NETFLIX

AND

STREAMING

VIDEO

The Business of Subscriber-Funded Video on Demand

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With gratitude to those who've been patient and generous.

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Figures and Tables

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Preface

I didn't mean to write this book. From mid-2019, my weekly intended 'to do' list included a steadily ignored item of 'pull together thinking about SVODs' (subscriber-funded video on-demand services). I ignored it because I couldn't find a point or argument to organize that thinking. I had promised Mary Savigar at Polity to consider a book about 'streaming' a couple of years earlier and had made similar progress. My writing process remained constipated, unable to sort lots of little arguments into anything big enough to warrant a book or, frankly, compelling enough for an article.

But with the lockdown in March 2020, my deck cleared. I wasn't teaching, my kids were old enough to manage with minimal intervention the brief period of home school Australia endured, and I needed something to occupy my anxiety. I started with a list of the little arguments or things that I felt were misunderstood which I had been stewing over since it became clear Netflix would not quickly flame out, like so many other internet-distributed video enterprises I'd monitored over the last two decades. I converted the arguments into questions and began 'answering' each in a blog post.

These were written quickly because I had been thinking about them since I turned my attention to streaming services around 2015. The earliest version of that thinking appears in *Portals: A Treatise on Internet-Distributed Television* (2017), which was most notable at that time for arguing that subscriber-funded services such as Netflix were quite different from YouTube, and that this difference in business model required as much reconsideration of our theories and assumptions as the use of the internet as a

distribution technology. That seems quite obvious now, but, of course, a lot has changed in just a few years.

The blogs were a freeing form of writing. I was not sure for whom I was writing and, for once, didn't care. It would be fair to categorize them as a response to the accumulation of all the wrong takes I'd seen in my Twitter feed and popular journalism, but also as frustration with scholarship that framed the services too strongly in terms of past technologies. I wrote back to the financial analysts who carried on about comparing what Netflix paid for *The Irishman* with estimates of its viewing, to critics who attributed critique of an entire service to their experience of a few shows, and to those among my scholarly community – though mostly not those actually writing and researching centrally in the area – who seemed to be approaching these services without really appreciating their industrial differences. The task of formulating coherent arguments in response to things commonly misperceived because of uninterrogated assumptions – for example, that these services were 'like' linear channels – helped me work through a lot of clutter that had been half-formed conceptualization in the corners of my brain.

Once there were thirty blog posts and nearly 50,000 words, I wondered if there was indeed a book here. I set it aside for a few months, and Mary generously sought a couple of reviews. The problem remained the same, though: what was the point? A book with a bunch of middle-level arguments didn't seem particularly purposeful, and who was I writing for anyhow? When I returned with fresh eyes, I could see two arguments into which most of the smaller 'questions' actually fit. I restructured to build those arguments, cast off those posts that didn't fit, and wrote new introductory material and bits throughout. We identified the audience as people interested in understanding the characteristics of these services who are

the readers of the regular stream of journalism about them – this is not a theoretical deep dive, and I planed the edges where my annoyance was too raw (it was lockdown times; we were all just trying not to lose our minds).

Those arguments structure the book's two main sections: 1) that subscriber-funded video streaming services require distinct conceptualization from video services that have used other distribution technologies and business models, and 2) that Netflix is doing something different from past services *and* other subscriber-funded video streamers. I see my intervention here as setting the table for building understanding, research, and policy about the particular economic and technological characteristics of this sector of streaming service – a foundation rather than the embodiment of the work that remains needed. My articles offer more proper scholarship for those that seek specific inquiries, evidence, and engagement with literature. Citation here is light, in line with the intended audience, and often used to avoid extensive discussion of something I've written about elsewhere. The blog origins mean the book is not rigidly linear. Chapters lack the formality of conventional introductions and conclusions to keep the discussion moving and are largely discrete meditations that can be read in any order.

These pages provide an accumulation of more than five years of thinking that is built from testing the continued relevance of as much 'common sense' as I could see in pursuit of conceptualizing SVODs relative to what has come before, as well as their distinct affordances. It is thinking built from a lot of 'what if?' and 'why?' questions, and it is deeply researched even if writing with an academic-light focus has led to sparse citations. Notably, unlike my other research, it relies little on interviews – no, Netflix won't answer my requests either. But I have watched, read, and listened to every public utterance I could find.

