

Introductory Remarks

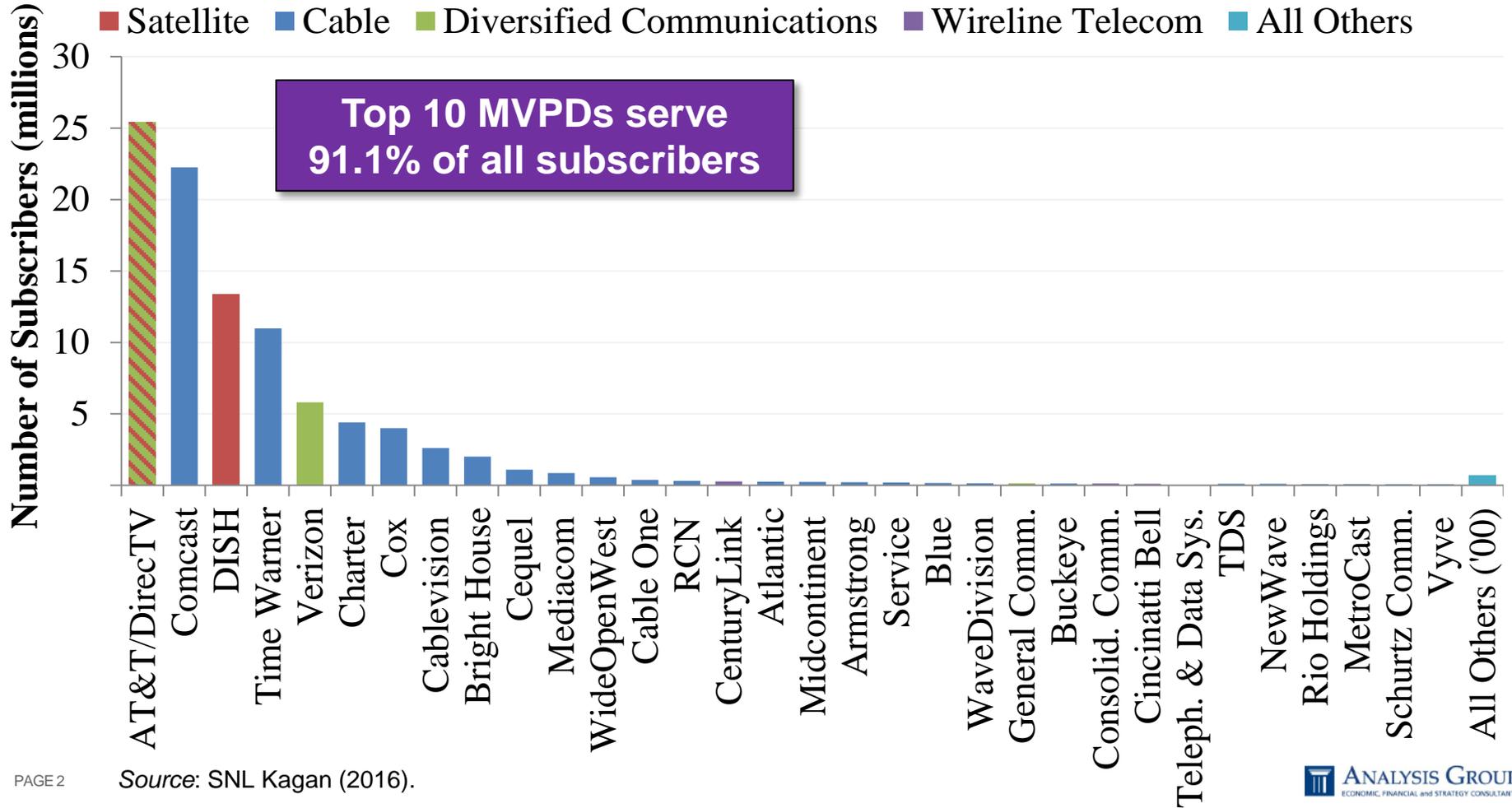
By Tasneem Chipty
Analysis Group

Prepared for the FCC's Second Public Workshop on the
State of the Video Marketplace

