OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSSTELLE

Note 3 - The SVOD Market In The EU Developments 2014/2015

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NOTE 3: THE SVOD MARKET IN THE EU-ROPEAN UNION 2014 & 2015

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1 Market figures: SVoD in the European Union

- *A fast growing market with a year-to-year increase of +93% to EUR 844 million in 2014, however with high disparities in the EU 28*
- *Almost 50% of consumer revenues generated in the United Kingdom, and more than 90% by 8 countries in 2014*
- *Countries ranked high in the Digital Economy and Society Index are leading the EU in SVoD consumer revenues*
- *The addressable market for SVoD services in the EU is growing, depending on various factors such as broadband penetration, equipment in connected devices, willingness to pay for online services*
- *The entry of Netflix and the launch of SVoD services by national players stimulated the SVoD market in several countries*

The Subscription Video-on-Demand market (hereafter SVoD) experienced a fast growth since the year 2010 in the European Union[1]. Total consumer revenues grew from EUR 40.7 million in 2011 to EUR 844 million in 2014, an increase by 1 973% in 5 years (with a compound annual growth rate [CAGR] of 113% over the 5 year period) in the EU 22 according to research firm IHS[2]. The market for audiovisual on-demand subscription services is in a state of fast expansion, driven by the launch of services; either from established national players such pay TV operators, commercial broadcasters or telecom companies, either from international players who expand their services into EU countries; and the uptake by the EU population, profiting from higher broadband speeds required for streaming of videos and an increased equipment in connected devices (streaming media players, smart TVs, smartphones, tablets, HDMI dongles).

However, these growth rates and increases in consumer revenues reflect only a part of the market situation for SVoD services in the EU. Most of the consumer revenues are (still) generated on the British market which solely represented 47% of total consumer revenues generated in 2014 (down from 65% of total consumer revenues in 2010). The top 8 markets (respectively, the United Kingdom, Sweden, Denmark, France, the Netherlands, Germany, Finland and Belgium) out of the 22 EU countries for which data is available represent over 90% of total consumer revenues for SVoD services in 2014. The different markets in the European Union for SVoD services are not homogenous, and a pan-European analysis, as it is the case for many on-demand audiovisual markets in the EU, is rendered difficult as each market presents different market conditions favouring or not the emergence of SVoD services and their rapid adoption by consumers.

It is possible, to a certain extent, to classify the markets by maturation levels – total consumer revenues, growth rates, adoption rates of SVoD services by population (a difficult exercise without subscribers numbers in most of the EU countries), number of SVoD services competing for a slice of the national market:

[1] IHS measures SVoD consumer revenues in 22 EU countries: Austria, Belgium, Bulgaria, Czech Republic, Germany, Denmark, Spain, Finland, France, the United Kingdom, Greece, Croatia, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Sweden, Slovenia, Slovakia (hereafter EU 22). Not included in the total figure for the EU market are Estonia, Hungary, Lithuania, Latvia and Malta.

[2] IHS defines SVOD as:" Subscription Video on demand is a business model traditionally associated with streaming video. Users pay a standard monthly rate for access to content which is streamed on request; this is to say no long term store of the content is made on the user's device."

- SVoD market developed: UK, SE, DK, FI, NL quick adoption rate, early entry of Netflix and local reaction of national players
- SVoD market in development: FR, DE, BE, LU, IE, AT
- SVoD market underdeveloped: ES, CZ, IT, RO, SI, PL, SK, HR, PT, BG, GR

This overrepresentation of Western European countries, often higher ranked on the Digital Economy and Society Index tends to demonstrate that the addressable market for SVoD in the EU is growing each year. As broadband penetration is growing, letting users benefit from higher broadband speeds required for video streaming services and as EU consumers are getting more equipped with smartphones, tablets and connected devices (media players, Smart TVs, HDMI dongles), the addressable market for SVoD services is also growing.

The following sections analyse the development of the EU SVoD market from different angles such as the share of SVoD consumer revenues in total on-demand consumer revenues, the situation of pay TV in regard to SVoD (competition or coexistence) and the main players in the EU. As only data for 22 EU markets regarding SVoD consumer revenues are available, the different figures used in the first part of this note take into account this fact by giving the relevant data for the 22 markets, when available.

Table 1 **SVoD Consumer revenues and growth rates per country, in EUR million and %, 2010 - 2014**

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Source: IHS

Figure 1 EU 22 SVoD consumer revenues and yearly growth rate, in EUR million and %, 2010-2014

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Source: IHS

Table 2 Share of SVoD consumer expenses per country in 2014 EU 22, in %

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Source: IHS

1.2 Acceleration of SVoD consumer revenues since 2012

The EU market for SVoD has been stimulated by the entry of Netflix in 14 EU[3] countries since 2012, and in the most cases, the reaction to its entry on national markets: the launch of SVoD services by established audiovisual players from the pay TV industry, commercial broadcasters and telecom operators which either launched new SVoD services or promoted more heavily their own SVoD service.

The level of awareness for SVoD services among the EU population was raised by the accompanying marketing undertaken by Netflix[4] and other players to promote their services. The rapid uptake of SVoD services since 2011/2012 in several EU countries (the United Kingdom, the Netherlands, the Nordics, Luxembourg, Belgium and Ireland) which are also among the most digitally advanced countries in the EU, according to the Digital Economy and Society Index (DESI)[5], tends to demonstrate that consumer demand existed previously but was not met by equivalent commercial offers. The entry of the global juggernaut of SVoD services, Netflix, and the services launched by national players in each territory, stimulated this demand for subscription video-on-demand services. This becomes even clearer when looking at the increase in consumer revenues the year of the launch of Netflix and the following year. The increase reflects quick adoption by EU consumers in the concerned countries. Belgium and Germany are maybe the only countries where Netflix launched where the increase in consumer revenues was more incremental, growing however by respectively 52% and 41% the year after the launch.

Without according to much credit to Netflix for this increase, it seems however that the combined entry of the global SVoD player and the reaction by national or international players (enhancing their previous offer, launching new SVoD services, investing more in licences, revamping their user interface and enhancing the overall user experience) already on the given national markets had a stimulating effect on the SVoD markets in the European Union. The impressive growth rates indicate that SVoD services will in the foreseeable future convince more EU citizens, and therefore further increase consumer revenues on these markets. Smaller SVoD markets (but important markets when it comes to pay TV) which have not yet seen the entry of global players (in 2014) such as Spain, Italy or Poland could experience a comparable boost in consumer revenues once compelling SVoD services are launched, such as Yomvi (Canal+/Telefonica) combined to a market entry by one global player, as it was the case in October 2015 for Netflix in Spain, Italy and Portugal.

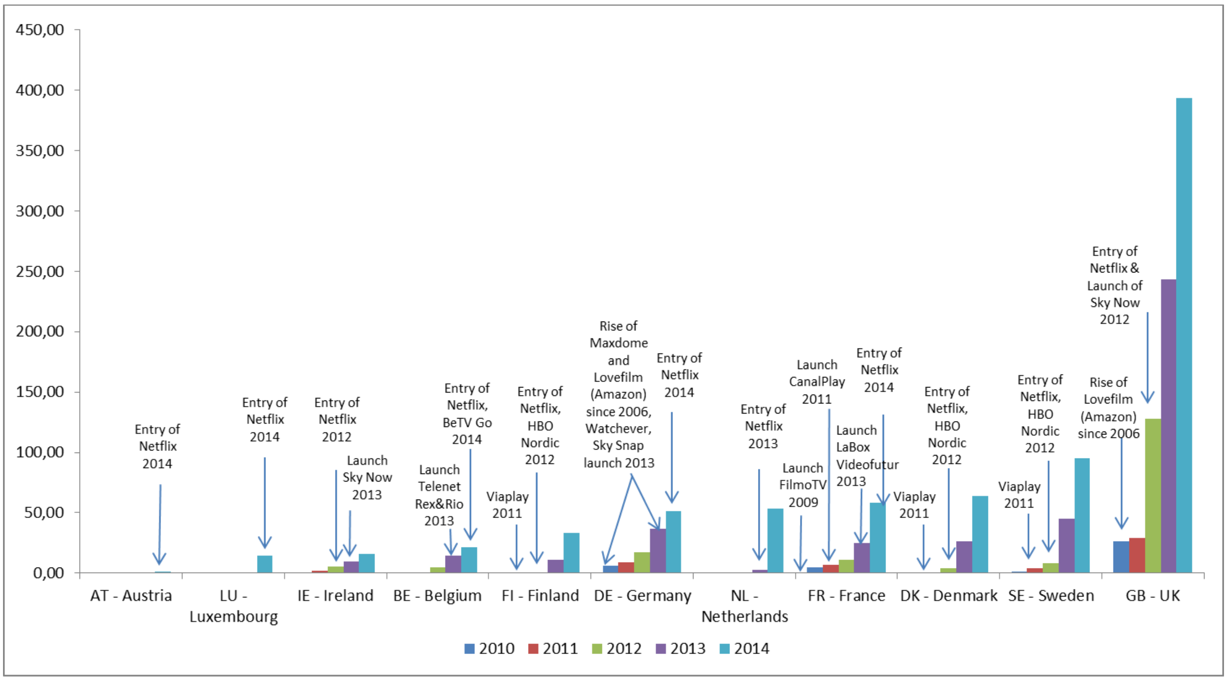
With the (surprise) launch of Netflix in all countries of the EU as of the 6th January 2016 and its global availability (190 countries), the EU SVoD market is set to further expand and attract new subscribers. (This information was not available at the time the note was written, in October 2015)

[3] Netflix currently operates its SVoD services in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom as of October 2015. (*This has changed as of January 2016 as Netflix is now available throughout the EU)*

[4] As Netflix does not break-down marketing expenses by region it is not possible to give the marketing expenses for EU countries. Netflix spent USD 313.7 million in 2014 for its international marketing (EU included), adding 7.347 million subscribers or USD 42.70 of marketing expenses per each new subscriber on the international segment. Source: Netflix Annual report (10-K) 2014

[5] Available at : http://ec.europa.eu/digital-agenda/en/desi

Figure 2 SVoD consumer revenues 2010-2014 (in EUR million) and dateline – Entry of Netflix and launch of other SVoD services in selected EU countries



Source: OBS on IHS data

1.3 SVoD: rising faster than other VoD services and taking increasingly a larger share in consumer revenues for on-demand services

- *SVoD services increased their share in total consumer revenues for on-demand audiovisual services from 4% in 2010 to 34% in 2014*
- *Consumer spending on SVoD rises faster than for other VoD services, with respectively CAGRs of 113% and 28% per year between 2010 and 2014*

To put the ascent of SVoD into context, a comparison with overall revenues generated from paid on-demand audiovisual services in the EU shows the ascent of SVoD. IHS measures audiovisual on-demand consumer revenues for 4 different categories:

- Online Film consumer revenues (mostly transactional VoD - all 28 EU countries covered)
- Online TV consumer revenues (mostly transactional VoD - only 7 EU countries covered: France, Germany, Italy, the Netherlands, Sweden, Spain, the United Kingdom)
- Television VoD consumer revenues (24 countries covered – no data for Bulgaria, Croatia, Czech Republic and Romania)
- SVoD consumer revenues (22 EU countries covered – see above)

In order to compare the evolution of consumer revenues for SVoD in regard to total consumer spend for audiovisual on-demand services, the 4 countries for which no TV VoD data are available have been eliminated from the calculation.

- For the 18 EU countries[6] for which comparable data exists, overall consumer revenues for on-demand audiovisual services (Online Film and TV, Television VoD and SVoD) amounted to EUR 915.7 million in 2010 and increased to EUR 2 461.5 million in 2014 (an increase by 169% over the 5 year period or a CAGR of 28% per year).
- SVoD on the other hand increased from EUR 40.3 million in 2010 to EUR 828.9 million in 2014 for the 18 countries, an increase by +1 959% for the same period, with a CAGR of 113% per year. The rise of SVoD services was, judging by the increase in consumer revenues, more rapid than other paid business models for on-demand audiovisual services.
- The share of SVoD in consumer revenues for the 18 EU countries shows that the share of SVoD passed from only 4% of total consumer revenues for on-demand audiovisual services in 2010 to 34% in 2014, a steep increase demonstrating the appeal of the “all-you-can-eat” business model compared to transactional services. SVoD services, which propose in exchange for a flat monthly subscription all audiovisual content of their catalogues (mostly TV shows and films), are finding increasingly more custom-

[6] Austria, Belgium, Germany, Demark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Sweden, Slovenia, Slovakia

ers in the EU population who add them to their “audiovisual diet”, complementing existing services.

- As most of EU countries are only 3 to 4 years (since 2011/2012) into the beginning of having a developing market for SVoD services, the uptake is still limited to a small percentage of the EU population as a whole but first signs are encouraging for this business model when judging by growth rates and consumer revenues levels as the addressable market for SVoD expands.

Table 3 **Total consumer revenues for on-demand audiovisual services in 18 EU countries, in EUR million and %, 2010-2014**

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Source: IHS

Table 4 **Share of SVoD consumer revenues in overall consumer revenues for on-demand audiovisual services EU 18, in %, 2010-2014**

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Source: IHS

Figure 3 **Share of SVoD consumer revenues of total consumer spend for on-demand audio-visual services in EU 18 and SVoD consumer revenues, in % and EUR million, 2010-2014**

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Source: IHS

Figure 4 Growth rates of OTT SVoD, Film, TV and Managed networks in the EU 2010-2014, in %

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Source: IHS

1.4 Consumer revenues on SVoD services are still a fraction of consumer spending for pay TV in the EU: still a complement rather than a substitute for pay TV in 2014

- *Pay TV consumer spending amounted to EUR 36 942 million in 2014 in the 22 EU countries compared to EUR 844 million for SVoD services or 2.3%*
- *However, SVoD (CAGR +113%) is growing much faster than pay TV (CAGR +5%) between 2010 and 2014*
- *SVoD is also outpacing pay TV in net additions of subscribers in Europe since the fourth quarter in 2013 according to data released by Ampere Analysis*
- *Cord-cutting as in the US is at the moment not taking place in the EU overall but several EU countries start to experience a downward trend in pay TV subscriptions and revenues*
- *SVoD is more a complement (for now) to pay TV than a real competitor as more homes are taking a combination of pay TV and SVoD subscriptions than a standalone SVoD service*

One of the “big” questions in the audiovisual industry is the place SVoD services will take with regard to pay TV services (in addition to the question of how much viewing time spent on SVoD services will erode live viewing of linear channels). In the US, the fear of “cord cutting” by pay TV operators (cancelling a pay TV subscription in order to subscribe to a less expensive over-the-top service for audiovisual content, such as SVoD) manifested itself in the second quarter of 2015 in which the pay TV sector in the US lost **566 000 subscribers**, accelerating the trend compared to losses of 321 000 subscribers in the second quarter of 2014, continuing the **downward trend of pay TV subscriber growth** which started to be negative in the second quarter of 2013 according to analysis by MoffetNathanson.

In Europe, the situation is not comparable as pay TV players in the US and in Europe have different operations and business models (in particular, pay-TV services are less expensive in Europe than in the US). However, SVoD services operating in the EU are proposing increasingly content (films and TV shows, documentaries) which compete with the offers of traditional pay TV players. Therefore, the question if SVoD services are in competition with traditional pay TV players or a rather a complement to pay TV is still a valid one.

SVoD consumer revenues represented only a tiny share of 0.1% of consumer spending on pay TV in 2010; however the share evolved rapidly to 0.6% in 2012, 1.2% in 2013 and already 2.3% in 2014 in EU 22. As SVoD consumer revenues increase strongly year-to-year and are outpacing consumer spending on pay TV, this rising proportion is no surprise. But is a trend of cord-cutting taking place in Europe? Are subscribers replacing their subscription to pay TV services with subscriptions to video-on-demand services?

In 2014, pay TV generated EUR 36.94 billion in consumer spending in the 22 EU countries[7], up by 5.4% compared to 2013 and with a CAGR of 4.7% between 2010 and 2014. The only countries experiencing a fall in consumer revenues for pay TV during the period were the Czech Republic (CAGR -2%) and Italy (-1%). The interesting fact to single out is that Sweden and the Netherlands, countries with higher consumer revenues for SVoD services and, as it seems, a higher adoption rate for SVoD services among the population, experienced a decrease in pay TV consumer spending in 2014 compared to 2013, respectively -3% and -6%. According to Ampere Analysis, **SVoD subscribers are outpacing pay TV subscribers in** Europe since the fourth quarter 2013, adding between 2 to 3.5 million subscribers (net additions) each quarter where pay TV adds between 1 to 3 million each quarter.

A **Telecompaper consumer panel** stated in September 2015 that 8% of Dutch consumers expect to "cut the cord", mainly as a result of more content being available over the Internet. For Nordic countries, the **Arkana Nordic Video 2015** found through a survey of 4 000 people that around 10% were planning to terminate their cable or satellite subscription in favor of OTT services. IHS found out that in 2014, **cord cutting was a reality in 10 EU markets** (Belgium, Denmark, Italy, Malta, the Netherlands, Sweden, Czech Republic, Latvia, Lithuania and Poland), and attributes this trend to be a "*combination of actors including an over-hang from the recent economic downturn and the wider impact of new technology in the home broadening the consumption choices of the average consumer*[8]".

"Cord-cutting" is not yet a market reality in the overall EU market for pay TV but could manifest itself in several countries in the medium term as consumers and younger generations will increasingly find appealing content on the Internet to complement and substitute their actual television diet. Countries with high penetration rates for SVoD services are among the most exposed to the trend of consumers reducing/cutting a more expensive pay TV subscription in favor of a subscription to a Video-on-Demand service.

However, pay TV subscribers are expected to grow by 8.38 million until 2020 in Western Europe while revenues will remain flat during the period as the average revenues per user decreases due to increased competition from OTT video services, and especially SVoD, on one hand, and by the launch of IPTV pay TV platforms on the other hand, challenging established pay TV players in the cable and satellite markets, according to research firm DigitalTV Research in its "***Digital TV Western Europe Forecasts***".

Another interesting finding provided by Ampere Analysis is that for countries in their survey (France, Germany, Italy, Spain and the United Kingdom), more **homes have a combination of traditional pay TV with a third-party OTT SVoD service** than homes which have only a standalone OTT SVoD subscription. The percentage of homes which have a combination of pay TV and an OTT SVoD are the following; France 8%, Spain 12%, Italy 14%, Germany 18% and the United Kingdom 26%. The percentage of homes which have a standalone SVoD services are much lower; France below 1%, Spain 1.2%, Italy 1.6%, Germany 4.9% and the United Kingdom 8.1%).

SVoD services will for the short term rather be a complement to pay TV in the EU and, with some exceptions, not challenge the traditional pay TV market. Also in reaction to the threat that SVoD services might pose to their business model, pay

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[7] For EU 28, consumer spending on pay TV pegged at EUR 37.6 billion in 2014, up by 5.3% on a yearly basis according to IHS

[8] See, "*Cord-cutting takes hold in Europe*", DigitalTVEurope 1st August 2014, available at: http://www.digitaltveurope.net/219052/cord-cutting-takes-hold-in-europe/

TV operators in the most important pay TV markets across Europe are launching their own standalone, over-the-top SVoD services such as Sky Now (Sky), Canal-Play (Groupe Canal+), Sky Snap (Sky Deutschland) Maxdome (ProSiebenSat.1), Viaplay (Modern Times Group), Infinity (Mediaset), Yomvi/Movistar (Telefonica). As Netflix's CEO Reed Hastings says, the number of pay TV subscribers "*will be relatively stable for a fairly long time*[9]" because pay TV operators are reacting and acting to meet consumer expectations: "*When forced to act, they will improve".* This is true in the USA and also in the EU as the recent initiatives by pay TV operators tend to demonstrate.

Therefore, in the short term, SVoD will be a complement to traditional pay TV but in digitally more developed economies, where younger generations might not want to pay for an expensive pay TV subscription when having the option to subscribe to a cheaper SVoD service (so called "**cord-nevers**", consumers having never subscribed to pay TV), the threat by SVoD to the traditional pay TV business model can soon become reality.

