Trends on the EU VOD market

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COUNCIL OF EUROPE
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1. **The rise of the Direct-to-Consumer (D2C) model, FAANGs and the main impacts of OTT distribution on the audiovisual sector**

2. **EU SVOD market and EU TVOD market**

3. **Results from EUROVOD members survey**

1 – Direct-to-consumer services are changing the media landscape

- **Direct-to-consumer (D2C) business models**:

  - Traditionally, content producers, channels relied on intermediaries to distribute content and connect with consumers/audience:
    - TV Channels on distribution platforms (free-to-air, pay-TV services - telcos, cable, satellite)
    - Studios on exhibitors and retailers
    - Data, direct feedback from and control over consumers only limited

  - **New entrants,** mostly tech companies, on the audiovisual market have used 'Over-the-top' distribution to get directly in touch with their audience – "FAANGs"

  - Direct connection with consumers/audience allows for **feedback** and at the same time shifts power from traditional media players to new entrants

  - **D2C adopted by major content producers, traditional media players** in order to be able to compete

1 – What are « FAANGs »? – Common points

- **“FAANGs”** – Facebook, Amazon, Apple, Netflix and Google share common points:

  - **Tech** (and increasingly media) players

  - Huge financial **resources**

  - **Innovation** & Best **customer experience** to access pre-existing resources

  - At their beginning, **suppliers profited from their presence** (content producers from Netflix, publishers from Facebook, merchants from Amazon, businesses from Google, app developers from Apple) = additional revenue streams

  - **Global operations, superior user experience** and **scale** have led to:

    ➔**Direct-to-consumer businesses** and competition for **consumer attention**
    ➔**<u>Owning of customer relationships</u>** (billions for Google/Facebook/Apple, 100s millions Netflix and Amazon)
    ➔**Discovery** (of content) mainly through their services
    ➔**Power over suppliers** (content producers, publishers, advertisers, app developers, merchants…)

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Ownership of customer relationship & Discovery = Power over suppliers

Content suppliers & Originals → Netflix ← Subscribers

Publishers & Advertisers → Facebook, Instagram ← Audience

Web sites, Publishers & Advertisers → Google, YouTube ← Audience & Customers

Merchants, Advertisers & Content suppliers → amazon ← Customers & Subscribers

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1 – What are FAANGs?

- Yet **core businesses are different:**

  - Netflix – SVOD – **content distribution** and increasingly **production**
    ➔Competes with pay-TV players for subscribers, with traditional TV for viewers' attention, acquisition of content & talent with majority of media players

  - Amazon - **e-commerce** (…and a little bit of everything)
    ➔SVOD as a **complement to Prime** service, to attract and retain consumers (with two-day shipping, music service, cloud services) + Amazon Channels distribution of pay TV channels + advertising-financed VOD (IMDb TV)

  - Apple – **hardware**
    ➔ increasingly relying on services - App store, iTunes and future **streaming service Apple TV+** / **distribution of pay TV channels**

  - Facebook and Google: **advertising** and **data** / global video-sharing platforms
    ➔Challenge to traditional players on the advertising sector
    ➔Distribution of audiovisual content

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1– Main impacts of D2C, OTT distribution and content consumption

- **OTT distribution and Network effects:**
  - ➔First-mover advantage
  - ➔"Winner-takes-all" outcomes
  - ➔Dominance of entire market segments by a few players / Duopolies
  - ➔Difficulties for national players, often operating in only their home market, to compete with global tech giants on scale, resources and technical know-how

- **Impact on the Media ecosystem**
  - ➔**Abundance** of content / **Scarcity** of consumer attention
  - ➔**Rise in costs of content acquisition and production** – Necessity of premium & exclusive content to attract and keep subscribers for SVOD and pay TV players
  - ➔SVOD players' **disintermediation of traditional content producers and distributors** – less middlemen in the future?
  - ➔Amazon, Apple, Google, Roku, (and soon Facebook) and their media streaming devices (control of access and distribution of content/channels)

  - ➔**M&As** (Disney/Fox, AT&T/Warnermedia, Comcast/Sky, Viacom/CBS) in the media sector to achieve necessary scale or **alliances of traditional players** for **D2C** services (Disney+, HBO Max, Salto, Britbox, Joyn,…)

