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Lights, Camera, Capital: Analyzing financial tactics in the streaming entertainment landscape

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Abstract

The US video streaming service industry, due to the nature of the service it provides and the everchanging trends in the space, has always been volatile. With numerous competitors present in the space, strategic companies such as Netflix, Hulu, Disney+ and Prime Video have become titans in the space. This paper analyses their decisions regarding investments, financing, dividends, and working capital, and the consequent impact on their financial performance. Aggressive pre-pandemic strategies adopted by these companies, such as rampant content acquisition and production led to significant subscriber growth. However, this led to mounting debt and building pressure to sustain the delivery of such hit content. Amidst this landscape, the onset of the pandemic introduced unprecedented variables to the streaming service industry. The global crisis not only disrupted content production but also altered consumer behaviours, leading to platforms being compelled to reassess their financial strategies. Post-pandemic, platforms shifted towards strategic content spending, diversified revenue streams, and tightened working capital management. While subscriber growth slowed, a focus on profitability emerged, reflected in the introduction of dividends and increased cost efficiency. This paper will delve into this dichotomy of the industry before and after this Covid Era.

Keywords: Video Streaming; Financial Strategies; Global Events; Industry Performance; Strategic Decision-Making

1. Introduction

The US video streaming sector has always evolved rapidly, due to the ever-present competition, change in customer demands and technological advancements [18]. This paper delves into the meticulously crafted financial strategies employed by the major players in the industry, analysing the decisions they took to show their resilience against the pivotal global phenomena – the COVID-19 pandemic [1][19].

As consumers increasingly shift from analog entertainment options like set-top boxes and radios for entertainment to digital platforms like streaming services, the leading companies in the industry are confronted with handling this growingly large audiences' whims and trends, while maintaining profitability [17][21]. This paper specifically focuses on the four main pillars of financial decision making – Investments, Financing, Dividends and Working Capital – and compares how different industry giants have responded to the challenges in the context of the COVID-19 era [2][3][4][6][22].

This analysis of how industry leaders allocate resources, manage finances and frame new financial policies during unprecedented difficulties is paramount is of significant importance to a wide range of people – from investors to industry professionals. Thus, this paper aims to contribute valuable insights into the functioning of this industry – through the lens of finance [16].

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2. Major players

2.1. Netflix: Early-Mover Advantage

Netflix established itself as a household name long before most other streaming services even existed. This position as almost pioneer of the industry granted Netflix a significant advantage over its present competitors. This includes the loyal fan-base built over time, significant data gathered on users' preferences, trends, behaviour and demands, which led to its long-standing presence [1].

2.2. Disney+: Nostalgia and Originals

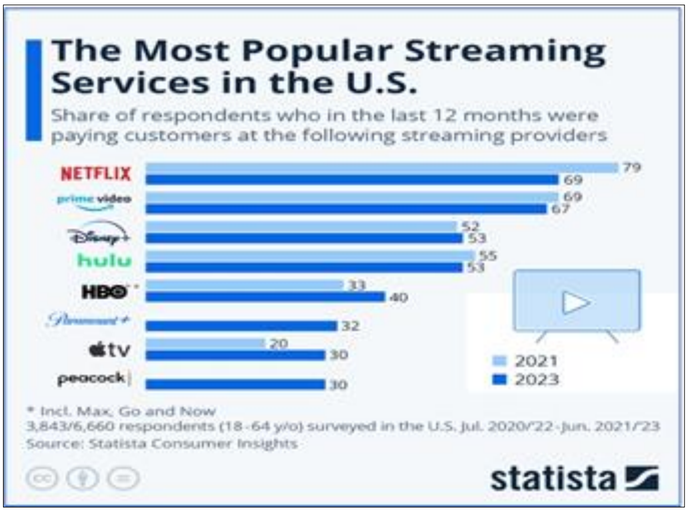
Disney+ put its impressive collection of IPs (Intellectual Properties) to use and strategically invested in both licensed and original programming. Introducing innovative originals like 'The Mandalorian' and 'Loki' was an easy way of rallying the huge already-existing fanbases of beloved franchises such as 'Star Wars' and 'Marvel' respectively, and Disney+ continues to harness this strategy with more shows. Also, this tactic of revisiting older successful series did not only appeal to original fans, but it also helped these shows reach broader audiences [20], with not as much advertisement required. In the process, Disney+ experienced remarkable subscriber growth and solidified its position in the video streaming service industry [7].

