Leichtman Research Group
Research Notes
1Q 2023 *Actionable Research on the Broadband, Media & Entertainment Industries*

Streaming's Next Phase

For much of the past decade, the focus of direct-to-consumer (DTC) streaming video services has been on growing the subscriber base domestically and internationally. But with the category becoming more mature and subscriber growth waning, the emphasis has quickly shifted to prioritizing revenue and profits. With the goalposts readjusted, added attention is being placed on the ability to increase subscription prices, generate advertising revenue, and potentially monetize the customers that share and borrow DTC services.

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As further detailed later in these Research Notes, LRG's recent *Internet-Delivered TV Services 2023* study found that **over one-quarter of all DTC streaming video services are used in more than one household, including 12% of all streaming services that are not paid for because they are being "borrowed" from a paying subscriber.** This is not the same as the content piracy of music and video that emerged two decades ago. Sharing of DTC services is a component of the streaming model.

Many streaming services (including DTC and live vMVPD pay-TV services) publicize how many simultaneous streams can be used. **Sharing has typically been seen by consumers as an inherent benefit of the service, and by providers as a "glue" to help retain a segment of paying subscribers**. (Netflix's pricing plans were seemingly designed around the inevitability of sharing, with higher priced packages allowing simultaneous access to more devices than their lower priced counterparts.) Yet, in the new phase of the category, with the business model turning toward increasing revenue per subscriber (ARPU), the issue of sharers and borrowers takes on new significance. Given its current status, this is an issue that Netflix has now decided to tackle.

At the end of 2022, Netflix had over 230 million paying subscribers ("members" in Netflix terminology) worldwide, including 74.3 million in the U.S and Canada (UCAN). Worldwide revenue of nearly $31.5 billion in 2022, including $14 billion in UCAN, were up 27% from 2020. However, over the past two years, Netflix added just 360,000 members in UCAN, including a net loss of over 900,000 members if 2022.

Account sharing, once a core membership advantage, now creates an impediment to membership growth for Netflix in highly penetrated markets like the U.S. LRG's *Internet-Delivered TV Services* study helps to demonstrate the roadblock that the borrowing of the service has created. In the survey, **66% of all households currently have Netflix, yet 14% of all those reporting that they have Netflix are not paying for the service because they are borrowing it from someone else's account**. Like all streaming services, borrowing is most common among younger individuals. While 78% of all adults ages 18-34 have Netflix, 21% in this age group are borrowing the service.

Netflix acknowledges the limitations brought on by account sharing, and the need to now address the situation. In Netflix's *Q4 2022 Letter to Shareholders*, it is stated that "*Today's widespread* *account sharing (100M+ households) undermines our long term ability to invest in and improve Netflix, as well as build our business.*" The company has thus begun to implement a one-two punch to address the issue of (mainly younger) people getting Netflix, but not paying for the service, and to increase ARPU.

The first change was the introduction of the Basic with Ads offering at $6.99 per month in late 2022. While this price point is 30% below the cost of the Basic plan, it is not necessarily an attractive offer for those borrowing the service at no cost. The second piece, that adds coherency, is the implementation of a sharing fee (along with added profile and account management features) that has gradually been tested and rolled out in several countries (including Canada), but has not yet been introduced in the U.S.

While some have projected immediate revenue growth from these initiatives, even the company itself is being cautious about the initial impact. On the Q4 2022 Earnings Interview, new Co-CEO, Greg Peters said, "*this will not be a universally popular move…we'll see a bit of a cancel reaction.*"

LRG's *Internet-Delivered TV Services* study also found this potential volatility among consumers. Netflix sharers and borrowers were asked what they will most likely do if a $3 per person per month sharing fee were charged (note that this fee is lower than the ones that have been tested in other countries, and about half the cost of the recent rollout in Canada). The survey found that:

- **Among those that share their paid Netflix account with others,** 49% of will spend the extra fee to share the service, 7% will pay the additional fee but find a lower cost package, 17% will no longer share their Netflix account, and **27% will no longer subscribe to Netflix**
- **Among those that borrow their Netflix account from others,** a similar percent as sharers expect to have the fee paid or find a lower cost package, while **8% will get their own account, and 33% will no longer use Netflix**

While the actual behaviors of sharers and borrowers is unlikely to precisely follow the survey responses, the results demonstrate that the transition for Netflix will not be linear. This is not simply a one-time pricing and packaging decision that is sure to instantly generate billions of dollars. **This is a fundamental shift in the Netflix/ customer relationship for about one-third of all Netflix users**. In order to transition from a member growth model to an ARPU/revenue/profit model, ripping the Band-Aid off may prove to be the best way to handle the transition. But it will also reset the relationship that the company has built with many of its customers.