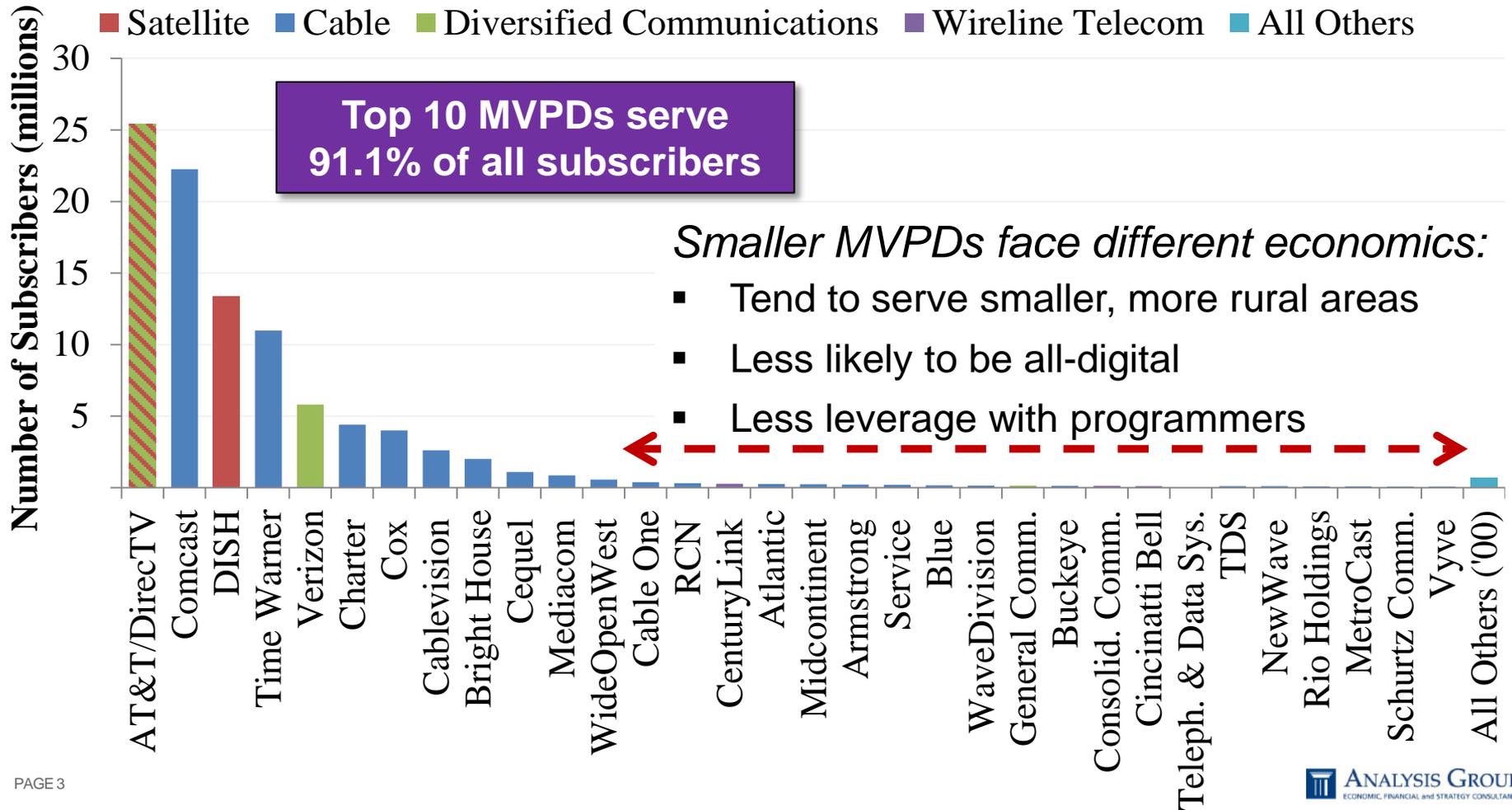
April 25, 2016



MVPD Subscribers, 2015 Q4



MVPD Subscribers, 2015 Q4





Over-The-Top Distribution

- MVPDs are going online: “TV Everywhere”
- Other OTT business models
 - Electronic Sell Through (EST) and Rental OVDs (iTunes, Amazon Instant Video)
 - Subscription (e.g. Netflix, Hulu, AmazonPrime, Sling TV)
 - Advertising-supported (e.g. Crackle)
 - Broadcast and cable networks (e.g. HBO, CBS, Comedy Central, and FOX)
 - Sports (NBA, NFL, MLS, WWE)



