

September 25, 2018

TO: Members, Subcommittee on Communications and Technology

FROM: Committee Majority Staff

RE: Hearing entitled “State of the Media Marketplace.”

I. INTRODUCTION

The Subcommittee on Communications and Technology will hold a hearing Thursday, September 27, 2018, at 3:00 p.m. in 2123 Rayburn House Office Building. The hearing is entitled “State of the Media Marketplace.”

II. WITNESSES

- Craig Moffett, Founder and Senior Research Analyst, MoffettNathanson
- Ian Olgeirson, Research Director, S&P Global Market Intelligence, and,
- Jeff Corwin, Wildlife Biologist, Executive Producer and Host of ABC’s *Ocean Treks*

III. BACKGROUND

American consumers have unprecedented access to high-quality media content. From traditional over-the-air broadcasting to the vast offerings of the Internet, from long-form podcasts to short YouTube uploads, the media landscape has changed significantly in the last 20 years.

In 2004, Blockbuster had 9,000 stores and revenues of \$5.9 billion,¹ and Netflix was still a new player in the DVD-by-mail service. Little more than a decade later, Blockbuster has filed for bankruptcy and closed nearly all of its U.S. stores.² Meanwhile, Netflix collected over \$11 billion in revenue in 2017, and has 130 million subscribers globally.³ Other areas of the market have experienced similar trends. Digital streaming is the fastest growing segment of radio listeners – Spotify alone is expected to grow their listener base to over 150 million by 2020.⁴ As a result, many traditional broadcasters have invested in digital platforms to compete. While video and radio still dominate the media market by nearly all measures, consumers are spending

¹ See, <https://www.ibtimes.com/sad-end-blockbuster-video-onetime-5-billion-company-being-liquidated-competition-1496962>

² See, <https://www.businessinsider.com/blockbuster-still-exists-in-a-couple-of-places-2017-4>

³ See, <https://www.statista.com/chart/10311/netflix-subscriptions-usa-international/>

⁴ See, <https://www.cnn.com/2018/05/18/spotify-subscribers-to-double-to-150-million-by-2020-raymond-james-predicts.html>

an increasing amount of screen time with other forms of media, including web sites and applications.

IV. CONSUMER BEHAVIOR

Today, nearly half of an adult's day is spent to listening to, reading, watching, or generally interacting with media.⁵ Since 2017, consumers 18 and older increased their media consumption time by more than a half an hour per day. While applications, games, and other forms of media compete for screen time, live TV, time-shifted TV, and radio continue to have the largest weekly reach. Radio reaches 92 percent of adults every week, and live and time-shifted TV has a weekly reach of 88 percent.⁶ Live and time-shifted TV also dominates consumer time, with the average consumer spending almost five hours a day consuming media through these platforms.

While TV remains the leader in forms of media consumption, the TV delivery mechanisms have changed dramatically over the last several years with increasing numbers of consumers "cutting the cord" and transitioning to subscription video on demand (SVOD) services. Though cord cutters make up just 11 percent of U.S. households, the number of households making the transition to streaming-only is accelerating. The number of cord cutters in 2015 surpassed 1 million, quadrupling 2014 numbers. Further, in the third quarter of 2017 alone, 1.2 million households transitioned to streaming-only. Pivotal Research predicts that by 2027, the percentage of homes with a cable TV subscription will be just 67 percent, down from its peak of 91 percent in 2011.⁷

The medium through which consumers view content is changing as well. As Americans become more connected, the use of digital platforms to consume content has increased dramatically. The average consumer spent two hours per day on digital platforms in 2013, today that number has almost doubled to three hours and 48 minutes.⁸ The market has responded to and contributed to this trend, with newspapers, networks, and radio broadcasters investing billions in mobile applications. This trend has had a profound impact on the mobile marketplace. Between 2017 and 2018, worldwide mobile data traffic grew by 54 percent, largely driven by video traffic.

⁵ See, <https://www.nielsen.com/us/en/insights/news/2018/time-flies-us-adults-now-spend-nearly-half-a-day-interacting-with-media.html>

⁶ See, <https://www.nielsen.com/us/en/insights/news/2018/time-flies-us-adults-now-spend-nearly-half-a-day-interacting-with-media.html>

⁷ See, <https://www.forbes.com/sites/bradadgate/2017/12/07/cord-cutting-is-not-stopping-any-time-soon/#609a87c5ef0b>

⁸ See, <https://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/2018-reports/q1-2018-total-audience-report.pdf>

V. INVESTMENT TRENDS AND MARKET GROWTH

Video

The economics of content distribution have evolved with the adoption of digital media platforms like Netflix, Sling, and Amazon, among others. The content creators that were once dependent on traditional networks and movie distributors now have a new distribution alternative. Content owners not only have a new revenue stream through digital platforms, but they are also benefitting due to the fact that premium cable companies are willing to pay to keep certain content off streaming services. The rise in platform investment in original content has fueled fierce competition in content production.

