Comcast. The [introductory] price was decent until the price jump at the end of the term. That's when we investigated cutting altogether. We had never really considered it prior to that, but once we saw the costs and realized that we really didn't watch much TV outside of the networks … it was a pretty easy decision."
  - "After we dropped DirecTV, we installed an over-the-air antennae and get roughly 20 channels with all the major networks in HD. Believe it or not, we barely turn it on. It's like cutting the cord liberated us from the channel surfing mentality."
  - "We still watch plenty of back-catalog and current shows on Hulu Plus and Netflix. We probably still watch the same amount of TV, but it's shifted from [watching] whatever's on to what we want to watch."
  - "I love Apple TV. Its main use is for streaming Netflix and Hulu Plus, but we rent a movie once a week or a few times a month from iTunes."
  - "I don't know that I would [consider going back to satellite service]. There is very little outside of live sporting events that I need to watch as it happens. So as more and more programming becomes available through Hulu Plus, iTunes and other platforms, that would suffice."
  - "If network TV became devoid of good programming and all the good content was only available through cable providers and cable channels, then it would force that issue."

**I don't know that I would [consider going back to satellite service]. There is very little outside of live sporting events that I need to watch as it happens. So as more and more programming becomes available through Hulu Plus, iTunes and other platforms, that would suffice.**

*OTT Customer*
*Boston, MA*

- **43-year-old Virginia man who subscribes to DirecTV**
  This longtime DirecTV subscriber also is a regular viewer of OTT content via a laptop. He believes consumers with both an OTT subscription and pay TV would be more likely to cancel the Netflix subscription if necessary. He has no intention of canceling his DirecTV service.
  - "Netflix and other companies like it will lose customers as other providers increase their selection of OTT movies, TV shows and other content. It's not like a company like DirecTV will necessarily gain more customers with OTT, but a consumer who already has a pay TV service as well as Netflix might cancel Netflix to save money if the programming from their TV provider is better or offers more choices."
  - "DirecTV is trying to gain market share with OTT service. Amazon also comes to mind. They will need to continue to diversify. But as far as who stands to gain the most, I think as long as DirecTV can keep pace, they will do OK. They can offer many things that right now Netflix cannot, like more current programming."
  - "With DirecTV, it stands to reason if they offer OTT video and diversify, they may take some business from Netflix and Hulu, but a lot will depend on pricing, quality and service."
  - "Pay TV is still a viable business model. Whether it stays viable depends on how well companies keep up with changes in demand and changes in the market."

**Netflix and other companies like it will lose customers as other providers increase their selection of OTT movies, TV shows and other content. It's not like a company like DirecTV will necessarily gain more customers with OTT, but a consumer who already has a pay TV service as well as Netflix might cancel Netflix to save money if the programming from their TV provider is better or offers more choices.**

*DirecTV Customer*
*Virginia*

- "CBS and NBC are making a lot of their content available, but the problem with access depends on where you live. Many areas are lagging in broadband, so in some degree the studios are at the mercy of the infrastructure."
- "I mostly watch TV reruns on my laptop through the TV network's websites. We do not have paid subscriptions to any services."
- "We're not thinking about canceling our DirecTV contract, at least not right now. We're pretty happy with DirecTV."

➤ 27-year-old Air Force employee in Washington, D.C.
This source cut the cord because of the high cost of his Comcast subscription. He said Comcast's OTT efforts were not a draw for him. He accesses streaming content through his Sony PlayStation and pays for Netflix, MLB.tv and NFL Game Rewind. He does miss viewing some live sports but would reconsider cable only if the cost came down and he was given an option to select channels. He appreciates Netflix's selection and ease of use.