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Pay VOD markets in the EU

- Still a small part of the overall EU audiovisual market
- Explosive growth over the past years for SVOD – growth driver
- Rising importance in access, distribution and production of content
- Increase on TVOD market does not compensate drastic fall of physical market

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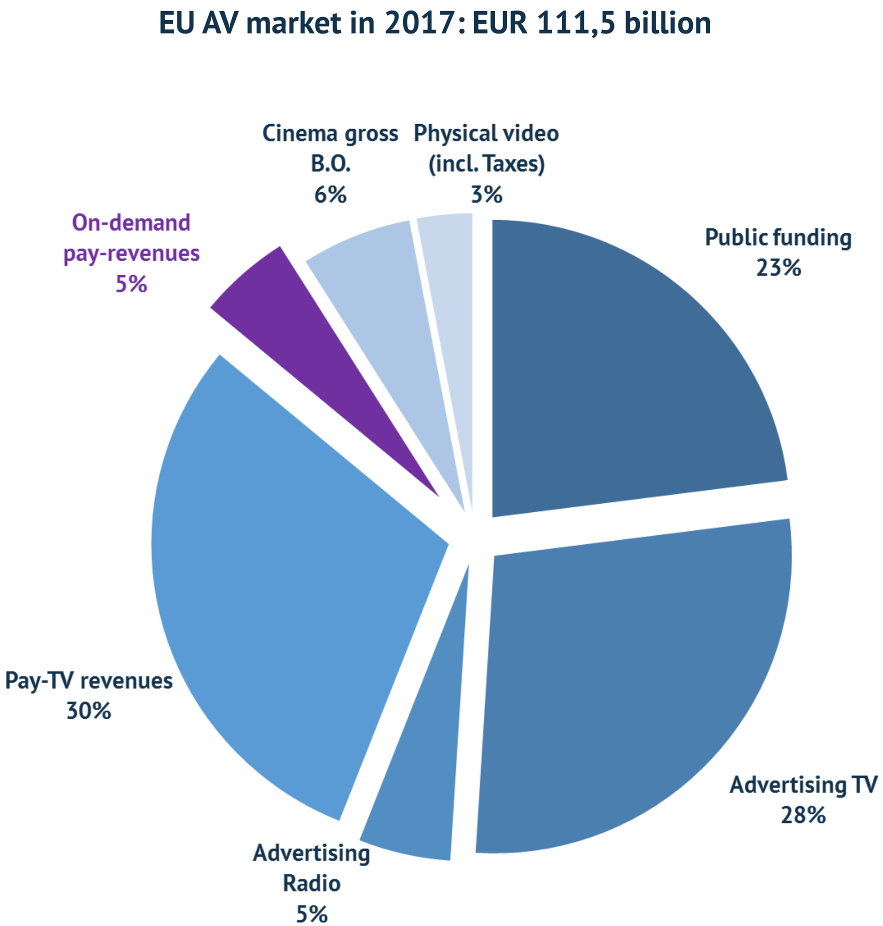
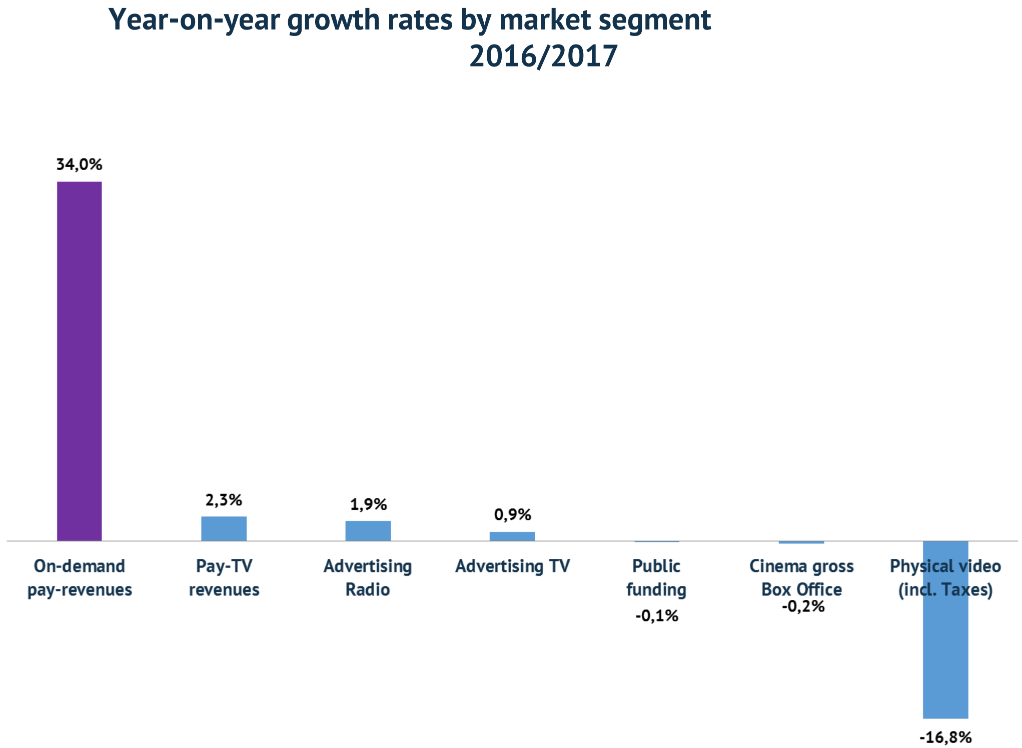
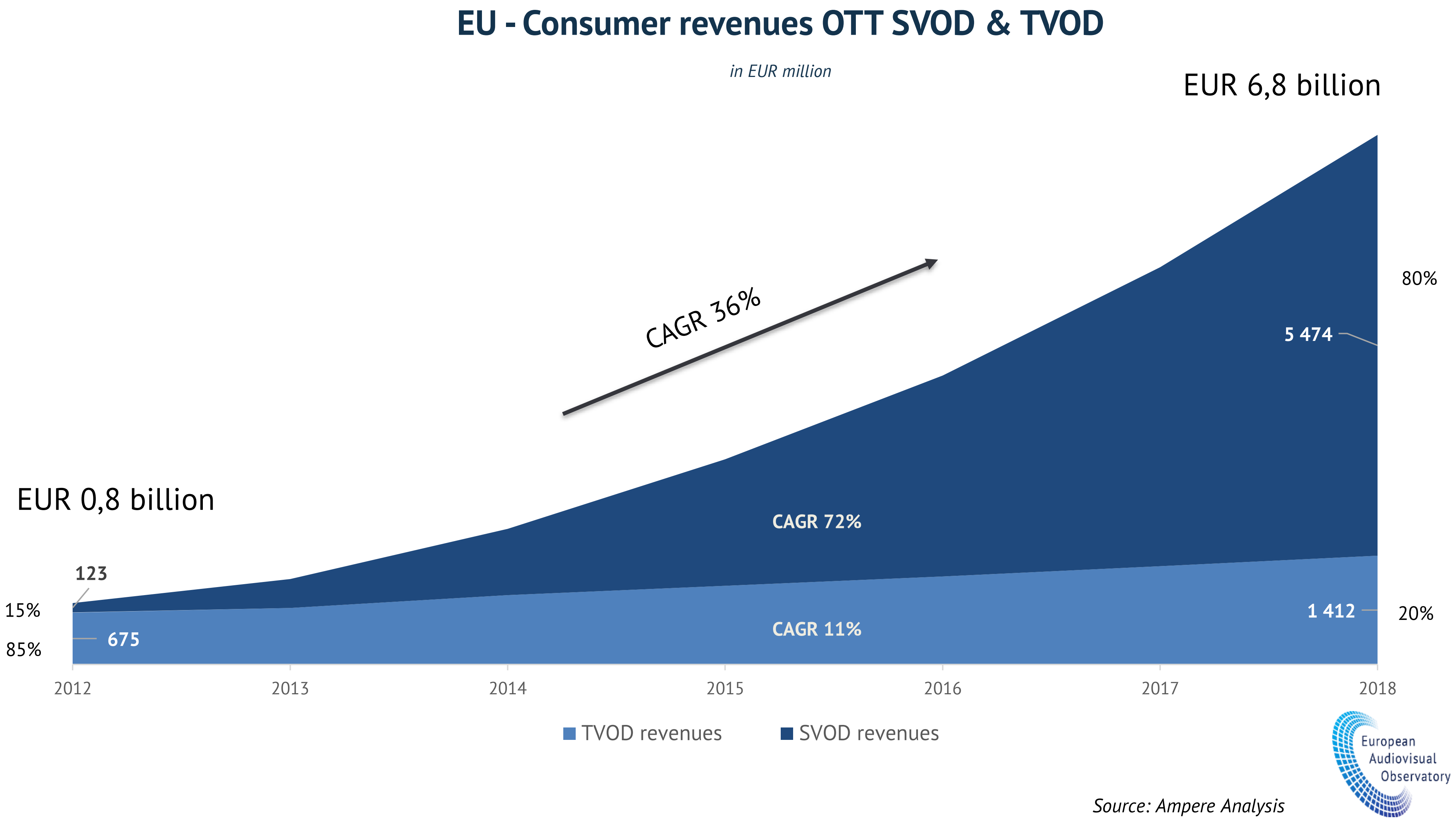
2- Pay-on-demand: 5% of all EU Audiovisual market but growth engine





