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WHAT THE INDUSTRY READS FIRST

Subscribers Pay Up: Netflix Scores on Back of Password Crackdown

Netflix had plenty of good news to share Wednesday about its password sharing successes, gaining 5.9 million paid net additions in 2Q23.

This quarter saw the company expand its paid sharing stipulations to more than 100 countries, most notably the U.S., and those account for more than 80% of the streamer's revenue.

"The cancel reaction was low and while we're still in the early stages of monetization, we're seeing healthy conversion of borrower households into full paying Netflix memberships as well as the uptake of our extra member feature," the streamer said in its quarterly letter to shareholders. "We are revenue and paid membership positive vs. prior to the launch of paid sharing across every region in our latest launch."

Starting immediately, Netflix is moving to address account sharing in almost all of its remaining countries, but it plans to take a markedly different approach this time around. It won't be offering an extra member option since it recently cut prices in a significant portion of those territories, including Kenya and India, and there is still a lot of room to grow penetration without making things more complicated. Instead, it will start by allowing households currently using another's password to easily transfer existing profiles to other new and existing accounts.

2Q23 revenue grew 3% YOY, and that was driven by a 6% increase in average paid membership. While it didn't substantially comment on the ongoing **WGA** and **SAG-AFTRA** strikes (perhaps

leadership is saving that for the company's earnings call later this evening), Netflix did note it now expects at least \$5 billion in FCF for 2023, up from its previous estimate of at least \$3.5 billion. That's due to lower content spend than originally anticipated due to the shifts in timing of production starts and the strikes.

Thanks to the success of paid sharing, Netflix has increased confidence in its overall financial outlook. It expects revenue growth to accelerate in the second half of the year as it continues to expand the initiative and test new strategies in its remaining territories.

Netflix continues to grow its ad-supported plans with membership across them nearly doubling from 1Q23, but the membership still isn't big enough to make ad revenue material for the business.

"Building an ads business from scratch isn't easy and we have lots of hard work ahead, but we're confident that over time we can develop advertising into a multi-billion dollar incremental revenue stream," the streamer said. The focus right now on the advertising side is to continue to improve the experience for members and advertisers, giving the latter the ability to target media buys across Netflix's Top 10.

Netflix has also officially removed its basic ad-free plan as an option for new customers in the U.S. and the U.K., following the dropping of the plan for Canadian subscribers. Those already subscribed to the plan will be able to keep it.

This seemingly will incentivize more cost-conscious individuals to purchase the \$6.99/month ad-lite tier of the service with the price of Netflix's lowest ad-free plan currently sitting at \$15.49/month.

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FTC, DOJ COME TOGETHER ON DRAFT MERGER GUIDELINES

Changes to how the **FTC** and the **DOJ** review mergers are on the way with the two agencies releasing a draft update to their merger guidelines Wednesday. The FTC vote to approve the guidelines was unanimous. The draft framework includes 13 guidelines laying out what mergers should not result in, including the elimination of competition, the entrenchment of a dominant position or the tendency to create a monopoly. Among the indicators the agencies laid out to identify substantial competition are prior M&A activities from the two entities seeking to combine, customers' willingness to switch between the entities' products and the impact of competitive actions on rivals. "Competitive markets and economic opportunity go hand in hand," *Jonathan Kanter*, Assistant Attorney General of the DOJ's Antitrust Division, said in a statement. "As markets and commercial realities change, it is vital that we adapt our law enforcement tools to keep pace so that we can protect competition in a manner that reflects the intricacies of our modern economy." Consumer advocates including **Public Knowledge** and **Consumer Reports** were quick to give the guidelines their support. In particular, the latter's Senior Researcher *Sumit Sharma* welcomed the reaffirmation that acquisitions by the largest corporations are anticompetitive. The final guideline is something of a catch-all, iterating that the 13 principles are not exhaustive of the ways a merger may substantially lessen competition. "We consider every matter on a case-by-case basis. Our obligation is to preserve competition and make sure that mergers are not unlawfully lessening competition," **FTC** Chair *Lina Khan* said during an appearance on **CNBC's** "Squawk on the Street" Wednesday. "If parties are putting before us remedies or potential packages that they claim would do that, we look at that very closely. But at the end of the day, our job is to protect the public and we need to make sure that the public is not bearing the risk of a failed remedy." Both the DOJ and the FTC are encouraging the public to review the draft guidelines and submit responses during the 60-day comment period.