- "The underlying issue [for cutting the cord] might have been my own TV viewing history. My family never had cable TV as I was growing up, so I became accustomed to only having a few over-the-air networks and finding other ways to watch programs that I couldn't watch on TV. Once I went off to college and beyond, I always had cable in my house or apartment with Comcast, but never felt like I was getting my money's worth. There were just too many channels that I would never, ever watch, and I found myself mainly watching the major networks that I could access for free."
- "My purchase of a PlayStation 3, with Netflix, MLB.tv and other apps; the increased speed of home Internet; and the growth of sites like Hulu definitely pushed me over the edge and led me to refrain from ordering cable TV when I moved into my new place in April."
- "I definitely noticed an increase in these [OTT] efforts by Comcast, from a huge increase in on-demand programs to their Streampix that lets people watch on their other platforms. However, these options had a negligible effect on my decision-making process since I was getting most of the same service from Netflix."
- "I watch slightly less TV than I did when I had cable. Most of the shows I watch regularly are on the major networks, and I usually catch up on quality cable shows by renting or purchasing the DVD series later on, if it's not accessible over-the-air. There are times where I miss laying back on the couch and flipping through a couple hundred channels but not enough to warrant paying the increased fees."

> **The biggest thing keeping me from going back to cable is the cost. While I am paying $29.99 per month for high-performance Internet, I would have to increase that bill to over $75 to upgrade to cable.**
>
> *OTT Customer*
> *Washington, D.C.*

- "One downside [to cutting the cord] is that it is sometimes hard to find all of the sports I'd like to watch, particularly NBA and college basketball, which rarely appear over-the-air. For most other sports, I am able to access the content through a specific app, such as MLB.tv, ESPN3.com or other streaming video sites."
- "I access content through my PS3, PC, and iPad much more often than before. I find myself watching a lot more programs that I enjoy when I actually search them out on Netflix, etc., compared to when I used to just watch whatever was on."
- "I use my PlayStation 3 for most video content, especially Netflix. The video quality, selection and ease of use makes Netflix hard to beat."
- "The biggest thing keeping me from going back to cable is the cost. While I am paying $29.99 per month for high-performance Internet, I would have to increase that bill to over $75 to upgrade to cable."
- "Another factor that would bring me back would be a cable package that allows users to pick their own channels. As it stands, the basic packages consist of mostly channels that I would never use."

➤ 20-year-old college junior at Florida State University
This source shares a Comcast subscription and Netflix streaming with her roommate. Although her OTT viewing is limited and her cable TV watching consumes about 30 minutes per day, she plans to cancel the cable service and watch OTT content exclusively. Most of her OTT viewing involves Netflix, Hulu and YouTube programming. She does not think any of these providers will suffer if MSOs expand their own OTT offerings because of the high cost of pay TV service. She also said her cable service is spotty and that Comcast's customer service is terrible.

- "We want to cancel our cable and just use Netflix and other streaming services like Hulu. It would be cheaper to just get Internet and watch that way. We've also had a lot of problems with Comcast. They charge us for things we didn't order. And their service goes out a lot. And their customer service is a headache. I'll wait on the phone half an hour sometimes before someone comes on the line."

- "Pay TV will move more onto the Internet, but I don't know if their customers will follow them."
- "I don't think Netflix or Hulu will lose customers just because a cable company offers more OTT programs. Netflix would probably still be cheaper anyway. Comcast is a big headache. If I had to choose, I would just go with Netflix."
- "I watch maybe 30 minutes of cable TV a day. As far as streaming shows, I've watched Netflix maybe three times in the last six months."
- "I don't know which company will be the leader. I just look for a wide range of shows and options to watch, and good customer service. We don't get that with Comcast, so we're going to just use Netflix."
- "I usually just watch on TV, but I think it would be important to at least have the ability to watch on a laptop or phone."

I don't think Netflix or Hulu will lose customers just because a cable company offers more OTT programs. Netflix would probably still be cheaper anyway. Comcast is a big headache. If I had to choose, I would just go with Netflix.