Source: IHS, Warc, EBU/MIS, OBS, Ampere Analysis

2 – EU VOD market – Rapid growth over the past 7 years - SVOD growth driver



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2 – Focus on the SVOD market in the EU

- SVOD has become an established part of the EU audiovisual ecosystem with rapid growth in consumer revenues and subscribers and is the **main growth driver of the EU audiovisual sector**
  - ➔ Shift of consumer preference towards **access instead of ownership of content**

- In the EU at the end of 2018: over 220 different SVOD services were available (representing 445 linguistic versions) (OBS - MAVISE stats)

- In the EU, the US phenomenon of **'cord-cutting'** begins to be visible in some countries **<u>but not on a pan-European level</u>**; **traditional pay TV and SVOD services are still rather coexisting** than in direct competition
  - ➔distribution of SVOD services by pay TV ongoing trend (Liberty Global, Sky, Telefonica, Orange, Deutsche Telekom, Altice, Canal+, Vodafone…)

- But still a **small fraction** of pay-TV market = Room for further growth and other players as subscription spending of consumers shifts slowly towards SVOD services

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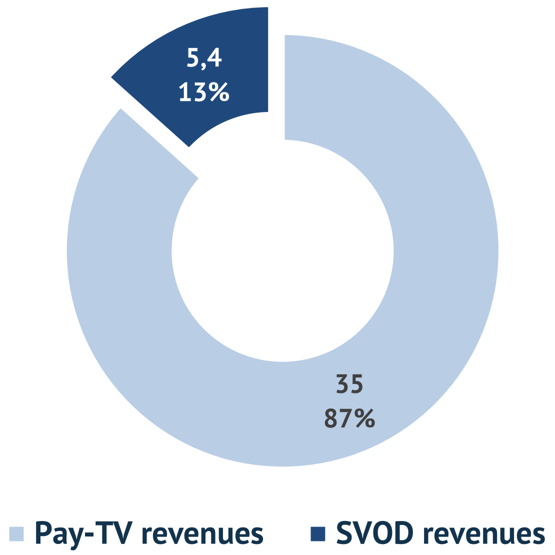
2 – EU SVOD and pay-TV market 2018: rising importance of SVOD services

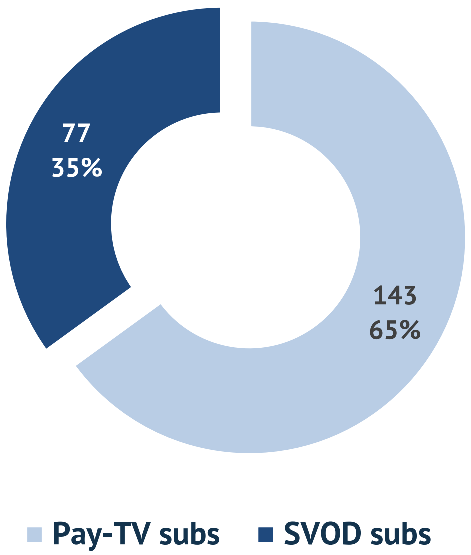
EU Consumer revenues OTT SVOD and pay-TV

in EUR billion



EU Subscribers to SVOD and pay TV

in million subscribers



➔SVOD revenues still a small fraction of subscription services but growing at much faster rate with YtY 41% vs 2% in 2018

➔SVOD revenues projected to be at EUR 12 billion in 2023 accounting for 25% of subscription revenues –Growth and services stacking

➔By 2023, with 127 million subs, SVOD will account for almost half of all subscription services

➔Much lower ARPU for SVOD services – EUR 6,7/month versus EUR 20,4/month for pay-TV