What I'm offering or arguing for here is a paradigm of thinking. It eschews a lot of the conventional wisdom. To be clear, this book focuses on SVODs because they are a new thing with distinctive features that need to be explained, and not because they are now the most important part of audiovisual ecosystems. These services remain responsible for a minority of time spent with video even in countries in which they have been widely adopted. While they may become a dominant form of scripted fiction delivery for those who can afford them, I don't expect linear services or cinemagoing to disappear in my lifetime. I don't think we yet know if they are profoundly important or how they matter to the major culture and society questions that are central to the field, but they are on pace to be something that media and cultural studies scholars need to understand. I offer a systematically built conceptual frame from which to ask specific questions about SVODs that are increasingly important to cultural producers and circulators, questions that this particular book doesn't have the scope to answer.

This is perhaps, to a degree, *Portals 2: A Manifesto on Internet-Distributed Video*, but maybe not as much of a polemic as 'manifesto' might suggest. At this point, what I've written here has come to seem quite obvious and basic, yet I know that it has taken the better part of five years to sort out and present coherently. At the least, it explains why I've taken some contrarian positions in my articles about streaming and have come to see evidence of revolution over evolution, but it is offered mainly in the hope that others can use it as a foundation to spring into the interesting and important questions these services provoke.

Although only my name appears as author, Ramon Lobato has been a crucial interlocutor, and Dan Herbert, Lee Marshall, Aswin Punathambekar and several students and

colleagues at the University of Michigan and Queensland University of Technology engaged in conversations helpful in testing these ideas. In 2016, Ramon and I co-created the Global Internet Television Consortium because it was so difficult to understand the role and impact of transnational SVODs outside of where we lived (I am an American who has lived in Australia since 2019). The detailed dossiers written by colleagues all over the world and available on the consortium website (https://global-internet-tv.com/) inform my understanding of SVODs globally, as does collaborative research with Ramon, Stuart Cunningham, and Alexa Scarlata derived from research funded from 2019 to 2021 by the Australian Research Council Discovery Programme (DP190100978).

Acknowledgements

Introduction

I wanted to call this *The SVOD Book*, but that is a pretty a terrible title. Terrible, but precise. SVOD may be the least elegant of all the terms that I and others have used over the last two decades to talk about video delivered by internet communication technologies and watched mostly in the home. An acronym for *subscriber-funded video on demand*, SVOD emerged alongside OTT (over the top), streaming, internet television, web TV, and a handful of other terms that are generally meant to indicate internet-distributed video. The two characteristics that are most meaningful in differentiating the operation of the particular type of video streaming service that has substantially adjusted the landscape of home video is clearly distinguished only in SVOD and noted in those four letters: these services are subscriber funded and available on demand.

I wanted a terrible but precise title because the variety of ways we can now access television and film has made them very complicated to discuss. The differences in both distribution technology – broadcast, cable, satellite, or internet – and funding mechanism – advertising, transaction, subscriber payment, or public funds – have led to much greater industrial diversity among video services than was once the case. This book examines only SVOD services because relying solely on subscriber funding and allowing consumers on-demand access enables them to deviate significantly from many of the norms upon which the television and film industries have long operated. The different *technological capabilities* of these services – capabilities enabled by internet distribution – and the content strategies possible because they offer *content on demand and seek payment from viewers* rather than advertisers make them profoundly unlike the video industries in place for the last seventy years, and this book explores those differences. SVOD is precise but is more technical than common in most conversations. SVODs have entered the fabric of everyday life for many millions of homes, yet the acronym remains one that few use. Most people think of these simply as video streaming services, which is a broader category than is examined here.

This book does not aim to explore the entirety of internet-distributed video, and thus there are significant forms that are not discussed here.[1] Internet-distributed video also includes video found on social media such as Facebook, YouTube, and TikTok, which, to date, have been supported predominantly by advertisements and sponsor/influencer messaging. Their reliance on feeds, timelines, and non-linear channels also provides on-demand access, though sometimes these services offer live feeds as well. Furthermore, they are strongly distinguished by their openness in allowing almost anyone to upload video. This enables them to offer non-industrial forms of video creation, though the creators that earn a living from social video are increasingly every bit as 'professional' as those creating for SVODs. The reliance on advertising and the logics of social media require bespoke theory building for these forms of streaming video.