*OTT Customer*
*Florida State University*

- **25-year-old pay TV and OTT consumer in San Francisco**
  Comcast and Netflix are this source's providers of pay TV and OTT services. He has not opted for Comcast's Xfinity On Demand because he does not think the content is worth the additional $20 per month. He is interested in HBO Go and Apple TV. He would not consider dropping his Comcast subscription because of his interest in viewing sports broadcasts. Hulu Plus and Netflix will lose subscribers to pay TV operators' OTT services because they are not offering worthwhile content.
  - "I probably watch a couple hours of OTT per week. I have a Netflix account and I stream movies on my iPad."
  - "I have not considered canceling my pay TV subscription. I love sports."
  - "Comcast has been offering Xfinity On Demand. I believe it's an extra $20 a month and you're able to watch TV shows and previous seasons any time you like. … I haven't utilized these services."
  - "I haven't considered dropping Netflix. The only other service that intrigues me is HBO Go. I love HBO shows."
  - "I definitely think Hulu, Netflix and other OTT providers will lose subscribers because of the increased OTT offering from pay TV providers. More and more of my friends are complaining that they can't get good shows Hulu and Netflix but can from their cable subscription."
  - "The most important feature from my TV viewing experience is to watch recently aired episodes of TV shows on-demand and a wide range of live sporting events. I think Comcast does a good job of this."
  - "Netflix will continue to do well. I read recently that they just signed a new agreement to get more shows."
  - "I like Apple TV. My neighbor has it, and it's great for pulling up YouTube videos and other shows."

I definitely think Hulu, Netflix and other OTT providers will lose subscribers because of the increased OTT offering from pay TV providers. More and more of my friends are complaining that they can't get good shows Hulu and Netflix but can from their cable subscription.

*Pay TV & OTT Consumer*
*San Francisco*

- **Pay TV and OTT consumer in San Clemente, CA**
  This 21-year-old source has subscriptions to AT&T U-verse, Netflix and Hulu Plus. He has had the latter two OTT services for about two years. His U-verse subscription is included in his apartment rental. If that changes, he will cancel it to avoid extra expense. The source enjoys U-verse's streamed content, as well as the on-demand and DVR services. He considers himself to be tech-savvy and knowledgeable of his options as a consumer. Netflix and Hulu remain strong business models because both offer an unequaled number of content choices relative to the price. If necessary, he would hold on to his Netflix subscription after canceling all others.
  - "I watch maybe an hour of OTT content every day, mostly TV shows. I've subscribed to Netflix and Hulu for a couple of years."
  - "Netflix and Hulu probably will not lose subscribers. Just the amount of content on Netflix, most people won't get rid of it at that low price. Hulu, maybe. Hulu basically offers the same thing as [AT&T's] U-verse and a lot of other pay TV companies; there's not much more."

- "Netflix is still the best OTT service in terms of content versus price. Then Hulu."
- "For the price that they charge, I don't think pay TV is still viable."
- "I have AT&T U-verse at home. It's a fiber-optics based cable instead of copper. I've thought about canceling U-verse, but right now it's free and included in my rent. If that changed, I would cancel it."
- "U-verse has to be one of the leading pay TV services that offer OTT right now."
- "U-verse lets you stream all the channels they provide onto your phone, computer, whatever."
- "DVR and on-demand are the most important services to me. U-verse does a really good job with both."
- "Most of the big movie studios seem to be going in the direction of OTT. I think they are trying to train customers to get used to digital media downloads. A lot of times if you buy a movie on DVD or Blu-ray, they'll include a digital copy you can download to a mobile device. I don't think physical media is going away any time soon, but I do think the studios are trying to move people toward streaming and digital downloads."

➤ 21-year-old OTT consumer in Berkeley, CA
This source opted not to subscribe to Comcast because of cost and instead went with Netflix streaming. He thinks Netflix, Hulu Plus and HBO Go are going to gain subscribers, but he himself stopped his Hulu Plus service because he rarely used it. Pay TV is still available because people fear change and many demand access to sports and original content. He hopes to have an Apple TV device someday.