Top U.S. Video Subscription Services, Q4 2015

Rank	Service	Subscribers (M)	MVPD/OTT
1	Netflix	43.4	OTT
2	Amazon	33.7	OTT
3	AT&T/DIRECTV	25.4	MVPD
4	Comcast	22.3	MVPD
5	DISH	13.4	MVPD
6	Time Warner Cable	11.0	MVPD
7	Hulu	10.7	OTT
8	Verizon FiOS	5.8	MVPD
9	Charter	4.4	MVPD
10	Cox	4.0	MVPD
11	Cablevision	2.6	MVPD
12	Bright House	2.0	MVPD
13	Suddenlink	1.1	MVPD
14	WWE Network	0.9	OTT
15	Mediacom	0.9	MVPD
16	HBO NOW	0.8	OTT
17	Crunchyroll	0.6	OTT
18	WideOpenWest	0.5	MVPD
19	Sling TV	0.5	OTT
20	Cable One	0.4	MVPD

Challenge Facing Independent Programmers

Access to carriage and ultimately to viewers



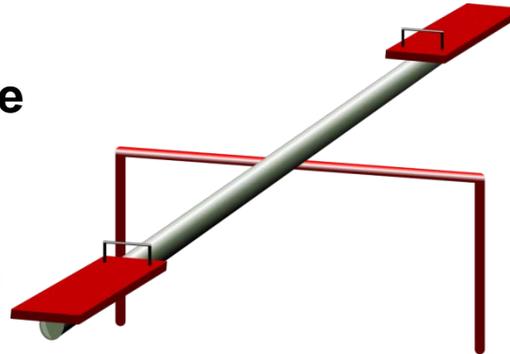
Practices that may interfere with access

- Vertical integration between programmers and distributors?
- Most-favored nations provisions?
- Prohibitions on alternative distribution methods?
- Wholesale bundling?
- Others?

Carriage Decisions of Vertically Integrated MVPDs

Carriage Incentives

- + Attract additional MVPD subscribers (earn bundle margin on new subs)
- + Additional revenue from existing subscribers (improve bundle margin)



Carriage Disincentives

- Independent programming might cannibalize viewers and advertising revenue of own channel

Key Factors Driving the Carriage Decision:

- Is the independent programming marquee?
- Is there direct competition between the independent programming and the vertically integrated network?



Alternative Distribution Method Provisions (ADMs)

- *What are they?* Provisions that restrict the content owner's ability to distribute its programming via alternative platforms for a specific time.

Procompetitive justifications



- In principle, exclusivity can promote incentives to invest
- MVPDs need to know what they are paying for
- ADM distribution would erode consumer value, which would erode MVPD's willingness to pay

Anticompetitive concerns



- Retard proliferation of online services
- Limit consumers' online access to video content
- Prevent content owners' from monetizing or promoting their programming



Most Favored Nation Provisions (MFNs)

- *What are they?* Provisions that entitle an MVPD to receive any more favorable terms negotiated by other MVPDs for the same content.

Procompetitive justifications



- Reduce incentives for holdout and delays in negotiations
- Allow long-term contracts to adapt to changing market conditions