Netflix is in a unique position as the industry leader, and as a stand-alone streaming service (not part of a larger media company). While other streaming services may not need to address the sharing issue head-on like Netflix is doing, the evolution of the streaming model is one that all major players are dealing with. A challenge in this transition (as articulated by Netflix's management) is to continue to focus on the consumer, to enhance value and encourage engagement with the services.

Did You Know ...

6% of all households had Netflix in the past year, but currently do not – compared to 7% for Hulu, 5.5% for Amazon Prime, and 5% for live pay-TV services

27% of Streaming Video Services are Shared

New consumer research from Leichtman Research Group found that 86% of U.S. households have at least one streaming video service from fifteen top subscription video on-Demand and direct-to-consumer (DTC) services, and 50% of households have four or more DTC streaming video services.

However, not all DTC services are paid for directly by those who use them. The study found that:

- 68% of all DTC services are fully paid for and are not shared with others outside the household
- 27% of all DTC services are used in more than one household:
    - 13% of services are used and paid for by those that also share them with someone outside the household
    - 12% of services are used in one household but are borrowed from another household that is paying for the service
    - 2% of services are used by multiple households that share costs
- 5% of all DTC services are not paid for because they come with another service

These findings are based on an online survey of 3,501 households from throughout the United States and are part of a new LRG study, *Internet-Delivered TV Services 2023*. This is LRG's sixth annual study focused on the vMVPD category, along with other DTC streaming video services.

Other findings from the study include:

- Among all ages 18-44, the mean number of DTC streaming services is 4.8 – compared to 4.0 among ages 45-54, and 2.5 among ages 55+
- Among ages 18-34, 17% of all DTC services are fully paid for by someone else – compared to 8% among ages 35+
- Ages 18-34 account for 55% of all DTC services that are fully paid for by someone else
- 14% with Netflix have the service fully paid for by someone else – compared to 13% with HBO Max, and 12% with Hulu
- Adults ages 18-44 account for 59% of all with a vMVPD pay-TV service
- 73% of vMVPD subscribers are very satisfied with their service – compared to 77% in 2021, and 69% in 2018
- 22% of all vMVPD services are shared by multiple households, including 8% of all vMVPD services that are fully paid for by someone outside the household

About six out of every seven households now have a streaming video service, and half of all households have four or more streaming services. Yet, many of these services are being shared.

Over one-quarter of all DTC services are shared with others outside the household, including 12% of all DTC services that are 'borrowed' from someone else's subscription. Overall, 17% of households have at least one DTC service that is fully paid for by someone else.

Major Pay-TV Providers Lost About 5,900,000 Subscribers in 2022

Leichtman Research Group found that the largest pay-TV providers in the U.S. – representing about 92% of the market – lost about 5,880,000 net video subscribers in 2022, compared to a pro forma net loss of about 4,700,000 in 2021.

The top pay-TV providers now account for about 70.2 million subscribers – with the top seven cable companies having about 37.8 million video subscribers, other traditional pay-TV services having 24.1 million subscribers, and the top publicly reporting Internet-delivered (vMVPD) pay-TV services having 8.3 million subscribers.

Findings for the year include:

- Top cable providers had a net loss of about 3,530,000 video subscribers in 2022 – compared to a loss of about 2,695,000 subscribers in 2021
- Other traditional pay-TV services had a net loss of about 2,720,000 subscribers in 2022 – compared to a loss of about 2,890,000 subscribers in 2021
- Top publicly reporting vMVPDs (not including YouTube TV, which does not regularly report results) added about 370,000 subscribers in 2022 – compared to a gain of about 885,000 subscribers in 2021
- Traditional pay-TV services (not including vMVPD) had a net loss of about 6,250,000 subscribers in 2022 – compared to a net loss of about 5,585,000 in 2021

The top pay-TV providers had a net loss of about 5.9 million subscribers, compared to a pro forma loss of about 4.7 million subscribers in 2021, and 4.9 million in 2020. At the end of 2022, top pay-TV providers had about 70.2 million subscribers, down from 95.5 million at the end of 2012.

Did You Know ...

28% of TV households have at least one TV antenna for watching over-the-air broadcast TV – compared to 27% in 2018

About 3,500,000 Added Broadband from Top Providers in 2022

Leichtman Research Group found that the largest cable and wireline phone providers and fixed wireless services in the U.S. – representing about 95% of the market – acquired about 3,500,000 net additional broadband Internet subscribers in 2022, compared to a pro forma gain of about 3,725,000 subscribers in 2021.

