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INVESTING 6/09/2015 @ 6:05PM | 3,770 views

Content Wars: How Television Networks Are Fighting The Netflix Threat

In the movie industry, streaming services are killing the game. Last week I reported Netflix, Hulu, iTunes and their peers will finally defeat the DVD this year, and will likely beat the box office in 2017. This has big implications for shareholders in a slew of companies ranging from Netflix and Google, to theater owners like Imax and Cinemark Holdings.

In the network television arena, however, it's still a tug-of-war.

Considering the exponential growth of Internet television—Netflix grew its subscriber base nearly 30% in 2014 and ended Q1 with record growth this year—television has managed to keep its footing relatively well. Traditional TV viewership is only expected to decline 0.9% annually through 2017, according to PricewaterhouseCoopers, a slow decline compared to the growth of its competition.

But while TV viewers haven't been rushing to sever their cables just yet, the threat of cord-cutting is staring traditional networks in the face. The median age of the Big Four broadcast TV viewers is 54.2. That's almost 17 years older than the average American. Millennials are driving the cord-cutting trend¬ with one third of their original series consumption coming from digital platforms, according to Internet analytics company comScore. One in 6 hasn't even tuned into a TV original series in the last 30 days. This is a worrisome trend for broadcast networks, and they're changing their strategy to combat it.

This year's fall line-up reflects these strategic changes. Broadcast networks are adding more original hours, increasing their production costs,

favoring in-house production, and introducing big stars, according to a UBS analysis of the upcoming primetime season.
In a report following the annual TV Upfronts, where networks present their upcoming slate of shows to advertisers, UBS detailed the various strategies networks like ABC, Fox, NBC, CBS and the CW are employing in a bid to attract new viewers and keep the ones already watching interested.

While each network's parent company leans on diversified income streams, the broadcast slate is still an important driver of revenue and profit. For instance, ABC parent Walt Disney Company gets more revenue from its cable networks than broadcast (thanks largely to ESPN), but broadcasting revenue and profits grew faster, 19% and 90% respectively, than those from the cable business.

Here are a few ways TV networks are fighting the Netflix threat:

More Original Hours
The Big Four broadcast networks—CBS, ABC, Fox and NBC—together with CW, are introducing a net total of five new shows to primetime this season, a 3% increase to total original programming, according to the UBS analysis.

The reason for this trend is two-fold. Viewership for re-runs is lower than ever (and thus less profitable than ever) as streaming services with on-demand libraries of re-runs win that market. Compounding this trend, the success of original series like Netflix's "House of Cards" and Amazon's "Transparent" are increasing competition.

The pressure on broadcasters is evident in the drastic changes planned by NBC, which is launching 16 new shows and pulling 13 for the upcoming season, which UBS predicts is too

ambitious compared with the more modest changes ordered up by its peers.
In-House Production

ABC, Fox, and NBC steered away from third-party studios this season, a recent trend in the broadcast TV industry. These studios are producing almost exclusively in-house with ABC producing all of its 10 new shows either fully or partially and Fox producing 9 of 10 new shows in-house.

This is a risky shift, as exclusive in-house production positions the networks for higher gains and greater losses, the UBS report highlights. If a show's a hit, the network gets all the profit, but if it's a flop, they absorb all the losses. This shift has reputational implications, too, as in-house production more closely ties the network name with failed shows and networks could miss out on revenue from potential independent hits.

CBS was the only network to pick up several shows from third-party studios. Of its 7 new shows, just two will be produced completely in-house, while two will be co-produced with ABC, one from 20th Century Fox, and two from Warner Bros.

Bigger Is Better
That's the mantra heading into the fall season. Bigger casts, bigger sets, more special effects, and bigger budgets will lead to a 2% hike in production costs this season, according to UBS.

The most expensive primetime addition is NBC's drama "Blindspot," starring actress Jamie Alexander. With a $59 million budget for the season, it will become network's most expensive drama and second most expensive show, trailing behind $62 million reality show "The Voice."

Big-name actors Rob Lowe, Neil Patrick Harris, Chase Crawford, and Jane Lynch will also enjoy primetime face-time this year.

These spending increases are substantial considering the savings that will come from the cancelations of some of network television's most expensive shows. The cancelations of "Two and a Half Men", "The Mentalist", and "CSI" will save CBS an estimated $150 million throughout the season while the cancelations of “Parenthood” and “Parks and Recreation” will save NBC $50 million.

Despite being the only major network to decrease their number of primetime shows, Fox is increasing their primetime spending at a rate well above the industry average. The network’s primetime spending will reach $912 million this year, a 16.5% hike over last year’s upfront and a significantly higher increase than the Big Four/CW average of +2%.

Drama

The 2015-2016 lineups are drama-heavy across the board, an emerging trend in primetime television.

Of total new shows added, 70 are dramas compared to just 35 comedies and 21 falling into other genres like reality and news, according to UBS.

One implication of this trend is an increase in total hours produced as dramas typically have hour-long episodes while comedies are typically half-hour. While CBS had a net change of zero shows this season, they still increased their total hours produced by 6% as they’re new lineup is drama-leaning.

If You Can’t Beat ‘Em, Join ‘Em

While the ascent of Netlfix and similar streaming services have offered viewers an alternative to broadcast television, they’ve also opened up a potential income stream for legacy shows and newer series produced by the networks.

Leading the network/Netflix collaboration is ABC, who produced Netflix’s most recent hit “Daredevil,” in partnership with Marvel Television.

This relates back to the shift towards in-house production, too. If a network produces a hit and Netflix picks it up or buys the re-runs, they gain the profit rather than a third-party studio.

For instance, NBC missed out on a huge paycheck when “Friends” sold to Netflix for a reported $118 million last year. While the sitcom originally aired on NBC, Warner Bros. and Bright/Kauffman/Crane Productions produced it so they picked up the profit. The network missed out on huge profits again this year when Hulu bought the re-run rights to “Seinfeld” from Sony TV and Time Warner’s Castle Rock for $180 million in April.