Anticompetitive concerns



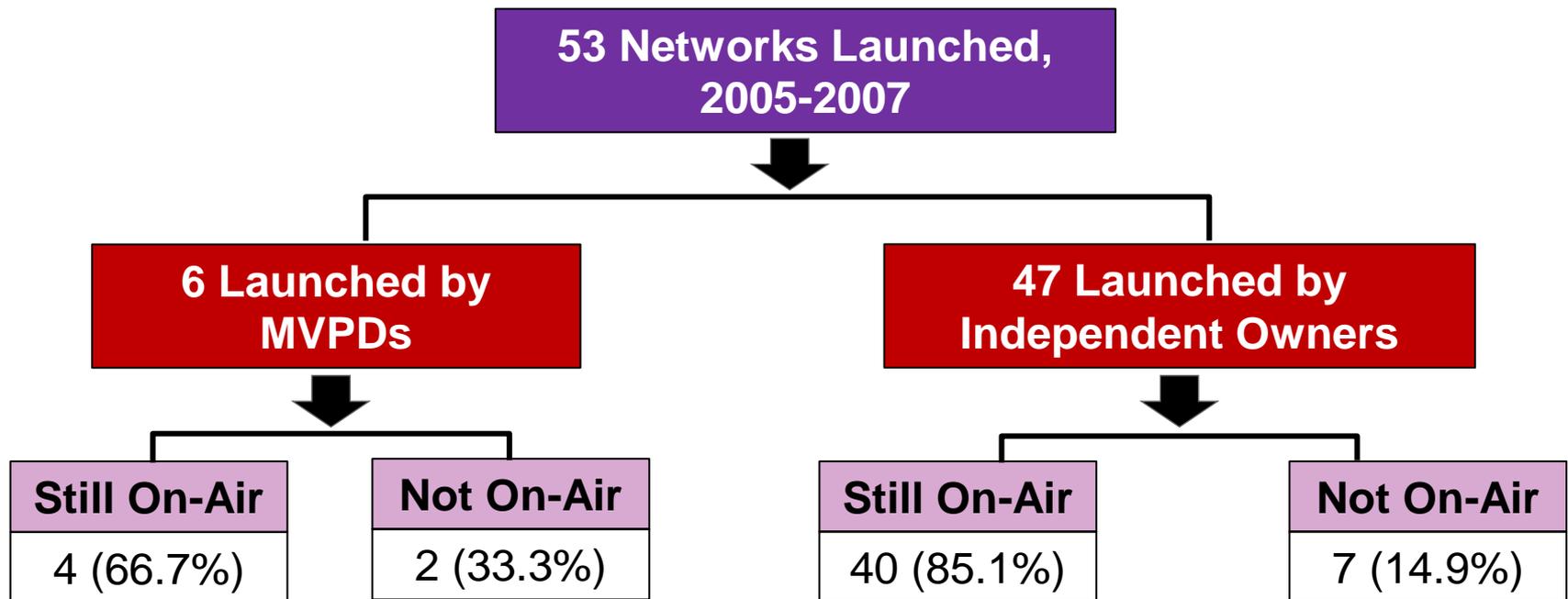
- Place upward pressure on prices, by reducing the programmer's incentives to lower price to any one MVPD
- Eliminate flexibility of independent emerging content providers to offer unique deals to early adopter MVPDs or OVDs

Current Landscape of National Basic Cable Networks

	Number	Share of Primetime Ratings
Vertically Integrated	18	16.8
Independent	179	83.2
Top-50 Network	43	67.2
Affiliated Top-50	71	11.5
Non-Top-50 Network	65	4.4

Source: SNL Kagan (2016).