These top broadband providers account for about 110.5 million subscribers, with top cable companies having 75.6 million broadband subscribers, top wireline phone companies having 30.8 million subscribers, and top fixed wireless services having 4.1 million subscribers.

Findings for the year include:

- Overall, broadband additions in 2022 were 94% of those in 2021
- The top cable companies added about 515,000 subscribers in 2022 – compared to about 2.8 million net adds in 2021

- The top wireline phone companies lost about 180,000 total broadband subscribers in 2022 – compared to about 210,000 net adds in 2021
    - Wireline Telcos had about 2 million net adds via fiber in 2022, offset by about 2.2 million non-fiber net losses
- Fixed wireless/5G home Internet services from T-Mobile and Verizon added about 3,170,000 subscribers in 2022 – compared to about 730,000 net adds in 2021

Top broadband providers added about 3.5 million subscribers in 2022. Fixed wireless services accounted for 90% of the net broadband additions in 2022, compared to 20% of the net adds in 2021

Total broadband net adds in 2022 were slightly lower than last year, and down from about 5 million in 2020, but were more than in any year from 2012-2019.

Industry by the Numbers

Top Pay-TV Providers in the U.S.

Cable Companies	Subscribers at end of 4Q 2022	Net Adds in 2022
Comcast	16,142,000	(2,034,000)
Charter	15,147,000	(686,000)
Cox*	3,050,000	(340,000)
Altice	2,439,000	(293,300)
Mediacom*	510,000	(62,000)
Breezeline**	309,627	(37,102)
Cable One**	181,500	(79,500)
Total Top Cable	**37,779,127**	**(3,531,902)**
Other Traditional Services		
DIRECTV^	13,100,000	(1,500,000)
DISH TV (DBS)	7,416,000	(805,000)
Verizon Fios (Telco)	3,301,000	(343,000)
Frontier (Telco)*	306,000	(74,000)
Total Top Other Traditional	**24,123,000**	**(2,722,000)**
Internet-Delivered (vMVPD)		
Hulu + Live TV	4,500,000	200,000
Sling TV	2,334,000	(152,000)
Fubo	1,445,000	323,000
Total Top vMVPD^^	**8,279,000**	**371,000**
Total Top Pay-TV	**70,181,127**	**(5,882,902)**

Sources: The Companies and Leichtman Research Group, Inc.
*   *   LRG estimate*
***   Includes LRG estimate of pro forma net adds*
^   LRG estimate, includes DIRECTV, U-verse, and DIRECTV Stream
^^   vMVPD list does not include YouTube TV or Philo, as neither regularly report result. YouTube noted in a blog post that the TV service had "5 million subscribers and trialers" at the end of June 2022.
Company subscriber counts may not solely represent residential households
Top pay-TV providers represent approximately 92% of all subscribers

Net additions reflect pro forma results from system sales and acquisitions, and reporting adjustments -- therefore, comparing totals in this quarter's Notes to prior Notes may not produce accurate findings

Top Broadband Internet Providers in the U.S.

Cable Companies	Subscribers at end of 2022	Net Adds in 2022
Comcast	32,151,000	250,000
Charter	30,433,000	344,000
Cox*	5,560,000	30,000
Altice	4,282,900	(103,300)
Mediacom*	1,468,000	5,000
Cable One**	1,060,400	14,400
Breezeline**	693,781	(22,997)
Total Top Cable	**75,649,081**	**517,103**
Wireline Phone Companies		
AT&T	15,386,000	(118,000)
Verizon	7,484,000	119,000
Lumen^	3,037,000	(253,000)
Frontier	2,839,000	40,000
Windstream*	1,175,000	10,300
TDS	510,000	19,700
Consolidated**	367,458	724
Total Top Wireline Phone	**30,798,458**	**(181,276)**
Fixed Wireless Services		
T-Mobile	2,646,000	2,000,000
Verizon^	1,452,000	1,171,000
Total Top Fixed Wireless	**4,098,000**	**3,171,000**
Total Top Broadband	**110,545,539**	**3,506,827**

Sources: The Companies and Leichtman Research Group, Inc.
** LRG estimate*
*** Includes LRG estimate of pro forma net adds*
^ Includes the impact of a divestiture completed in October 2022
TDS residential subscribers, includes 305,200 wireline subscribers and 204,800 cable subscribers
Company subscriber counts may not solely represent residential households – about 6.5% of the total are non-residential
Top broadband providers represent approximately 95% of all subscribers

Net additions reflect pro forma results from system sales and acquisitions, and reporting adjustments, and changes to the list of top providers – therefore, comparing totals in this quarter's Notes to prior Notes may not produce accurate finding

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