



FAANGs ain't what they used to be

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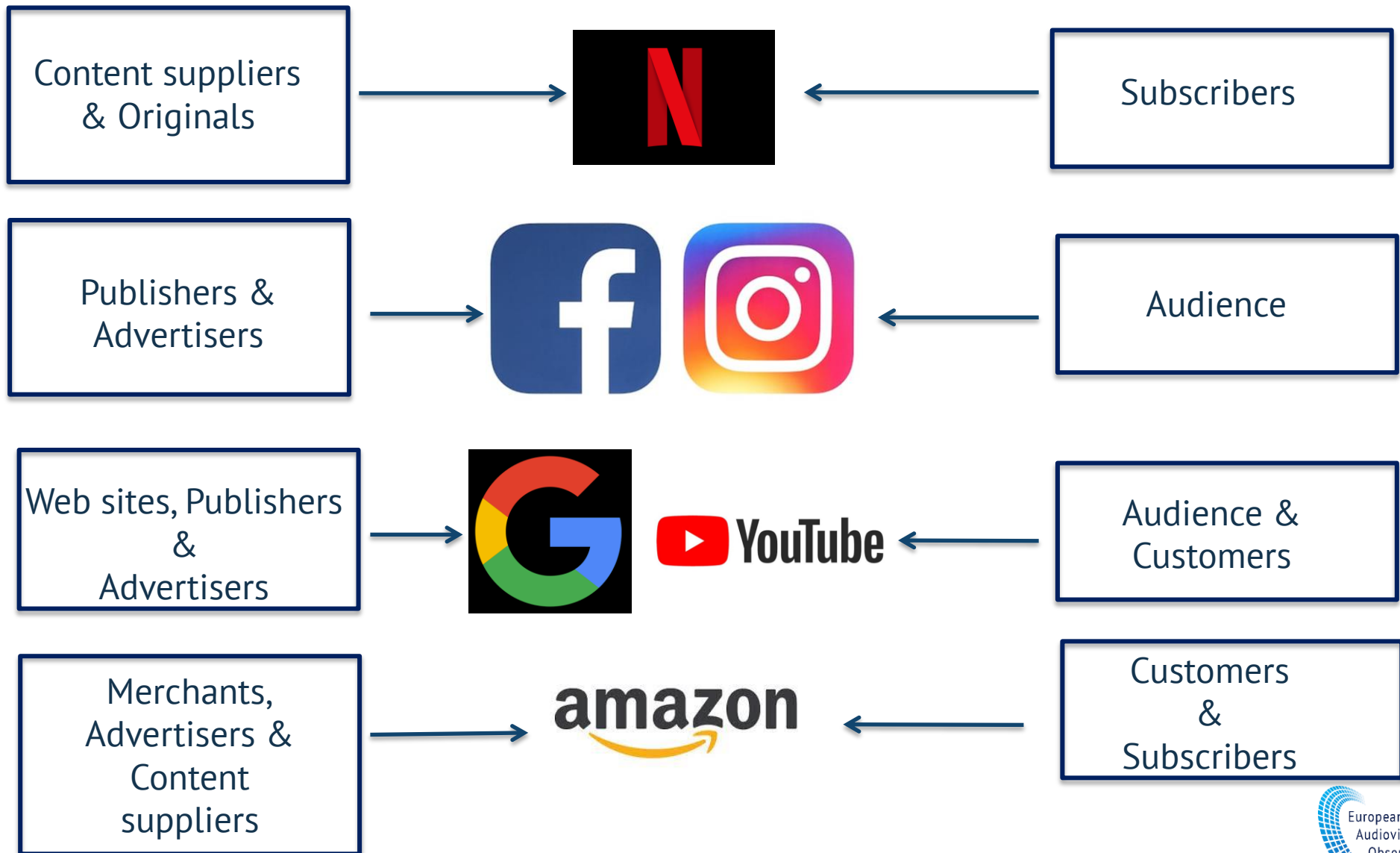
A presentation
of the European Audiovisual Observatory



- 1. What are FAANGs? And what are the main impacts of OTT distribution?**
- 2. SVOD - Netflix and Amazon (and soon Apple)**
- 3. Advertising - Google and Facebook (and Amazon)**
- 4. What does their impact mean for traditional media players?**

- ❑ **FAANGs / FANGs?** – Facebook, Amazon, Netflix and Google (and to some extent Apple) share common points:
 - **Tech** (and increasingly media) players
 - Huge financial **resources**
 - **Innovation** & Best **customer experience** to access pre-existing resources
 - At their beginning, **suppliers profited from their presence** (content producers from Netflix, publishers from Facebook, merchants from Amazon, businesses from Google)
 - But **global operations, superior user experience** and **scale** have led to:
 - ➔ **Direct-to-consumer businesses** and competition for **consumer attention**
 - ➔ **Owning of customer relationships** (billions for Google/Facebook, 100s millions Netflix and Amazon)
 - ➔ **Discovery** (of content) mainly through their services
 - ➔ **Power over suppliers** (content, video, publishers, advertisers, merchants...)