Traditional networks, premium networks, and over-the-top services are investing billions in content. In 2017, NBCUniversal invested \$10.2 billion in non-sports programming, followed by Fox at \$8 billion, and Time Warner at \$8 billion. Over-the-top services were not far behind, with Netflix spending \$6 billion of its \$8 billion annual budget on content in 2017, followed by Amazon at \$4.5 billion and Hulu at \$2.5 billion.⁹

Platforms are spending more and more of their budgets on exclusive content to compete with rivals, fueling previously unthinkable production costs. Netflix's "The Crown" costs between \$10 million and \$13 million an episode, HBO's "Game of Thrones" costs \$10 million per episode, and Amazon is expected to invest \$1 billion in "The Lord of the Rings" TV adaptation, making it the most expensive series ever. The volume of available content has exploded as well, with Netflix alone releasing 14 new series, 13 comedy specials, six documentaries, and nine feature films in one quarter last year. Both Wall Street and Hollywood have rewarded heavy investment in content, and analysts predict this trend will continue.¹⁰

Audio

Each week, more Americans tune into AM/FM radio than watch television or use smartphones. Among adults, AM/FM radio reaches 228 million consumers each week, compared to TV reaching 216 million. Other forms of audio content have vast reach as well; 68 million Americans stream audio each week, 35 million use satellite radio, and 21 million consume podcasts.

The largest area of growth in the audio space over the last decade has been streaming services. In 2010, streaming services facilitated 1 million listening sessions on weekdays. By 2018, that number grew to just under 6 million. In the first half of 2018, Americans streamed 403 billion recordings using on-demand audio and video services, up 41 percent from 2017.¹¹

⁹ See, <https://www.recode.net/2018/2/26/17053936/how-much-netflix-billion-original-content-programs-tv-movies-hulu-disney-chart>

¹⁰ See, <https://www.prnewswire.com/news-releases/tdg-virtual-mvpds-to-disrupt-pay-tv-marketplace-legacy-services-to-lose-26-of-subscribers-by-2030-300563535.html>

¹¹ See, <https://www.soundexchange.com/music-tech-understanding-the-growth-of-streaming/>

Some of the largest companies in the world are investing in streaming services. Amazon Music, Google Play Music, and YouTube Music now compete with Spotify and Pandora for listeners.

VI. EVOLVING BUSINESS MODELS

Five years ago, the only way to watch video from traditional, network, and premium channels was to purchase a bundled package from a legacy pay TV service. But as consumers have continued to transition away from linear programming on bundled packages, traditional providers are experimenting with alternate modes of viewing. Apple has teamed with HBO to show the network's programming on Apple TV, ESPN and CBS have launched their own over-the-top services, and the NFL and PGA Tour have partnered with Twitter for live streaming events. In addition, several providers including YouTube, DISH, and DirecTV are now offering "skinny bundles" – streaming services that provide consumers a small bundle of live TV channels. Whether it is new packages offered by legacy providers, or subscriptions from internet companies, most analysts agree that the market will continue to transition to over-the-top delivery.

Like the video market, traditional radio has been forced to innovate in the digital space to compete with rivals. Traditional radio has invested billions in digital offerings over the last decade, and today broadcast accounts for 17 of the top 20 streaming services.¹² The growing popularity of in-home assistants and smart speakers are also changing the market for audio producers and distributors. Today, nearly 19 million households use smart speakers,¹³ and many in the industry see a new opportunity for radio listening. iHeartRadio has partnered with Amazon to offer a lineup of flash briefings for Alexa equipped devices, and radio stations including NPR have incorporated availability on the devices into their marketing strategies.

VII. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Robin Colwell or Lauren McCarty of the Committee Staff at (202) 225-2927.

¹² See, <https://www.forbes.com/sites/geneely/2018/05/18/for-traditional-radio-its-all-about-harnessing-the-power-of-digital/#111019fd6438>

¹³ See, <https://socialmediaweek.org/blog/2018/04/report-nearly-19-million-u-s-households-now-use-smart-speakers/>