2.3. Amazon Prime Video: Partnerships and Bundling

Prime Video took the strategic approach of bundling its streaming service with the broader Amazon Prime membership, which did have an already existent population of subscribers. This move not only led to more audiences attracted to Prime Video, but it also sweetened the deal for the Amazon Prime subscription as a whole, leading to enhanced customer satisfaction [10].

2.4. Hulu - Adaptability and Resilience:

In this ever-evolving industry, Hulu has showcased its simple yet powerful practices of adaptability and resilience. Even amidst the highly competitive landscape, Hulu also forged strategic partnerships, with companies like ESPN+, which cemented its position in the industry. It is this agility and will that has allowed Hulu to stay relevant [13].



https://www.statista.com/chart/25382/most-used-video-streaming-platforms/

Figure 1 US Streaming Services Popularity

3. Investments

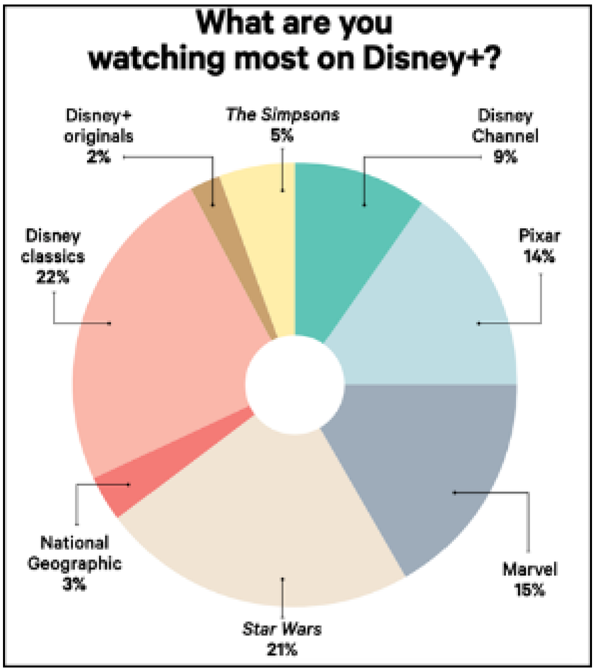
3.1. Netflix

- Pre-pandemic: Aggressive content acquisition, primarily original programming, fuelled by debt-to-equity financing. This led to hits like "Stranger Things" and "The Crown," and subscriber growth grew dramatically [1].

- Post-pandemic: More strategic content spending, focusing on specific target audiences and genres, which had been proved to have sustainable profits. Reduced reliance on debt and exploring cost-saving measures like co-productions (e.g., Collaborating with Shondaland Productions from the UK for 'Bridgerton' and Atresmedia Studios from Spain for 'Money Heist'.) [5] [17]

3.2. Disney+:

- Pre-pandemic: Leveraged existing IP (Disney, Pixar, Marvel, Star Wars) to fill its library, minimizing spending on original content [8].
- Post-pandemic: Increased investment in original content, particularly 'Star Wars' and 'Marvel' series, while maintaining focus on its IP strength. Explores bundled subscriptions with other Disney offerings like ESPN+ and Hulu [9].



https://whatsondisneyplus.com/disney-subscribers-are-more-interested-in-classic-content-according-to-new-survey/

Figure 1 User Survey of Disney+ Audience

3.3. Prime Video:

- Pre-pandemic: Content was primarily used to attract and retain Prime members, not as a separate revenue stream. Focused on acquiring licensing deals and smaller original productions [12].
- Post-pandemic: Increased investment in high-budget originals like "Lord of the Rings" series, aiming to compete with Netflix and Disney+. However, it continues to leverage Prime membership for access [12].

3.4. Hulu

- Pre-pandemic: Balanced licensed content with originals, focusing on adult animation and comedies, carving out a different niche audience than other streaming platforms. Relied on partnerships with Disney and Comcast for content and funding [15].
- Post-pandemic: Continued partnership with Disney for exclusive content access. Investing in international expansion and exploring ad-supported models for profitability [15].

3.5. Key trends in Streaming Services' Investments:

- Focus on content return on investment, cost-efficiency, and diversifying revenue streams beyond pure subscriptions.
- Platforms cater to proven hits instead of mass appeal.
- Rise of co-productions and international collaborations: Sharing production costs with other production companies, including international studios.