Ownership of customer relationship & Discovery = Power over suppliers



❑ Yet core businesses are different:

- ❑ Facebook and Google: **advertising** and **data** / global video-sharing platforms
→ Challenge to traditional players on the advertising sector
- ❑ Netflix – SVOD – **content distribution** and increasingly **production**
→ Competes with pay-TV players for subscribers and acquisition of content and with traditional TV for viewers
- ❑ Amazon - **e-commerce** (...and a little bit of everything)
→ SVOD as a **complement to Prime** service, to attract and retain consumers (with two-day shipping, music service, cloud services)
- ❑ Apple – **hardware** (and increasingly relying on services - App store, iTunes and future streaming service)

□ OTT distribution and Network effects:

- First-mover advantage
- "Winner-takes-all" outcomes
- Dominance of entire market segments by a few players / Duopolies
- Difficult for national players, often operating in only their home market, to compete with global tech giants

□ Impact on the Media ecosystem

- **Abundance** of content / **Scarcity** of consumer attention
- **Rise in costs of content acquisition and production** – Necessity of premium & exclusive content to attract and keep subscribers for SVOD and pay TV players
- SVOD players' **disintermediation of traditional content producers and distributors** – less middlemen in the future?
- **M&As** in the media sector to achieve necessary scale or **alliances of traditional players** for **direct-to-consumer** services
- Amazon, Apple, Google and their media streaming devices (control of access and distribution of content)

- Advertising: Platforms such as Facebook & Google (YouTube) **gatekeepers of consumer attention and data** - traditional media players dependent on these platforms to reach audiences online

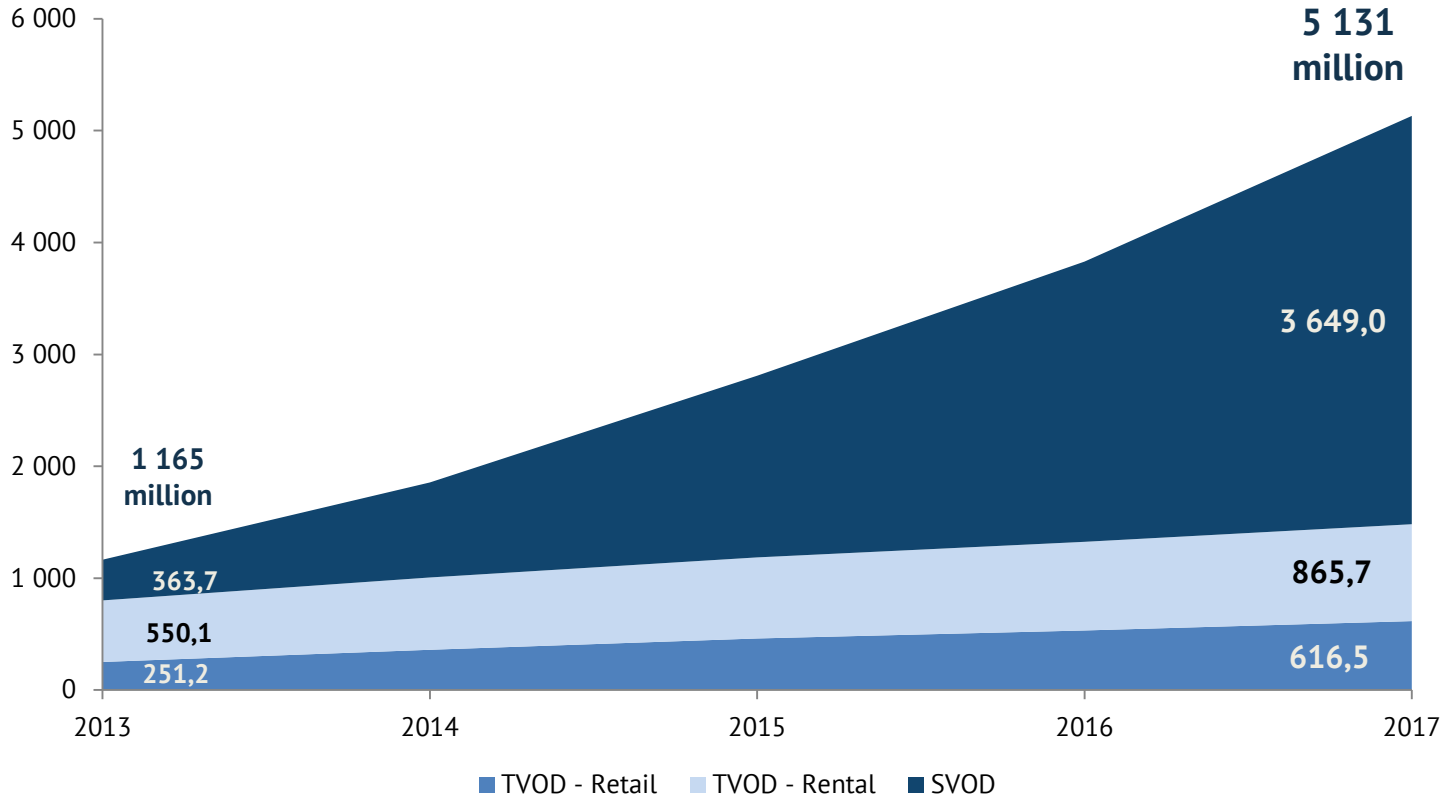
SVOD in the UK and the EU

- ❑ Explosive growth over the past years**
- ❑ Rising importance in access, distribution and production of content**
- ❑ Direct-to-consumer distribution is changing media landscape**