Source: Ampere Analysis

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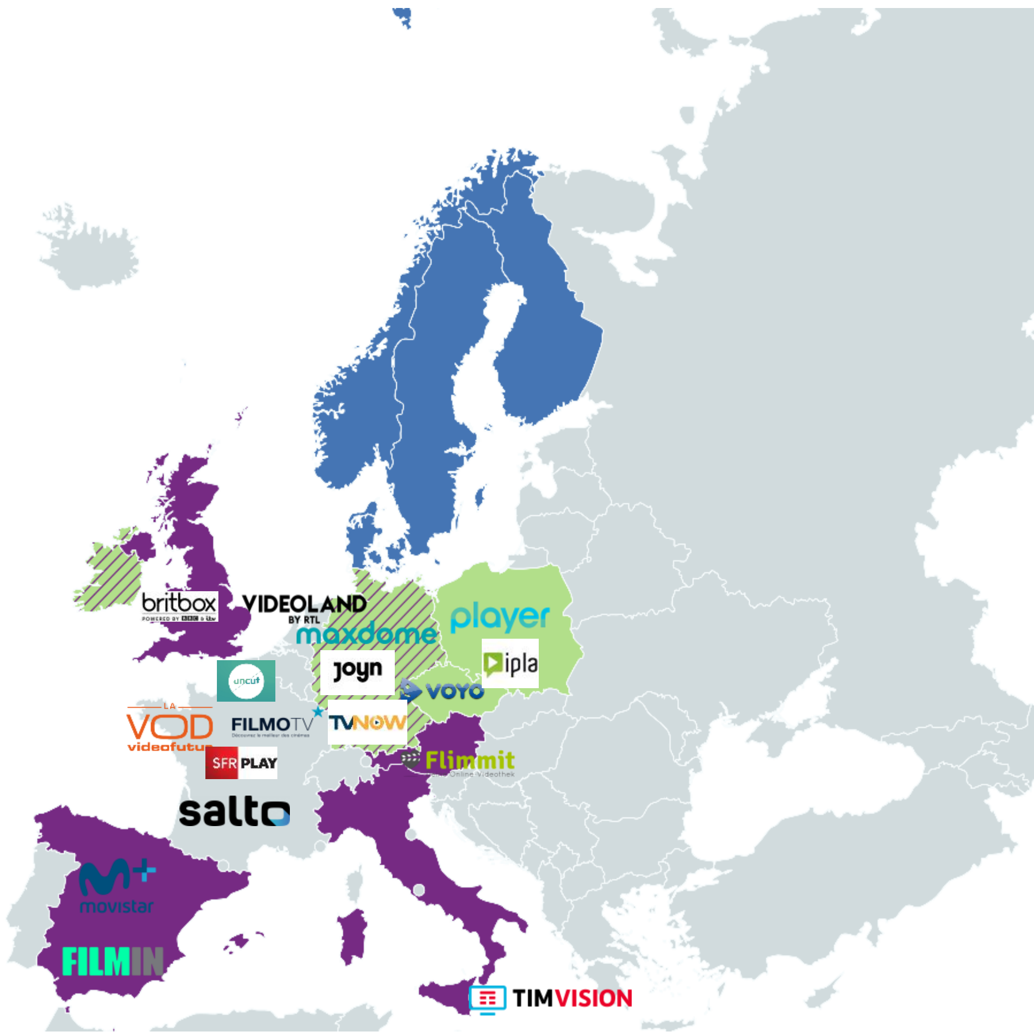
Examples – European SVOD services launched by media players, traditional & pay-TV and telcos

Pan-European:

- C More & Viaplay
- Horizon
- Sky Now TV

Local services:

- Player & ipla PL
- FilmoTV, Videofutur, SFR Play
- Maxdome / Joyn DE
- RTL TV Now Plus DE
- Movistar+, Filmin ES
- TIMVISION IT
- RTL Videoland NL
- Uncut BE & FR
- Flimmit AT
- Voyo CZ
- (Salto & Britbox)