CARRIAGE

First came a **YouTube TV deal**, now **Hulu + Live** is joining the party and launching **Tennis Channel** and its FAST offering **T2**. The distribution agreement also includes **Sinclair's** over-the-air multicast channels **Comet** and **CHARGE!**. The networks will begin carriage on Hulu + Live in January. – Virtual MVPD **Philo** is beefing up its FAST offering with the addition of nine channels: **INFAST**, **INTRouble**, **INWONDER**, **Vevo 80s**, **Vevo 90s**, **Vevo Country**, **Vevo Hip-Hop**, **Vevo Pop**, and **Chicken Soup for the Soul**. – **VIZIO** launched a local channel category on

The WHO and the WHY

CFX's spotlight on recent new hires & promotions



EBEN
Albertyn
EVP/CTO
DISH WIRELESS

3 THINGS TO KNOW

- Upon the retirement of DISH Wireless' current EVP, Network Development Dave Mayo in September, Eben will help fill in the responsibilities as Dave moves to a strategic advisory role. Eben will use his background in wireless infrastructure and IT to guide the company's network technology strategy and operations.
- Eben joins the DISH family after having served as CTIO/Executive Director, Technology for the Dutch telco VodafoneZiggo. He originally joined the company as CTO in 2015 when it was Vodafone Netherlands, but a year later the company merged with Liberty Global's Ziggo to create a new jv.
- He's built up plenty of frequent flier miles during his career, making stops in Cameroon, Ghana and South Africa before arriving in the Netherlands. Eben received his master's in electrical and electronics engineering from Rand Afrikaans University in South Africa.

WatchFree+, its free streaming service. The section, designed to improve search and discovery for viewers, includes 20 local market news channels from **Fox**, **Gray Television** and more.

RETRANS SHOWDOWN

The latest effort by broadcasters to get retransmission consent extended to vMVPDs comes with the formation of **The Coalition for Local News**, a [group](#) representing more than 600 local TV stations across the country and supported by the **ABC**, **NBC**, **FOX** and **CBS** television Affiliate Associations. The Coalition said its purpose is to urge lawmakers and regulators to protect the future of local news, citing what it calls the "streaming loophole" as a glaring example. "I'm not surprised to see some broadcasters are calling for the retrans-shakedown to be extended to the online world. They've reaped untold millions from this broken system for years now, sending consumers' cable bills through the roof. It's time for Congress to update the whole model!" tweeted *Grant Spellmeyer*, president and CEO of **ACA Connects**, an organization that's fought for years to have retrans rules abolished or reformed. This week, **DirecTV** [pushed back](#) against broadcasters' efforts to extend retrans to vMVPDs, citing its ongoing dispute with **Nexstar**. It claims the broadcaster, which

owns **CW Network**, has told Sinclair stations they must black-out CW network programming for DirecTV streaming subs.

allocate 20-30% of premium video budget toward streaming and the rest to traditional TV to gain the most exposure.

STREAMING STAYS ON TOP

Streaming reached a record-high 37.7% of overall TV usage in June in the U.S., according to **Nielsen's** monthly [The Gauge report](#). The streaming category has shown steady growth since accounting for 33.7% of overall usage in June 2022, but the current mark of 37.7% is also the largest share of TV to be reported on The Gauge since July 2021 (when the cable category had the same amount). Making its debut on The Gauge was **Paramount+**, which had 1% of overall TV viewing in June and became the 11th streaming service to be featured in the report. Out of the streaming services, **YouTube**—excluding **YouTube TV**—led with 8.8% of consumption, followed by **Netflix** with 8.2%, **Hulu** with 3.5% and **Prime Video** with 3.2%. Cable took 30.6% of usage, and overall TV usage was up from May by 2.2%, the first monthly uptick since January.

CHAT-TPI FOR POLICY WONKS

Nonprofit research and educational org **The Technology Policy Institute** has launched [ChatTPI.org](#), a generative AI tool that lets users interact with its library of economic research papers, event transcripts, podcast transcripts, law review articles, commentary, and more. The site is in beta, with more material being added each day. The group suggests asking your most pressing policy questions, such as “what are the latest developments in broadband mapping” or “should the Universal Service Fund be reformed.” Answers are based solely on TPI’s curated source materials, with citations provided. We asked it if the FCC should extend retransmission consent rules should be applied to vMVPDs and got a lengthy response that boiled down to: “Overall, it appears that opinions on whether retransmission consent rules should be applied to vMVPDs are varied and not explicitly addressed in the provided documents. Further examination of additional sources may be necessary to obtain more comprehensive and diverse perspectives on this topic.”

COMCAST ADVERTISING: TRADITIONAL TV STILL KEY IN AD BUYS

Traditional TV is still a core strategy in media plans, according to **Comcast Advertising's** annual research report that found 80% of advertisers planning to maintain or increase their spend on traditional TV in the coming year. Despite economic uncertainty, 94% of advertisers anticipate maintaining or increasing their spending on premium streaming in the next 12 months (40% plan to increase their spend), Comcast's advertising arm found. The report is based on analysis of billions of impressions from Comcast Cable's ad sales division, **Effectv**, and from its ad technology platform, **FreeWheel**, as well as commissioned research into viewing and buying habits from research partners. The report recommends that advertisers

AT THE COMMISSION

FCC Chairwoman *Jessica Rosenworcel* has floated a proposal that would create a voluntary cybersecurity labeling program to provide consumers with information about the security of their IoT and smart devices. Qualifying products would bear a new U.S Cyber Trust Mark and create incentives for manufacturers to meet higher cybersecurity standards. If the proposal is adopted by a vote of the Commission, it would be issued for public comment, and could be up and running by late 2024. – The **FCC** amended the template for the recently adopted broadband consumer label to reflect a new Affordable Connectivity Program application landing page, now available at [GetInternet.gov](#).