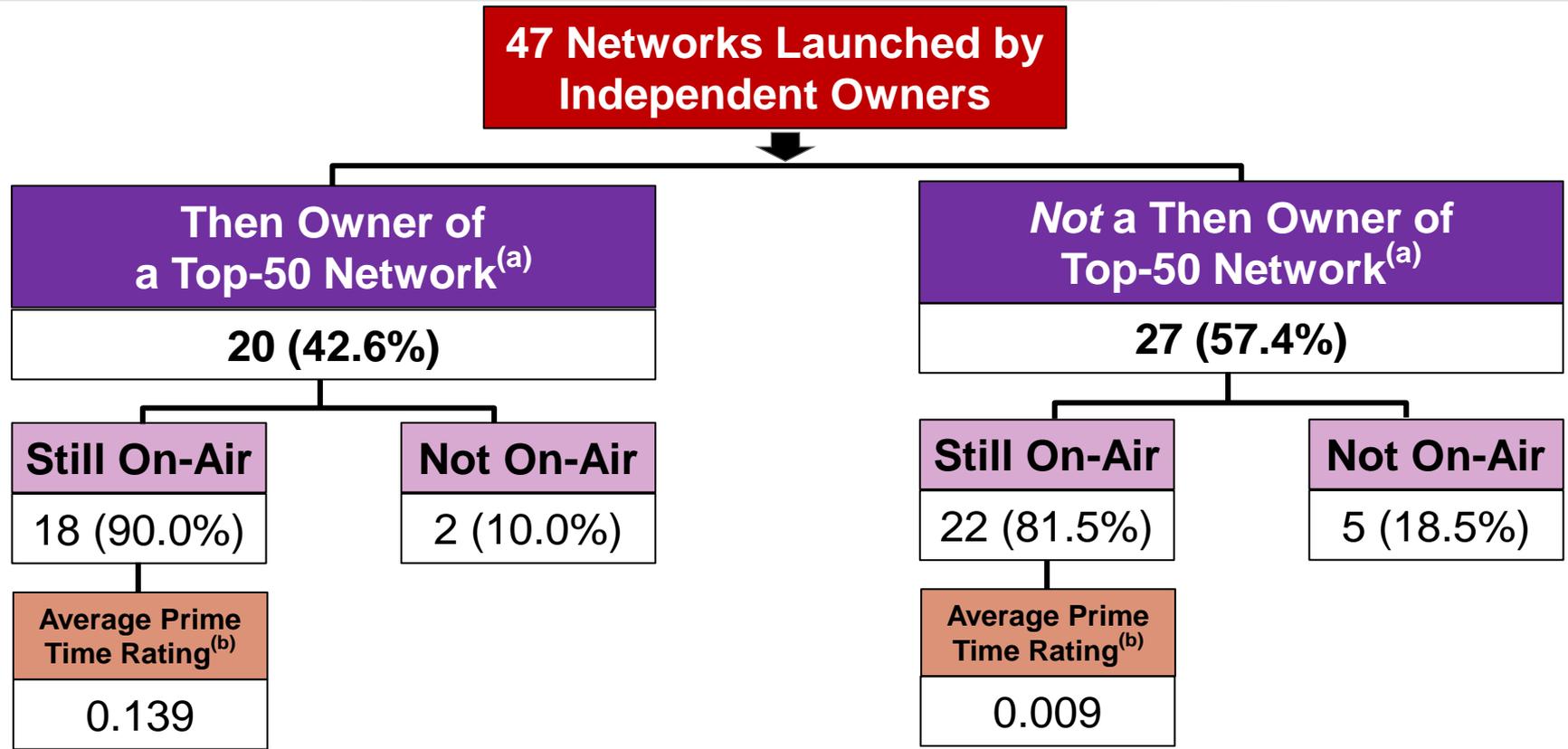
Success of New Networks Launched In 2005 - 2007



Notes: The 16 networks of the Voom HD suite (owned by Cablevision) have been counted as a single network. The Voom HD suite failed in 2009.

Sources: SNL Kagan (2008, and 2016); FCC (2009) "Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming – 13th Report."

Heterogeneity Among Independent Owners May Matter



Notes: (a) Based on an average of the 2005-2007 prime time ratings; (b) Based on 2014 data.

Sources: SNL Kagan (2008, and 2016); FCC (2009) "Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming – 13th Report."

Challenges Facing the Commission

- **Distinguish between competitive and anticompetitive:**
 - Where is the market power?
 - Are there legitimate business reasons for the observed contracting practices?
 - Or are they retarding the competition that would have existed otherwise? If so, where are the adverse effects?
 - Rising programming costs driven by MFNs and wholesale bundling?
 - Crowding out of smaller, independent programmers?
 - Slower OVD growth?

Challenges Facing the Commission

- **Understand whether the marketplace is getting there by itself:**
 - There has been a proliferation of technologies and business models.
 - OVDs (like Amazon and Hulu) are creating original programming.
 - Consumers have more choices today than ever before, both in terms of ways to access content and content itself.