[9] See, "*Netflix CEO `Most Scared' of Hollywood's TV Everywhere Effort",* Bloomberg 3rd November 2015, available at: http://www.bloomberg.com/news/articles/2015-11-03/netflix-ceo-most-scared-of-hollywood-s-tv-everywhere-effort

Table 5 Consumer spending on pay TV per country EU 22, in EUR million, 2010-2014

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Source: IHS

Table 6 SVoD consumer revenues in % of consumer spending on pay TV, 2010-2014

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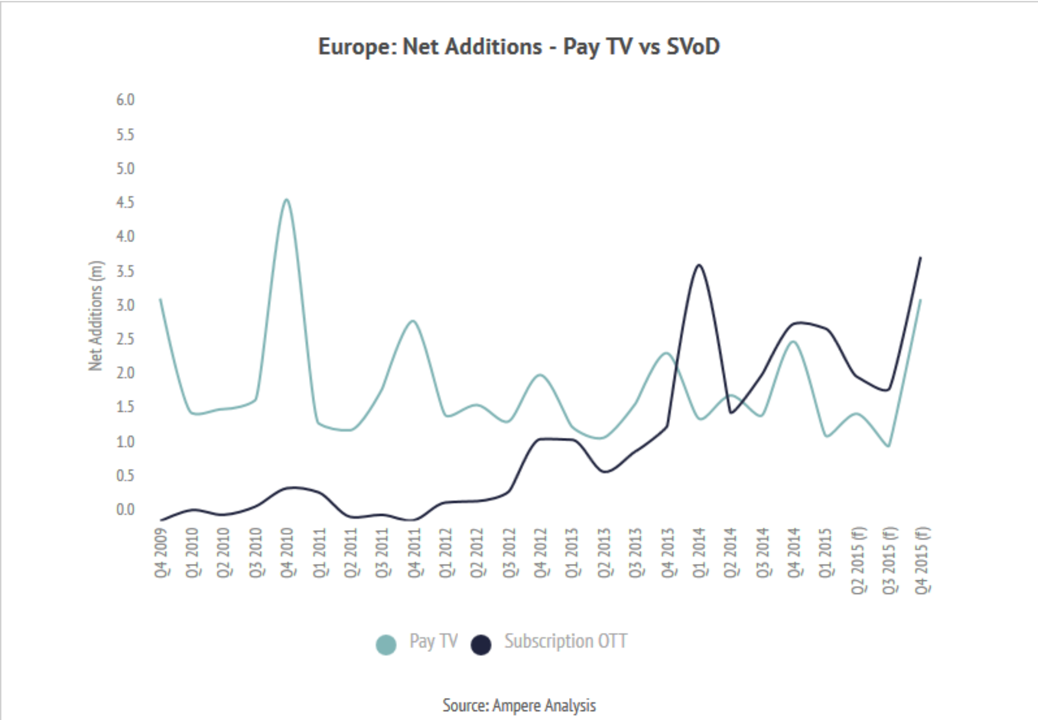
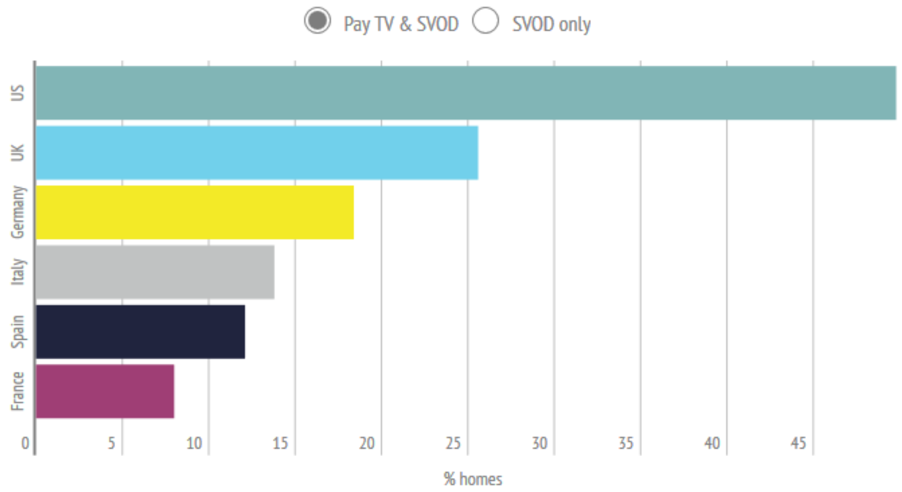
Source: OBS on IHS data

Figure 5 Net additions pay TV and SVoD subscribers Europe, in millions, 2009-2015



Source: AmpereAnalysis

Figure 6 Homes having a subscription to Pay TV and SVoD in the UK, DE, FR, IT, ES, USA in 2015, in %

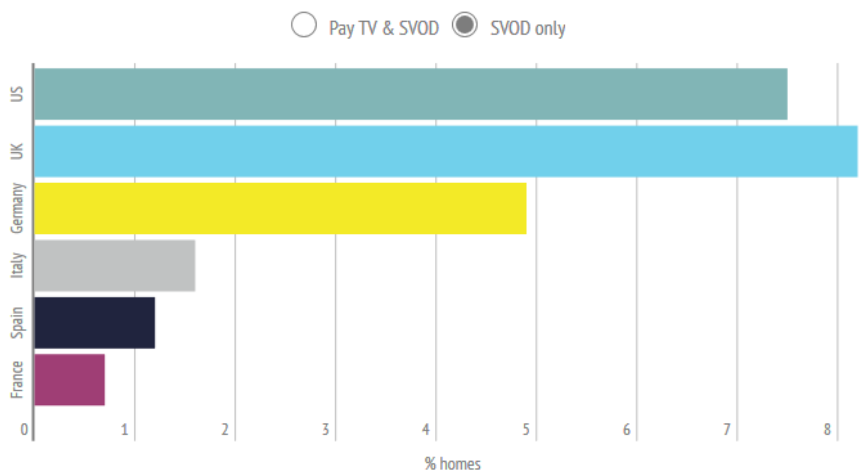


More US homes have traditional pay TV in combination with a third-party OTT service than pay TV without, but the UK beats the US in proportion of homes taking third-party OTT without a traditional service.

Source: Ampere Analysis

Source: AmpereAnalysis

Figure 7 Homes subscribing to a standalone OTT SVoD service in the UK, DE, FR, IT, ES, USA in 2015, in %



More US homes have traditional pay TV in combination with a third-party OTT service than pay TV without, but the UK beats the US in proportion of homes taking third-party OTT without a traditional service.

Source: Ampere Analysis

Source: AmpereAnalysis

2 SVoD in Europe – Generalist, Niche and Direct-to-consumers strategies

- *2 broad categories of SVoD services: Generalist (catalogue of TV shows and films targeting larger audiences), either managed by new entrants or by established media groups and broadcasters, and Niche services (specialized content targeted at smaller audiences).*
- *Few generalist SVoD players such as Netflix, Amazon, Sky, Vivendi, HBO Nordics, and Viaplay have a presence in several EU countries due to licensing issues for premium content, need of scale and high set-up costs for infrastructure and content acquisition.*
- *National SVoD services provided by established audiovisual players are most of the time generalist and in competition with pan-European SVoD services*
- *Niche players tend to have a broader pan-European coverage as their target groups are smaller and they need scale to be profitable; content in their catalogues is less restricted than for generalist services in terms of licenses*
- *The “Direct-to-consumer strategy” (D2C) is an option for media companies with the required financial resources and content offer to bypass intermediaries (such as network operators) and extend their reach in the online space. This strategy is already applied in the US by media companies and comes to Europe with Disney’s DisneyLife and Discovery’s Dplay SVoD services. The D2C strategy is set to be applied by other significant players in the near future in order to capture a share of the growing SVoD market.*
- *Increased mobile and multi-screen viewing will require media companies to rethink the user experience in an “App” world and to strengthen their technical know-how in order to compete with tech players such as Netflix and Amazon*
- *In Europe, Sky, Vivendi, the Modern Times Group are part of a small group of audiovisual players which could increase their pan-European presence on the SVoD market*

SVoD players in Europe can be broadly divided into two categories, on one end Generalist services and on the other end Niche players, with several layers of differentiation between them. In order to present a simple overview we have chosen this presentation.

Generalist SVoD services have the aim to cater to large audiences and therefore have a large selection of films, TV shows and documentaries in their catalogues (Netflix is the global juggernaut in this category, also in Europe although its services are not yet present through the EU). These services are in competition for subscribers and content with each other on their respective territories. Generalist SVoD services are for the larger part provided by OTT players (such as Netflix, Amazon or wuaki.tv), traditional pay TV operators (such as Sky, Canal+ or The Modern Times Group), commercial broadcaster (such as ProSiebenSat.1) or telecom players (such as Telefonica) as content acquisition, exclusive licensing and, since recently, original content production require a meaningful investment and, to put it briefly, deep pockets.

Niche players are specializing themselves into content that caters to special tastes and topics (Sports with the Eurosport Player by Discovery, art house movies with MUBI, educational content for children with Hopster, documentaries with Sundance's Doc Club, Horror films with AMC's and DramaFever's Shudder SVoD service) or content from specific regions or/and in specific languages (LebaraPlay targeting Tamil, Hindi or Turkish population in Europe in conjunction with its mobile telecom offer, Afrostream specializing in content from Africa, Eros Now for Indian and Bollywood content, iROKOTV for content from Nigera – "Nollywood"). Rather than competing with generalist SVoD services, they try to target specific groups with curated content. Niche services are by definition limited to niches, small target groups and here it is not exclusive content or original productions which will attire subscribers but their curation of specific, for the targeted audience's relevant content.

As niche players tend to cater to specific interests and are therefore not disrupting the traditional audiovisual market, the description of main players will focus on generalist SVoD services in selected EU countries: France, Germany, the United Kingdom, the Netherlands and the Nordics. In order to be in line with last year's report, a short presentation of the latest developments concerning Netflix and its expansion in the EU is also part of this section.

It should also be noted that in the US the trend of audiovisual players (traditional and new) extending their linear offerings through subscription-based models such as CBS' All Access, Fullscreen's planned SVoD services (Fullscreen is one of the biggest MCNs on YouTube), NBC's planned Comedy SVoD service *Seeso*, CBS' Showtime SVoD service or Viacom-owned Nickelodeon's Noggin SVoD service, in order to reach younger generations and consumer who have cut-the-cord, is not yet a main trend in the EU.

However, this strategy of going "direct-to-consumer" without intermediaries, as it has been the case with HBO Now in the US, is poised to come also to Europe with the launches of DisneyLife by The Walt Disney Company in the UK at the end of 2015 and in several EU countries in 2016 and the multi territory launches of DPlay by Discovery Communications in Denmark, Sweden and Italy and other EU countries in the near future in complement to the Eurosport Player, the D2C platform of its Eurosport sports channels (with the stated goal of reaching 1 million subscribers which could generate additional USD 100 million revenues per year, having already reached 200 000 international subscribers as of end 2015).

The Walt Disney Company announced in October 2015 that it will launch DisneyLife, a SVoD service which will offer Disney films, TV series, books and music directly to the consumer through a dedicated platform, bypassing thus aggregators and other SVoD services. First launched in the United Kingdom, it aims to expand its presence in Europe through launches in France, Spain, Italy and Germany in 2016. As CEO Bob Iger says: "*This is the future, in many respects. We're seeing more and more opportunities to reach consumers directly and not through middlemen, and we're seeing consumers wanting product in different ways.*[10]" Once the investment of setting up the direct-to-consumer platform is made, it is scalable to other countries and world regions, making it an attractive option for important

[10] See, "*Disney to Launch Subscription Streaming Service in U.K", Variety 21st October 2015, available at: http://variety.com/2015/digital/global/disney-to-launch-subscription-streaming-service-in-u-k-1201623079/*

media companies and broadcasters.

The direct-to-consumer approach could also be taken by Europe's big media players in content production (for which it would also present the advantage of bypassing intermediaries). However, the costs associated with this strategy, the shift in operations and daily functioning (a strong change from what has been the standard in the linear audiovisual world) and finally the technical know-how required to optimise user interfaces, user experiences and building recommendation algorithms makes this option viable only for financially stronger media groups, capable of setting-up and operating such an infrastructure.

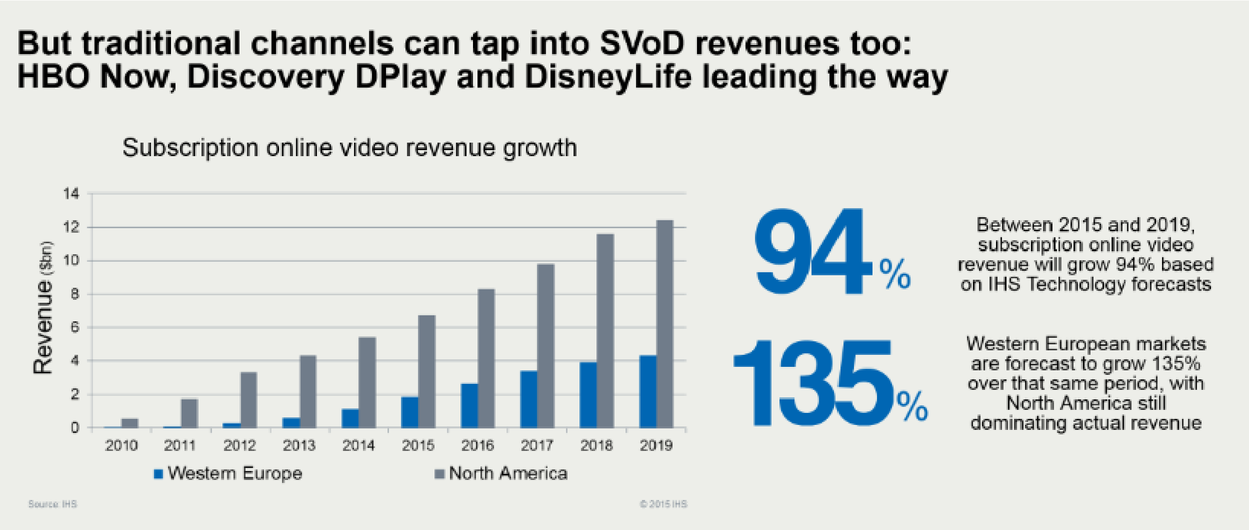
The following sections on SVoD markets in selected EU countries are based on data gathered from different research firms such as IHS, Statista, Futuresource Consulting, AmpereAnalysis, GfK, DigitalTV Research, eMarketer and Mintel. As the figures released by these firms are based on data collected, samples, models and estimations, differences appear. In order not to rely on a sole source for market data, the sections give an overview of data available. We are not in a position to verify data and to assess which firm's estimates are the closest to the real market situations in these countries as no official data is released by most of the players, therefore data should be interpreted with care.

However, all sources indicate a clear increase of SVoD service and predicate that this business model will encounter success in EU countries. For now, Western Europe is leading in consumer revenues and adoption rates mainly by more favourable market conditions for SVoD services, which in turn encouraged market entries of global players such as Netflix, Amazon and HBO and EU players such as Sky, Vivendi and the Modern Times Group. As the digital uptake (broadband penetration, equipment in connected devices, use of streaming services) will continue further in the EU, it is expected that populations will continue to adopt these new services and that established audiovisual players and new entrants will continue to invest the EU market for SVoD services.

The competition between generalist SVoD services for exclusive licences and increased production of original content will increase, as these are clear competitive advantages and allows players to differentiate themselves from competitors. Acquisition and production of premium content (valued by the audiences) is a costly matter, therefore global players and important groups in the audiovisual sector will solely have the financial resources to commit these investments. Smaller players will increasingly turn to niche audiences and try to federate audiences on a pan-European level (or in several countries) as they need size in order to be profitable. Established broadcasters will try to extend their reach by enriching their linear offerings through an strengthened online presence, either relying on advertising as it was the case in the linear space (mainly YouTube channels or own platforms with advertising), either by opting for a paid option in which the subscription-based model is preferred (as opposed to a transactional unit-by-unit based business model), the direct-to-consumers approach.

The pace of change will depend on audience behaviour and as audiences are getting younger and new consumption patterns emerge and, at the same time, new services enter markets in the EU, predicting market situations is difficult, if not impossible tasks. One fact is however clear, the audiovisual marker in the EU and globally is set for years of evolutions and changes in which established players are challenged by a new, mostly technology-based competition and SVoD services, generalist, niche and direct-to-consumer will play an important role in this evolution with revenues in Western Europe forecasted to pass the USD 4 billion mark in 2019 by IHS.

Figure 8 SVoD online video revenues in Western Europe and North America, in USD billion



Source: IHS

2.2 The global Juggernaut: Netflix

In this section, the focus is uniquely on Netflix's presence in the EU. Describing Netflix's operation and business developments requires a report on its own with regard to the several developments the company has made the past couple of years.

Without the aim of being exhaustive, some of the main developments of the years 2014 and 2015 are:

- *The expansion into more countries, reinforcing its global presence (with the announced aim of operating in 200 countries by the end 2016[11]). The share of international paid memberships passed from 18% in Q1 2013 to 36% in Q3 2015, reflecting the rising importance of international markets for Netflix*

- *The increased reliance on international markets, which are still losing money, as Netflix encounters more competition in its domestic market the US. The losses are justified by having a "first mover advantage" in most international markets.*

- *The distribution of its application by main Internet Service Providers in the EU such as Vodafone, Orange, Telecom Italia, Deutsche Telekom (non-exhaustive) has enabled Netflix to enlarge its reach in the EU.*

- *The announcement of its entry into original movies and the multiplication of original productions in 2015 with a slate of 320 hours is further changing the SVoD market*

- *The aim of having global licences in order to propose the most of content in all markets the company operates in*

- *The importance of data: for commissioning and acquiring of content, to recommend relevant content to each subscriber in order to keep them as customers*

Netflix is the dominant player of SVoD services worldwide, having a global presence (over 90 terrritories as of November 2015) and operating in 14 EU countries. The entry into Italy, Spain and Portugal in October 2015 further strengthen its pan-European position. Netflix is operating in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom in the EU as of November 2015. The estimates of its EU subscribers vary strongly: IHS estimated that Netflix had 7.88 million subscribers as of December 2014, Futuresource Consulting already estimated that the number of subscribers had risen to 11.6 million in the EU as of the second quarter 2015 and DigitalTV Research expects Netflix to finish 2015 with 13 million subscribers in the EU. The biggest markets for Netflix in the EU are the United Kingdom, the Netherlands, the Nordics, France and Germany. Revenues or profits/losses for individual countries are not published by the company, which classifies all its international operations under one segment.

The entry into these "new" EU markets came after an expansion in Australia, New

[11] As of the 6th January 2016, Netflix is already available in 190 countries after the announced launch at CES. With this surprise launch, Netflix is now available in all countries of the EU. https://help.netflix.com/en/node/14164 http://www.wsj.com/articles/netflix-expands-to-190-countries-1452106429

Zealand Japan and Cuba in 2015 and the announced entry into the several Asian markets with the programmed launches in Hong Kong, Singapore, South Korea and Tawain in early 2016. A possible launch in India in 2016 could also happen, as reported by the *Times of India.* However, a launch in China, one of the world biggest markets and where with Alibaba Netflix would have already a strong competitor, is uncertain. A possible launch in Poland and the Czech Republic could also happen in 2016 but Netflix has made no clear announcement, so this remains pure speculation. However, it would fit into Netflix's plans of having a global presence as CEE countries are still missing from its countries of operations.

Netflix furthermore managed to strike several distribution deals in order to have its application on set-top boxes by Internet Service Providers (telecom, cable), an important step to enlargen its reach in EU markets. As an example, Vodafone agreed to add Netflix on its boxes in the United Kingdom, Portugal and Spain. Other ISPs all over Europe are adding Netflix as the SVoD service becomes also a marketing argument for these players: Orange, Bouygues Telecom in France, Deutsche Telekom in Germany, ComHem in Sweden, Telecom Italia in Italy only to list sever al deals the company has managed to made the past couple of years. This shows what Liberty Global's Chairman Malone thinks about Netflix, considering them "Frenemies"when asked if Netflix is a competitor or a partner: "*"Frenemies" is the term of art. Almost all the communication companies compete with each other and supply each other and drive each other. It is sort of the nature of the beast.*[12]*"*

On one hand Netflix is enabling the broadband business of these ISPs, while on the other hand Netflix is competing with them (or those which have audiovisual services) for the audience's attention. In addition, Netflix has brought a change in consumer behaviour and forced other players to adapt to the new market given. Liberty Global's CEO Mike Fries expressed this view at the ANGA COM in June 2015 when asked about Netflix: "*A few years ago we were scared about the changes it might bring about to our video [business],"* "*It's not really the content that's driving people to Netflix, it's the experience. Today we are providing that kind of experience ourselves"* "*Why pay Netflix for a very narrow range of programming when you can get all the broadcast channels, all the great movies and series, and Netflix-like content from cable? It's really about providing viewers with the experience. We really have Netflix to thank for [stimulating] that. Almost by definition, where an OTT provider exists, consumers who use it are also better consumers of cable services and broadcast channels.*[13]*"* Therefore, the recent distribution deals are benficail to both parties concerned; Netflix is increasing its reach, ISPs are offering more value and have been forced to adapt their services in order to remain relevant in the competition with Netflix and other OTT players. At this date, the relationship seems to be a win-win situation for most ISP and distributors of audiovisual services.

International markets are important for Netflix, increasingly as it faces competition on the US market from players such as Amazon, Hulu, HBO Now which slows its US growth (see tables on Netflix's financial results). Netflix is therefore searching growth in previously untapped markets. Netflix finished the third quarter of 20145 with 66 million paid memberships, of which 23.9 million international subscribers. The share of international subscribers passed from 18% in the first quarter 2013 to

[12] See,"*For Liberty Global, the Next Step Is the Content"*, The Wall Street Journal 29th July 2014, available at: http://www.wsj.com/articles/next-step-for-liberty-global-content-1406667563

[13] See,"*Netflix no threat, but makes cable better, say Liberty Global, Vodafone"*, DigitalTVEurope 9th June 2015, available at: http://www.digitaltveurope.net/380221/netflix-no-threat-but-makes-cable-better-say-liberty-global-vodafone/

already 36% in quarter 3 of 2015, showing the increased importance of international markets for the company's business model. International revenues are growing faster than US streaming revenues and so do international paid memberships but for now the international business is not yet profitable to Netflix.

However, this international growth came at costs. Netflix is still losing money on its international markets: USD -274.3 million in 2013, USD -159 million in 2014 and already USD -224 million in 2015. International revenues are growing; USD 712 million in 2013, USD 1.3 billion in 2014 and already 1.38 billion in the third quarter of 2015 but so do costs. Operating and content acquisition costs grew heavily during this expansion: USD 782 million in 2013, USD 1.15 billion in 2014 and USD 1.25 billion in the 3rd quarter 2015. Netflix is also investing in marketing when entering new markets in order to raise awareness for its service, so it is no wonder that marketing costs followed the increased costs: USD 204 million in 2013, USD 313 million in 2014 and USD 362 million in the 3rd quarter of 2015.

Netflix's international expansion is therefore costing more than it brings in. Gaining new subscribers, raising awareness for its service through marketing and acquiring content for the new markets is a costly matter. The company, trying to be the first international entrant on most of its new markets takes this into account as the aim is to establish a strong presence in several international SVoD markets in regard to the forecasted growth of SVoD markets in Europe and worldwide with the aim of becoming the global player in SVoD.

Netflix is placing a bet on being able to be the dominant player on the worldwide SVoD market and for now it is on the winning side. However, this aggressive expansion has cost the company a reduction in its net income (returing in Q3 2015 to its level of Q2 2013 of USD 29.4 million after having peaked in Q4 2014 at USD 83 million), as the profitable US streaming and DVD rental business are financing the international expansion, which is still losing money.

Expanding into new markets requires heavily investments but as Netflix is growing in can rely on economies of scale for its expenses and, increasingly, content acquisition as the company is now looking to acquire content globally. Netflix Chief Content Officier Ted Sarandos, quoted by Variety, expressed this shift from acquiring licences for individual countries towards acquiring global licences: *"We don't have regional buying teams anymore,"* he said. In negotiations with studios, Netflix is asking for global rights *"or we're not interested at all.[14]"* It has also strenghtend its original production with 320 hours in 2015 and debuted 48 originals such as Marvel's *Daredevil*, comedy specials and movies (*Crouching Tiger, Hidden Dragon* and *Beast of No Nation*) to only list some. The companies increased reliance on original productions (read exclusive and global content) instead of programming bought at third parties (of which Sarandos says that for TV programming Netflix is not interested in rights that are non-exclusive) and global exclusive rights shows the shift that is happening on the audiovisual market. As on-demand audiovosiual services are increasingly used by the audience and new SVoD services are launched, it is essential to provide your subscribers with exclusive content in order to keep them subscribing. Netflix is atop this shift in paradigm on the audiovisual market and will continue to invest heavily in content, more and more in exclusive and global licences or in original productions as content is a competitive and distinctive advantage on the SVoD market (see section on content).