- ❑ SVOD has become an established part of the EU audiovisual ecosystem with rapid growth in consumer revenues and subscribers and is the main growth driver of paid VOD
 - ➔ Shift of consumer preference towards **access instead of ownership of content**
- ❑ In the EU at the end of 2017: 183 different SVOD services were available (representing 280 linguistic versions) (OBS - MAVISE stats)
- ❑ In the EU, the US phenomenon of **'cord-cutting'** begins to be visible in some countries **but not on a pan-European level**; **traditional pay TV and SVOD services are still rather coexisting** than in direct competition (for how long?)
 - ➔ distribution of SVOD services by pay TV ongoing trend (Liberty Global, Sky, Telefonica, Orange, Deutsche Telekom...)
- ❑ Younger generations are **rapidly shifting from linear TV consumption to online services** (paid or free) ➔ pressure on traditional broadcasters and PSBs to remain relevant

EU - Consumer revenues OTT SVOD & TVOD

in EUR million

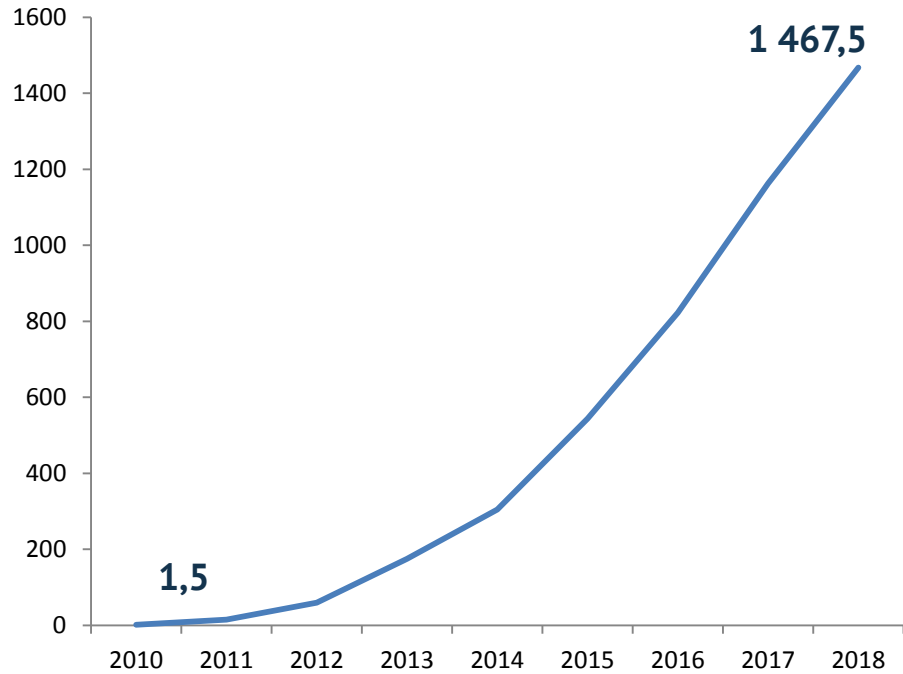


Source: Ampere Analysis

2 – UK SVOD market – Explosive growth in revenues and subs 2010-2018

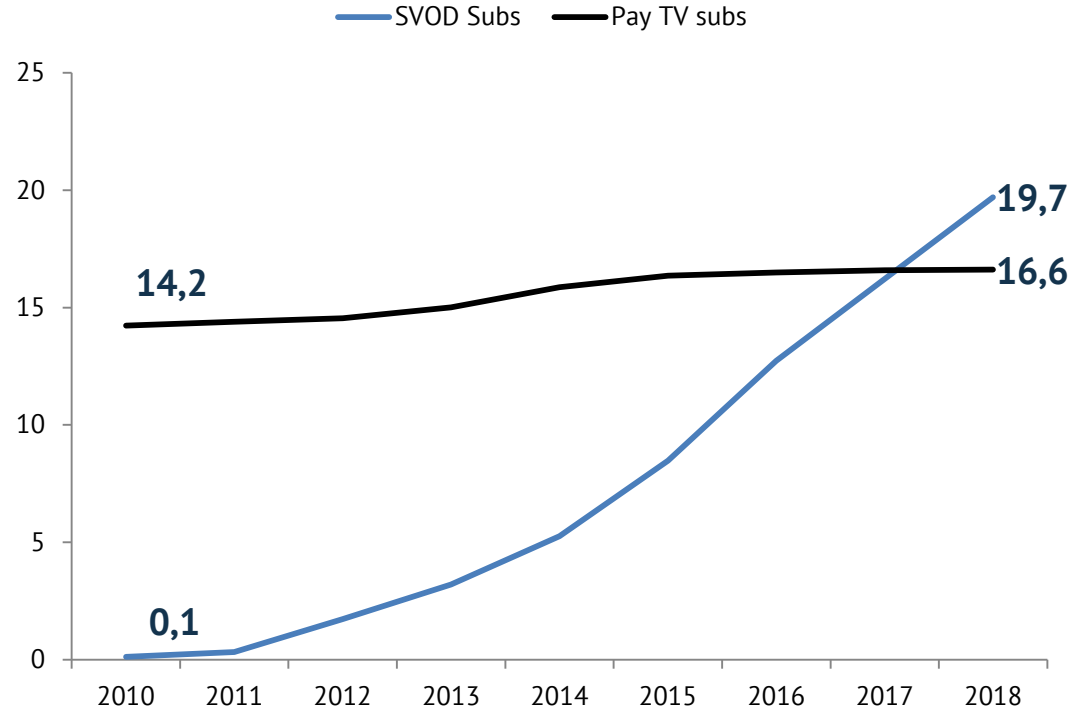
UK Consumer revenues OTT SVOD

in EUR million



UK Subscribers to SVOD and pay TV

in million subscribers



→ 2017/18 more subscribers to SVOD than pay TV in the UK – growth of 17.7% vs. 0.1% YoY

→ But pay TV revenues still higher than SVOD revenues – € 7,15 billion vs. € 1,46 billion

→ However, significantly higher growth rates for SVOD revenues - 21% vs. 2% YoY

