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HULU

Much has been made of the razor-thin profit margins of skinny online video bundles. Financial analysts who have run the numbers find margins, if they exist at all, are much lower than the 30%+ most MVPDs enjoy today on video packages.

The recent thoughtful analysis from MoffettNathanson on Hulu Live concluded that Hulu has a very narrow needle to thread in offering a profitable skinny bundle that doesn't cannibalize the pay TV category, while still expanding the revenue pie.

But it's also true that Hulu has a cost advantage Sling TV, Sony PlayStation Vue and DirecTV Now lack: owner economics.

The chart (at right) illustrates a different way of looking at a skinny bundle, through the eyes of a programmer with a vested interest.

The analysis presumes a bare-bones $40/month price point for a monthly Hulu Live subscription. (For the moment, any ad sales revenue is not included, to keep things simple. It's not clear how Hulu Live will handle what is typically a national/local ad revenue split.)

Hulu Live (monthly $ per sub)	
Revenue	
Subscriber revenue	$40.00
Expenses	
Affiliate fees	$39.70
Other costs	$8.00
Total cost	$47.70
P/L per sub	($7.70)
Disney (monthly $ per sub)	
Affiliate fee from Hulu Live sub	$11.90
Disney share (30%) of Hulu Live loss	($2.57)
Disney "profit" per Hulu Live sub	$9.33

The expense side of the ledger, for Hulu Live, starts with programming costs. MoffettNathanson estimates a full bundle of channels from Fox, NBCU, Disney, Time Warner, A&E, Viacom, AMC and CBS, plus a handful of independents (MLB, NBA, NFL, NHL, TV One and Univision/UniMas) would cost $39.70 per month in licensing fees.

Hulu Live will incur other costs, of course. Those include server infrastructure, storage, encoding and transmission, plus marketing costs. But Hulu Live will not bear physical plant or in-home device costs. Total other costs have been pegged at about $8 per month per subscriber.

The frame of reference for that figure borrows from Dish's report that it spends roughly $50 to acquire a new Sling TV subscriber. That compares to a SAC of $850 per subscriber for the Dish Network satellite TV service. Granted, the analysis blends the one-time cost to acquire a subscriber with other ongoing costs, but it does provide some directional guideline as to what Hulu Live's cost structure might look like.

A wireline pay TV provider might see a 30% margin on its video business. A $100/month video package with a 30% margin would mean $70 in expenses, including perhaps $45 in affiliate fees and $25 in operational and delivery costs. To think Hulu Live's operational and delivery costs are one third those of an MSO seems within the zone of reason. So the all-in Hulu Live cost might be $47.70 per month, creating a loss of $7.70 per month, per subscriber. That's hardly an enticing proposition for Hulu, per se.

But consider the economic equation from Disney's view. Disney would receive $11.90 per month in affiliate fees for its channels (per MoffettNathanson's analysis), plus whatever ad revenue is present. As a 30% owner, Disney's share of the Hulu Live per-subscriber loss is only $2.57 per month, leaving it an internal profit margin of $9.33 per month per subscriber. The numbers for NBCU, Fox and Time Warner would follow suit, but likely wouldn't be as high because their affiliate fee totals are lower than Disney's. Still, each could post a profit for every Hulu Live subscriber thanks to owner economics.

If Hulu tiered its product, or entered the market at a higher price point, better economics could flow to Hulu and to its owners. Slightly better results could occur if Hulu Live didn't carry (and pay for) any secondary networks in any base tier.

Next? Among the caveats here are that Disney and other owners may have to bear certain costs as the originators and marketers of the streaming service that they wouldn't in the MVPD world, where they leave those tasks to intermediaries. But because it's owned by the same companies that provide programming to it, Hulu Live will always warrant an analysis using a different prism than its skinny bundle competition. It's the same Rubik's Cube, just positioned a different way.

DISCOVERY

To understand Discovery's $100 million investment in Group Nine Media look no further than these numbers: 30 million YouTube subscribers, 40 million Facebook followers, 50 million monthly social media engagements, 3.5 billion global monthly video views and 12 billion monthly social impressions.

That's the combined reach of the digital portion of Discovery's current media properties plus Thrillist Media Group, NowThisMedia and The Dodo, which will constitute the new Group Nine Media.

Thrillist is a men's lifestyle brand that focuses on food, drink, fashion and travel, the latter through the Thrillist website.

NowThisNews is a news-centric website founded by former *Huffington Post* executives Ken Lerer and Eric Hippeau, with seed money from Brian Bedol, who founded the Classic Sports Network and College Sports TV in the 1990s.

The Dodo is a digital brand built for "everyone who loves animals and cares about their well-being," according to the website, making it a complement to Animal Planet.

These properties will join Discovery's digital properties Seeker and SourceFed Studios in the Group Nine Media family.

Next? Discovery's stock price is down more than 20% since Nov. 30, 2015. Worries over cord-cutting in the U.S. have hurt Discovery's position on Wall Street, and foreign currency headwinds have curbed international growth. Also causing investor jitters are Discovery's prospects for claiming berths in skinny video bundles, along with U.S. ratings and advertising growth.

These digital moves, while not quite yet a matter of survival, reflect the stakes all programmers face. Monetizing digital is not just a nice-to-have strategy anymore. It's rapidly becoming a must have. The size and scope of this investment and partnership is a testament to that reality.

PLUTO TV

Pluto TV raised $30 million in a B funding round this week, but it's the inclusion of Scripps Interactive as a new investor that's eye-catching.

Pluto TV offers 100 channels of free TV online, serving more than 5 million users monthly.

Those channels are divided up into 17 genres, ranging from Action & Adventure (Drivers and Cars, RocketJump) to Anime (Dragon Ball Z, Classic Toons TV).

Some familiar names and brands show up in the list: Oprah Winfrey, Jimmy Fallon, Conan O'Brian, The Onion, The Twilight Zone, The Addams Family and IGN.

Next? But it was likely the lifestyle channels (Pluto TV's Food Channel among them) that caught Scripps' eye. The Scripps networks have always seemed ripe for exploitation in a digital world, so the thinking goes, so this is one more example of Scripps dipping its toe further into the digital waters.

Pluto, for its part, is getting more funding from original investor ProSiebenSat.1. That investment, plus Pluto TV's purchase of German programmer Quazer, will help the company expand into Europe. Perhaps Pluto will build new channels around Scripps content as a next step.

GFK

New research from GfK shows a Netflix and Amazon combo to be the most popular choice for SVOD bundlers.

GfK's latest survey of 1,054 adults found 16% of TV homes subscribe to at least two SVOD services.

That's up from 10% three years ago, a near doubling.

Within that group, the Netflix/Amazon combination topped the list by attracting 17% of users, followed by Netflix and Hulu at 9%. Some 5% had all three SVOD services.

These "self-bundlers," as GfK described them, have higher average annual incomes ($90,000) than typical TV viewers ($76,000).

Next? For MVPDs, not all SVOD services are created equal. Consider this stat from GfK: Only 59% of TV homes with Netflix and Hulu subscribe to a pay TV service.

But some 67% of homes with Netflix and Amazon subscribe to a TV service.

Hulu replicates much of the content on major broadcast and cable networks, perhaps obviating the need for a pay TV package, at least for some subscribers.