Finally, another important point is the collection and use of data Netflix makes on its audiences. Sarandos stated: "*Big data is a very important resource to allow us*

[14] See,"*Ted Sarandos: Netflix Appetite for Originals Growing Stronger*", Variety 13th May 2015, available at: http://variety.com/2015/digital/news/netflix-ted-sarandos-original-series-1201494618/

to see how much to invest in a project but we don't try to reverse-engineer," and added that for commissioning, decisions are "*70% science and 30% art*[15]*"* (therefore relying on data gathered). Netflix gathers many data, not only on what subscribers are watching but on also when a user clicked on a show, when he stopped watching it in order to be able to recommend to subscribers content that they will watch until completition and then show them what to watch next until completition. Netflix's aim is to make subscribers coming back and this can be achieved by displaying in front of them relevant content (for the individual subscriber) to watch. Netflix released a sample of the use they can make with data in 2015 by showing the number of episodes it takes for 70% of viewers to get "hooked" on a TV show. This new innovative use of data, for commissioning and acquisition of content, gives Netflix an edge over competitors, which do not dispose of this data as Netflix does not release any viewing data. (However, Nielsen tracks since 2015 nearly 1 000 shows on Netflix to give right holders an idea of how there content is performing on Netflix).

Netflix's strong position on the international SVoD market and in the EU seems dominant. The company is profiting from economies of scale (amortization of R&D, content acquisition, infrastructure) and from the first mover advantage in several markets. With its EU expansion, Netflix is now operating in 14 out of the 28 EU countries, with Poland and the Czech Republic being candidates for an expansion in 2016[16]. As the company is striking increased global deals for exclusive content and raising its orginal production output, it will benefit from competitive advantages. EU players on the SVoD market, often operating in one to three countries (such as Sky, The Modern Times Group, Vivendi and maybe soon Altice) do not benefit from the same scale in this specific SVoD segment. As the company plans its further worldwide expansion, it is set to continue the main competitor for national players on their home turf. The situations in the United Kingdom, the Nordics, the Netherlands and France show the effect Netflix had on the SVoD market (leading often to oligopolies or duopolies), a market that requires high investments, raising therefore the barriers to entry for generalist SVoD services. The aggressive international expansion and the first mover advantage it procures Netflix demonstrate the need for the company to strengthen its position in national SVoD markets before competitors are able to replicate its strategy. In the future, only media companies having the financial resources necessary to commit the necessary content, infrastructure, R&D and marketing investments will be able to compete with the international giant of SVoD services.

[15] See, "*Netflix's Ted Sarandos: 'We like giving great storytellers big canvases'* **",** The Guardian 15th March 2015, available at: http://www.theguardian.com/media/2015/mar/15/netflix-ted-sarandos-house-of-cards

[16] After the launch in January 2016 of Netflix's operations in 130 countries worldwide this is already the case. Netflix is now available in the EU on a pan-European level.

Table 7 Netflix - EU subscribers in million as estimated by main source

IHS/The New York Times as of December 2014	7,88
Futuresource Consulting as of Q2 2015	11,6
DigitalTV Research as of December 2015	13

Source: Company estimates, press releases, press articles

Table 8 Subscribers to Netflix in Europe and North America, IHS

Netflix in Europe and North America

● AVAILABLE ● NOT AVAILABLE

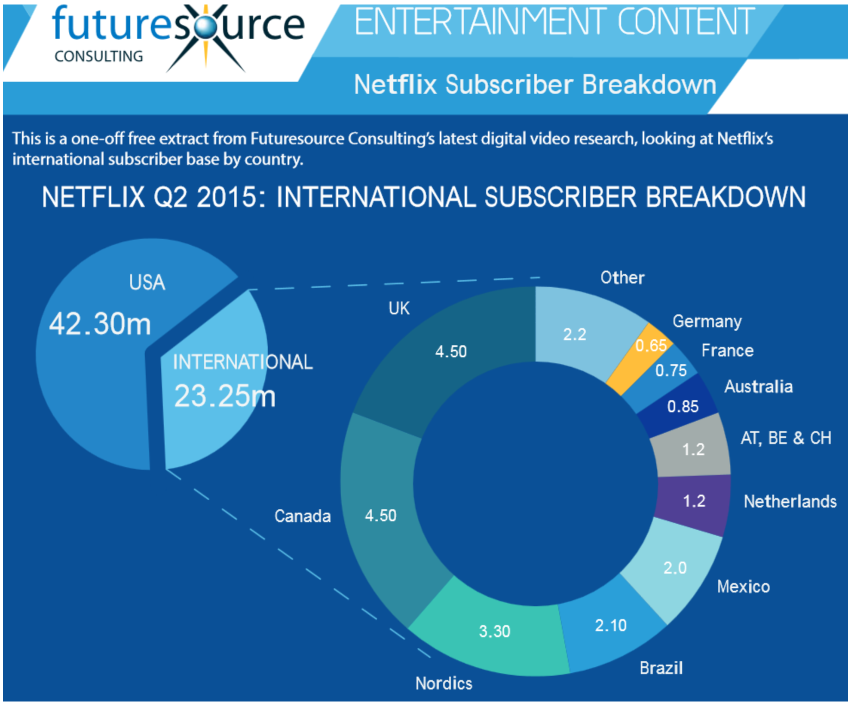
	MILLIONS OF PAID SUBSCRIBERS	TITLES AVAILABLE	*Breaking Bad*	*House of Cards*	*Lost*	*Mad Men*	*The Office (Britain)*	*The Office (U.S.)*
United States	37.70	8,522	AVAILABLE	AVAILABLE	AVAILABLE	AVAILABLE	AVAILABLE	AVAILABLE
Canada	3.10	4,306	AVAILABLE	AVAILABLE	AVAILABLE	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE
Britain	3.30	3,186	AVAILABLE	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	AVAILABLE	AVAILABLE
Sweden	1.10	2,342	AVAILABLE	AVAILABLE	NOT AVAILABLE	AVAILABLE	AVAILABLE	NOT AVAILABLE
Netherlands	0.94	2,127	AVAILABLE	AVAILABLE	AVAILABLE	AVAILABLE	AVAILABLE	NOT AVAILABLE
Norway	0.90	2,359	AVAILABLE	AVAILABLE	NOT AVAILABLE	AVAILABLE	AVAILABLE	NOT AVAILABLE
Denmark	0.79	2,349	AVAILABLE	AVAILABLE	NOT AVAILABLE	AVAILABLE	AVAILABLE	NOT AVAILABLE
Finland	0.54	2,284	AVAILABLE	AVAILABLE	NOT AVAILABLE	AVAILABLE	AVAILABLE	NOT AVAILABLE
Germany	0.47	1,646	AVAILABLE	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE
France	0.51	1,686	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE
Ireland	0.18	3,189	AVAILABLE	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	AVAILABLE	AVAILABLE
Switzerland	0.14	1,842	AVAILABLE	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE
Austria	0.05	1,602	AVAILABLE	AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE	NOT AVAILABLE

Note: Germany, France, Switzerland and Austria all added Netflix services in 2014. Subscribers figures are as of the end of 2014, the titles available are as of February this year. Figures were not available for Luxembourg and Belgium.

Sources: Netflix, Netflixable.com, IHS (subscriber counts outside of the United States)

Source: The New York Times

Figure 9 Netflix Subscriber Breakdown Q2 2015, in millions – Futuresource Consulting



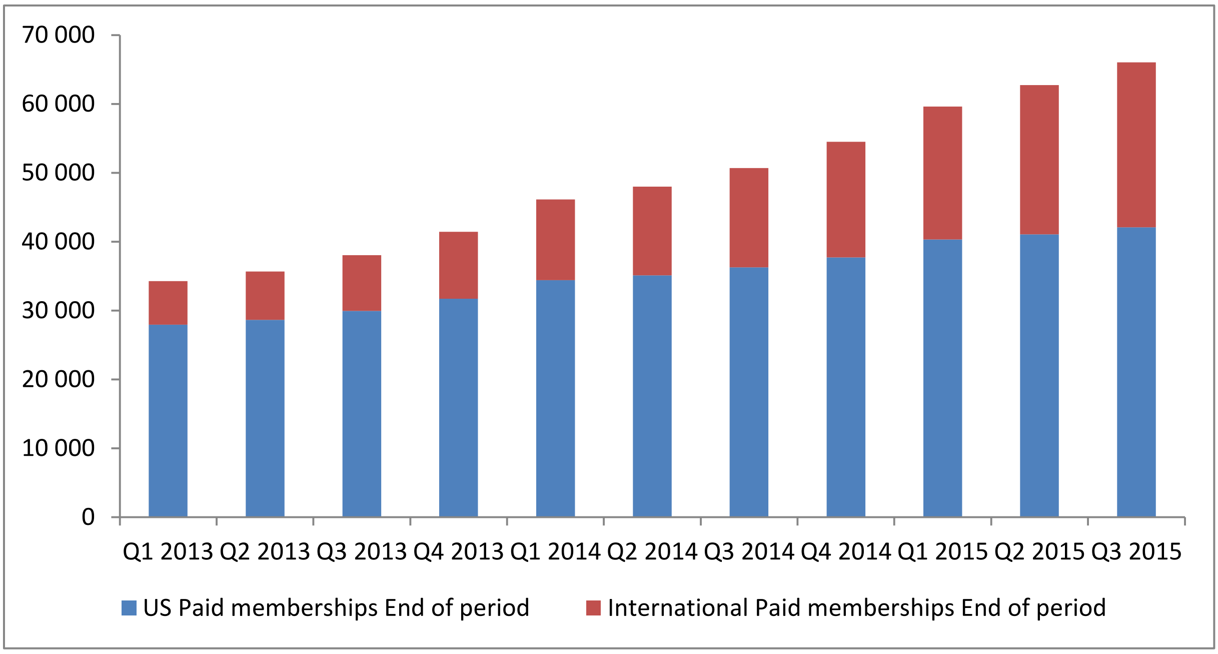
Source: Futuresource Consulting

Table 9 Netflix paying SVoD subscribers by country at December 2015, in thousands – DigitalTV Research

USA	43 541
International total	23 360
of which EU	*13 008*
Austria	236
Belgium	300
Denmark	713
Finland	668
France	1 150
Germany	1 208
Ireland	330
Italy	150
Luxembourg	38
Netherlands	1 600
Portugal	60
Spain	150
Sweden	1 463
United Kingdom	4 942

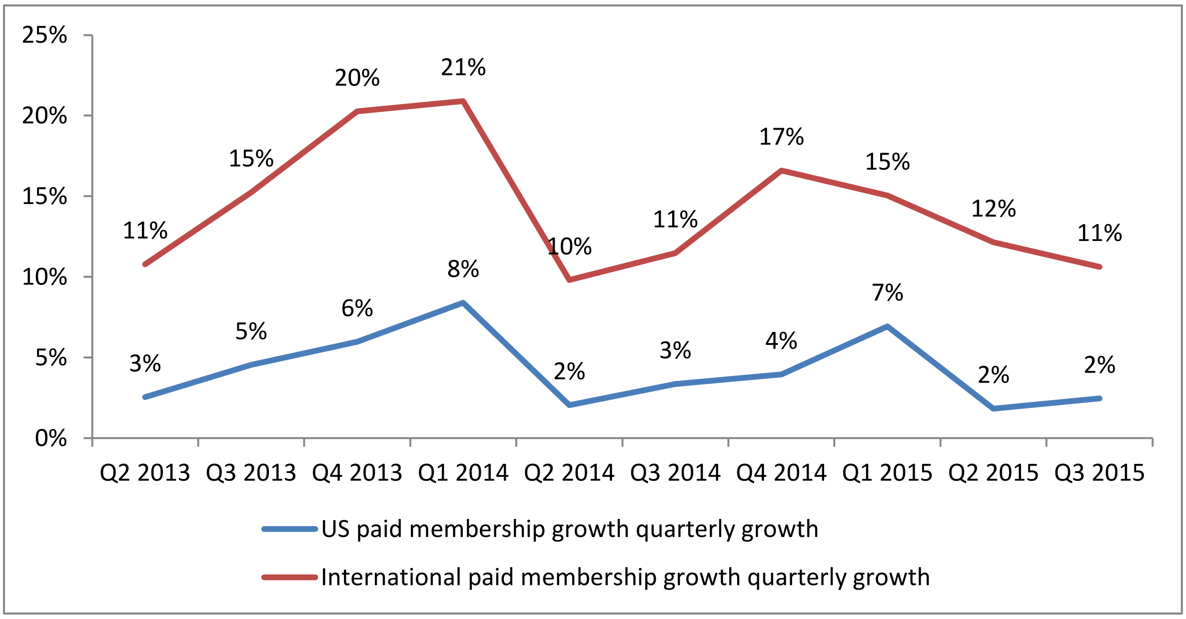
Source: DigitalTV Research

Figure 10 Netflix US and International Paid memberships Q1 2013 –Q3 2015, in thousands



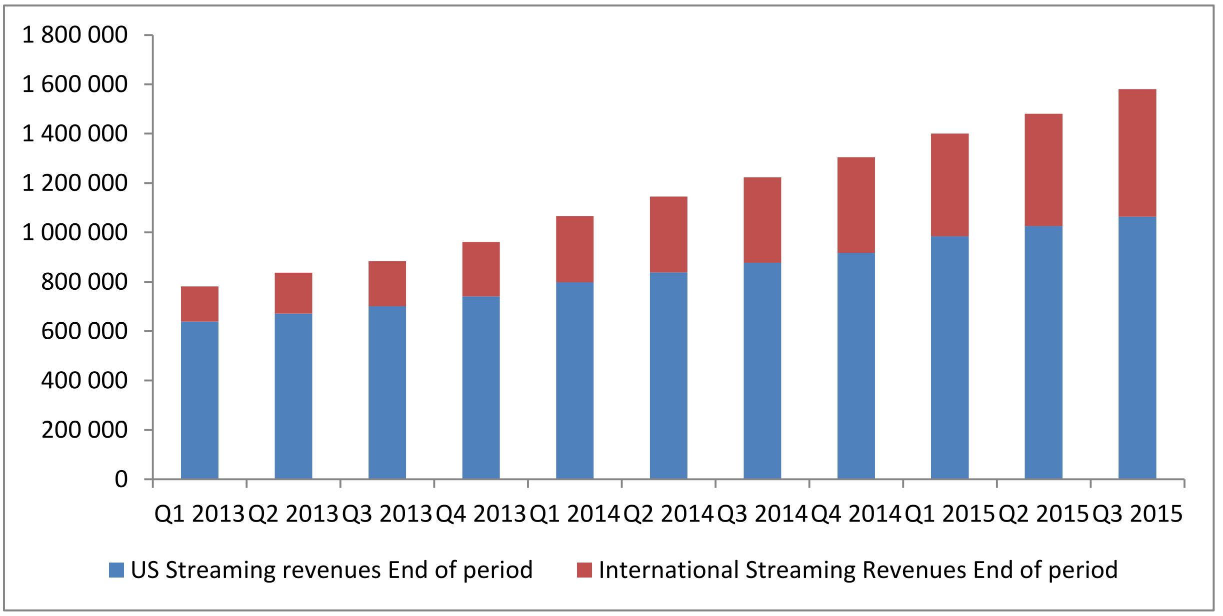
Source: Netflix Quarterly Earnings Q3 2015

Figure 11 Netflix US and International Paid memberships quarterly growth Q1 2013 –Q3 2015, in %



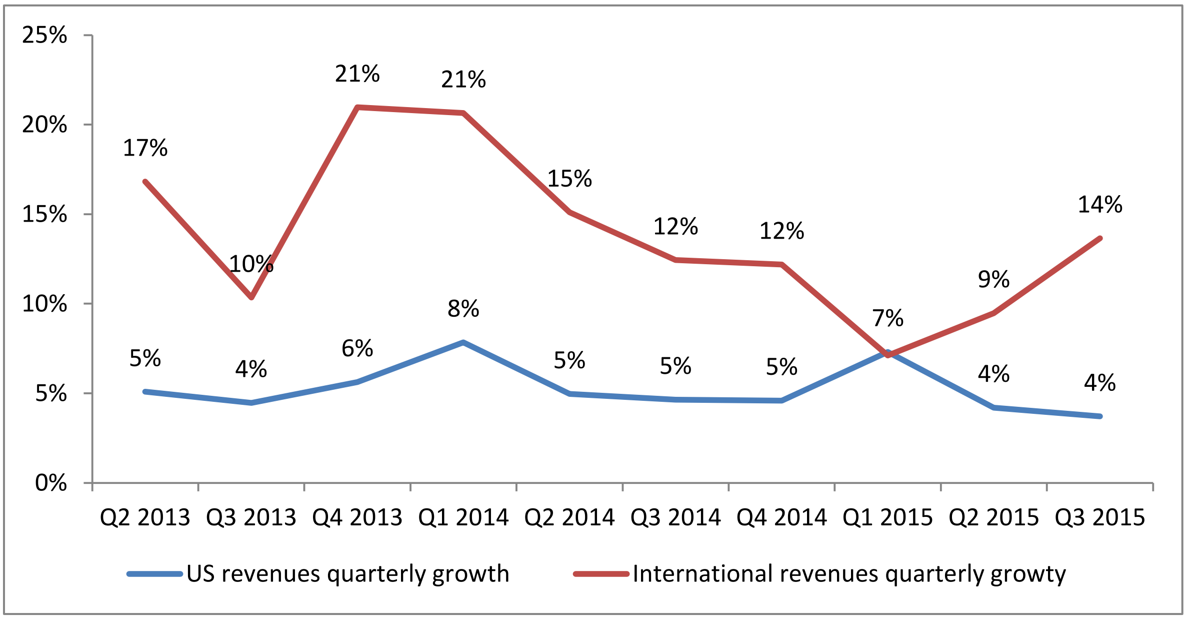
Source: Netflix Quarterly Earnings Q3 2015

Figure 12 Netflix US and International revenues Q1 2013 – Q3 2015, in USD thousands



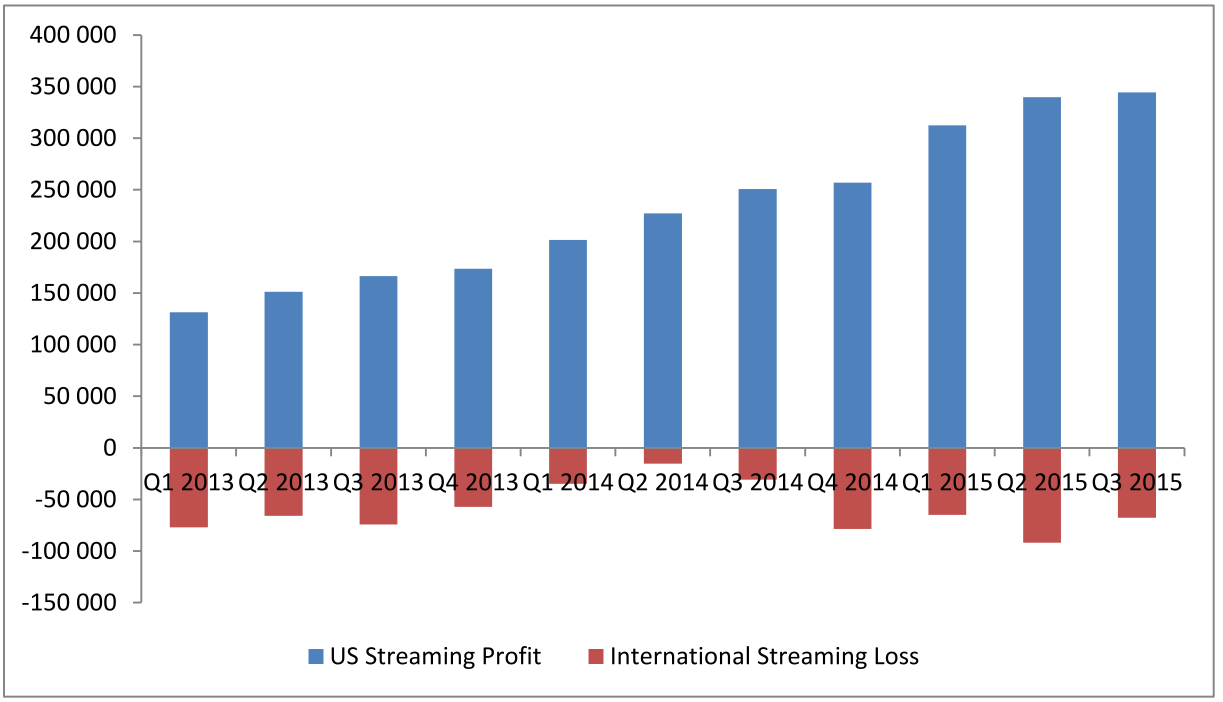
Source: Netflix Quarterly Earnings Q3 2015

Figure 13 Netflix US and International revenues quarterly growth Q1 2013 – Q3 2015, in %