Source: Ampere Analysis

2 – Consequences of the rise of SVOD services

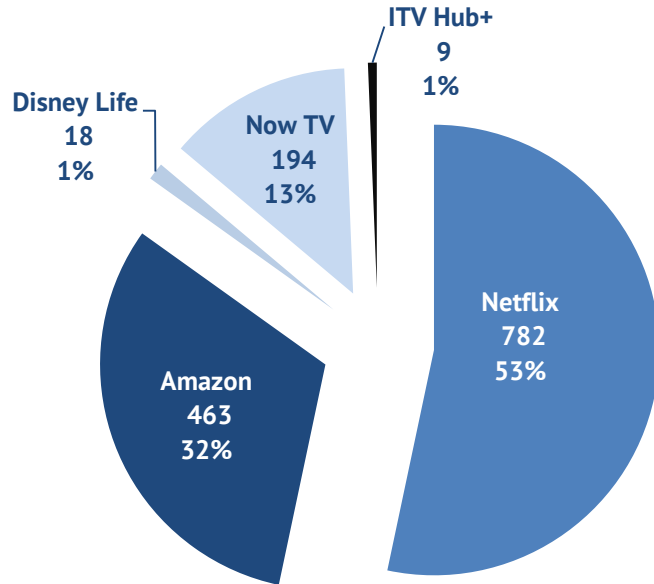
- ❑ Race towards ‘**direct-to-consumer**’ business models and launch of OTT platforms by media players who have to adapt to new consumer expectations
- ❑ **Mergers and Acquisitions** to gain scale and launch of DTC streaming services
Comcast/Sky, Disney/Fox and AT&T/WarnerMedia as most recent examples
- ❑ **Alliances** of broadcasters in order to compete and acquire scale:
 - Germany: 7TV - ProSiebenSat.1 & Discovery (with several others joining)
 - France: Salto - TF1, France Télévisions & M6
 - Spain: Plans by RTVE, Atresmedia and Mediaset for joint OTT platform
 - *UK: streaming service by BBC/ITV/Channel 4?*
- ❑ However, **SVOD sector is dominated by 2 players**, Netflix and Amazon
- ❑ Increased investments in **original content** and in **content acquisition** by international players makes competition increasingly harder for smaller national players – **Size matters**
- ❑ More co-productions/commercial tie-ups with SVOD giants for premium content by broadcaster and studios (Paramount/Netflix, BBC&ITV/Netflix)

➔ Is there still **room and time for national players to compete** with these 2 giants?

2 – Two players have mainly profited from the growth in the UK...

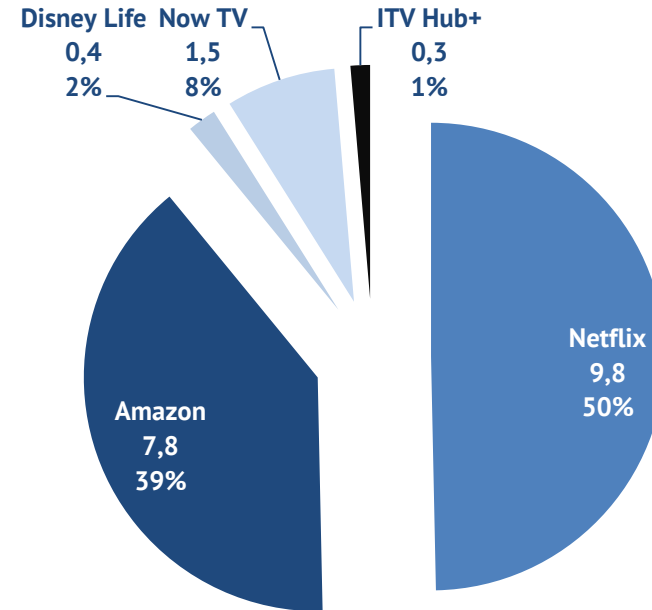
UK Consumer revenues SVOD by company

in EUR million - 2018



UK Subscribers to SVOD by company

in million subscribers - 2018



→ Netflix and Amazon: 85% of SVOD revenues and 89% of SVOD subscribers in the UK in 2018