Another part of the advertiser-funded, internet-distributed video sector encompasses the many services that began as 'catch-up' services that evolved from linear channels to offer access to shows viewers missed at a scheduled viewing time.[2] Many now license and offer additional programming that never airs in the broadcast schedule, and a whole other group of AVOD (ad-funded video on demand) and FAST (free, ad-supported streaming television that is linear) services have no analogue precursor (Crackle, Roku TV, Tubi, Vudu, PlutoTV). To add further complexity, some services (Hulu, Peacock, HBO Max) offer separate ad- and subscriber-funded tiers in some countries and differentiate their offer based on the inclusion of commercials and/or particular content by tier.

Yet another category significant outside the US are VOD services supported by public-service media, some of which have ads while others rely on public funds. Those reliant on

ads warrant consideration with AVODs, at least in terms of industrial positioning. Public-service media are also distinct from the central focus here, which is on commercial video services or services whose foremost mandate is pursuit of profit. The book contrasts SVODs many times throughout its pages with 'linear ad-supported services'. Technically, these are commercial (not public service), linear ad-supported services.[3]

The purpose of this book is not to map these variations but to investigate in great depth the particular dynamics of commercial on-demand video services that are not driven primarily by concerns of selling attention to advertisers. The landscape of SVOD, AVOD/FAST, and publicly funded VOD varies a lot from country to country, although several services are notable for their transnational availability. Much of this book focuses on transnational SVODs because they are having the biggest effect on restructuring video ecosystems worldwide. That doesn't make them the most important in every country; in fact dominance at the national level isn't to be expected in countries with the capital and scale to offer their own services. But it is also impossible for a single book to address highly particularized national dynamics, which drives the examples here to the transnational cases.

In addition to the ways in which SVODs are distinguished by *on-demand access* and *subscriber funding*, *multinational reach* differentiates several of the largest services. The origins of television and film industries were largely national, although they have grown more transnational over the decades, especially once the technology of internet distribution expanded the significant internationalization introduced by satellite in the 1990s. Multinational reach takes advantage of economies of scale that operate for media industries because the goods they offer have low to no marginal cost. The world of SVODs is thus simultaneously nationally distinctive and transnationally influenced.

This project constructs a foundation for analysing SVODs by teasing apart their similarities and differences from the video services that have been the basis of existing knowledge. It focuses on SVODs offering scripted fiction – or what we've known as drama and comedy series and movies. If successful, the insights here will assist others in contextualized analysis of more specialized services and particular national contexts. The first section of this book explores the industrial differences between SVODs and norms and practices we've come to expect from experience with linear ad-supported television services and theatrical distribution and why those differences matter. In order to address both general features of SVODs and the particularity of Netflix, the second section focuses on Netflix and how it is unlike most other SVODs. Somehow, we have arrived at page 5 without using a key word for a book about SVODs published in 2022: Netflix. By many measures, Netflix was the dominant SVOD as I wrote in 2021, and by many other measures it was an unusual SVOD. This dynamic required the structure of the book, which is built around two related but distinct arguments. Part I explores how subscriber-funded video-streaming services are distinct from video services that have used other distribution technologies and business models and provide the foundation of our industrial frameworks. Part II uses the case of Netflix, a more mature and pure-play service that differs from both past services *and* other subscriber-funded video streamers in key ways.

Writing a book about SVODs is made tricky by their continued and steady evolution. I've been studying the changes in the business of television since the early 2000s, and the only thing more certain twenty years later is that the industry is never going back to the way things were. In a book published in 2007, I identified the beginning of this change by proclaiming a start of the 'post-network era'. I knew then that internet distribution of video would change these industries profoundly but could hardly imagine how this change would come to be or how long it would take. We've passed many milestones of change in viewer and industry behaviour that make that eventual new normal more imaginable, but we have not yet reached a new stasis. I write with considerable hesitation, knowing the evolution of this sector has been both steady and extensive. From the vantage point of

2022, the multinational expansion of multiple US-based SVODs affiliated with major media conglomerates appears a particularly significant disruption of a wide range of status quo practices, and so the book focuses on this sector. Other consequential adjustments will transpire, and, as a result, this may merely be a first edition of my imagined *SVOD Book*, or perhaps SVOD services will prove a phase in a longer transition that necessitates a different focus to explain whatever comes next. The book is not without limits – notably, Chinese internet-distributed video does not neatly divide its universe so clearly among ad- and subscriber-funded services and requires bespoke foundation building. There is also a strong English-language bias towards the services on which I focus, despite notable transnational expansion from Viu, ZEE5, and others.

