

## How the dream of cheap streaming television became a pricey, complicated mess

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The dream of cutting the cord on pricey cable TV services went something like this: Consumers could get what they wanted, when they wanted, while saving money because they wouldn't be paying for expensive bundles of channels they never watched.

Snip, save, enjoy.

But this entertainment nirvana never actually arrived. First came pricey broadband services required to stream Internet video, often delivered by the same cable wires consumers longed to cut. Then came a proliferation of services — offered by Netflix, Amazon, Hulu plus and more — each with a bill of its own. Then came more boxes, wires and remotes.

And finally came the question: How exactly do I get my “Star Wars” fix?

The answer, it became clear with an announcement here at Disney's Southern California



The Enchanted Storybook Castle at Shanghai Disneyland in 2017. The company hopes to turn streaming into a shiny promised land. But the platform's reality is anything but. (Qilai Shen/Bloomberg News)

headquarters Thursday night, is that most consumers eventually will need yet another service to stream many of the staples of American entertainment: “Frozen,” the Avengers and, yes, all those “Star Wars” sequels, prequels and spinoffs.

While many of these favorites will remain available on other services for a time, gradually

Disney will pull them into its own service, Disney+. The cost: \$6.99 a month.

“If cord cutters thought there was some way they were going to evade the tyranny of annual price increases, they were deluding themselves,” said industry analyst Craig Moffett of MoffettNathanson. “Every economist in the world tried to warn

that the outcome of that system would be higher prices and less choice. And lo and behold, that's where we landed."

Those who study the entertainment industry debate the underlying reasons for this. One group blames the industry's biggest players for reasserting their control over pricing in a way that disadvantages consumers — and Washington for allowing that to happen. Streaming services are the profitable beneficiaries of these shifts, while consumers' wallets are the losers.

The other side, including Moffett, says the outcome was inevitable for a range of predictable reasons: Americans want the best, coolest shows, and these cost a lot of money in actors, set costs, big-name directors and special effects. Even for a television show, these expenses can run into the millions of dollars per episode.

But there is no real debate about the outcome: The dreams of cord cutters are largely unfulfilled. A transition that some hoped would provide more choice, lower prices and more simplicity instead has delivered frustrating levels of complexity. There still may be more choice, but each choice comes with price tags that, taken together, may well approach the cable bills of old.

"It's not going to come for free," said Michael Powell, president of trade group NCTA, representing pay television and

broadband providers. "People want to watch their 'True Detective,' 'Breaking Bad,' 'Mad Men,' and that stuff costs a fortune."

The shift is visible in the falling number of traditional cable video subscribers and the rising numbers of broadband subscribers. The two lines crossed a few years ago, according to data compiled by S&P Global Market Intelligence. Broadband customers are more profitable for cable companies, too — because they don't have to share those monthly fees with the media companies providing the shows.

In other words, as television consumers pared back on cable packages, they spent more on Internet. This hurt satellite television companies, but relatively few actual cords got cut. And many of those that got cut were replaced by new cords from other companies, with bills of their own, not to mention the ones from streaming services that delivered the actual shows, movies and sporting events.

"Paying five different streaming services a total of 50 or 60 dollars to get some of what we want instead of a little more to get a lot of what we want — well, I think a lot of people would prefer the package deal," said Atlas Media founder Bruce David Klein, a veteran television producer and cable expert. "It's getting harder to piece all this together in a way that doesn't cost a fortune."

Disney officials said their service would offer advantages viewers can't get anywhere else.

"Never before has our content been as broadly, conveniently or permanently available as it is on Disney+," said Disney executive Kevin Mayer while standing on the studio's lot. "We're confident consumers will love the service."

Company officials portrayed Disney+ as particularly attractive to consumers craving simplicity. Rather than the thousands of scattershot shows and movies on Netflix, Disney executives said they would offer a streamlined set of offerings from their popular content brands including Marvel, Pixar, and Lucasfilm.

Investors seemed pleased — Disney stock closed up 11 percent Friday.

But Tim Wu, author of "The Attention Merchants," argues that Disney's announcement and other recent developments signal that a halcyon era is ending, one in which disruption in the entertainment industry unleashed opportunities for better consumer deals.

The deals came for those willing to cancel their cable services while being careful in adding new streaming services. Such restraint has gotten harder as the industry has fractured, with many entities, including sports leagues and genre-focused producers, now offering their own packages.

“Everything is about funding, a way to make people pay more money,” Wu said. “The incentives are to have streaming be as bad a deal as cable already was.”

Streaming began as the domain of the digital-minded Netflix and soon attracted a slew of entrants. Legacy companies, frustrated that Netflix was growing its influence on the backs of their shows, made plans to take back rights and launch competitors.

Technology giants such as Amazon soon began moving in. Apple, which has a roster of new high-end content it will launch later this year, is the latest to join the fray. And a host of niche services have sprung up, from the animecentric Crunchyroll to multiple platforms specializing in British television. HBO parent WarnerMedia is expected to launch its own streaming service as soon as this year.

“It is quite an Excel spreadsheet to dissect all the options,” said Trip Miller, founder of the investment firm Gullane Capital.

When consumers do decide on a service, they might find it costs more than they expect. Netflix recently raised its monthly prices by as much as 18 percent. The hikes have been imposed partly to fund original shows, whose costs have risen thanks to a heated content market and the audience’s desire for higher production values.

While figures don’t suggest a cable television resurgence, the sector has slowed its losses.

Comcast and Charter Communications, the nation’s two largest cable providers, reported cable-revenue growth in the mid-single digits for the most recent quarter, suggesting that the rate of attrition has lessened. Shows on Hallmark and History regularly attract 2 million to 3 million viewers, an impressive number given that Netflix mostly does not reveal how many people are viewing its shows.

Still, streaming could undermine consumer choice. Netflix’s emergence has put the squeeze on what has historically been a large supplier of original programs — cable networks.

In the fall, a critically acclaimed show on Lifetime, “You,” foundered as many of its core customers had turned to Netflix. The cable network decided against funding a second season because of low viewership. Netflix then stepped in to finance the season. Many in Hollywood saw it as proof that only a few well-capitalized players could keep the pipeline flowing.

And newer suppliers, like Apple, could decide to exit if consumer adoption doesn’t happen quickly.

A study by Ovum analyst Tony Gunnarsson cited at the recent NAB trade show noted that the majority of consumers will subscribe to only 2.25 streaming services, leaving many players out in the cold.

**Experts say that while the market can probably accommo-**

**date Disney, others may not be as lucky.**

**“Netflix got there first and is far and away the biggest, so Disney is trying to play Avis to their Hertz,” said Lloyd Greif, a Los Angeles-based investment banker who closely follows the media space.**

Disney’s service will cost just over half the monthly price of the most popular Netflix plan, and even less if consumers make an annual commitment. The company can afford to do this in part because, unlike Netflix, it draws revenue from box office, theme parks, TV ad revenue and other non-subscription services.

The goal is to achieve revenue through reach, not overcharging, company officials said. Disney+ plans to launch 25 new episodic series and 10 movies in its first year. But within five years, the number of episodic shows is expected to double to 50. Over the next few years, the company will also reacquire rights to all the properties it had licensed out on long-term deals to other platforms and companies. Executives also said they expect losses through 2023. “Disney is loved by so many millions of people around the world,” said Robert Iger, its chief executive, at the investor presentation. “This is our first serious foray into this space, and we want to reach as many people as possible.”