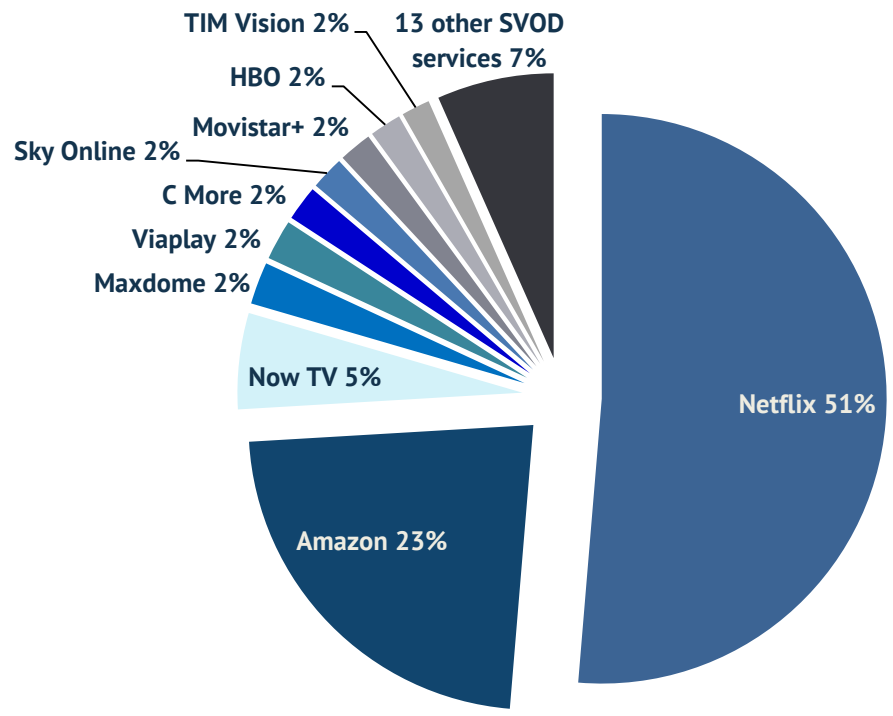
→ Capacity of other players to compete? Announced launches of streaming services by Disney (Disney+ and plans to expand Hulu) and Apple will harden competition for EU and national players

→ Call by head of OFCOM for UK PSBs to collaborate on a streaming service

2 – and this is also the case in the EU – the SVOD duopoly

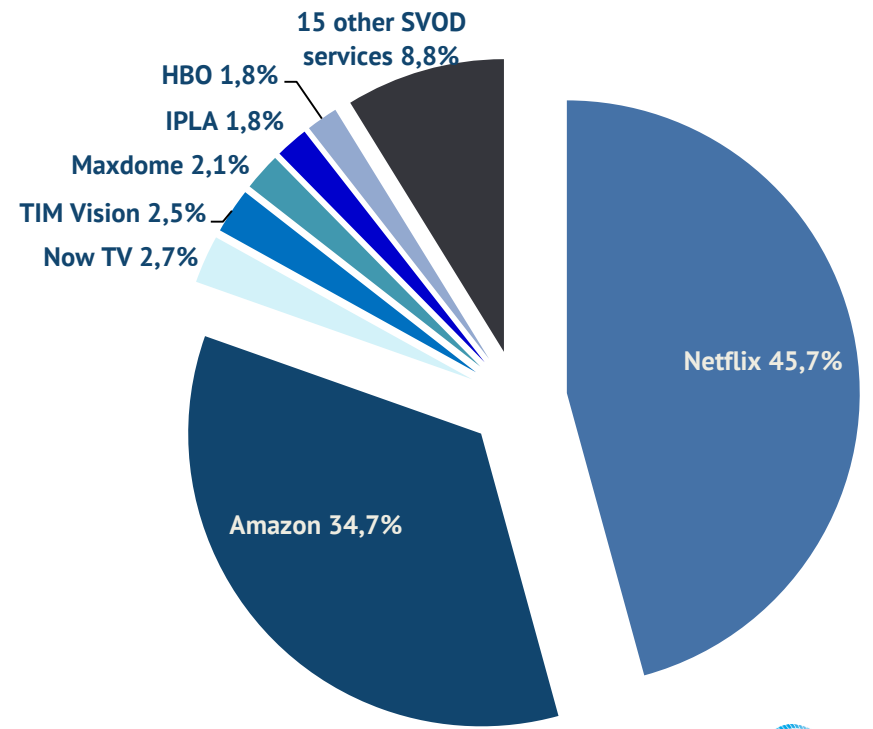
EU SVOD CONSUMER REVENUES

- EUR 3.6 billion in 2017
- Netflix and Amazon represent 74% of EU SVOD revenues



EU SVOD SUBSCRIBERS

- 53,9 million SVOD subscribers in 2017
- Netflix and Amazon represent 80% of EU SVOD subs