- Experimentation with ad-supported models with the desired result of balancing user experience with increased revenue potential.

3.6. Impact on Financial Performance:

- Netflix's subscriber slowdown exposed the risks of aggressive content spending.
- Disney+'s strategic approach and bundled offerings led to steady growth.
- Prime Video's investment in high-budget originals remains to be seen in terms of return on investment.
- Hulu's focus on ad-supported models and international expansion could improve profitability and subscriber growth.

4. Financials

4.1. Netflix

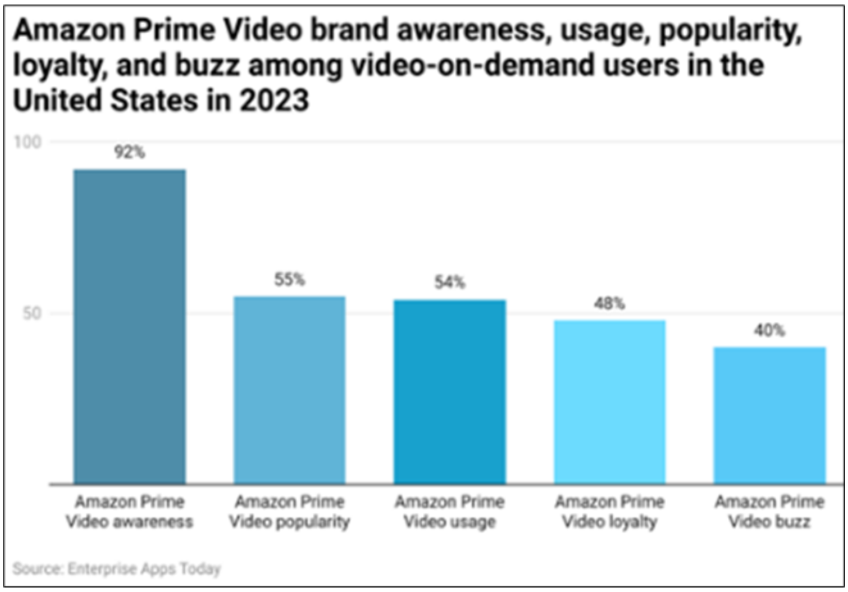
- Pre-pandemic: Relied heavily on debt-to-equity financing, issuing bonds and stocks to fund content acquisition and international expansion. This led to a significant debt burden [6].
- Post-pandemic: Shifted towards more conservative financing, focusing on internal cash flow and reducing reliance on debt. Exploring avenues like stock buybacks to boost investor confidence [6].

4.2. Disney+

- Pre-pandemic: Leveraged the financial resources of its parent company, The Walt Disney Company, to avoid significant external debt. Limited reliance on streaming-specific financing [8].
- Post-pandemic: Maintained its conservative approach, utilizing Disney's broader revenue streams to support streaming growth. Explores bundled subscriptions with other Disney offerings to diversify revenue and reduce financial pressure on the platform [9].

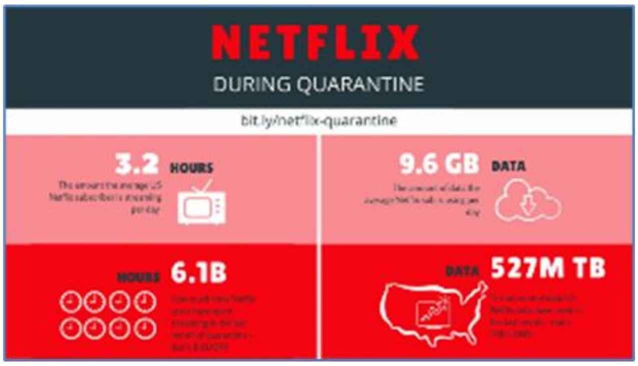
4.3. Prime Video

- Pre-pandemic: Content investments primarily funded through Amazon's vast resources and Prime membership subscriptions. Limited debt or external financing used [12].
- Post-pandemic: Continues to rely on Amazon's financial backing for Prime Video. Experimenting with ad-supported tiers to explore additional revenue streams beyond subscriptions [12].



https://www.enterpriseappstoday.com/stats/amazon-prime-video-statistics.html

Figure 3 Prime Video Impressions



https://www.pcmag.com/news/us-netflix-subscribers-watch-32-hours-and-use-96-gb-of-data-per-day

Figure 4 Netflix Statistics during Pandemic

4.4. Hulu

- Pre-pandemic: Secured funding through partnerships with Comcast and Disney, sharing the financial burden of content acquisition. Used debt financing to a lesser extent [14].
- Post-pandemic: Continues to benefit from its partnership with Disney for content access. Exploring international expansion and diversifying revenue streams through ad-supported options and content licensing deals [14].