- "I don't watch any pay TV offered by cable providers. We could have Comcast through our landlord, but we decided not to use it."
- "We do not subscribe to Comcast due to the cost, and we can stream shows off of other Internet sites."
- "We have been using Netflix and Hulu Plus, but dropped Hulu Plus last month because we were never using it. … I do watch about two to three hours of OTT."
- "I think the most important features I am looking for is the ability to watch a series in its entirety and having the access to as many titles as possible. Right now I believe Netflix does this the best because of the wide range of series, constant updates and large movie selection."
- "The winners that I see in TV viewing are Netflix, Hulu Plus, HBO Go. HBO Go has a unique advantage of having sought-after TV only they have the rights too, unless you go out and buy the DVDs."
- "A lot of people are afraid to change their ways, so I do believe there is still a market for pay TV. Talk shows, sports and other TV that isn't movies and TV series play a big role in keeping that model still viable."
- "I can see a small margin of people shifting back to pay TV with more OTT offerings. The hardest part for pay TV providers is to penetrate the market of people who like to watch an entire series of a show in one shot."
- "Apple TV is a great device that I hope to get again. … It's a combination of everything in one place. You can pick out a title you really want and then fish through all of your OTT and MSO services to get what you want."

**The winners that I see in TV viewing are Netflix, Hulu Plus, HBO Go. HBO Go has a unique advantage of having sought-after TV only they have the rights too, unless you go out and buy the DVDs.**

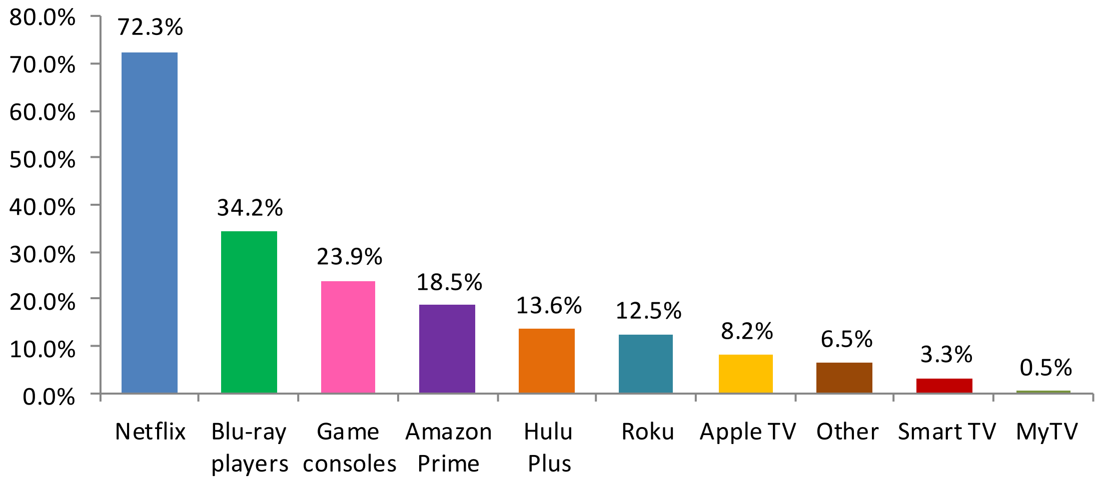
*OTT Consumer*
*Berkeley, CA*

## 5) ONLINE SURVEY

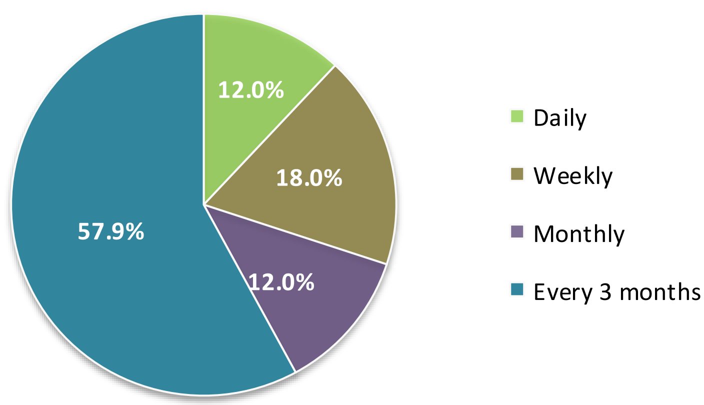
**Using SurveyMonkey, Blueshift gathered data from 185 OTT users during Nov. 27–Dec.6. The data showed that 72.3% of respondents subscribe and stream Netflix, 18.5% subscribe to Amazon Prime and 13.6% used Hulu Plus. (Some respondents gave more than one answer.) Blu-ray players were the leading device used to assess OTT content with 34.2%, followed by game consoles with 23.9%, Roku 12.5% and Apple TV 8.2%. Approximately 46.4% said they would consider canceling their pay TV subscriptions and only using OTT services, while 30.2% said they would cancel their OTT subscriptions and use pay TV if the provider's OTT content increased. However, 75.8% of respondents expect pay TV providers to experience a decline in subscriptions as OTT providers add more services.**