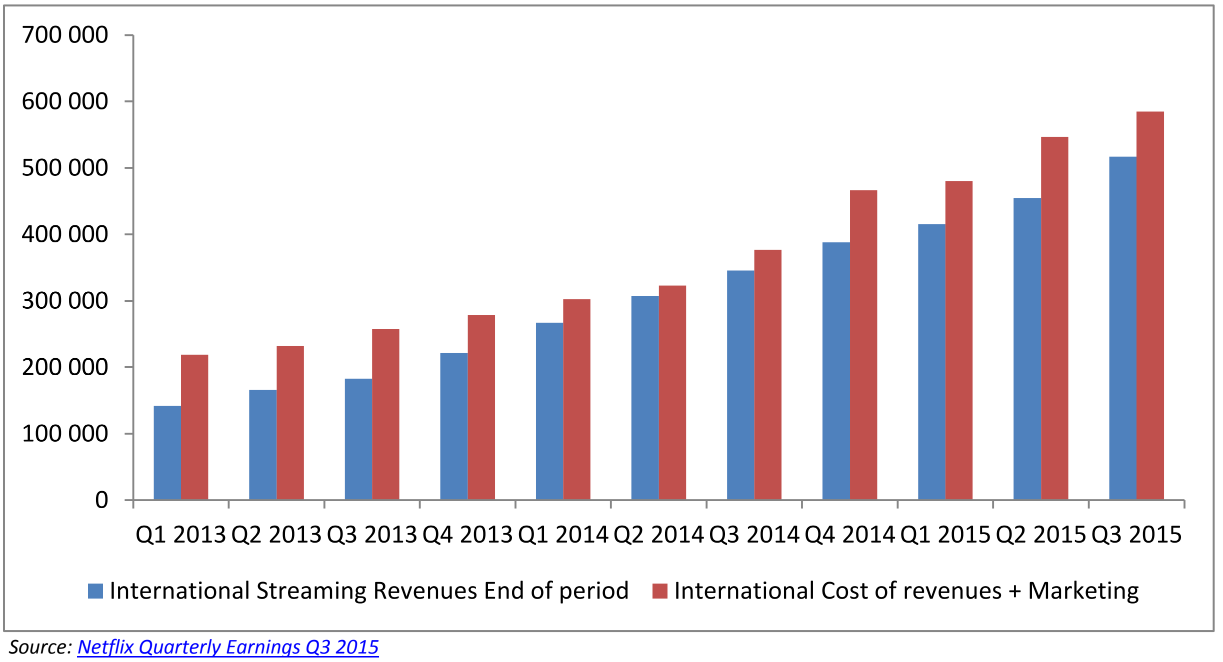
Source: Netflix Quarterly Earnings Q3 2015

Figure 14 **Netflix US streaming profits and International loss Q1 2013 – Q3 2015, in USD thousands**



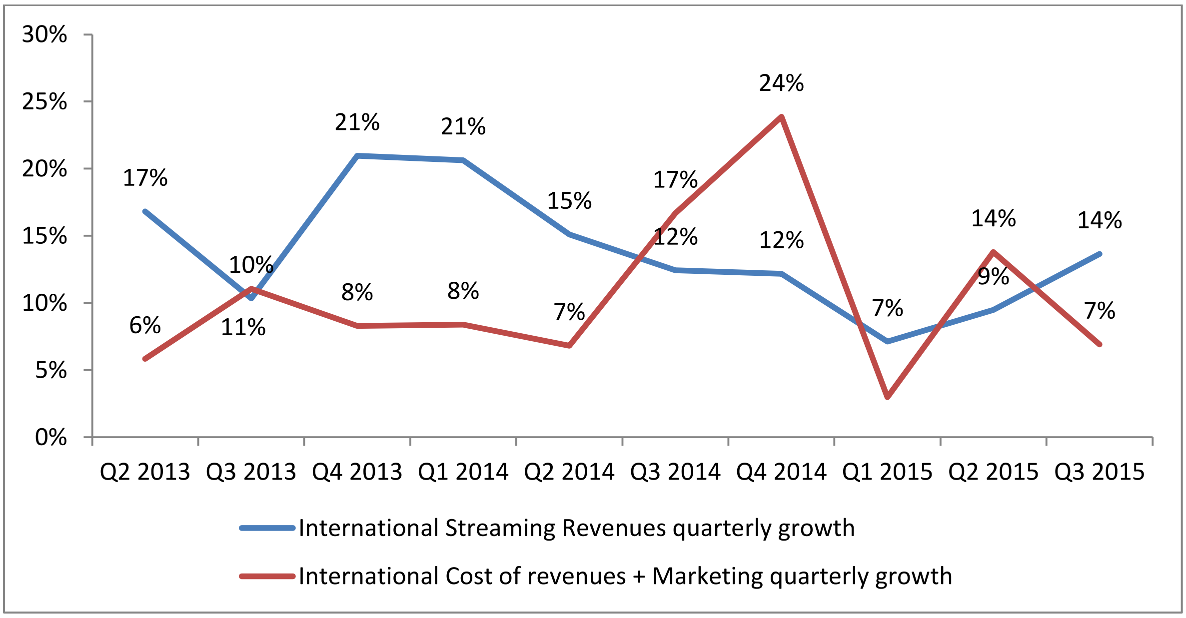
Source: Netflix Quarterly Earnings Q3 2015

Figure 15 **Netflix International Streaming revenues and cost of revenues Q1 2013 – Q3 2015, in USD thousands**



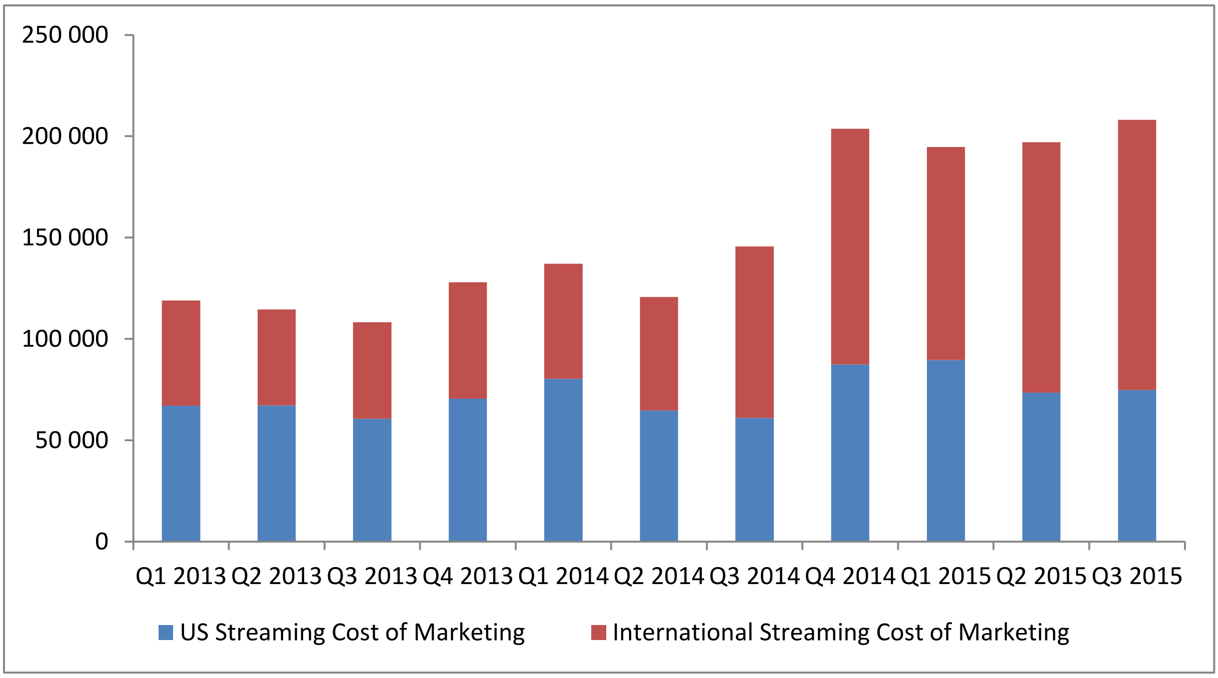
Source: Netflix Quarterly Earnings Q3 2015

Figure 16 **Netflix International Streaming revenues and cost of revenues Q1 2013 – Q3 2015, in %**



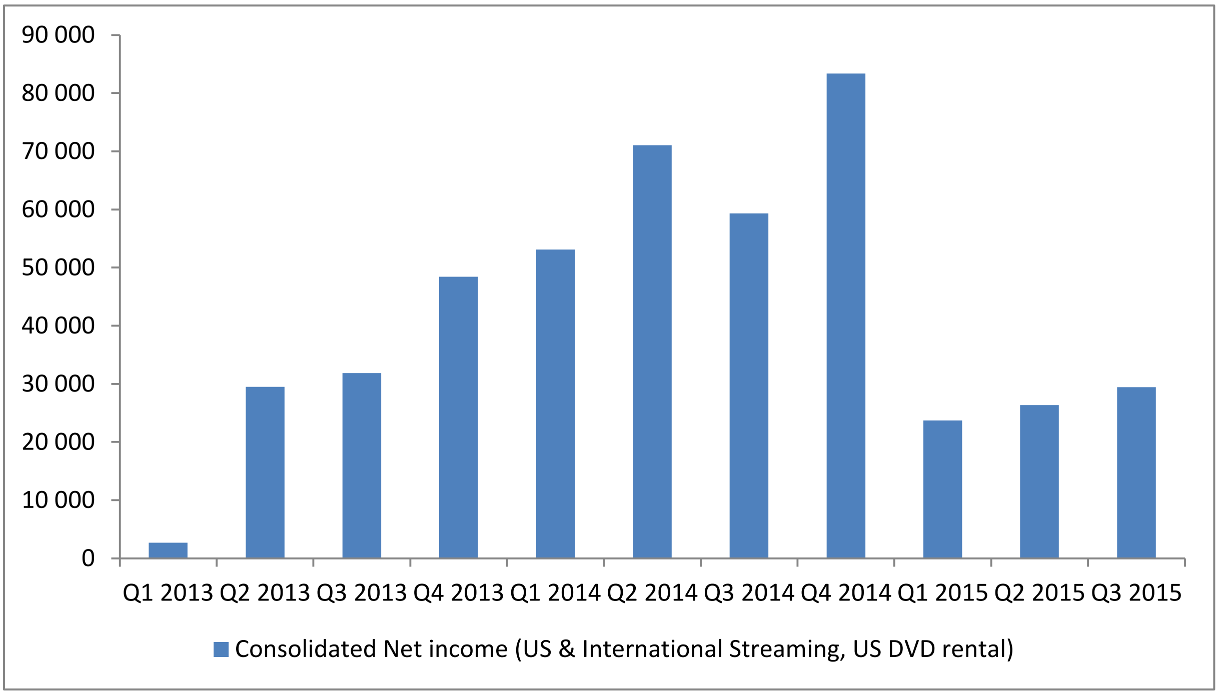
Source: Netflix Quarterly Earnings Q3 2015

Figure 17 **Netflix US and International cost of marketing Q1 2013 – Q3 2015, in USD thousands**



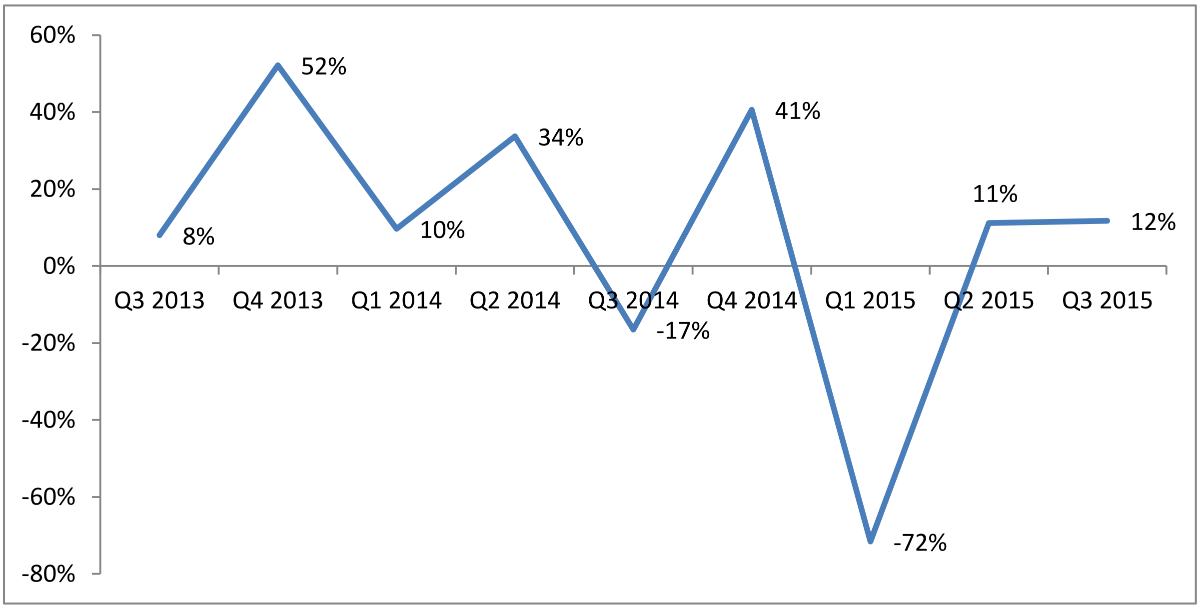
Source: Netflix Quarterly Earnings Q3 2015

Figure 18 **Netflix Consolidated net income (US streaming and DVD rental, International streaming) Q1 2013 – Q3 2015, in USD thousands**



Source: Netflix Quarterly Earnings Q3 2015

Figure 19 **Netflix Consolidated net income (US streaming and DVD rental, International streaming) quarterly growth Q3 2013 – Q3 2015, in %**



Source: Netflix Quarterly Earnings Q3 2015

3 SVoD players and market in the United Kingdom: EU's most developed market could give some leads as to the future of SVoD in Europe

- *3 Main players: Netflix, Amazon's Prime Instant Video and Sky's Now TV*
- *Most important SVoD market in the EU, by size and subscribers*
- *UK market for digital services outstanding in Europe, setting the UK SVoD market apart from the rest of EU28*
- *Domination of Netflix with 71.1% of market shares in volume and 4.3 million subscribers as of 1st quarter 2015*
- *Increased challenge of the traditional TV ecosystem by SVoD players*

According to IHS, SVoD consumer revenues in the United Kingdom amounted to EUR 393.3 million in 2014, up by 62% from revenues generated in 2013. The UK SVoD market is the most dynamic in the EU, by consumer revenues or subscribers, estimated at 7 million at the end of 2014 by research firm Futuresource consulting (which expects the number of subscribers to SVoD services to reach 13.6 million by 2019 and estimates the market value of SVoD services to cross GBP 1 billion). OFCOM in its "*The Communications Market Report 2015*" estimates that in the first quarter 2015, 4.37 million households subscribed to Netflix (representing 16% of all households, up from 2.7 million in the 1st quarter of 2014), 1.15 million subscribed to Amazon's Prime (representing 4% of all households, up down from 1.21 million in 1st quarter 2014) and 0.52 million subscribed to Sky's Now TV (2% of households and up from 0.239 million in the first quarter 2014), placing the number of SVoD subscribers at 6.2 million in the first quarter 2015.

BARB estimates in its "*BARB Viewing Report May 2015*" that around 14.1% of UK homes subscribe to Netflix in 2014, 3.7% to Amazon Prime Instant Video and 1.7% to Sky's Now TV at the end of the 4th quarter 2014. Statista in its *"The European video streaming challenge"* furthermore estimates that 80% of the UK SVoD subscribers subscribe to Netflix, which amounts to 6.1 million subscribers. In light of these figures, Netflix emerges as the leading player on the UK market, while the two main competitors are kept at distance.

The rising importance of SVoD services can also be noted in the share of consumer revenues for SVoD services on total consumer expenses for on-demand audiovisual services. The share of SVoD was only 8.9% in 2010 of the EUR 298.8 UK's population spent on on-demand audiovisual services; this share jumped to 42.2% in 2014, underlying the quick adoption by consumers and the importance for the subscription-based business model when it comes to on-demand audiovisual services. The access to audiovisual content and back catalogue of films these services provide to subscribers is valued and the access to back catalogues of films is even the most popular reason according to OFCOM/BARB for using SVoD services for UK consumers.

Digital media streaming services, such as Netflix, Sky Now TV or for music Spotify and Deezer, which provide access to content (as opposed to ownership of content as for physical media) are valued by their subscribers who are in search of instant consumption of content (access) instead of owning the content, a shift in paradigm for consumers.

The main generalist SVoD services on the UK market are Netflix, Amazon Prime Instant Video and Sky Now TV. According to the "*Yearbook 2015*" of the British Video Association (BVA), these 3 players divided among them the British SVoD market in 2014 (in volume). Netflix's market share in volume on the UK SVoD market was estimated by Kantar Worldpanel at 71.1%, Amazon's at 16.1% and Sky's Now TV at 12.8% (For an estimated SVoD market value of GBP 381 million in 2014 by the BVA, an increase by 31% compared to 2013). The domination of 3 players in the UK led Rakuten's wuaki.tv to drop their SVoD service in the UK in 2014 as a result of struggling to secure premium content for its subscription service, focusing instead on transactional VoD. These players are set to continue to dominate the UK SVoD market for the mid-term.

As the two global leaders of SVoD are carrying out their competition through increased investments into exclusive licences, original content and entering into the same international markets (Japan, India), Sky is trying to translate its dominant position in the pay TV market by bringing also exclusive content to its Now TV, such as exclusive agreements for films and TV shows with Disney or expanding its kids programming from 700 titles to over 4000. This comes to no surprise as most of its growth in 2014 was derived from Now TV, as stated by IHS and children content is a strategic development for all SVoD and TV services. BARB found out in its "*BARB Viewing Report May 2015*" that subscribers to Netflix are more likely to have children in the households, making children programmes a convincing argument to entail new subscribers. The move by Netflix and Amazon to commission original children series was certainly another motivation for Sky to expand its kid's programmes. Amazon is further trying to raise the value proposition for its customers of its Prime delivery service by adding Amazon Prime Music since July 2015 on the top of the Prime Instant Video SVoD service in its competition with Netflix.

It should be noted that both US SVoD services are competing on a market in which English is the national language. This sets the UK and its SVoD apart in the EU as the content proposed by the services does not need translation or subtitling as it is the case in other EU markets (with the exception of the Nordics and the Netherlands where audiences are used to English-content and do not necessarily require dubbing). This is certainly part of the explanation of why Netflix has been adopted up so quickly by UK consumers: the content was already tailored to the expectations of consumers.

Another future British SVoD player will be the BBC but not on its home market. The BBC plans to launch an online subscription services in the US in 2016, with the aim of increasing revenues (after having been asked to shed TV licences fees for over 75 year olds, costing GBP 650 million) and making UK shows and programmes accessible to the US population. The BBC sees itself more and more in competition with global players, such as Netflix (for shows such as the GBP 50 million *The Crown*, on which Netflix refused the BBC as a a co-producer in order to retain global rights*)* and Amazon (who recruited the team from BBC's hit show *Top Gear* and invested USD 250 million for 36 new episodes). The BBC sees these players as threats and as BBC's director of television Danny Cohen puts it: "*Their model is built on having global rights and we have got to respect that. They are a very smart, impressive bunch of people*" and "*The key thing we look at more and more is the impact of global competition rather than just in the UK where very big companies can distribute their content around the world. That is a very big challenge*." The recent revamping of the iPlayer in August 2015 (Live Restart, cross-device pause and resume), the announcement of increased exclusive programming for the iPlayer, standalone children's version of the iPlayer in September

2015, iPlay, and the offering of premium content on its iPlayer coupled to the plan to open the platform to third-party content shows that the BBC is taking the threat from on-demand services seriously.

Decipher found in its Mediabug Wave 6 that almost 30% of UK consumer in the first half of 2015 used a SVoD services such as Netflix and Amazon, a rise of 4% over the second half 2014. The study found that the main increases came from older viewers who turned increasingly to SVoD to complement their video consumption. Thinkbox, looking at the video consumption of the UK population and UK's youth (16 to 24 year olds) found that SVoD make up 4% of the UK's youth average video consumption and 2% of the total population's viewing time in 2014. This shows that younger generations are increasingly consuming video content outside of the traditional TV schedule, a finding backed by OFCOM which stated that only half of all viewing among 16 to 24 year olds is through linear broadcasting in 2014.

Linear TV will stagnate in the future and OFCOM identified as the key driver of future non-live growth to come from video-on-demand services such as Netflix and Amazon, accessible across multiple devices. As stated by OFCOM "*The emergence of new competitors such as Netflix and Amazon Prime, providing services directly over the internet, is giving consumers greater choice and making the landscape more competitive*." In view of this viewing figures, SVoD services are steadily more used by the UK population, and it is no wonder that traditional broadcasters are getting worried by the competition for the audience's attention by video-on-demand players. As Viacom's CEO Philippe Dauman warned, the shift of viewers to online services and on-demand will seriously challenge the British television industry. Mr Dauman warned[17]: "*While some of the specific implications may be less relevant in the UK, with its strong public service broadcasting culture, the trend is clear. The revenue models that are being challenged in the US will also come under increasing pressure here [in the UK], as the digital revolution continues to transform viewing habits.*"

The SVoD market is projected to pass GBP 1 171 million by 2019, making up 38% of the total UK video market by research company Mintel (up from 20% of the UK video market in 2014), close to the projections made by Futursource consulting of GBP 1 billion in 2019 or the forecast made by Statista of revenues of USD 1 235 and 11 million subscribers in 2019 (which would represent a penetration of 20.5% for SVoD services among the total UK population). Digital TV Research estimates that SVoD services would represent 39.5% of UK's TV households by 2020. In light of these figures, SVoD services will further continue their expansion and penetration in UK's household and take a larger share of viewing time and consumer expenses, challenging increasingly traditional players.

