

# **THE GROWTH OF OVER-THE-TOP TELEVISION**

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## **ABSTRACT**

This paper is about the over the top or streaming television industry. It begins by defining the industry and proceeds to a brief history which started in 2007 when Netflix streamed movies over the internet for the first time. The main section of the paper focuses on the stage of the industry life cycle theory that the industry is currently in. Emphasis is placed on the number of paid subscribers of the 2018 top providers. The paper concludes that the industry is in the growth phase and may soon enter the mature phase. The final section provides an outlook for the industry.

## **INTRODUCTION**

The television industry is rapidly changing. Cord cutting is occurring as millennials and traditional viewers discontinue and unbundle their cable, satellite, and telephone company television, internet, and landline telephone services. Millennials are keeping their monthly expenses down by subscribing to streaming services that provide the content they are interested in watching. Binge-watching of serial television shows is the new norm. This has given rise to “Over-the-top” television.

“Over-the-top” (OTT) television is a term that originally referred to television programs provided by Netflix, Hulu and Amazon. Television viewers could access the large video libraries of these companies via any type of internet connection including internet connections provided by Cable TV, Telephone, and Satellite companies. Today, OTT still refers to this type of access. However, the definition has been expanded to include any kind of video content, such as YouTube, and the use of Apps such as WhatsApp, Facebook Messenger, Skype and many others. The term now includes any kind of communication platform.

The OTT TV industry in the US is said to be a very fast-growing industry from a consumer perspective. This paper provides a brief history of the television industry and then evaluates the growth of the OTT TV industry in the U.S.

## **A BRIEF HISTORY OF TELEVISION**

The first transatlantic television signal was broadcast in 1928 by Baird Television Development Company. By 1947, black and white television sets were being purchased for home use and TV became a popular form of entertainment in the 1950s. It wasn't until the 1960s that viewers were able to watch shows in color. In these early days ‘television’ was synonymous with broadcast

over-the-air television that included three national networks and a few licensed TV stations. The 1970s brought the advent of cable television after easing of FCC restrictions. Subscriptions to cable television in the United States jumped from 4.5 million in 1970 to over 50 million in 1990.

Satellite television started March 1, 1978, with rural customers buying direct to home satellite dishes. However, in 1980 the FCC provided regulations for direct broadcast satellites which gave birth to Primestar in 1991, DirecTV in 1994 and DISH Network in 1996.

The industry changed again with the Telecommunications Act of 1996. With the Act, Congress increased competition within the telecommunications industry, allowing traditional telephone companies to enter cable television company markets with television programming and allowing cable television companies to enter telephone company markets with telephone service. Both types of companies were also allowed to provide internet service to customers.

When over-the-top services launched in the 2000s, the viewing habits of consumers changed, options changed, and by 2013 cable TV represented only 50% of the market. Television programs became available via the internet and over-the-top became the new norm. There are three types of content associated with over-the-top: 1) OTT television, or streaming television, is the most popular and is controlled by the video distributor through an app, separate box, or a connected phone, computer, or television set. 2) OTT messaging is defined as instant messaging and includes WhatsApp, Viber, WeChat, and Skype. 3) OTT voice calling uses open internet communication protocols and are provided by Skype, WeChat, and Viber.

Over the top media began in 2005 when iTunes started offering some television programs that could be purchased. YouTube also launched in 2005 and Amazon Video followed suit in 2006. Netflix began its migration from DVD rentals to providing streaming content in 2007. Hulu launched in 2009. Digital media players that supported OTT media became available via the first Apple TV in 2007 and the first apps for mobile devices became available in 2008. Not to be outdone, traditional cable and satellite television providers began offering services such as Sling TV in 2015 and DirecTV Now in 2016. In 2017, Disney announced plans to enter the OTT market in 2019. Today, Netflix is the world's largest streaming TV company and the world's largest internet media and entertainment company with more than 117 million paid subscribers.

## **RESEARCH QUESTION**

This paper explores the growth of the OTT TV industry and tries to determine the stage of industry development. Since the industry is only ten years old it is appropriate to ask if the industry has entered the growth phase. The following research question is therefore asked in the remainder of the paper: Is the streaming television industry in the growth phase of industry development?

## **METHOD**

To assess the growth of the OTT TV industry, the number of paying subscribers over time was used. Data from Netflix, Hulu Plus, Amazon Prime Plus, CBS All Access, Fubo TV, Sling TV, HBO Now, Showtime Anytime, DirecTV Now, Sony PlayStation Vue, and YouTube TV was collected.

The most frequently used model of the life cycle of an industry was developed by Michael Porter in 1980. Porter identified four stages of the industry's life cycle: introduction, growth, maturity and decline. For the industry to be in the growing phase of the industry life cycle, its number of subscribers must rise significantly. In addition to plotting the industry data to determine if the industry is in the growth stage, this study also used trend analysis to confirm patterns observed in the data plot.

## **RESULTS**

The subscriber numbers of all competitors from 2007 to 2017 were totaled on a yearly basis and used to create a line graph. The years 2007 to 2010 was labeled as the introduction stage since the slope of the line is clearly flatter than the line from 2011 to 2017. The period from 2011 onwards can be labeled as the growth stage of the OTT TV streaming subscriber industry.

A linear regression analysis was used to develop a slope for the two patterns in the line graph above. The slope of the data pattern from 2007 – 2010 is 2.54 and for 2011 – 2017 it is 13.67. The difference between the two periods is due to Netflix's stunning growth and the entrance of competitors. The research question is affirmed by the data: the industry is in the growth stage.

## **DISCUSSION**

A growth industry has increased costs on research and development, market acceptance, impressive return on investment, sustained profits, declining costs, stiff competition and a reduction of prices. Netflix started producing original programs in the U.S. market in 2013. Amazon also started producing original content in 2013. However, Hulu started producing original content two years earlier in 2011. Thus, the increased costs of research and development requirement for a growth industry is easily met by the top three competitors. Regarding market acceptance, Netflix is more popular than Cable TV and Hulu is also considered by cord cutters as a viable alternative to Cable TV. Results support the strong market acceptance of the services of the OTT TV industry.

## **WHAT DOES THE FUTURE HOLD?**

Streaming television has disrupted how content is distributed and how content is created. Internet distribution is growing, consumers are still watching television, and consumers are still spending money for at-home entertainment. Will traditional television companies, that already have archives of movies and shows, be able to re-invent themselves through OTT? Will streaming television companies force traditional companies out of business?

In the next five to ten years in the United States, it is predicted that multiple streaming services will be available, with lots of content --- so much so that viewers will have trouble remembering which program is offered by which service. Viewers will be subscribing to multiple streaming services which will drive monthly expenses up.

**REFERENCES AVAILABLE UPON REQUEST.**