# OTT

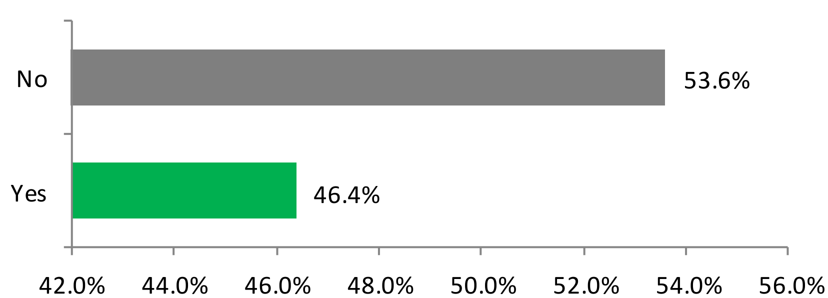
➤ Which OTT services do you subscribe to? (Check all that apply)



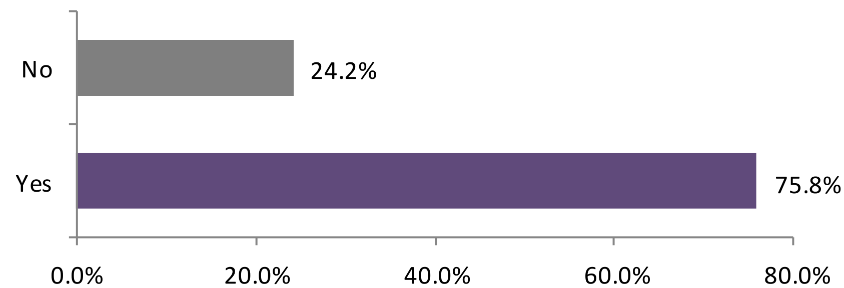

➤ How often do you use on-demand services from your cable provider?



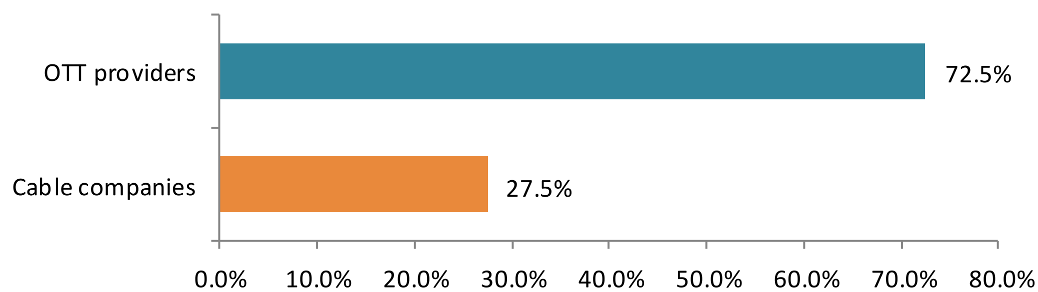

➤ Would you cancel your cable subscription and only OTT use services such as, Hulu Plus, Netflix, Amazon Prime, Apple TV?