[17] See, "*Rise of online TV will rock ITV and Sky, warns Viacom chief*", The Telegraph, 16th September 2015, available at: http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/digital-media/11870043/Rise-of-online-TV-will-rock-ITV-and-Sky-warns-Viacom-chief.html

Figure 20 **UK SVoD consumer revenues in EUR million and yearly growth rates in %, 2010-2014**

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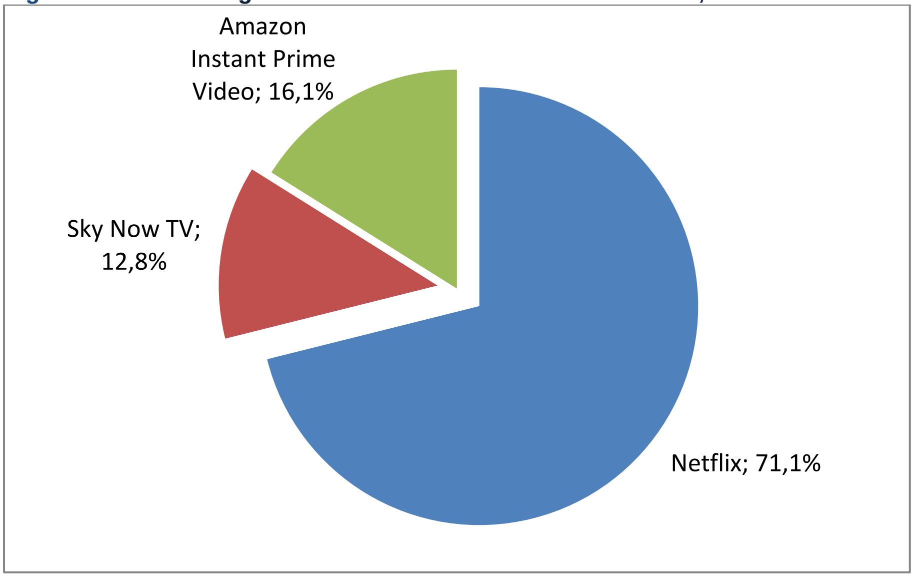
Source: IHS

Table 10 **UK SVoD market value by research firm 2014 & 2019**

Research firm	2014	2019
IHS	[redacted]	n.a.
British Video Association	GBP 380 million	n.a.
Mintel	GBP 437 million	GPB 1.1 billion
Futuresource Consulting	GBP 350 million	>GBP 1 billion
Statista	USD 379 million	USD 1.2 billion

Source: OBS on consulting firm reports, press releases

Figure 21 **United Kingdom - SVoD Volume market share 2014, in % of volume**



Source: Yearbook 2015 British Video Association/Kantar Worldpanel

Table 11 **UK - SVoD consumer revenues in % of overall consumer revenues for on-demand services, 2010-2014**

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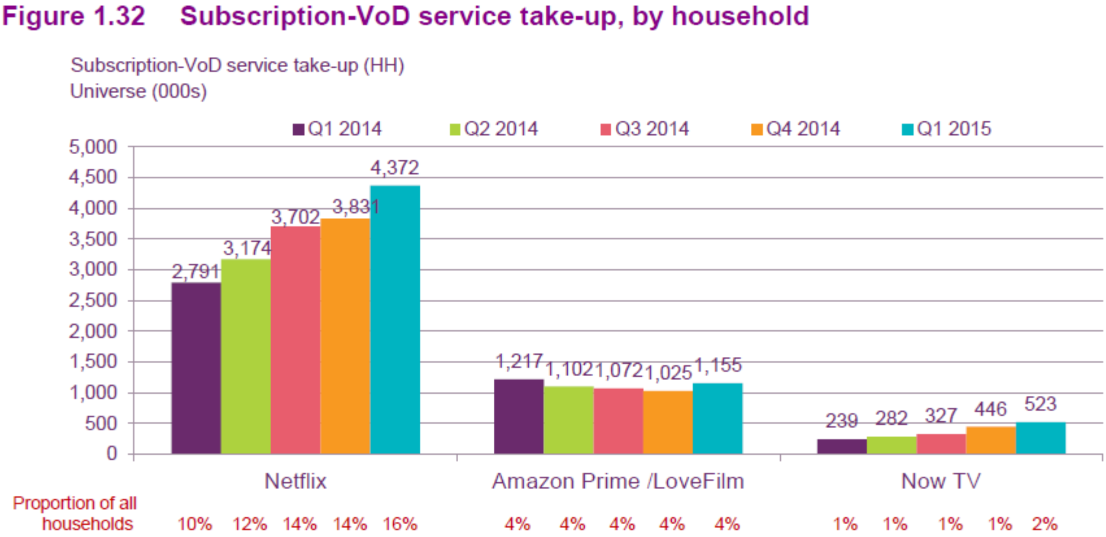
Source : OBS on IHS data

Figure 22 Subscription VoD service take-up, by household



Source: OFCOM Communication Market Report 2015

4 SVoD players and market in the Nordics: fast adoption of SVoD services, highest penetration in the EU

- *SVoD consumer revenues increased from EUR 41.8 million in 2010 to EUR 290.4 million in 2014 in the 3 countries*
- *The share of SVoD services in overall on-demand consumer revenues passed from only 3.8% in 2010 to 66.1% in 2014, showing quick adoption by Nordic consumers favoured by high broadband penetration, high pay TV penetration and high English language literacy*
- *3 Main players: Viaplay (MTG), Netflix and HBO Nordic (HBO and Parsifal International) with Netflix being the number 1 SVoD player in Sweden, Denmark and Finland (Mediavision)*
- *Other players include TV4 Play Premium, C More Play, C Sports, Filmnet, Telia Play+, D+ and Eurosport Player, Boxer Play*
- *Daily viewing on Netflix is as large as the daily viewing on public services online channels in all countries (Mediavision)*
- *Penetration rates for SVoD services are high according to Mediavision with 24% of Danish, 18% of Finnish and 26% of Swedish households which have internet subscribing to a SVoD service*

The Nordic countries Sweden, Denmark and Finland (and also Norway in which one third of households pay for SVoD services) have seen SVoD consumer revenues rise rapidly and high adoption rates among their population. Consumer revenues in these 3 countries soared between 2010 and 2014, passing from EUR 1.6 million to EUR 192.1 million (an increase by a staggering 11 906% over the period!). A further illustration of this high adoption rate can be measured by the share of consumer revenues for SVoD services of total consumer revenues for on-demand audiovisual services: representing only 3.8% of consumer revenues for on-demand audiovisual services in 2010, the share of SVoD had already reached 66.1% in 2014.

The Nordic markets are ideally placed for a quick adoption of digital services when regarding broadband penetration and Internet usage of their population (among the highest in the EU and even worldwide). Another factor influencing positively the adoption of SVoD services is the high penetration of pay TV in the 3 countries: 92% of Swedish households, 95% of Danish and 85% of Finnish households have a pay TV subscription according to Futuresource Consulting, surpassed in the EU only by the Netherlands and Belgium.

Also the fact that Swedes, Danes and Finnish are among the top 5 countries worldwide when it comes to speaking English (eliminating the need to dub or even to subtitle English content) has played certainly a role in the adoption of SVoD services and Netflix especially with its high share of English-language content (even if Netflix' "first" semi-original production *"Lillyhammer"* was produced in association with Norwegian broadcaster NRK1 and the German distributor Red Arrow International). The success of Spotify, a Swedish music streaming service, has raised the willingness to pay for audiovisual content online among the Scandinavian population and explains further the quick adoption of subscription-based business models, and SVoD services in our case.

The entry of Netflix in 2012 has here dynamised the subscription video-on-demand market as growth figures tend to demonstrate, the so called "Netflix effect". Even if national players had prepared for the market entry, it seems that Netflix has woken consumer appetite for SVoD services, as the CEO of MTGx (the managing company of MTG's digital companies) and therefore Viaplay states: *"consumers are starting to understand the benefits of using streaming video."* "*We have seen very strong growth because ourselves and some of the other players have been doing a lot of marketing and basically waking up the market to some extent. I think it has been very beneficial for all of us.*[18]*"* According to Statista, SVoD services had 1 million subscribers in Sweden, 700 000 in Denmark and 500 000 in Finland in 2014.

According to data released by *The New York Times* and IHS in 2015, Netflix had 1.1 million of paying subscribers in Sweden, 790 000 in Denmark and 540 000 in Finland at the end of 2014. In Sweden, research company MMS publishes bi-annually the *MMS SVoD-Top* report giving the daily range and availability of SVoD and streaming video services in Sweden, based on a sample of 2 077 persons. By extrapolating this sample, MMS found that 465 000 persons declared having access at home to Netflix, 198 000 to Viaplay, 60 000 to TV4 Premium, 34 000 to HBO and 17 000 to C More Play, making Netflix the leading SVoD service in Sweden.

However the SVoD market is competitive with a multitude of players. What makes the Nordic markets also special compared to other EU countries is the presence of HBO Nordics, a standalone SVoD service launched even before the US version (HBO Now) in October 2012, shortly after the entry of Netflix. The domination of the three main players can be noticed by the exit of other SVoD players: Voddler in 2015 after a loss of SKK 176 million and LOVEFiLM (Amazon) in 2013. TDC's SVoD service YouBio, even if still existing, is no longer the priority of TDC which moved to transactional VoD after its acquisition of the Blockbuster brand. Even by having better content YouBio couldn't compete with *"the smooth use of the interface and the broad availability of a service like Netflix"* as Claus Bülow Christensen, innovation manager at GlobalConnect states it[19]. An answer to this domination is the association of Swedish TV4 Group and pay TV C More to launch the C More SVoD service later this year in association with the Svensk Filmindustri and the Finnish network MTV in 2015. C More has the aim to integrate all its VoD services (Filmnet, C sports and C More Play) and part of TV4 Play Premium SVoD service into the newly created SVoD services, a move the Bonnier group says is an answer to "*the third wave of the OTT market, with a powerful increase in subscribers, services and offerings*" as stated by Manfred Aronsson, the CEO of C More.

Another fact which shows that the Nordic population is adopting quickly SVoD services is the effect on physical media sales which fell by 50% over the past years in Denmark (and Norway) and as the main cause identified of this drop by IHS was the competition of streaming subscription video-on-demand services. In Sweden in 2014, digital video revenues exceeded packaged video revenues for the first time (and a world first according to Futuresource Consulting). Futuresource Consulting identified SVoD services as being the main growth drivers for the overall video

[18] See, *"The Netflix effect – OTT in Europe"*, DigitalTV Europe 5th August 2014, available at: http://www.digitaltveurope.net/220951/the-netflix-effect-ott-in-europe/

[19] idem

spend increase until 2018, in front of pay TV.

SVoD services are establishing themselves as important players for the audiovisual sector overall and competing with already dominant players on the market will be difficult by new entrants into the SVoD market as entry costs are high (content acquisition, infrastructure deployment, marketing costs). As in other markets, late comers to the party will be confronted to economies of scale and network effects from which early entrants are already taking advantage. The Nordics are an example (of course special in regard to various metrics such as broadband penetration, use of streaming services, willingness to pay for online content) of how SVoD services could impact profoundly the EU audiovisual sector.

Figure 23 Nordics (DK, FI, SE) - SVoD consumer revenues in EUR million and yearly growth rates in %, 2010-2014

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Source: IHS

Table 12 Nordics (DK, FI, SE) - SVoD consumer revenues in % of overall consumer revenues for on-demand services, 2010-2014

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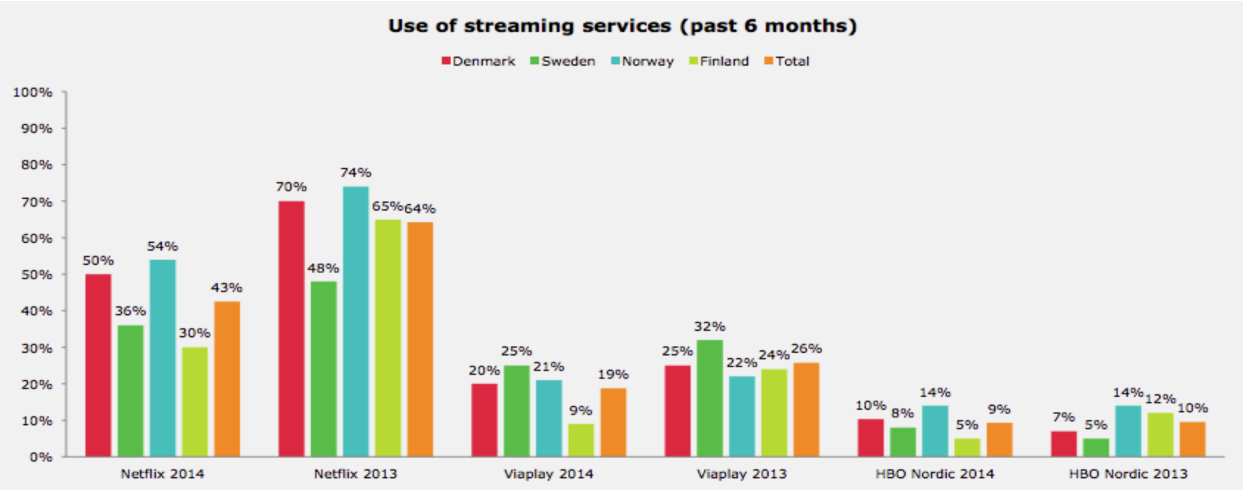
Source: OBS on IHS data

Figure 24 Nordics – Use of Streaming services 2013 and 2014, in % based on a Sample population



Source: Arkena Nordic Video Index 2015

5 SVoD players and market in France: Netflix versus CanalPlay

- *A market in progress, up by 131% compared to 2013 for consumer revenues of EUR 58.1 million but still developing SVoD market compared to other EU countries*
- *2 main players, Netflix and CanalPlay, head-to-head in subscribers count as of September 2015 (around 700 000)*
- *Vivendi, CanalPlay's parent company, has announced the aim of launching multiple SVoD services across Europe and Japan and could compete with Netflix on the French market and in Europe by taking advantage of its strong position in the audiovisual sector*
- *Renegotiation of release windows for SVoD might be possible with the effect of dynamising the market, softening the 36 months release window for theatrical films*
- *Need of dubbing (instead of subtitling) and French content for SVoD catalogues makes the market a challenge for international players, leaving for now the completion between the 2 main players*

The French SVoD market generated EUR 58.1 million in consumer revenues in 2014 (up by +131% of 2013's EUR 25.1 million), according to research firm IHS. Statista valued the French SVoD market at USD 112 million in 2014 while GfK in the CNC publication *"Le marché de la vidéo en 2014"* estimated the market size of SVoD in France at EUR 29.2 million in 2014 (which seems low but is a normal result when considering that only 35% of SVoD on managed platforms and 2% of over-the-top SVoD services are covered). Consulting firm NPD group estimated the size of the SVoD market at EUR 35 million, an increase by 25% compared to 2013.

The disparities between the different estimations show that without a precise measurement and information provided by major players it is difficult, if not impossible, to really measure the size and impact of SVoD services, in France or elsewhere. What can be inferred from the different estimations is that after years of lagging behind its more dynamic neighbours in Europe (the United Kingdom, Germany and Sweden), subscription video-on-demand services are starting to find their customers.

This can also be seen in the increase of the share of consumer revenues for SVoD services in overall consumer revenues for on-demand services. Whereas SVoD services represented only 2.2% of consumer revenues in 2010 this share jumped to 17.6% in 2014. This can be further explained by the fact that in France, where the penetration of IPTV and boxes in households is extremely strong compared to the rest of the EU, VoD on managed networks (TV VoD) represented 78% of consumer revenues for on-demand services in 2010; this share of TV VoD has fallen to 51% in 2014, showing the increased importance of over-the-top on-demand audiovisual services, under which category Netflix falls (even if Netflix has distribution agreements with Orange, Bouygues and SFR in France and therefore a presence on the set-top boxes of these IPTV operators).

In France, the 2 main players are CanalPlus' CanalPlay and Netflix, with FilmoTV taking the third place. Here again[20], the entry of Netflix precipitated the exit of another SVoD player one year afterwards, Jook Video, which ceased its service in July 2015. The estimations made by several sources place CanalPlay and Netflix head-to-head in term of subscribers. CanaPlay announced that at the end of 2014 around 600 000 customers were subscribing to its service. In September 2015, the number had already risen to 700 000 subscribers. Netflix' subscribers in France were estimated at 750 000 by Futuresource Consulting in September 2015, with a 35% of new, non-paying subscribers, placing the cursor rather at 500 000 paying subscribers. IHS estimates that Netflix subscribers amounted to 500 000 at the end of 2014. A last estimation by NPD forecasts that CanalPlay and Netflix will each have 900 000 subscribers at the end of 2015, in line with forecasts made by DigitalTV Research of 1.15 million subscribers to Netflix at the end of 2015. The smaller FilmoTV reclaimed having 20 000 subscribers at the beginning of 2014 and estimated that at the end of 2014 around 50 000 subscribers would take its service (saying that with 100 000 it would break even, proposing a smaller, curated catalogue of about 500 films).

Finally, Médiamétrie stated that 2.5% of French Internet users were subscribers to a SVoD service, up by 1.5 points from 2013. The French SVoD market would therefore have between 1.1 million and 1.8 million subscribers at the end of 2015, depending on estimates used.

The arrival of Netflix was not the implosion of the audiovisual ecosystem as announced and the established challenger, Canal+, has been able to up its game, content-wise but also from a technological point of view (the launch of its OTT set-up box Cube S and the generalisation of its recommendation algorithm Suggest, the recruitment of engineers to work on its set-top box, algorithms in order to compete with Netflix). The two services will continue their co-existence and competition for new subscribers, with a small advantage to CanalPlay considering the strong position of its parent company in the audiovisual ecosystem in general and in films especially.

As the competition between both services will be increasing, the battle for exclusive rights to premium content will drive up prices, as it is the case in other markets. Vivendi, Canal Plus parent company, operating another SVoD service in Germany Watchever, and with the announced goal of launching SVoD services (across Europe and even Japan is in a strong position to compete with Netflix for the acquisition of content. As of October 2015, the only decision taken has been the relaunch of the German SVoD service Watchever but it will be interesting to see what will be Vivendi's plans in the future regarding SVoD services in Europe and elsewhere (Canal Plus Group has operations on-going in Poland with NC+ and internationally, is a strong distributor of films with Studio Canal and has recently acquired 20% of Telecom Italia).

A new player entered the SVoD market in France, the national archive institute INA which launched its subscription video-on-demand service INA Premium the 30th September 2015, giving access to over 20 000 programmes of its archives for a monthly fee of EUR 2.99. Although this new entrant on the SVoD market will not pose a serious threat to the 2 main players, it shows the appeal subscription-based audiovisual services have also for other audiovisual players. The other project of launching a generalist SVoD service made by Orange, TF1 and M6 dubbed the "Netflix à la française" was given up in July 2015 as the players involved could not agree on economic terms. Orange took the occasion to further widen its sub-

[20] As it was the case in the Nordics with Amazon LoveFilm in 2013, Ximon in the Netherlands in 2014, wuaki.tv which stopped its SVoD service in the UK to focus on transactional VoD.

scription based services (after Orange Go, the bundled service with its pay TV channels) by investing in niche SVoD service specialized in African content Afrostream in October 2015.

Another new player who plans to enter the French market is Molotov.tv. However it cannot be classified as a pure SVoD player. The service would make programs of free linear broadcasters available through a catch-up function for free and content from pay TV only to the subscribers to these channels. The aim is to make the content broadcasted available to a larger audience than it would have been through the first linear diffusion. As it is not a subscription-based service we do not consider it to really challenge the 2 main players in France but it shows an evolution towards more OTT services and non-linear content consumption. Molotov.tv already has the status of a distributor of channel in France and while be submitted to the same regulatory obligations as other audiovisual distributors. As of October 2015, Molotov.tv has announced that over 80 broadcast channels have agreed to be on the platform for their catch-up TVs services, with the notable absence of channels owned by Canal+ Group and NRJ. Netflix CEO is also awaiting the performance of this new service, saying: *"In France, our best enemy remains Canal+. We often had the opportunity to talk with Rodolphe Belmer whose departure surprised me. I am anxious to see the Molotov offer from Pierre Lescure. But the more players, the more they talk about us"*[21]

Yet another player to enter the SVoD market in France is SFR-Numericable with the launch of Zive in November 2015. At the launch, the SVoD service of the telecom/cable giant Altice will focus on children content with over 5 000 titles, set to expand to over 15 000 by next year. Altice, operating the telecom operator *Hot* in Israel is already developing original content and will continue this strategy with its new Zive SVoD service, as stated by SFR CEO Michel Combes: « *On démarre avec du contenu qu'on achète, mais ensuite il est clair qu'on ira vers du contenu qu'on produira* ». Furthermore, Altice announced that it has the aim to export Zive everywhere, profiting of economies of scale through the presence of Altice in several countries; France, Portugal and the USA. « On veut exporter Zive partout dans le monde, explique Dexter Goei, DG d'Altice. Si on y arrive, on aura un meilleur coût, une meilleure marge. L'interface et la box sont moins bonnes au Portugal, ou aux Etats-Unis où nous avons 5 millions d'abonnés qui ont Tivo, la box d'il y a six ans ».

A player already operating in France but until now only for transactional VoD set to expend into SVoD is wuaki.tv (wuaki.tv operates a SVoD service in Spain but only transactional services in the United Kingdom, Italy, Austria, Germany, France and Ireland). The VoD service announced the launch of a French kid SVoD service in association with *Gulli*, the French children channel owned by Lagardère in October 2015. Wuaki.tv (owned by Rakuten, a Japanese e-commerce group) will compete with the likes of TFou Max, the kids SVoD service operated by TF1, and the kids section of Netflix or CanalPlay. By adopting a niche strategy (concentrating on children content solely for their SVoD service), wuaki.tv demonstrates that the competition will increasingly shift to niche audiences as it is difficult to secure enough premium content to take the battle up with dominating generalist services.

Canal+ took advantage of the renegotiation of its contract with the cinema sector (in which it has regulatory obligations to invest 12.5% of its revenues per year to acquire French or European movies) in May 2015 to enlarge the number of times it can broadcast a film on its linear channel and make it available on its catch-up

[21] See, "*Netflix and Canal : the best of enemies",* BroadbandTVNews 26th October 2015, available at: http://www.broadbandtvnews.com/2015/10/26/netflix-and-canal-the-best-of-enemies/

platform, Canal + à la demande, the number of broadcast foreseen by the agreement passing from 36 times in 3 month to 50 times in the new agreement. This agreement was made in order to have another form of competition with Netflix; by having more recent films on its catch-up platform, bypassing the strict release window of 36 months for SVoD services.

The French SVoD market is in somewhat different from other markets in the EU, as the French legislation is more restrictive for releases of theatrical films on SVoD platforms, which are only allowed 36 months after the theatrical release. The French government has launched first consultations to renegotiate and revaluate this delay in light of the new forms of audiovisual consumption in July 2015. At the date of this note, it is still too early to evaluate the direction the negotiations are taking but SVoD services would certainly benefit from a shortened window for theatrical released films, as it would raise the value proposition to its potential subscribers.

Statista projects the French SVoD market to grow to USD 556 million by 2020 (up from USD 213 million in 2015) and that 6.2 million subscribers will have been convinced by this business model (a penetration rate in French households of 11.1%, up from 4% in 2014). The estimate by Digital TV Research concerning the penetration of SVoD in French TV household is much higher, at 29.5% by 2020. As estimates rely on underlying assumptions, it will depend on how the competition between Netflix and CanalPlay will be played out in the mid-term, with both services trying to recruit new subscribers by enriching their catalogues with premium content and, if the limitation of 3 year old films will be changed through a revision of release windows, which is a hinderness to the adoption of SVoD services by a larger part of the population, in search of more recent films.