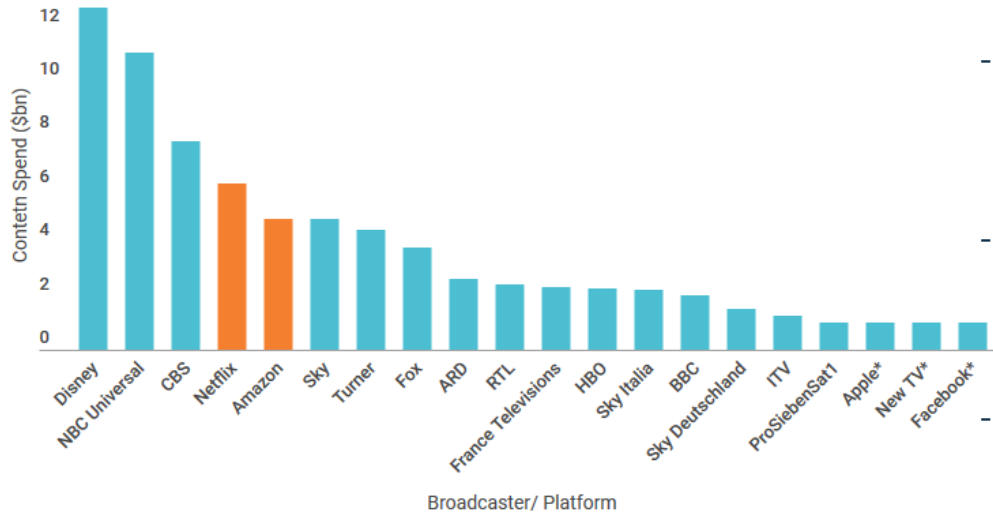
Source: Ampere Analysis

2 - Content spend by major players – revenues diminish & costs rise

ARPU

- SVOD and direct-to-consumer business have much **lower revenues per user** than pay TV
- The challenge will be for traditional services to **continue to finance content** while earning less per subscriber in new business models
- The need for size and presence in several markets **OR** to distribute original content wider
 → Collaborations, co-productions and alliances

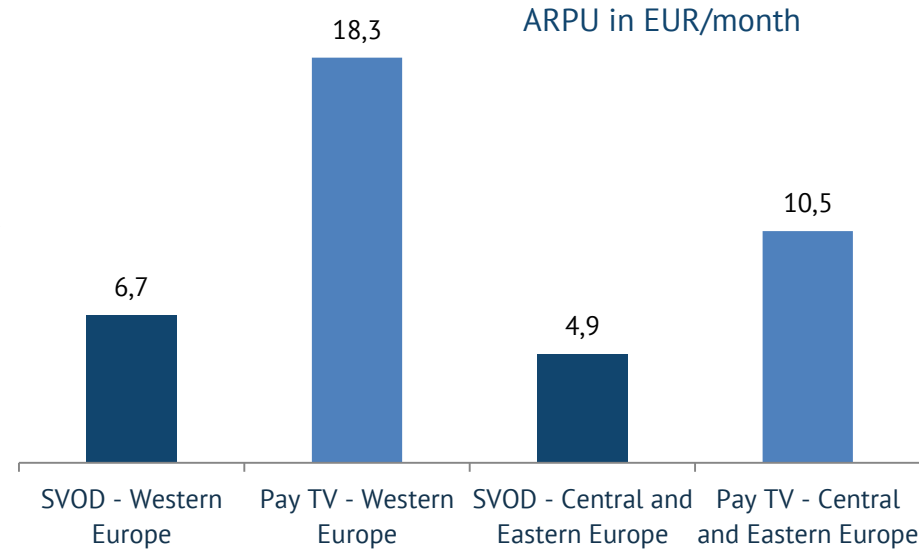
Spend on content (\$bn) for major broadcasters and platforms in 2017



Source: Ampere Analytics, as of June 2018

*These are all speculative spend amounts based on press disclosures

ARPU in EUR/month



CONTENT SPEND

- Netflix spent USD 6,2 billion and Amazon USD 4,9 billion in 2017 on original and acquired content and more in 2018
- Netflix 141 projects in the EU in 2018 (81 originals) and has announced 221 for 2019 (153 originals)

With new mega deals for content creators in the 100s of million dollars and the rising costs of premium content, traditional players will be challenged / major studios start to produce for SVOD services