In concentrating on the general economic and technological foundation of SVODs, this book aims to be relevant to readers in all countries. But because even global SVODs are understood and experienced within a national context, it is impossible to make claims consistently accurate across nations. Instead, the analysis here attempts to illustrate how we might explore the particular national industrial, cultural, regulatory, and historical contexts that make these dynamics just a little bit different everywhere through drawing out cases placed in either the Australian or US contexts in which I have most expertise.

Dissecting the SVOD sector

Subscriber funding and provision of video on demand may make for a common sector, but the SVOD sector is composed of a complex taxonomy of distinctions.[4] At least four different structuring characteristics distinguish SVODs in ways that lead them to different strategies: geographic reach, library specificity, library ownership, and corporate ownership. These characteristics do not reliably align; instead, imagine them as reels on a slot machine so that any mix of characteristics might come up in combination, although some combinations are more common than others. Each blend of characteristics leads to different norms, behaviours, and priorities.

Geographic reach is the first significant characteristic. Lobato offers three variations: national-single territory, transnational multi-territory, and transnational global,[5] but, for simplicity, let's use *single territory*, *multi-territory*, and *global*. Of course these offer more of a continuum than three discreet variations – technically multi-territory might encompass everything from two to nearly two hundred territories, and global doesn't necessarily mean everywhere but a strategy based on being in most places and particularly in major markets. For the consideration here, the multi-territory variation might distinguish services in a handful of territories that probably have some reason for this middling scope, such as serving a geographic region or uniting communities with particular linguistic or cultural commonalities. Geographic reach is important because of the scale that becomes available to a service outside a single territory and the extent to which that scale enables particular content strategies.
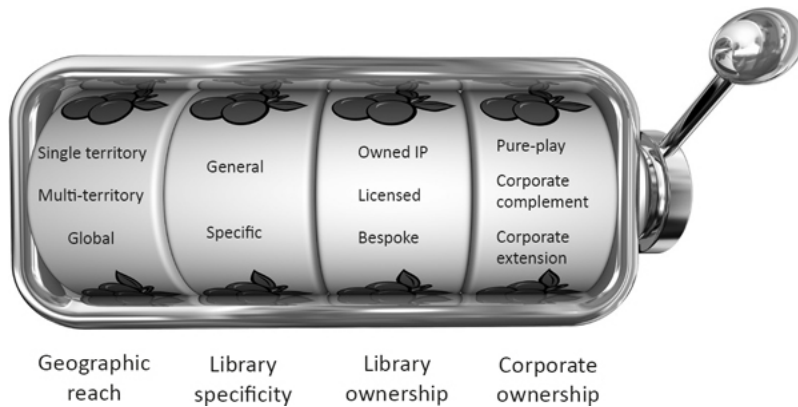
Figure 1 **Variation in the structuring characteristics of SVODs**

The independent reels of the slot machine represent the various combinations of structuring characteristics among SVODs.

Library specificity might be best thought of as a dichotomy between *general* and *specific*, though here, too, services can be organized on a continuum. General libraries offer a range of content; they are the department store/Walmart/Target of the SVOD universe. A general library won't have everything or depth in many types of titles but provides a mix. In contrast, specific libraries are often based on a value proposition of providing uncommon depth of a single type of content. Specialty services won't be attractive to all consumers but are highly valuable to those that prefer the content on offer, a level of desire that may lead to willingness to pay more. They are like shoe stores in the retail comparison; they offer only one thing but provide much greater choice than the shoe options available in the department store. As with geographic reach, the degree of library specificity considerably structures much of the business and content strategy of an SVOD. It also indicates how the relationship among SVODs is often more complementary than directly competitive. Just as both department stores and shoe stores can thrive, so too can general and specialty services coexist.

Library ownership identifies the distinction between services based on *owned IP* (intellectual property) or a library of owned titles, while other services rely on *licensed* libraries. A finer variation involves whether that owned IP is *bespoke*, or created particularly for the SVOD, or whether the titles were created over time for other television channels or movies for theatrical release. Distinguishing bespoke content developed specifically for the SVOD is important because services are able to deploy explicit content strategies through these titles. Bespoke content is a small amount of the content available on SVODs, and, to date, only Apple TV+ offers an entirely bespoke library. Many libraries are characterized by a blend of these attributes – for example, a mix of licensed and owned IP. Thus a key way of distinguishing SVODs by this characteristic is by the ratio of titles with these attributes. Table 1 lists some of the most subscribed services and captures data regarding their library size and number of commissioned titles to demonstrate the variation in the marketplace in 2021.[6]

Table 1 **Different library and service characteristics**