Table 13 Estimations SVoD market France 2014

Research firm	2014
IHS	[redacted]
GfK	EUR 29.2 million
NPD Group	EUR 35 million
Statista	USD 112 million

Source: OBS on research firms press releases, news articles

Figure 25 France - SVoD consumer revenues in EUR million and yearly growth rates in %, 2010-2014

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Source: IHS

Table 14 France - SVoD consumer revenues in % of overall consumer revenues for on-demand services, 2010-2014

For copyright reasons the data cannot be reproduced in the public version of this report

Source: OBS on IHS data

6 SVoD players and market in Germany: strong national players and international competition will drive the SVoD market

- *After growing by 113% in 2013 to EUR 36.5 million, the pace of growth slowed down in 2014 to 41% and consumer revenues of EUR 54.4 million*
- *Very intense competition on the German SVoD market with Netflix, Amazon, Sky, ProSieben and Vivendi. Germany is with the United Kingdom the only market in the EU where 4 international media groups are competing for subscribers and content*
- *Subscriber estimations for 2014 vary between 1.6 million (Statista) and 4.4 million (AmpereAnalysis)*
- *Abundance of free content available, low pay TV penetration and need of local and German content make the SVoD market challenging for players*
- *Germany forecasted (by DigitalTV Research) to be the largest country by SVoD homes by 2020 with 29.5% of TV households subscribing to a SVoD service*

The German SVoD market steadily increased since 2010 with a compound annual growth rate over the 5 year period of 69% to EUR 51.4 million in 2014, increasing by 41% from 2013's EUR 36.5 million consumer revenues. In Germany, several national and international SVoD services are competing for market shares and, similar to France, Netflix is facing an already well placed competition.

Germany has the particularity of having most of the main SVoD players and groups in Europe competing on its territory: the two global players Netflix and Amazon, the media groups Sky (Snap) and Vivendi (Watchever) with a strong presence in pay TV and a presence in several EU markets and commercial broadcaster ProSiebenSat.1 which is strengthen its position in the digital media landscape the past couple of years through acquisitions. This presence of major players on the SVoD market could translate into a heighten competition for content and licensing rights as both Sky and Vivendi could in the future compete with Netflix and Amazon for licences englobing several EU territories as this was the case with the recent Disney licensing deals for Sky in the United Kingdom and Germany, for ProSieben and Maxdome in Germany and for CanalPlay (Vivendi) in France.

The main services by subscriber count in 2014 (estimated by AmpereAnalysis) are Netflix with 620 000, Amazon Prime with over 3.1 million (however it is not clear how many of these subscribers are using Prime Instant Video, the complement to Amazon Prime delivery service), ProSiebenSat.1's Maxdome with 555 000 and Sky's Snap with 135 000. Vivendi's Watchever, which was up for sales in 2014, suffered important losses in subscribers from 300/500 000 in 2014 to less than 200 000 in 2015 and was relaunched with channels by content owners and a better user interface in September 2015 (Watchever is not part of the service for which AmpereAnalysis provides statistics).

AmpereAnalysis arrives, by taking into account Amazon Prime Video subscribers, to an estimated subscriber number for OTT SVoD services in Germany of 4.4 million in 2014 and an expected subscriber number of 15.5 million by 2020. Statista however pegs the number of subscribers in Germany at 1.6 million in 2014 and an expected 3 million in 2015 (and forecasted 6.2 million subscribers by the year 2020).

The uptake of SVoD services by the German population was less impressive than in the United Kingdom, the Nordics or the Netherlands and is much more comparable to the French market. As it is the case in France, SVoD consumer revenues share in overall consumer revenues for on-demand audiovisual services was 16.3% in 2014, up from 7.5% in 2010. The presence of several SVoD offers by private and pay TV companies and a strong free offer of content through the Mediatheken of the public broadcasters ARD and ZDF can explain this slower uptake.

However, GfK estimates that the German SVoD market had already generated EUR 82.5 million in the first half of 2015, compared to last year's first half an increase by EUR 61 million, showing that the multiplication of different SVoD offers are finding their market and convincing more Germans. This is in line with Statista estimates of the German SVoD market with expected revenues of EUR 132 million in 2015 and EUR 356 million by 2020.

AmpereAnalysis however estimates the German market to be much more dynamic than the other research firms. Ampere Analysis for the OTT SVoD market estimates revenues to be already at EUR 148 million in 2014 and to reach EUR 333.8 million in 2015 (with revenues of OTT SVoD forecasted to reach EUR 1.12 billion in 2020).

Strong differences therefore appear between the estimates of these different research firms when it comes to the size of the German SVoD market. The difficulties could related to the valuation of Amazon's SVoD offer, as Amazon Prime is not solely a SVoD service but also, and first of, a next-day delivery services of which the video offer is a complement to entice subscribers to sign up (as it is the case with Amazon Prime Music, also set to launch in Germany).

Finally, DigitalTV Research predicated that the German SVoD market will be the largest country by 2020 by SVoD homes, with an estimated penetration of SVoD services in German TV households of 29%, comparable to France (29.5% of TV households by 2020) but lower than the United Kingdom (39.5% by 2020), Sweden (49.5%), Finland (48.5%) and Denmark (51.8%), the most dynamic SVoD markets, as of 2014, in the EU.

Figure 26 Germany - SVoD consumer revenues in EUR million and yearly growth rates in %, 2010-2014

For copyright reasons the data cannot be reproduced in the public version of this report

Source: IHS

Table 15 Germany - SVoD consumer revenues in % of overall consumer revenues for on-demand services, 2010-2014

For copyright reasons the data cannot be reproduced in the public version of this report

Source: OBS on IHS data

Figure 27 Germany – SVoD revenue 2006-2020, EUR million

For copyright reasons the data cannot be reproduced in the public version of this report

Source: AmpereAnalysis

Figure 28 Germany –SVoD revenues by service, 2006-2020, EUR million

For copyright reasons the data cannot be reproduced in the public version of this report

Source: AmpereAnalysis

Figure 29 Germany – SVoD subscribers 2006-2020, in thousands

For copyright reasons the data cannot be reproduced in the public version of this report

Source: AmpereAnalysis

Figure 30 Germany – SVoD subscribers by services, 2006-2020, in thousands

For copyright reasons the data cannot be reproduced in the public version of this report

Source: AmpereAnalysis

7 SVoD players and market in the Netherlands: explosive growth – the Netflix effect

- *Very dynamic market with a year-to-year growth rate of 2 001% in 2014 to EUR 53.2 million*
- *Favourable market conditions and audience consumptions patterns are, as in the Nordics, explanations for this rapid adoption rate*
- *Netflix with 1.1 million subscribers mid-2015 is dominating the SVoD market*
- *Cord-cutting is taking place with an expected 8% of subscribers cancelling their pay TV subscription over the next 2 years*

The Dutch SVoD market experienced an explosive growth since the entry of Netflix in 2013, jumping from EUR 2.5 million to EUR 53.2 million in 2014, a year-to-year growth of 2 001% (after an already steep increase in 2013 by 1 706% from EUR 0.14 million). Dutchs have rapidly adopted SVoD services, and Netflix especially as it seems with 11% of Dutch households subscribing to Netflix at the end of the fourth quarter 2014 (865 000 subscribers), as stated by Telecom paper. The number of Netflix' subscribers had already jumped to 1.1 million in July 2015 and the SVoD is expected to generate EUR 111 million in 2015 by Futuresource consulting. Here again, the so-called Netflix effect popularized SVoD services through increased marketing spend and the reaction by incumbents (Digital TV Research estimates that at the end of 2015, Netflix will have 1.6 million subscribers in the Netherlands, more than its bigger neighbours France (estimates 1.15 million) and Germany (1.2 million) in which markets the SVoD service entered a year a later).

Netflix is not the sole competitor on the Dutch SVoD market with RTL's Videoland Unlimited which had 100 000 subscribers in March 2015 and the joint venture between the public broadcaster NPO and commercial broadcasters RTL and SBS SVoD service NLziet having 50 000 subscribers at the end of the fourth quarter 2014 (after having launched in June 2014). Notably, SVOD service Ximon ceased its service in February 2014, lacking subscribers. Pathe Thuis, a transactional video-on-demand service wanted to launch a SVoD services in 2013 but later abounded the idea and chose not to enter this competitive market.

The telecom operator KPN launched its SVoD service, KPN Play, in November 2015, pricing it however slightly higher than the other offers at EUR 14.99 per month. As the service was just launched at the time of the report, no subscriber figures are available.

The Dutch market is, as the Nordic markets, attractive for digital services and international SVoD services; a high broadband penetration with over 90% of households, high Internet usage by its population, around 95% of Dutch use the Internet, and an almost 100% pay TV penetration of households according to Futuresource Consulting. Also, 94% of Dutch declared to be able to speak a foreign language and 77% two foreign languages according to the *"Eurobarometer 386 – Europeans and their languages"*. The Dutch population is used to watch English audiovisual content subtitled (and not dubbed as opposed to France or Germany for example) and as it was the case in the Nordics, quickly opened up to content in Netflix' catalogue. Therefore, it seems to be a logic move on Netflix's part to enter the Netherlands after having entered the UK and the Nordics, countries with same language abilities towards English content and the first subscription figures seem to support this analysis.

This quick rise of SVoD services is also translated by the evolution of the share of consumer revenues for SVoD services compared to total consumer spendings on on-demand audiovisual services: representing only 0.3% of total on-demand spendings in 2010, this share of SVoD services in overall on-demand consumer spendings had drastically risen to 38.8% in 2014, underlying the explosive growth and success of the subscription-based business model. Another indicator of the quick adoption of SVoD services and changes in content consumption patterns is the fact that digital video will account 66% of total home video spend, surpassing packaged media, and driven by Netflix and pay TV according to Futuresource Consulting. SVoD services are expected to account for 55% of all home video spend by 2018 and reach EUR 240 million in revenues.

The Netherlands are also one of the EU countries where cord-cutting is taking place with an expected 8% of subscribers expected to cut the cord until end 2016, as stated by a Telecompaper Consumer Panel. According to Statista, SVoD penetration in households will reach 15% in 2015, up from 6.9% in 2014.

Statista forecasts that SVoD revenues will amount to USD 271 million by 2020 and that 3.2 million Dutch will subscribe to SVoD or a penetration of SVoD services into Dutch households of 22.8% by 2020.

As in the Nordics, SVoD services have been quickly adopted by Dutch consumers and here again, the entry of Netflix dynamized the subscription video-on-demand market. Favourable market conditions and audience content consumption patterns were also decisive factors for the quick growth in consumer revenues for SVoD services.

Figure 31 Netherlands - SVoD consumer revenues in EUR million and yearly growth rates in %, 2010-2014

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Source: IHS

Table 16 Netherlands- SVoD consumer revenues in % of overall consumer revenues for on-demand services, 2010-2014

For copyright reasons the data cannot be reproduced in the public version of this report

Source: OBS on IHS data

8 Lessons from the US market

- *In this section, the US market is taken as a reference to expose the attractivity of SVoD to traditional media players as the US market is more developed. The same changes will in a foreseeable future come to the EU but this is not yet the case in 2014*
- *Decreases in viewing time and pay TV subscriptions forces traditional players to act*
- *US Consumers are increasing their spending on SVoD services (USD 4 billion in 2014, +25.8% and TV households penetration of 40.3%) and time spent watching content on SVoD services*
- *Netflix becomes the network of reference for TV viewers aged 13 to 49 in the US for viewers who spend 5 hours or more per week with TV*
- *The recent launches of SVoD services by established players is a sign of changes happening in the media landscape*
- *A direct-to-consumer approach is favoured by major players in the US such as HBO and CBS, bypassing the traditional channel distribution(bundling) in the US for the first time*
- *Niche SVoD services, targeting sport or special interest (comedy, horror, children content) audiences, are increasingly attractive to right holders wishing to extend their reach and revenues*

The years 2013 and 2014 were in the USA, and to a lesser extent in Western Europe, the beginning of the generalisation of subscription-based on-demand services. As the US is in this market more advanced than the EU, we will take it as our example to make our point: SVoD services are becoming more attractive to audiovisual players, especially US networks and pay TV operators, as there are facing declining viewerships and subscribers, putting an increased pressure on their traditional business models.

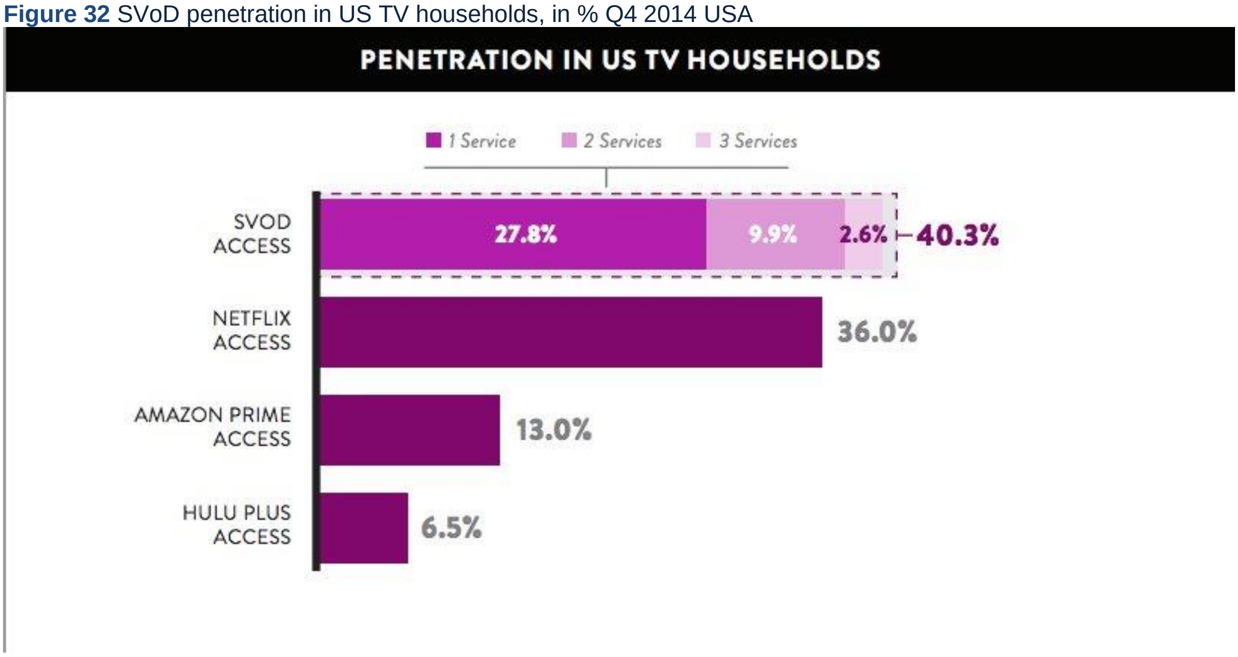
Of course, these findings, valid for the US market, are not yet transposable in most EU countries, with the exception of the United Kingdom, the Nordics and the Netherlands where SVoD markets are more advanced than elsewhere in the EU. But as the US market for digital audiovisual services is more advanced, the market situation can give a lead as where to the market is heading in general, with EU countries and their populations catching-up with trends in the US as SVoD offers become more generalized and attractive to consumers.

Nielsen found in its "***Q4 Total Audience Report Q4 2014***" that 40.3% of US homes had access to a SVoD services, up from 36% of quarter 4 in 2013. Netflix is appearing as the overall leader, with 36% of US TV households subscribing to the services (or 39.11 million US subscribers according to Netflix annual report 2014, leaving Amazon at distant 2nd place (13% of US TV households) and placing HuluPlus as even more distant competitor with a presence in 6.5% of US TV households.

The **Digital Entertainment Group**, releasing figures for the US Home Entertainment market, stated that the US SVoD market generated USD 4 billion in consumer spending in 2014 (and representing 53% of consumer spendings for digital entertainment [SVoD, VoD and EST]), up by 25.8% compared to USD 3.19 billion in 2013 and surpassing consumer spending on physical entertainment. The US SVoD market is set to reach **USD 7.5 billion by 2020 according to Statista** with over **81 million subscribers**. PwC furthermore states in its "***Global Entertainment and media outlook 2015-2019: filmed entertainment***" that in 2017, spending on digital home video (forecasted at USD 12 billion) will overtake spending on cinema (USD 11.8 billion), with SVoD services being the main share of digital consumer spendings, representing USD 6.5 billion in 2017.

More US consumers are subscribing to SVoD services and spending more money for digital subscriptions, making SVoD business models an increasingly attractive market for audiovisual players.

Figure 32 SVoD penetration in US TV households, in % Q4 2014 USA



Source: Nielsen Q4 Total Audience Report

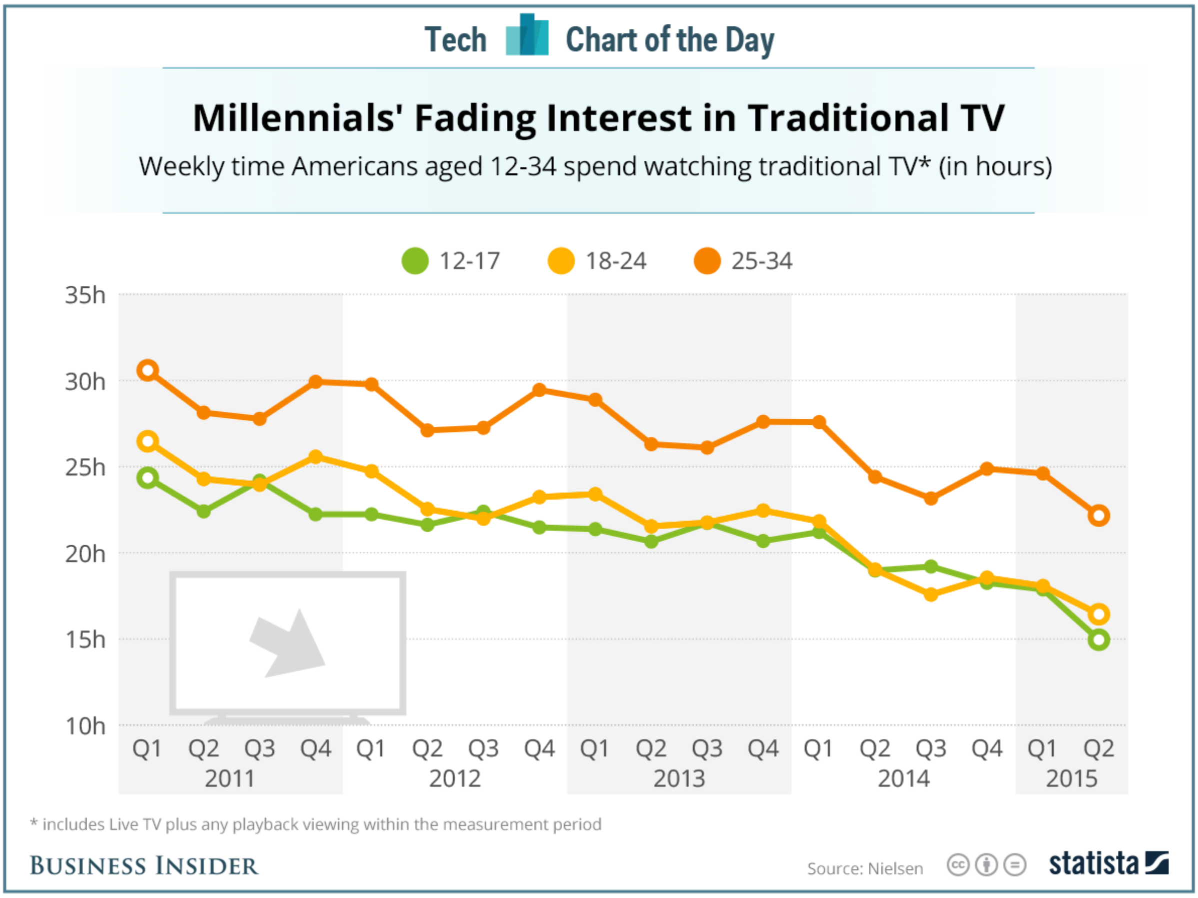
Reacting to Netflix's and the overall success of subscription-based audiovisual on-demand services, US media players entered, after a period of hesitation of fear of cannibalizing their traditional offers, the US SVoD market.

The new main SVoD services launched are HBO's (TimeWarner) **HBO Now**, CBS' CBS All Access (which plans to launch in 2017 a **new Star Trek series, exclusively online**), **Showtime's SVoD on Hulu**, Hulu's improved ad-free **SVoD offer Hulu**+, Sling TV by Dish Network, **Viacom's Noggin** SVoD service specialized in children content and the new NBA (**National Basketball Association**) SVoD service (only to list one of the many niche players on the US market such as NBC's comic-centered SVoD service **Seeso** or AMC's and DramaFever's **Shudder focused on horror movies**). The US SVoD market has seen in 2014 an increase in the offer of services, and not only on niche SVoD services but more on a "direct-to-consumer" based strategy applied by networks and pay TV operators.

Why now, one could ask? Because the changes in their core audiences are being felt by these players, be it declines in viewership for the traditional networks (viewership figures for millenials falling even faster) or declines in subscribers for pay TV players, and these declines are being sensed as a threat by those players, and their investors (**the US media sector lost over USD 60 billion in 2 days in market capitalization** after Disney's statement that ESPN is no longer growing in August 2015). Therefore traditional media players have to adapt to this new market given and start to transform their legacy business models to adapt them to the digital transformation happening in the media ecosystem.

This becomes evident when observing the evolution of viewing time of millenals of live TV, falling steadily since Q1 2011. Live TV is losing its reach with younger generations.