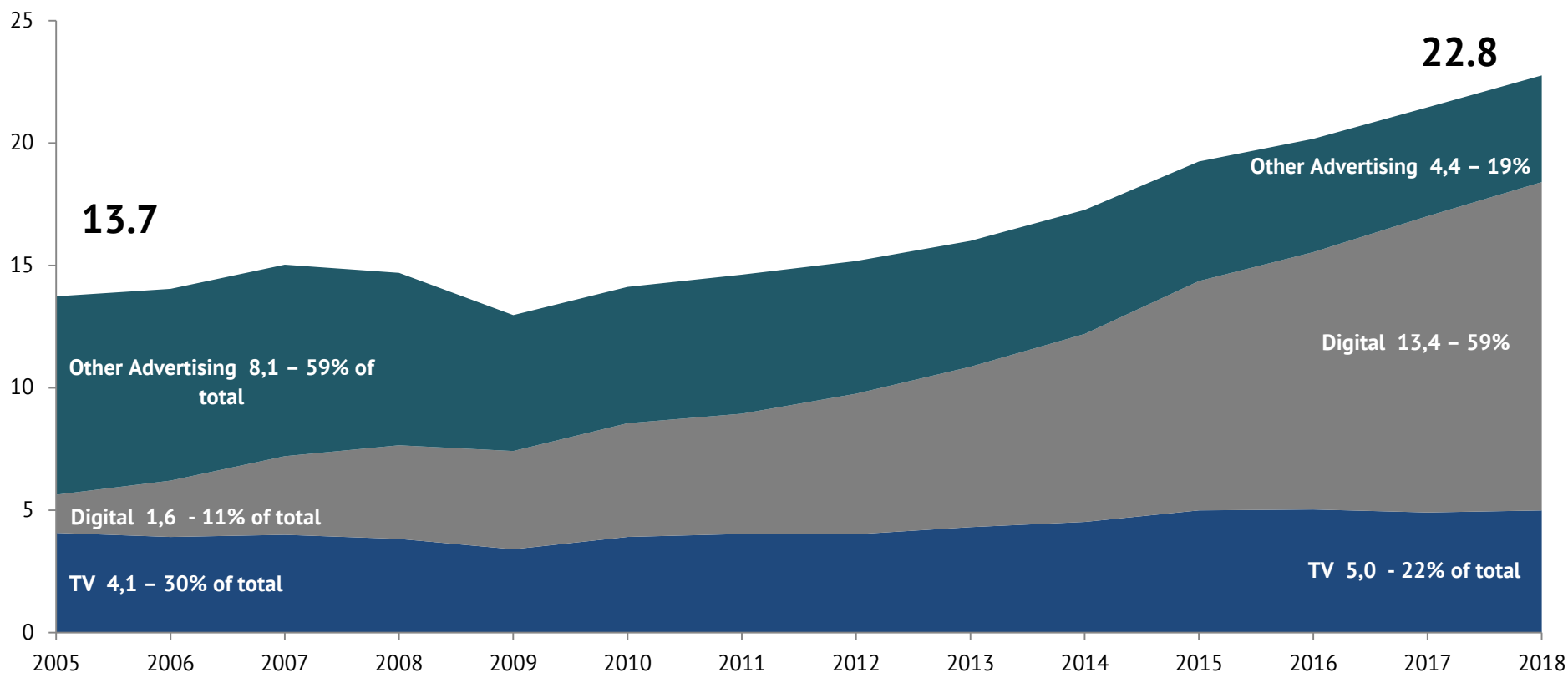
Source: Ampere Analysis



Advertising in the UK

- ❑ **Shift from mass-advertising to targeted advertising**
- ❑ **Online advertising dominated by 2 players, Google and Facebook, with Amazon rising rapidly**
- ❑ **Consumer data is key, so is scale**

- ❑ The **time spent** with digital media, and mobile devices, has led to a **shift in ad spend** by advertisers to the online space – in the UK, online has surpassed TV ad since 10 years
- ❑ Advertising has undergone a **shift from mass-advertising to individualised and targeted advertising** allowed by the use of **data** on consumers.
- ❑ **Mobile video** advertising main growth driver (+65% YoY) with increased mobile video consumption. **Video advertising** represents already **19% of online ad spend**



- ❑ Online advertising is the main media in the UK with EUR 13.4 billion in 2018, up by 11% YoY, online advertising represents 59% of the EUR 22.8 billion UK advertising market
- ❑ TV advertising, after declining by -2.5% in 2017, reaches EUR 5 billion in 2018, up by 2% and accounts for 22% of the advertising market
- ❑ Other advertising (newspapers, magazines, cinema) decreases by 2% to EUR 4.4 billion YoY

Source: Ampere Analysis, GroupM, Zenith

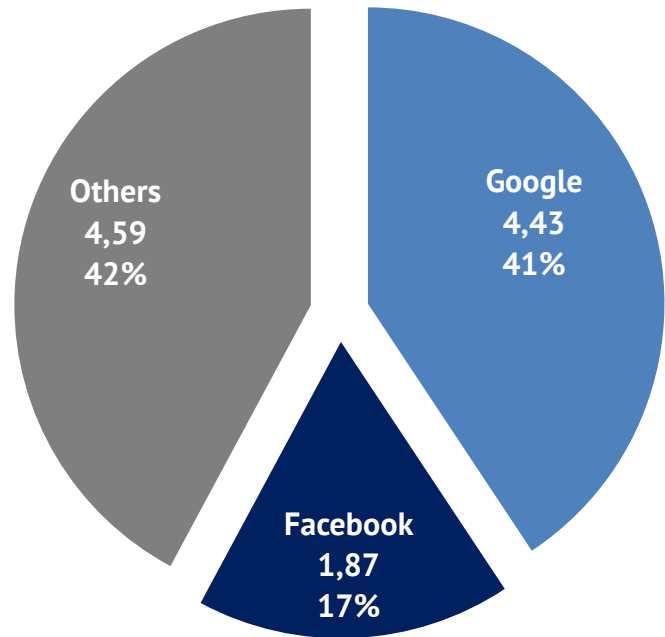
3 – Advertising market in the UK – A duopoly?

