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MAY YOU LIVE IN INTERESTING TIMES

Streaming services have come to the realization that this is virtually a zero-sum game

ABSTRACT: The decline in traditional TV viewing, fueled by the change in behavior during the pandemic, has produced an unnatural rise in the number of streaming services launched in the last two-plus years. This, in turn, has accelerated the pace by which viewers are "cutting the cord" and reduced their time engaging with traditional/ terrestrial TV.

By Amos Biegun, Global Head, Rights, Royalties, Vistex

Although the origin of this saying "may you live in interesting times" is debatable, this very overused phrase accurately describes our current climate. This phrase is very applicable to the media sector, which has been one of the most interesting. While I would love to share my analysis of the entire industry by its constituent parts, due to the brevity of this article I'll focus on streaming services.

The decline in traditional TV viewing, fueled by the change in behavior during the pandemic, has produced an unnatural rise in the number of streaming services launched in the last two-plus years. This, in turn, has both accelerated the pace by which viewers are "cutting the cord" (disconnecting from traditional cable and satellite services) and reduced their time engaging with traditional/terrestrial TV. Initially, we saw a rise in the average number of services which households were subscribing to, but this was, in my opinion, a novelty bump and now we're seeing that the true average is below three paid subscriptions per household, probably closer to two.

Where does that leave the streaming services, fighting for our attention and, more importantly, our wallets?

SHOULD I STAY OR SHOULD I GO?

In a recent survey, the following three elements were at the top of consumers' minds when choosing to subscribe to, or remain with, a streaming service: affordability, content, and user experience.

Let's address each in turn:

- ***Affordability.*** If anything, we've seen a rise in the cost of subscription fees from the major streaming services. This was either due to "teaser rates" going up after their launch (Disney+ being a prime example — launching at $6.99 per month in November 2019 and due to increase to $10.99 per month in December 2022 — an increase of more than 55 percent in two years); or the need to increase revenue (Netflix has increased its price by $1 to $1.50 per month yearly since 2019).

- ***Content.*** Allow me to use another cliché: "Content is king." That's never been more correct than when services pull their content off rival's platforms to offer it exclusively on their own service. Which comes at a cost, as they forego revenue from a rival service whilst building up loyalty on their own platform. Additionally, content is very expensive, especially the kind that drives a consumer to jump from a rival service to yours. Some examples include Amazon's investment in the "The Lord of the Rings: The Rings of Power" series ($250 million for the rights and $750 million for the first series), and Netflix's ongoing investment in original content (2021 spend was roughly $9 billion).

- ***User Experience.*** This is a must-have feature, as finding content and recommendation tools need to be available for all to experience and utilize. It's also costly to maintain and adapt these features. However, I see this as the equivalent of online banking, meaning that I won't choose to work with a bank because it has online banking, but I will disqualify one from my list if it doesn't. The same applies to a good user interface.

One other key factor I shouldn't fail to mention is that mistakes by these services are being punished very heavily by the stock market. You only need look back at Netflix's Q1 2022 net loss of 200,000 subscribers (although not a true net loss as Netflix shut out 700,000 subscribers from Russia with the start of the war in Ukraine in the same quarter) which saw the stock tumble by 35 percent between two trading sessions.

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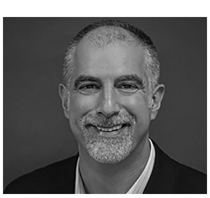
CHEERS FOR TIERS

So, what's next in the ongoing land grab for streaming customers?

One school of thought is that there might be consolidation, not in terms of acquisitions (services buying one another) but rather in subscription bundles. This highlights that the disaggregation of content by the services might have gone too far and the need to consolidate might be around the corner.

Another option is the introduction of ad-supported subscription tiers (both Netflix and Disney are well on their way to launching these tiers). These ad-supported options will address affordability, but will the user experience be impacted too much? We'll have to wait and see.

Additionally, the introduction of ad-supported tiers poses another headache for the streaming services, mainly in the procurement of third-party content. Up to now, streaming services have mostly licensed third-party material based on pre-agreed fixed payments (license fees) and no additional ongoing or residual payments. With the introduction of an unknown variable (ad revenue), it is likely that content suppliers will want a share of the potential upside that their programs



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might bring to the service. The services will therefore need to pay some form of royalty payment based on ad revenue, subscriber numbers or some other measurable parameter.

INCREASED OVERHEAD REQUIRES ROBUST ENTERPRISE SOLUTIONS

This additional royalty will increase the overheads of the services as the appropriate software will need to be in place to provide such calculations, as well as the skilled resources to manage the additional administration of the contracts and royalty payments.

In conclusion, living in interesting times is not always that much fun, as highlighted above. As the streaming services come to the realization that this is virtually a zero-sum game — one service's gain is another one's loss — and that consumer wallets can only be spread so far, it will still be interesting to keep an eye on developments in this space. I know that I will. ⊞