4.5. Key trends in Streaming Service Financing

- Platforms are focusing on generating internal cash flow, reducing reliance on debt, and exploring diversified revenue models.
- Studios and parent companies play a significant role in funding streaming ventures, minimizing external dependencies.
- Sharing costs and revenue with other platforms or content creators helps mitigate financial risks.
- Ad-supported options, merchandise sales, and content licensing offer potential avenues for growth and profitability.

4.6. Financial Impact

- Netflix's aggressive debt financing initially fuelled growth but became unsustainable, impacting share prices and leading to a shift in strategy of maintaining profitability.
- Disney+'s conservative approach minimized financial risks and maintained investor confidence.
- Prime Video's reliance on Amazon's resources shields it from financial pressure, providing flexibility for investment decisions.
- Hulu's partnerships and diversified revenue streams help mitigate financial risks and support international expansion [23].

5. Dividends

5.1. Netflix

- Pre-pandemic: No dividends were paid, as the focus was on reinvesting profits into content acquisition and subscriber growth. This fuelled their meteoric rise but also contributed to their later debt burden [6].
- Post-pandemic: The company continues to prioritize reinvestment for now, maintaining its no-dividend policy. However, with a focus on profitability and shareholder value, the future possibility of dividends is not entirely ruled out [5].

5.2. Disney+

- Pre-pandemic: Similarly, Disney+ didn't offer dividends, being a new platform within the larger Disney corporation. The focus was on establishing the service and leveraging existing content libraries [8].
- Post-pandemic: While Disney offers dividends as a whole, Disney+ itself remains in the investment phase. However, as the platform matures and generates profit, dividends from its revenue could become a consideration in the future [9].

5.3. Prime Video

- Pre-pandemic: Unlike its competitors, Prime Video isn't a separate entity with its own dividend policy. Amazon, its parent company, offers dividends, but Prime Video's performance is not directly reflected in them [10].
- Post-pandemic: The same holds true. Prime Video operates within Amazon's ecosystem, and any potential dividends would be part of the overall company's pay-out strategy, not directly tied to the streaming service's performance [10].

5.4. Hulu

- Pre-pandemic: With Hulu being a joint venture between Comcast, Disney, and AT&T and Fox, dividend distribution was dependent on individual decisions by its owners [15].
- Post-pandemic: The ownership structure remains the same, and dividend decisions for Hulu are still made by its parent companies based on their financial situations and overall strategies [15].

5.5. Trends in Streaming Service Dividends

- Platforms started to prioritize reinvesting profits towards content acquisition, expansion, and user base growth, aiming for long-term sustainability before considering dividends.
- For platforms within larger corporations, dividend decisions are often tied to the overall financial health and strategy of the parent company.
- As streaming services mature and generate consistent profits, the conversation around dividends could gain traction in the future.

5.6. Impact on Financial Performance

- No immediate dividends may dampen investor returns in the short term, but it shows commitment to growth and future profitability.
- For platforms within larger corporations, the dividend policy of the parent company can indirectly impact financial performance and access to resources.

6. Working capital

6.1. Netflix

- Pre-pandemic: Prioritized aggressive content acquisition and international expansion, leading to tight working capital management. This involved efficient inventory (content) management, prompt receivables collection, and strategic payables management [6].
- Post-pandemic: With subscriber growth slowing down and debt concerns mounting, the focus shifted towards optimizing working capital further. Netflix negotiated better deals with content providers, reduced operational costs, and explored alternative financing options like stock buybacks [6].