- ❑ **2 players** who capture enormous amount of consumers' time (attention) and data have emerged as winners – **Google** and **Facebook**. Global market share (excl. China) of digital advertising in 2017 of 84% [and 58% in the UK] (*GroupM*)
- ❑ **Amazon**, who has consumer data and purchase history, making a play also on the ad market
- ❑ In turn, **commercial broadcasters**, such as ITV, are trying to find **other revenue sources** as TV advertising is only forecasted to grow moderately and linear viewing time is decreasing - setting up of **advanced TV targeting systems**
- ❑ Advertiser-funded VOD (**AVOD**), although still young, grows fast– globally already at USD 23.8 billion in 2017 and accounting for 5.2% of global adspend
- ❑ Amazon exploring launch of AVOD service & YouTube's originals set to become available through ad-supported viewing in a shift in strategy

3 – Advertising – Dominance of a few

UK - Market share of digital ad by company

in GBP billion - 2017



Source: eMarketer

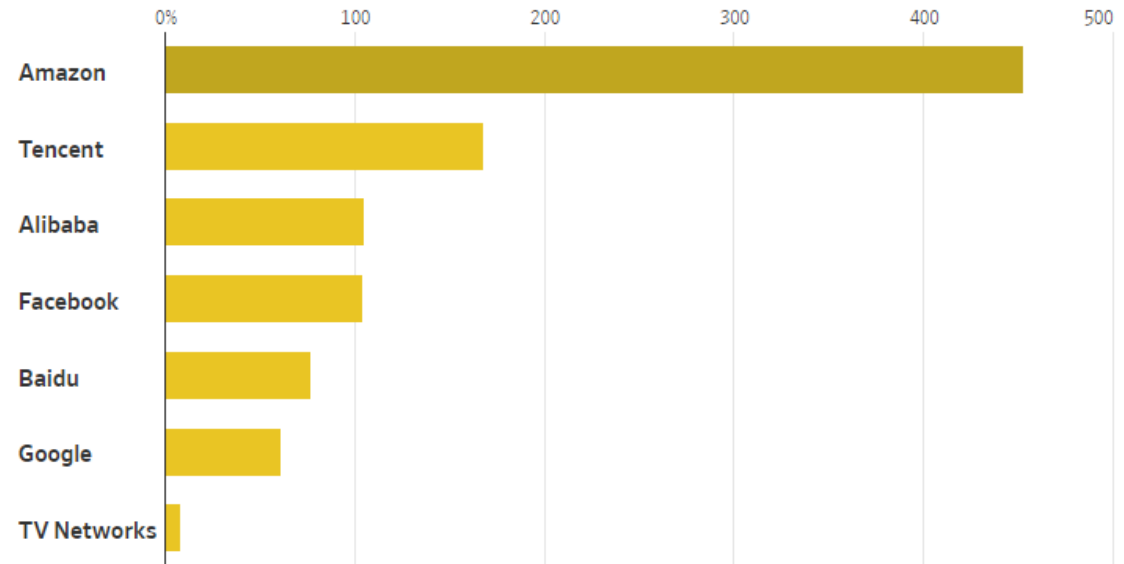
Growth of global ad sales by company

in YoY% - 2017

Global Growth

Amazon's ad sales growth over the next few years is projected to surpass that of both Chinese and U.S. competitors, as well as of all TV networks world-wide.

Growth in global ad sales, 2017-2020



Sources: eMarketer; GroupM

- ❑ How will commercial TV Networks manage the shift in advertising's paradigm with stagnant growth?
- ❑ Do other digital players stand a chance against these giants? (recent lay-offs and closures of digital media companies – Vice Media, Vox Media, Refinery29)

So what does all this mean for traditional media players?

FAANGs – Not one group but a number of players impacting the media sector

- ❑ Be it on the paid VOD market or advertising market, the 5 companies have a **global impact**
→ In under 10 years, they have succeeded **to dominate their market segments**
- ❑ **The power of direct-to-consumer businesses, global scale, their place in discovery of content** and a trove of **user data** makes it hard for traditional players to compete
- ❑ In this **new media landscape** that starts to emerge, **scale** is of utmost importance
- ❑ Strategies to cope with their impact go from **M&As, alliances** to **partnerships** and **commercial tie-ups** with these new players
- ❑ A few traditional players are well placed to manage the shift, others will try to **reinvent themselves** or change their strategy - shift from broadcasting to content production, specialisation in one category of content format or niche markets, ...

Change will take time but “disruption” seems inevitable

□ Key question for media companies - how to respond:

- **Cooperation with new players?** (distribute content on Facebook, selling ad inventory with Google, co-produce and sell to Netflix & Amazon...)
- **Competition?** (alternative online offer, launch of SVOD service, keep content rights...)
- **Coopetition?** (collaborate on some segments, compete on others)

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