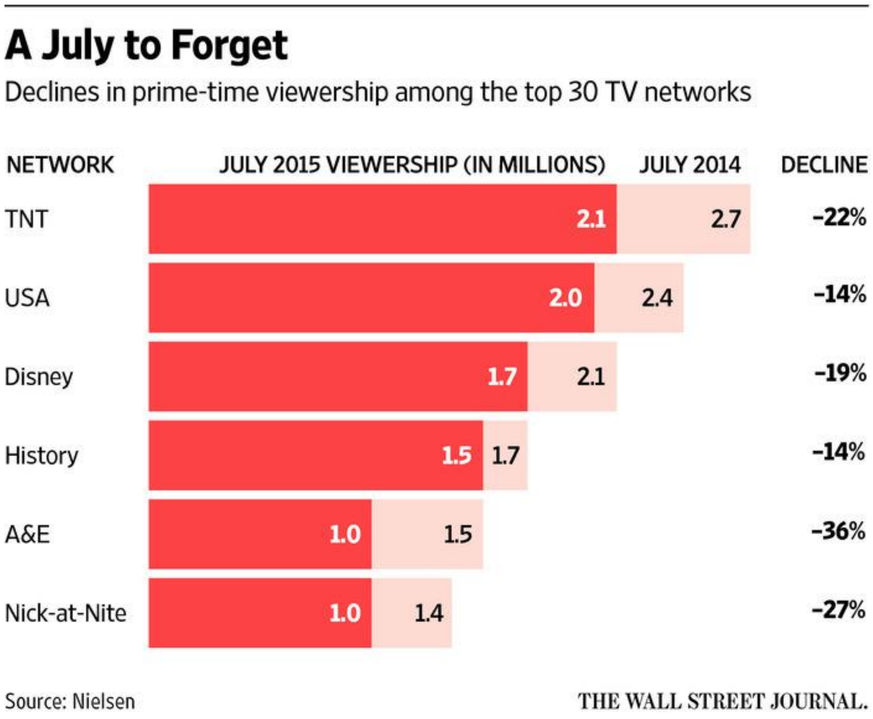
Figure 33 Linear TV viewing by Millenials USA Q1 2011- Q2 2015



Source: Nielsen, Statista and ***Business Insider***

But this decrease in viewership is also true for networks, and not only for millenials but overall viewership and has been felt severely in the summer of 2015 where viewership declined heavily, between 14% and 27% compared to last year for major networks. US consumers are watching less live time. This is also a finding by Nielsen in its "***Q4 Total Audience Report Q4 2014***" where live TV viewing fell from an average of 5h04m per day in 2013 to already 4h51m per day on average in 2014, a drop of 13 minutes in only one year. Viewers are leaving live TV for different entertainment options, and one of the favourite sources for video entertainment are SVoD services.

Figure 34 Decline in prime-time viewership July 2014/2015, USA in %

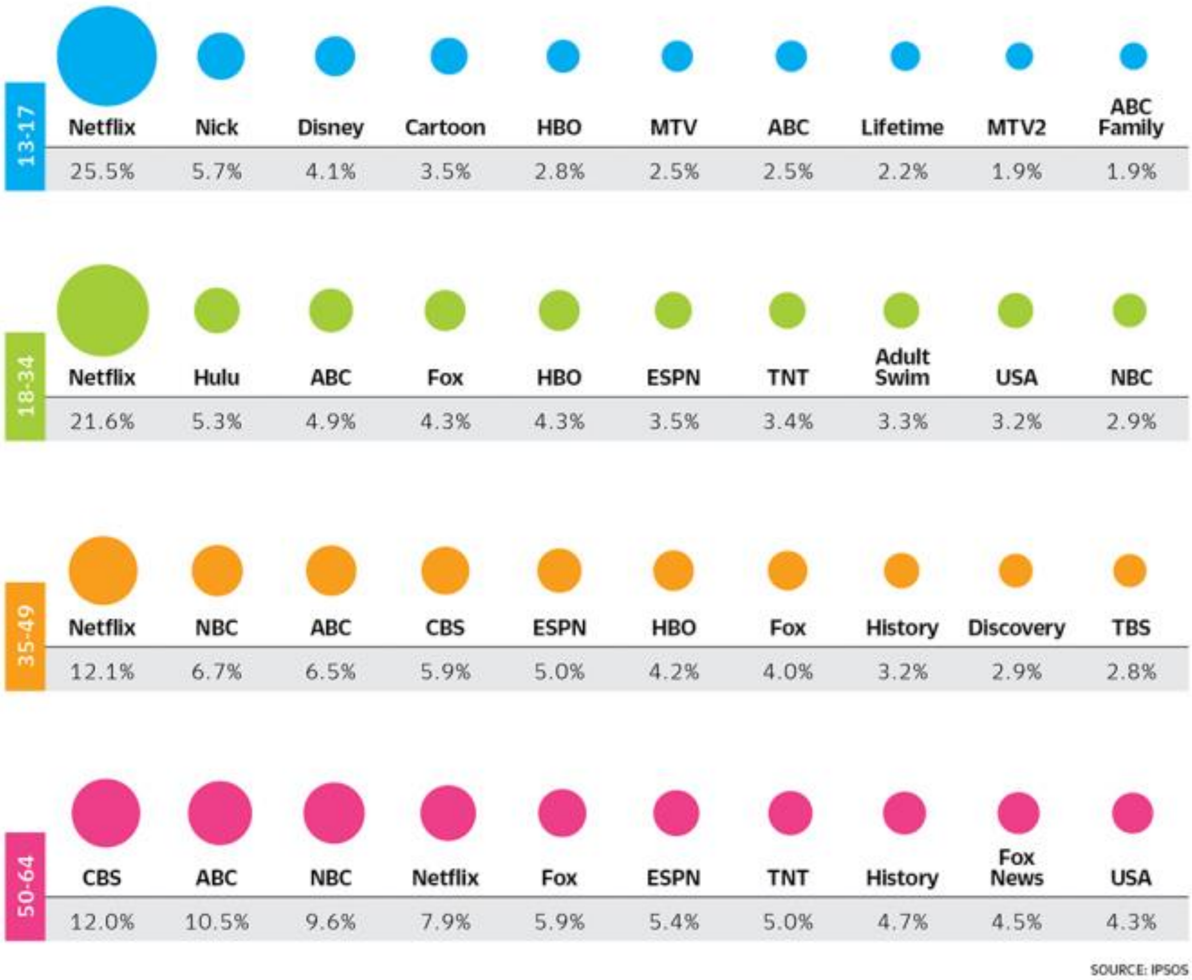


Source: Nielsen/The Wall Street Journal

In an interesting survey released by IPSOS, it becomes clear that US viewers are turning to Netflix for watching content, and on a longer basis. When asked on which traditional network and new digital video services they spend their time (minimum over 5 hours per week), younger generation's first choice is Netflix: 25.5% of 13 to 17 years old turn to Netflix, 21.6% of 18 to 34 years old and even older generations such 35 to 49 years turn to Netflix with 12.1% stating that Netflix is their first choice. On the same time, Netflix is becoming to look like a TV network by the use made by its subscribers; according to **GfK** an average US Netflix user watches 10 TV shows and 4 movies per week on Netflix. Gfk is highlighting another important evolution in the habits of the audiences, binge viewing with 25% of Netflix binge watching (more than 3 programs in one session), and this percentage is even higher for 13 to 35 years old where the proportion is at 31% of users who declare to binge watching. Also, 24% of Netflix viewers are watching their content on mobile devices, yet an important change in the traditional viewing patterns. Finally, Netflix is maybe giving its subscribers what they want: watch their chosen content anywhere, anytime and on any device.

Traditional broadcasters therefore had no choice to react to these profound changes in the audience's viewing habits and seen in this light, the sudden rush to launch a direct-to-consumer SVoD service by several important players on the US market becomes understandable.

Figure 35 Top Networks watched by viewers for five or more hours in the week of June 15th 2015



Source: IPSOS/Variety

And the situation for pay TV is no more different. As said Sling CEO's Roger Lynch: *"[If you] look at pay TV subscription behaviour, it's clear that the current model is not sustainable, at least not if you want to grow pay TV, if that's your objective*,"[22]. Pay TV is in the US, as of 2015, no longer a growing market. Pay TV subscribers were down by 470 855 subscribers in the 2nd quarter of 2015 and what is even more interesting is the subscriber growth between 2006 and 2015. Whereas subscriber growth was at 2.2% in 2006, the growth became negative already in the second quarter of 2011 with -0.1% and since then has mostly remained negative, reaching -0.7% in the second quarter of 2015.

The pay TV business (selling often highly priced pay TV subscriptions for bundled channels, with the pay TV spending at USD 99.1 per month according to Leichtman Research Group in September 2015, up by 39% since 2010) becomes less attractive for consumers which have to choice to opt for cheaper SVoD subscriptions, often priced at less than USD 12per month.

[22] See, "*Sling TV CEO: current pay TV model not sustainable"*, DigitalTVEurope 12th September 2015, available at: http://www.digitaltveurope.net/426611/sling-tv-ceo-current-pay-tv-model-not-sustainable/

Table 17 **Pay TV Subscribers Net Additions Q2 2015, USA**

US Pay TV Subscribers and Net Additions, by Provider, Q2 2015

	Subscribers	Net additions
Top cable		
Comcast	22,306,000	-69,000
Time Warner Cable	10,982,000	-43,000
Charter Communications	4,258,000	-30,000
Cablevision	2,637,000	-16,000
Suddenlink Communications	1,102,600	-29,400
Mediacom	879,000	-12,000
Cable One	399,878	-21,455
Other major private companies*	6,395,000	-40,000
Total top cable	**48,959,478**	**-260,855**
Satellite		
DirecTV	20,279,000	-133,000
Dish Network**	13,932,000	-81,000
Total satellite	**34,211,000**	**-214,000**
Telco		
AT&T U-verse	5,971,000	-22,000
Verizon FiOS	5,765,000	26,000
Total telco	**11,736,000**	**4,000**
Total	**94,906,478**	**-470,855**

*Note: *includes LRG estimates for Cox and Bright House Networks; **totals and net adds in Q2 2015 include Sling TV*
Source: Leichtman Research Group Inc. (LRG) with company reports as cited in press release, Aug 17, 2015

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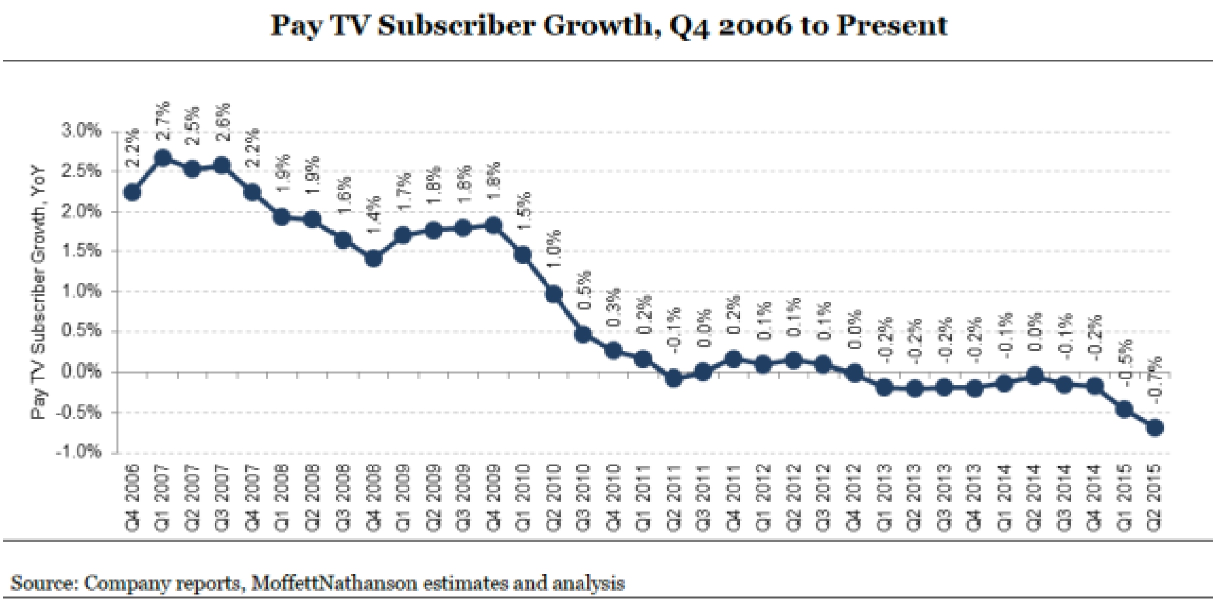
Figure 36 **Pay TV Subscriber Growth, Q4 2006- 2015, USA in %**



Addressing fears of cannibalization of their pay TV service, HBO's CEO Pepler recently stated that those fears are not valid:**"***Everything we're seeing both from sampling and from subscriber satisfaction has exceeded our expectations. With regard to any kind of cannibalisation, I can tell you, as we predicted and as our* *research indicated, we've seen less than 1% of HBO subs leave the bundle to go get HBO Now, which is exactly what we suspected was going to happen."*[23]

In light of these facts, the multiple launches of SVoD services in the US since 2014 can be explained. With SVoD consumer spending set to increase, and representing already the lion share of consumer spending on digital video entertainment (53% at the end of 2014 according to the Digital Entertainment Group), other players are also becoming interested in subscription-based services.

Google's YouTube launched YouTube Red, a subscription service to music, ad-free content and soon original premium content by YouTube creators with the aim to take part (and a share of) in this burgeoning market. Although for now the offer seems not so compelling for consumers (the option to skip ads, have access to Google Play music and to original content by YouTube talents), this indicates that Google will not let SVoD revenues soar and leave the market to its competitors undisputed. The company's rush to market (even if a subscription service was already discussed in **October 2014 by YouTube's CEO Susan Wokciki**) shows the potential growth relay that SVoD services can represent, even for such dominant players in the video advertising space such as YouTube.

Apple's plans to launch also a **subscription streaming TV services in the US** shows furthermore this transition towards subscription-based audiovisual services, similar to what has happened on the online music market where the shift from transactional towards subscription-based model happened around 2010 (and which Apple has also accompanied by launching **Apple Music** in July 2015, its online music streaming service to compete with players like Spotify or Deezer as consumers expenses are shifting from music downloads to subscription streaming services).

But finally, instead of just shifting their viewing form linear to non-linear, SVoD subscribers are increasing their overall time spend with TV, as Nielsen has found in its report, they are just doing it on different connected devices and on different services as in the linear audiovisual ecosystem. Nielsen found in its report that SVoD subscribers in the US are spending on average 2h45m with a TV screen, using connected devices. What consumers are looking for by subscribing to a SVoD services is to expand their choice and access to content (66% of UK subscribers and 58% of US subscribers claim that the main reason for signing up was to have access to a back catalog of movies, 50% in the UK and 56% in the US declaring to have access to a back catalog of TV programs, as stated by GfK), be it films, TV shows, documentaries and other formats and to be able to watch at the time of their choosing and the quantity (binge watching) they desire.

Content therefore remains king in the SVoD market. SVoD services are in competition to have desirable premium content, more and more on an exclusive basis in order to have a competitive advantage. Exclusive licencing deals and the acquisition and production of original content becomes vital for the main generalist SVoD in order to differentiate their service from their competitors.

The next section takes a closer look at the importance of content in the subscription-based business model.

[23] See, "*HBO Now 'surpassing expectations', international OTT launches due soon"*, DigitalTV Europe 6th August 2015, available at: http://www.digitaltveurope.net/408301/hbo-now-surpassing-expectations-international-ott-launches-due-soon/

Figure 37 US Households daily screen time with TV connected devices (in HH:MM), 2014

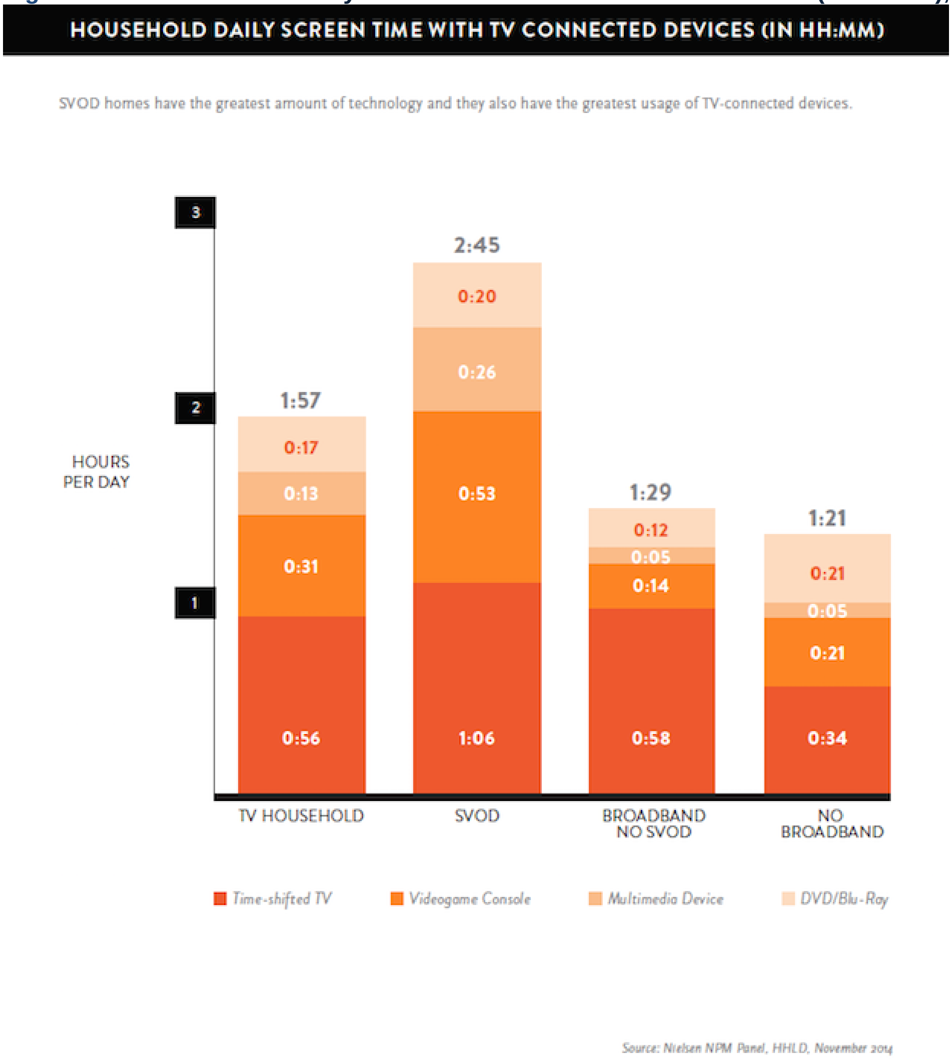


Table 18 Top 5 Reasons that US and UK SVOD subscribers signed up for, March 2014

Top 5 Reasons that US and UK Subscription Video-on-Demand (SVOD)* Subscribers Signed Up for Subscription Streaming Services, March 2014
% of respondents

	UK	US
1. To access back catalog of movies	66%	58%
2. To access back catalog of TV programs	50%	56%
3. To access new movie releases	47%	44%
4. To watch at a time that suits me	40%	41%
5. To watch multiple episodes in a row	32%	42%

*Note: UK n=2,749; US n=2,866; *includes Amazon LOVEFiLM Instant/Amazon Prime Instant Video, Hulu Plus and Netflix*
Source: GfK, "SVOD Content Consumption Study" as cited in press release, Aug 7, 2014

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Source : eMarketer/GfK

9 Strategies in the SVoD market: Exclusive licences, Original content, multidevice convenience and user friendliness are the main competitive advantages to acquire and retain subscribers

- *Content remains king: Exclusive licences and increased acquisition/production of original content are key to players in order to differentiate their service from their competitors and gain a competitive advantage appealing to current and potential subscribers*
- *Acquisition of premium content by most of the players will increase licence costs for all players, in the SVoD market and traditional pay TV*
- *Risk of integrated content producers, worrying of the competition of SVoD players, to withheld their content from SVoD services*
- *Multidevice viewing capabilities is key for subscriber satisfaction – understanding and execution rightful the shift towards content consumption any time, any where and on any device is key for subscriber satisfaction*
- *User experiences and User interfaces, requiring heavy investments in R&D, are another key aspect of successful SVoD (and on-demand) services*
- *Increased production of original content surpassing a wide variety of genres will happen in the next years as a way to differentiate from competition and to limit escalating acquisition costs.*

Consumers are signing mainly up to a SVoD services in order to have access to back catalogues of films and TV shows, as various surveys are showing (cf. Gfk study and BARB in the UK). Consumers are not signing up in order to have the most recent movies (often not available on SVoD services) but the pressure to have relevant (desired by the audience), and increasingly recent, content is increasing.

Content and the desire to be entertained are the main motivations for a consumers to subscribe to a SVoD service in the first place, and content is eventually what makes a subscriber continue subscribing. The aim of Netflix and other SVoD services is in a first place to attract consumers and then to reduce churn-rate, and this is done by making sure that at each visit relevant content is shown to the subscriber (hence also the importance of recommendation tools and easy navigation in catalogues comprising often over 1 000's of shows and films).

The recent announcement by **Netflix** and **Amazon** to invest in films, with however different release strategies, shows the importance of having recent content; after TV shows it seems logic that the two juggernauts of SVoD services would enter the film business (and for Netflix, maybe soon the **news programming**). After having invested in original TV Shows, kids programming, anime, comedies and documentaries, Netflix, and to a lesser extent Amazon, are pushing even more forward into the original content game. The **list of original content for 2015** announced by Netflix is already impressive and comes in addition to these already produced and acquired in **2014 and 2013**.

Netflix pushes forward with its view that users should have access to the content they desire in a convenient way (on Netflix), and this content is also feature films. As Ted Sarandos says, the 90-day window (in the US) between a theatrical release of a film and its debut on a home entertainment platform (not necessarily SVoD services, but digital audiovisual services in general) will change: **"***I think so. When a consumer is telling you what you want and you don't listen, you're going to be out of business. I think consumers are saying they would like the option of watching movies at home*[24]". Asked what would be the potential impact on this new release strategy for movies and access to licencing deals from studios, as it might set-up studios after having already attracted the wrath of theatre owners with the recent release of *Beasts of No Nation*, Sarandos continued: "*Yeah, none of these things are in conflict with one another. I believe what we are doing is incredibly pro-movie. Today, for the most part, television is displacing movies in the culture. I think that's because there is so much access to the shows people are talking about, and television is better distributed. What we want to do is make great movies. It's going to grow the movie revenue model. I don't know if theatre owners will command the same percentage of the business that they always have, but it's going to be a bigger business."*[25] The impact of Netflix, after having already changed the way TV shows are released on its services (making available the complete season of its TV shows at once) and forced other actors to follow its innovative lead, on the movie business could also prove substantial even if it is yet in an experiencing period.