6.2. Disney+

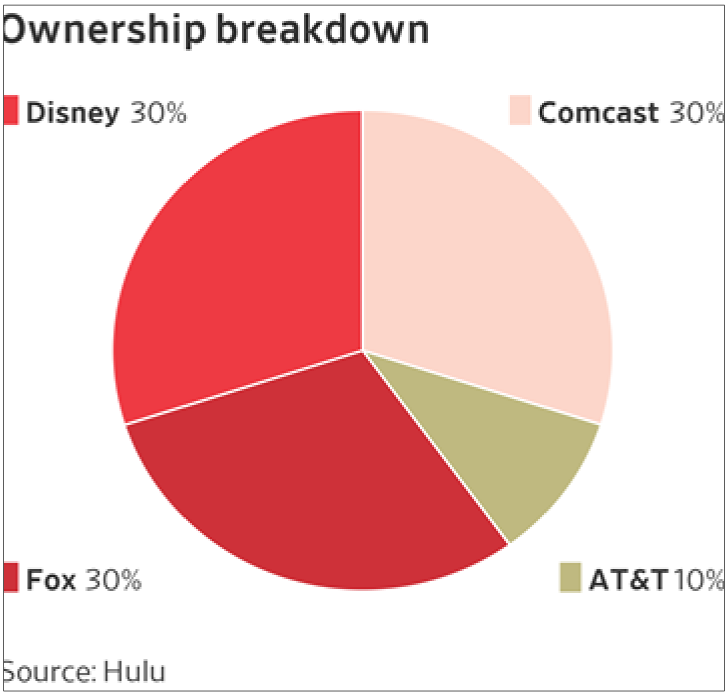
- Pre-pandemic: Leveraged the financial resources of its parent company, The Walt Disney Company, allowing for a less-stringent approach to working capital. They didn't need to rely heavily on short-term financing, enabling smoother content production and investment flexibility [8].
- Post-pandemic: While maintaining a relatively comfortable working capital position, Disney+ started implementing cost-saving measures. They explored co-productions with other platforms and optimized operational efficiency to manage content spending [9].

6.3. Prime Video

- Pre-pandemic: Similar to Netflix, Prime Video adopted a tight working capital approach due to its integration within Amazon's financial ecosystem. However, the focus wasn't solely on content spending, as Prime Video utilized shared resources and infrastructure [11].
- Post-pandemic: The emphasis on cost-efficiency continues, with Prime Video exploring alternative revenue streams like ad-supported tiers and experimenting with different content production models to optimize resource allocation [12].

6.4. Hulu

- Pre-pandemic: Operating as a joint venture, Hulu's working capital management was influenced by decisions from its partners - Comcast, Disney, and Fox and AT&T. This led to a more balanced approach compared to Netflix's strict management [13].
- Post-pandemic: Hulu continues to leverage partnerships with Disney for content access, which helps manage resource allocation. However, they are focusing on generating internal cash flow through ad-supported models and international expansion, reducing reliance on external funding and optimizing working capital [15].



https://www.wsj.com/articles/hulus-fate-hinges-on-outcome-of-fox-bidding-war-1530193930

Figure 5 Hulu ownership graph

6.5. Key Trends in Streaming Services Working Capital

- Platforms are moving beyond just tight management and actively seeking ways to improve resource allocation and generate internal cash flow.
- Exploring alternative revenue streams: Ad-supported options, merchandise sales, and content licensing are gaining traction as avenues to improve financial health and reduce reliance on short-term financing.
- Collaboration and cost-sharing: Partnering with other platforms or content creators helps distribute production costs and manage working capital pressure.

6.6. Impact on Financial Performance

- Tight working capital management can lead to cost savings and improved profitability, but can also limit content diversity and flexibility.
- A balanced approach allows for strategic investments while maintaining financial stability, providing room for growth and experimentation.
- Optimizing working capital through revenue diversification and cost-sharing can improve overall financial health and reduce dependence on external funding.

7. Conclusion

The COVID-19 pandemic prompted a shift in the strategies of the already turbulent US video streaming service industry, by providing challenges such as disruption in content production – leading to shift in content acquisition – sudden increase in consumer demand and the dramatic rise in the competitive landscape. While the pandemic has not changed the fact the most streaming services have distinct strategies and mechanisms to deal with the same issues, it was seen that there was a general shift towards profitability and sustainability. Content is now generally catered to specific audiences rather than trying to aim for worldwide appeal and acclaim. Netflix's recent subscriber slowdown underscores the risks of unchecked content spending, while Disney+'s balanced approach has fostered steady growth. Prime Video's high-budget originals are a gamble, and Hulu's focus on international expansion and ad-supported models shows promise. The industry's future lies in adaptability, with platforms continuously evaluating financial strategies in response to market dynamics and audience preferences.

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