- **Do you think cable providers like Comcast and Time Warner Cable will experience a decline in subscribers as OTT providers like Hulu and Netflix continue to add services?**




- **Who do you think will gain the most subscribers by offering more OTT services?**




## Secondary Sources

**A review of secondary sources covering the movies, TV and OTT industries revealed that Netflix would benefit more from original content than from its Disney deal. Apple management has plans to reinvent the TV experience and expect TV industry executives to pay attention. Netflix want to change TV by offering personalization. "Pay TV Lite" may become a new market enabled by OTT. The proliferation of OTT services has not affected pay TV. In fact, pay TV revenues are up 4.3% year to year. Finally, live sports programming now is available via OTT through a YouTube/NBA partnership, which will broadcast more than 350 D-league games.**

- **Dec. 9 article in The Wrap**
  Netflix's future is in original content like *House of Cards,* not Disney. The benefits of the Disney deal are not expected to help Netflix until 2016, and some question if it will draw more subscribers.
  - "Netflix hailed as a 'game-changer' its landmark deal last week to bring Disney movies to the streaming service. But while that deal may be significant, it pales in importance next to another looming development—the February debut of its original series 'House of Cards.'"
  - "The economic benefits of the Disney deal, which gives the company streaming rights to much of Disney's catalog and straight-to-DVD movies as well as the exclusive rights to the studio's new movies from 2016 to 2018, won't be felt for years."
  - "But the rollout of new, made-for-Netflix shows, which moves the company into a game owned by broadcast and cable—and follows a model set by everyone from HBO to AMC—will be a near-term bellwether of the company's future success, analysts and observers say."

- "The Disney deal is momentous in that it marks the first time a digital pay-TV distributor has earned exclusive rights to a major studio's new releases. Both analysts and studio executives say Netflix will pay more than $300 million a year for those rights, a startling sum for a company that has minimized the importance of films. Netflix has declined to discuss any figures."
- "Some analysts argue the Disney deal is a positive development, but one that will not move the needle when it comes to attracting new members."
- "The money the streaming service spends on its own shows is a pittance compared to what it shells out in licensing deals, but that original content will distinguish Netflix from competitors in broadcast, like HBO, and in digital, like Amazon."

➤ **Dec. 8 Cult of Mac article**
Apple CEO Tim Cook announced that his company was upgrading its effort with Apple TV from a "hobby" to "an area of intense interest." Apple's plans would require a reinvention of the TV industry. Because of Apple's financial might, the TV industry is expected to pay attention.

- "'When I go into my living room and turn on the TV, I feel like I have gone backwards in time by 20 to 30 years.'"
- "In his statements quoted above, Cook delivered a very clear, two-part message: 1) the current companies responsible for TV are the past; and 2) Apple is the future of TV."
- "So let's understand Cook's statement in the way that Hollywood studio executives would understand it: It's a bloody horse's head at the foot of their bed."
- "Apple by itself is worth far more and has far more cash than Walt Disney, Comcast, Time-Warner, Viacom, Sony and all the other TV and movie studios in Hollywood combined."
- "When the CEO of a company that's bigger and more powerful than your entire industry says he's going to reinvent your industry, you pay attention."
- "Of course, Apple's plans for the re-invention of TV involve new technology, new interfaces and new hardware and software designs. But they also must include a new way to discover, browse, buy, rent, receive, record and watch TV content. And those new ways of interacting with content require totally new kinds of licensing contracts with the studios."

➤ **Dec. 5 Gigaom article**
Netflix wants to "change television forever" and is investing in viewer "personalization." New movie content, original programming, better user interfaces for adults and children, voice and visual recognition are all part of Netflix's plan to help personalize TV viewing for its subscribers.

- "Netflix doesn't just want to compete with traditional pay TV networks like HBO, Showtime and Starz—it wants to change television forever. The company envisions a future for TV in which old-fashioned things like ratings, schedule and recaps simply don't matter anymore."
- "Netflix Chief Content Officer Ted Sarandos called his company's newly-announced Disney deal a game changer. ... The deal, which will bring new and catalog titles from Disney, Marvel and Pixar to the service, marks the first time a major Hollywood studio has chosen Netflix over a traditional pay TV network."
- "Come February, Netflix is going to launch two original TV shows, and chances are that millions will tune in to watch the new season of Arrested Development alone. But don't expect Netflix to brag about it. Sarandos made it clear that he won't release any numbers, no matter how good they are. 'It's a really irrelevant number,' for a subscription TV service, he argued, because it doesn't have to sell large simultaneous audiences to advertisers."
- "Netflix has a pretty straightforward understanding of the TV space. On one side, there's content that works well on linear TV, like sports and nighttime talk. 'The immediacy of Jon Stewart ... lends itself to linear business models,' Sarandos said. On the other side, there is scripted content, which comes with a much longer shelf life."
- "Viewers don't want to wait for the next episode. One of the biggest differences in the way Netflix approaches its original content is that it releases an entire season at the same time."
- "TV is getting more personal. Netflix has been investing in personalization for years, fine-tuning its recommendation engine to highlight movies and shows you might like to watch. However, so far most of this has been happening on the household level. Now, the company is taking steps to differentiate even further. One of the first steps was Just for Kids, the UI that separates kids' content from other streaming fare. Next up are efforts to take this even further. 'There is all of these things that we are looking at [around] deep personalization,' explained Sarandos. 'Voice recognition, visual recognition.' In the future, Netflix could be able to pull up a user's personalized recommendations as soon as that person walked into the room, he added."