FIBER FRENZY

TDS Telecommunications has begun installing fiber service to customers in West Salem, Wisconsin. Households can get up to 8 Gig symmetrical speeds and businesses can receive up to 10 Gig dedicated connections, and all customers can also get TDS' TV product TDS TV+.

PROGRAMMING

The first seven seasons of **AMC's** “Fear the Walking Dead” will begin streaming exclusively on **AMC+** beginning Friday, ahead of Sunday's “The Walking Dead: Dead City” season finale. – **Apple TV+** unveiled two new six-part nature documentary series. “Born to be Wild” follows six rare young animals for several years, and “Endangered Planet” uses cutting-edge technology to capture footage of the planet's most elusive species. – The Pickleball Slam will return to **ESPN** on Feb. 4 at 8:30pm. *John McEnroe* and *Andre Agassi* will feature in the “Slam 2” event once again, joined by fellow tennis icons *Maria Sharapova* and *Stefanie Graf*. The four will compete for a total prize purse of \$1 million.

ADVERTISERS READY TO HIT THE WATER FOR SHARK WEEK

There's something in the water ahead of Shark Week. **Warner Bros. Discovery** revealed the new and returning advertising partners for the programming event's 35th anniversary. Newcomers include Budweiser, Chili's, Cinnamon Toast Crunch, Domino's, MTN DEW, Long John Silver's and University of Phoenix. They'll be able to get in on cross-platform opportunities like custom vignettes, tagged tune-ins, billboards, in-program messaging, as well as participating in social media campaigns across **TikTok**, **Facebook**, **Twitter** and **Instagram**. Returning sponsors this year are Gorilla Glue, PNC Bank, Sport Clips and Wayfair. Shark Week begins Sunday and runs through July 29 on **Discovery Channel**.

Think about that for a minute...

Cut the Fat

Commentary by Steve Effros

What readers of this column have known has finally dawned on the consumer press. We can thank the writers' and actors' strikes for that. That "Hollywood" has gone on strike because of the massively changed economics of the video entertainment industry seems to have come as a shock. They apparently didn't know that almost all "streaming video" providers are losing money. The business plan math doesn't add up.

There are exceptions. Netflix seems to have finally had some profitable quarters and a few of the other very biggest providers claim they will too. But the vast majority of streaming channels won't make it by themselves. The inevitable result is that there's already a major trend toward consolidation. Disney has done it. Paramount has done it, and these, among others, are not simply adding the advertising-supported channels I mentioned last week, they are bundling their "standalone" channels, like HBO, HBO Max, and Discovery+ together as well.

Why is all this happening? Because there's a desperate need to re-anchor the viewing experience. So many channels have shown up, with so many different subscriptions, "free trial period" offers and the like, that many viewers are totally lost as to what they have subscribed to, how to find out, how to unsubscribe and so on.

Naturally the providers knew that, so while it may have been easy to sign up (and even that has often not been the case) getting unsigned turns out to be a mystery sometimes. Was the subscription made through the channel itself? If not, did it go through a "platform" like Roku or YouTube TV? Maybe it was linked to your set via your Android "Play" app. Finding where you started so you could then say "stop!" has turned out to be a significant challenge.

That's especially true when there are so many different types of channels. And just to confuse things further, some of those channels are "ad-supported" without a subscription (Google TV just announced it's adding 800 of those to its listings! 800!), and some are "subscription channels with ads"

at a lower price, or without ads at a higher price. And then, of course, there's "Premium" whatever that means!

This just isn't going to work, and based on the battle between the producers, actors and writers the question of how the "pie" is going to be cut up, and how the "talent" is going to get paid, let alone what to do with computer-generated voices and bodies is going to be in the headlines for a while. Of course it doesn't help that the big studio companies are using their CEOs, most of whom pull down more than \$50 million a year (and some have scored over \$200 million in one year!) as their messengers that they're losing money!

This whole thing has been a long time coming. Those who advocated so strongly for "a la carte" programming just refused to hear that the financial structure of creating programming while protecting the talent behind that creation was not, and is not flexible enough to account for all the extra "unintended consequences" we are now seeing. And we're not just talking about the actors, there are thousands of others involved in that creation as well. The big company stocks got a temporary boost, but that bubble has burst.

So now what? Well, the first several steps have already been taken. Consolidation is under way. The "streaming bundle" is going to become the norm. Google is leading the way with announcements about essentially creating a massive "TV Guide" type experience where viewers can find what they're looking for and "subscribe" that way. Simplify. The "talent" is going to have to be fairly paid. And maybe they can even cut the fat out of the front offices. It's about time.



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