In 2015, Netflix contracted a **USD 1.5 billion long-term debt in order to finance new content acquisitions and original content**. The company has planned to produce over 320 hours of original content in 2015, up from 100 hours in 2014. Added to content licencing costs, the new debt shows that content acquisition is getting increasingly costly. Given the strategic importance of content (which makes subscribers keep coming back), the rather fragile free-cash flow available to Netflix (in 2014, Netflix had negative cash-flows of USD 128 million) and the ever-growing content obligations, the international SVoD giant isn't immune to increased competition for content on its domestic market but also on its international markets as it needs significant and premium content at the date of the launch to entice new subscribers.

For Amazon, the announced aim in January 2015 was to produce **12 independent films per year**, released in theatres before being streamed on Amazon Prime. Amazon, with its **innovative commissioning procedure** for its "**original series**", TV shows and kids programs (submissions for projects, vote by subscribers on which pilots to produce, then definitive commissioning of shows), sees another opportunity to raise **the value proposition of its Prime service** (of which Prime Instant Video is only a component, the main service sold being the shipping service of products bought on Amazon as CEO Jeff Bezos stated:" **and** ."*Prime members are more likely to renew because of Prime Instant Video. They're more likely to start a free trial. They're more likely to convert from free to paid."*[26]) Ama-

[24] See, "*Ted Sarandos on Netflix's Strategy for Original Movies, Adam Sandler's 'Ridiculous 6"*, Variety 1st September 2015, available at: http://variety.com/2015/digital/news/ted-sarandos-netflix-beasts-of-no-nation-adam-sandler-1201582390/

[25] idem

[26] See, "*Amazon's Jeff Bezos on Hollywood Strategy: "When People Join Prime, ... They Buy More Shoes",* The Hollywood Reporter 15th July 2015, available at: http://www.hollywoodreporter.com/features/amazon-prime-day-ceo-jeff-808535

zon is expected to invest USD 1.7 billion in content acquisition in 2015, up from USD 1.5 billion in 2014 and declared in 2015 that it will **"***double down in that area, invest more to bring our customers worldwide, more originals, more great TV series that they have never been able to see before*[27]"

What if these new strategies by the 2 dominant players on the SVoD market are a preventive move in order to anticipate future difficulties to access content of certain media players on the market?

After the fall in stock prices and loss of pay TV subscribers of the summer 2015 for the main media groups, CEO's are starting to question their strategy of selling their most valuable content to Netflix (which remains the dominant players). James Murdoch, CEO of 21st Century Fox declared in September 2015: *"Certainly the business rules around how we sell to SVOD providers are changing, and our thinking is evolving*[28]*".* He is not the sole CEO with this thinking. TimeWarner CEO Jeff Bewkes told investors and analysts that they might also restrain or even forego selling their content to players like Netflix and Amazon: *"Given ongoing shifts in consumer behaviour, we think it's important to provide even more on-demand content as part of our network offerings. As a result, we're evaluating whether to retain our rights for a longer period of time and forgo or delay certain content licensing."*[29] This could mean that in the near future, SVoD services such as Netflix and Amazon could have more difficulties to acquire content from these integrated content producers, hence the increased acquisition/production of original content by these players.

But as *RBC Capital, Nomura* and *The Wall Street Journal* point it out, media companies are also increasingly relying on digital and streaming sales for their content sales (over USD 5 billion according to figures published by *The Wall Street Journal*). Therefore, finding an ideal trade-off between keeping premium content from streaming competitors, mainly SVoD services, and continuing to sell content in ordet to valorize existing content will be a challenge for these media companies. The investment bank *Nomura* expects SVoD sales of media companies to become more moderate as an effect of this new way of thinking, passing from an estimated 2.2% of revenues of media companies in 2015 to 2% in 2016. As these media companies are launching their direct-to-consumer SVoD services and/or have more buyers on the market for subscription streaming rights than before for their content (be it in the US with Hulu and Amazon, internationally with the variety of SVoD services launched by pay TV operators or media players), the choice not to licence content to a company which is becoming a competitor for viewers or subscription fees is strategic. However, with over **371 original scripted TV shows made in the USA in 2014 and an estimated 400 for 2015**, SVoD services will still have a lot of content to choose from media companies. The rush to secure attractive content could also benefit independent films as the recent example of the **Toronto film festivals shows; the increased competition for content has lead to more films being acquired by SVoD services** and independent distribu-

[27] See, "*Amazon Looking to 'Double Down' on Original Content Spend"*, HomeMedia Magazine, 18th June 2015, available at: http://www.homemediamagazine.com/streaming/amazon-looking-double-down-original-content-spend-36094

[28] See, "*Hollywood Adjusts Netflix Strategy as Cord-Cutting Fears Grow",* Bloomberg 22nd September 2015, available at: http://www.bloomberg.com/news/articles/2015-09-22/hollywood-adjusts-netflix-strategy-as-cord-cutting-fears-grow

[29] See, "*Time Warner cuts profit forecast and hints it may delay Netflix releases"*, The Guardian 5th November 2015, available at: http://www.theguardian.com/media/2015/nov/05/time-warner-netflix-hbo-cnn-turner

tors than before.

IHS published an interesting statistic, content spending by providers in 2013 and 2014, from which it becomes clear that Netflix is already outspending established players such as thee BBC, HBO, Discovery, Sky (excluding sports), ITV and ProSiebenSat.1 in original and acquired content. Bearing in mind that Netflix operates in more countries than these players operate in and therefore has to acquire global licences, produce original content and country-specific content, this fact alone is no surprise. What is remarkable is the growth of content spending by Netflix; in order to grow and expand internationally the company has to invest heavily in content with **streaming content obligations at the end of 2014 amounting to USD 9.5 billion** (up from USD 7.3 billion in 2013).

For now, Netflix's international expansion is still losing money, with a loss of USD 159 million in 2014 in the international streaming segment (or a loss of USD 9.59 per paid member) and already losses of USD 224.5 million in the 3rd quarter of 2015 (or a loss of USD 9.3 per paid member). However, Netflix really has not that much of a choice. The company has to enter new markets in order to keep growing, expand its users base, profit from the first mover advantage (the expansion in Italy, Spain, Portugal, Australia, New Zealand, Cuba in 2015 and the **announced expansion in several Asian countries in 2016**) and amortize its heavy content investments by enlarging its subscribe base. The announced aim by Netflix of operating in **200 countries by the end of 2016** is ambitious and will require sufficient and enticing content in order to gain subscribers in these new markets, hence the impressive amount of content investements and obligations made by Netflix the past couple of years. As Ted Sarandos stated it, Netflix **"***will eventually be the largest producer of original content in the world*[30]**"** and by seeing the ambitious expansion plans added to the high probability of increased content acquisition costs, this is a logic evolution of the market. Netflix has to downsize its reliance on third-party content by investing increasingly in orginial content.

Content is becoming the main differentiator for SVoD services and the competition to secure attractive content (TV shows and films) is increasing. The years 2014 and 2015 have seen many announcements of licencing deals taking place between the studios, content producers and SVoD services. As several SVoD services are expanding internationally the aim becomes increasingly securing global (or at least for the countries they are operating in) licences and preferably on an exclusive basis. Netflix CEO Reed Hastings recently declared (to a question about the Digital Single market) that: *"For the bulk of our content, we are going to try and do all pan-European or global deals. We can't wait for the Commission, they may or may not pass rules. … We are going to try and solve the problem [of cross-border demand] commercially.*[31]*"*

An increasing number of media companies are investing in original content to secure a competitive advantage, global rights for their productions and the get the "exclusivity factor" attractive to audiences. Media companies and tech players are increasing their investment in original and exclusive content; Hulu with a plate of 7 half-hour original series in 2015, CBS with the announced relaunch of StarTrek, Amazon with TV shows and independent films, YouTube Red which is also planning original content for its subscription-based services, Verizon which declared to

[30] See,"*Netflix Wants to Premiere New Shows or New Seasons Every Three Weeks"*, Advertising Age 8th December 2014, available at: http://adage.com/article/media/netflix-debut-shows-seasons-weeks/296133/

[31] See, "*Reed Hastings on Netflix's Plans for Pan-European Releases, Local Productions",* The Hollywood Reporter 5th May 2015, available at:: http://www.hollywoodreporter.com/news/reed-hastings-netflixs-plans-pan-793549

have 52 original series on its Go90 mobile on-demand service by year end, Vimeo with *High Maintenance* and others are showing the importance of having content on their subscription-based services which audiences cannot find elsewhere. This trend towards original content will continue in the near future, as it is increasingly convincing subscribers (only figures available for Netflix). However, not every player can succeed; Microsoft, Yahoo! and Samsung have all shut down their original content efforts, seeing that the content game is quite different from their core businesses.

This brings up the last point of this section, the strategic importance of multi-device viewing and a seamless user experience and interface expected by subscribers (for 50% according to the survey "*Reasons that US Netflix subscribers subscribe to Netflix)* and the challenge this represents to traditional players. Netflix and Amazon are technology companies (Netflix defines itself as: *"the world's leading Internet television network*"), not coming from the traditional media sector but rather having been able to enter this sector through technology and the use of the internet for distribution. They have adapted their technology to provide subscribers with content whereas traditional media companies have to (or at least had to) reinvent their technology enabling them to launch SVoD services and provide multi-screen availability. A clean user interface, recommendation algorithms in order to show subscribers at each visit relevant content for them might be as important as good content (as the experience of Danish SVoD service YouBio has showed).

As Ted Sarandos states it: "*The goal is to become HBO faster than HBO can become us*.[32]" and "*We need to get great at programming before they get great at technology*[33]". At the moment of the launch of HBO Now, HBO decided to go with the MLB Advanced Media arm to develop an OTT streaming platform instead of developing it in-house after several bugs and outages for its HBO Go service at peak time. MLBAM had at this time already invested over USD 500 million for its network of data centers, hardly replicable by most of the players whishing to enter the streaming market. HBO finally spend USD 50 million for MLBAM to develop the platform for HBO Now in 3 months; would HBO have developed the platform according to initial plans it would have costed USD 900 million and took 3 years. The challenge is as Bob Bowman, MLB Advanced Media Chief puts it: "*The distribution world we live in is changing daily. We deliver MLB on 400 different devices. I understand the idea that HBO should manage [its own tech], but it is a big, big investment. And it's constant."*

Providing a seamless user experiences, on different devices and screens is a challenge and very capital intensive. Tech players such as Netflix have a head start and already invested hundreds of millions dollars in R&D and technology development (USD 472.3 million in 2014, USD 378.7 million in 2013, USD 329 million in 2012 according to Netflix's annual reports) in order to provide a near-perfect user experience and multi-screen availability. Netflix and Amazon have made sure that their services work almost on every device (Smart TV, smartphone, tablets, media players, HDMI dongles, video game consoles, Blu-ray players, PCs and Laptops) and provide a good user experience. According to research from nScreenMedia, traditional pay TV operators in the US and Europe are spending billions to address multiscreen delivery failure. "*As delivery of TV services moves from a tightly controlled physical network to one that is based on customer owned CPE and virtualised environments, it becomes more challenging to manage their*

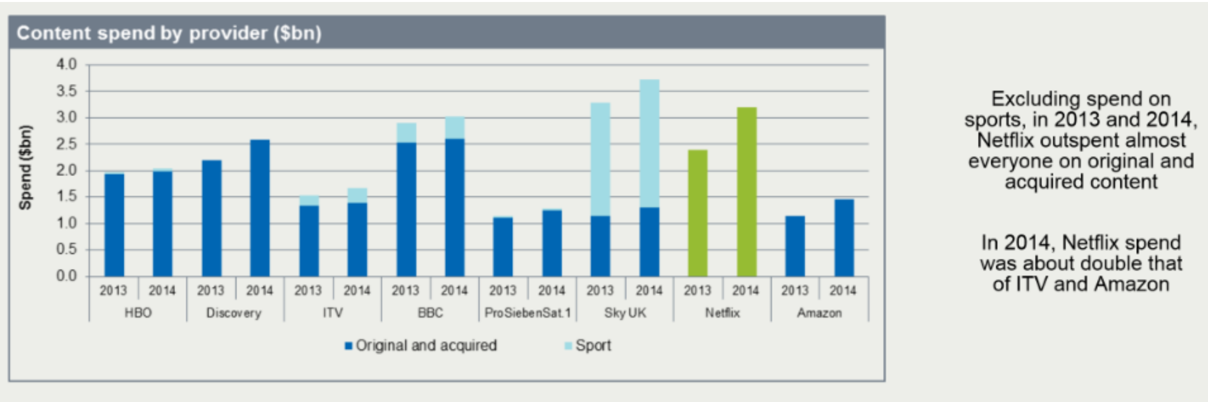
[32] See, "*And the Award for the Next HBO Goes to...*", GQ 29th Januray 2013, available at: http://www.gq.com/story/netflix-founder-reed-hastings-house-of-cards-arrested-development

[33] See, "*The Golden Age of Post-Television*", The Atlantic 1st July 2015, available at: http://www.theatlantic.com/technology/archive/2015/07/ted-sarandos-netflix-katie-couric/397406/

resilience and stability," said John Maguire, chief strategy officer for TV Technology at S3 Group. "*There is a need to modernise service delivery across the entire delivery chain.*[34]*"* Netflix with its 800 engineers working on improving user experience, interface and recommendations algorithms (figure from 2013) has a clear advantage over incumbents who have entered the technology side of the OTT streaming business at a later period. IHS estimates that Netflix will reach 500 million connected devices globally by 2019, profiting from its first mover advantage as it is shown by the red direct-access button present on multiple consumer electronics devices, presence which started already in 2011.

Catching-up in technology will remain a challenge to most players as it is a very capital-intensive task as the example of HBO has demonstrated but necessary to satisfy subscribers who expect nothing less than a fluid user experience, in order to watch their content any time, any where and on any device. As Disney CEO's expresses it: *"Today's consumer, when they're faced with a user experience that is subpar, where they just can't find anything, they can't navigate things, or they find them and they just don't work well — it used to be you don't keep the consumer happy and now, it's you don't keep the consumer, because they have other choices*[35]*".* The quality of the streaming experience becomes as important as the quality of the content streamed.

Figure 38 Content spending by provider 2013 and 2014, in USD billion

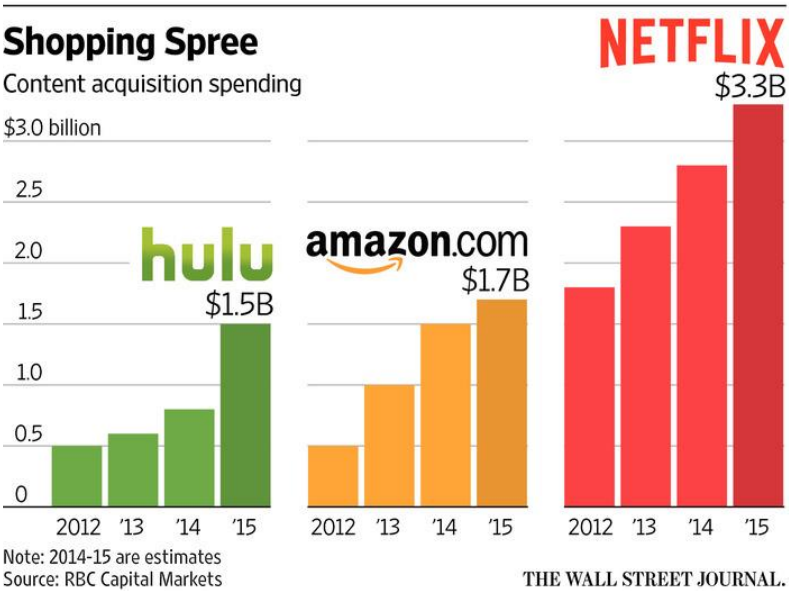


Source: IHS

[34] See, "*Pay-TV operators spend billions to address multiscreen delivery failures*", RapidTVNews 15th July 2015, available at: http://www.rapidtvnews.com/2015071539066/pay-tv-operators-spend-billions-to-address-multiscreen-delivery-failures.html#axzz3fxIvjM3A

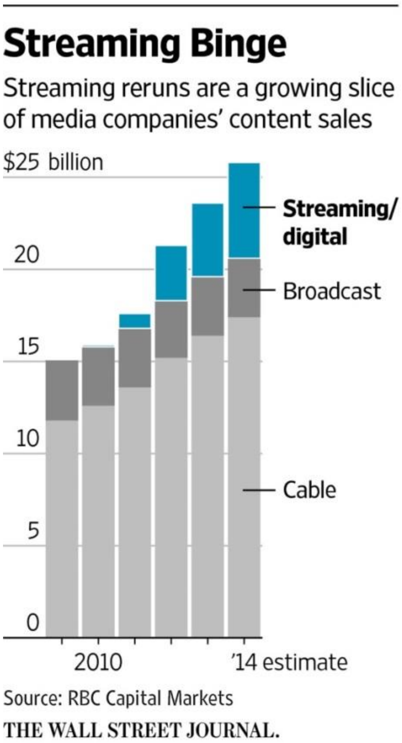
[35] See, "*Chief of Disney, TV powerhouse, makes a great case for why cable subscribers keep cutting the cord*", The Washington Post 5th November 2015, available at: https://www.washingtonpost.com/news/the-switch/wp/2015/11/05/chief-of-disney-tv-powerhouse-makes-a-great-case-for-why-cable-subscribers-keep-cutting-the-cord/

Figure 39 Content acquisition spending Netflix, Amazon and Hulu, 2012-2015, in USD billion



Source: The Wall Street Journal

Figure 40 **Streaming and Digital content sales compared to traditional broadcast and cables sales for US media companies, 2009-2014**



Source : The Wall Street Journal

Figure 41 SVoD licence sales as a percentage of media companies revenues - USA, 2014-2016

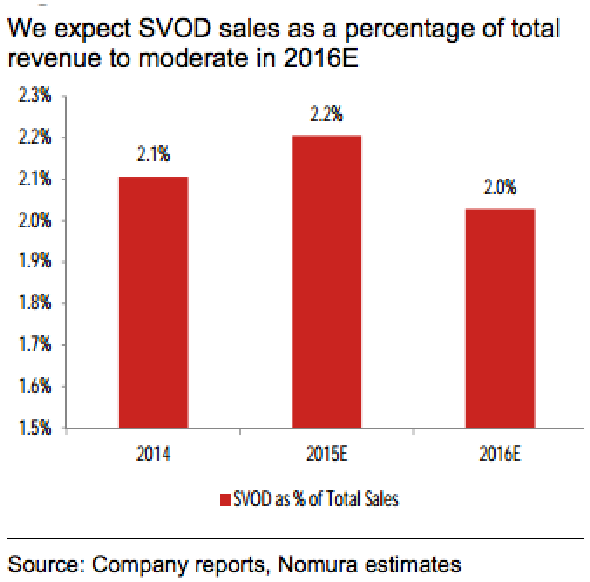


Figure 42 US Original content viewing on Netflix Feb 2014/Aug 2015

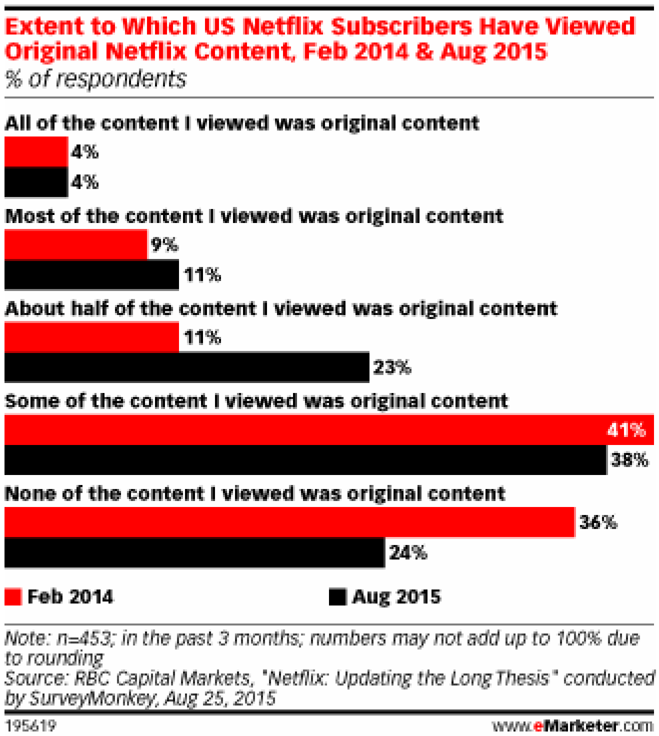
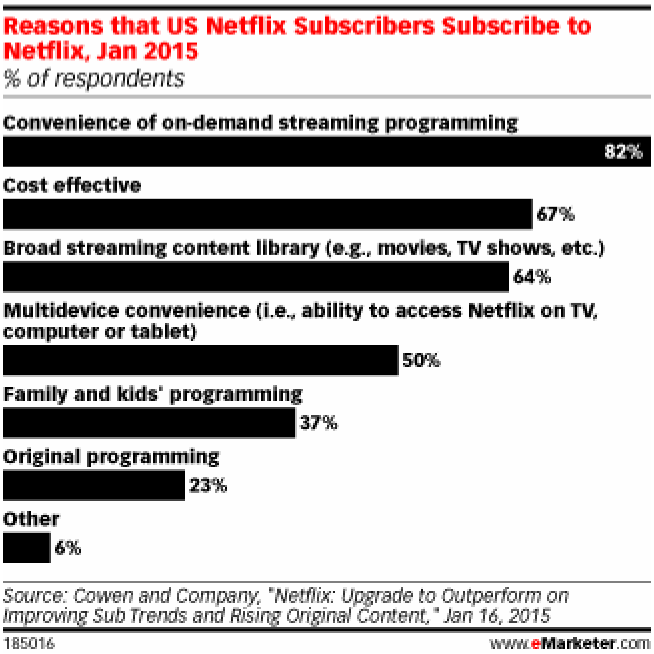


Figure 43 **Reasons that US Netflix Subscribers Subscribe to Netflix, January 2015, in %**



Source : [eMarketer]

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