- **Nov. 20 article on Pay OTT TV**
  Pay TV Lite is a new market opportunity enabled by OTT in countries with significant free-to-air markets. BSkyB has launched NOW TV online offering movies, sports and entertainment in smaller bundles on a monthly basis. It is expected to appeal viewers not subscribing to pay TV services.
  - "'Pay TV Lite' could be one of the most interesting developments for the TV industry over the next few years in countries where there is a significant free-to-air market, with platform operators battling online video aggregators, especially movie providers, for any untapped revenue in non-subscription homes."
  - "This is about to happen in the UK where BSkyB's NOW TV online offer was launched with a movie focus but will evolve into a cross-genre package including sports and entertainment channels. Content will be available in smaller bundles and with more flexible contract terms than traditional Pay TV, like the ability to subscribe one month at a time."
  - "If there is still money on the table for television, someone is going to hoover it up sooner or later. Sky, for one, believes that with the best movies available before anyone else and the best sports rights and a trusted brand, it is well placed to pursue this opportunity. What makes it possible is OTT. Online delivery, especially when combined with connected device apps, opened the door for OTT video aggregators to compete with Pay TV platforms. Now OTT is lowering the barrier to entry for Pay TV operators targeting the free-to-air market"

- **Nov. 21 *L.A. Biz* article**
  A new study reveals that cord cutting in favor of OTT services is not a reality. Despite an increase in subscriptions for OTT and VOD services, pay-TV revenues were up 4.3% year to year.
  - "A new industry report from Futuresource Consulting indicates that despite popular alternatives, pay-TV services continue to thrive, with 86 percent of U.S. homes paying for monthly packages, according to Home Media Magazine."
  - "The report suggests that the rise of subscription VOD services like Netflix, Hulu Plus and Amazon Prime Instant Video has had little impact on cable, satellite and telecommunication premium TV."
  - "Pay-TV revenues reached $94 billion, up 4.3 percent. The sum includes basic cable and satellite TV, premium channels, packaged media rental like DVDs, and video on demand. Pay-TV accounted for 40 percent of the $32 billion spent domestically on premium home entertainment, according to the report."
  - "'The specter of cord-cutting predicted by many in the industry has not revealed itself in any great way and Futuresource forecasts indicate that it will not do so in the foreseeable future either.'"

- **Nov. 21 Engadget article**
  Sports continue to gain traction in OTT viewing. The NBA signed an agreement with YouTube to broadcast minor league basketball games. Fans will be able to watch more than 350 live games this season on the NBA D-League YouTube Channel.
  - "This summer YouTube made its biggest advance into sports by picking up rights to live stream the Olympics in various countries, but now it has gained a domestic foothold by partnering with the NBA to air D-League games. While the world isn't exactly beating down the doors to watch minor league basketball, this is YouTube's biggest pro sports deal so far."
  - "Throughout the season, NBA D-League fans won't miss a moment of live regular season action as all of the league's games will be available nationwide either online; on the NBA D-League Center Court mobile app—the league's free mobile application providing fans with access to NBA D-League content on the Android Market and the App Store; or on CBS Sports Network and NBA TV, the league's national television partners."

Additional research by Carolyn Marshall, Seth Agulnick and Steve Evans