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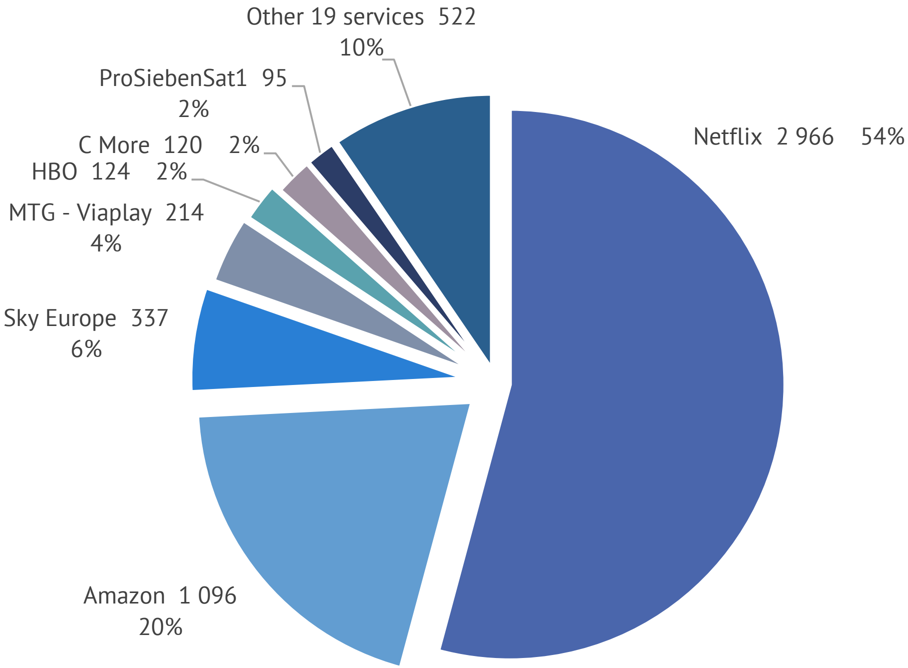
...but it takes time to grow in a competitive landscape, facing global players

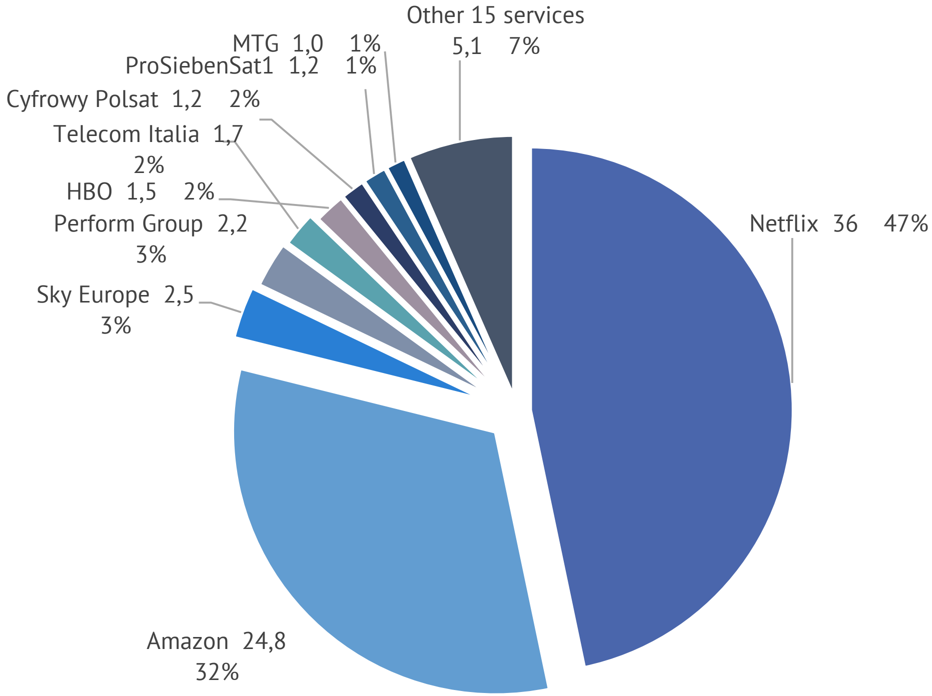
EU SVOD CONSUMER REVENUES

- **EUR 5.4 billion** in 2018
- Netflix and Amazon represent **74% of EU SVOD revenues**



EU SVOD SUBSCRIBERS

- **77 million** SVOD subscribers in 2018
- Netflix and Amazon represent **79% of EU SVOD subs**



Source: Ampere Analysis

2 – Focus on the TVOD market in the EU

- In the EU at the end of 2018: 170 TVOD services representing 371 linguistic versions (OBS - MAVISE stats)

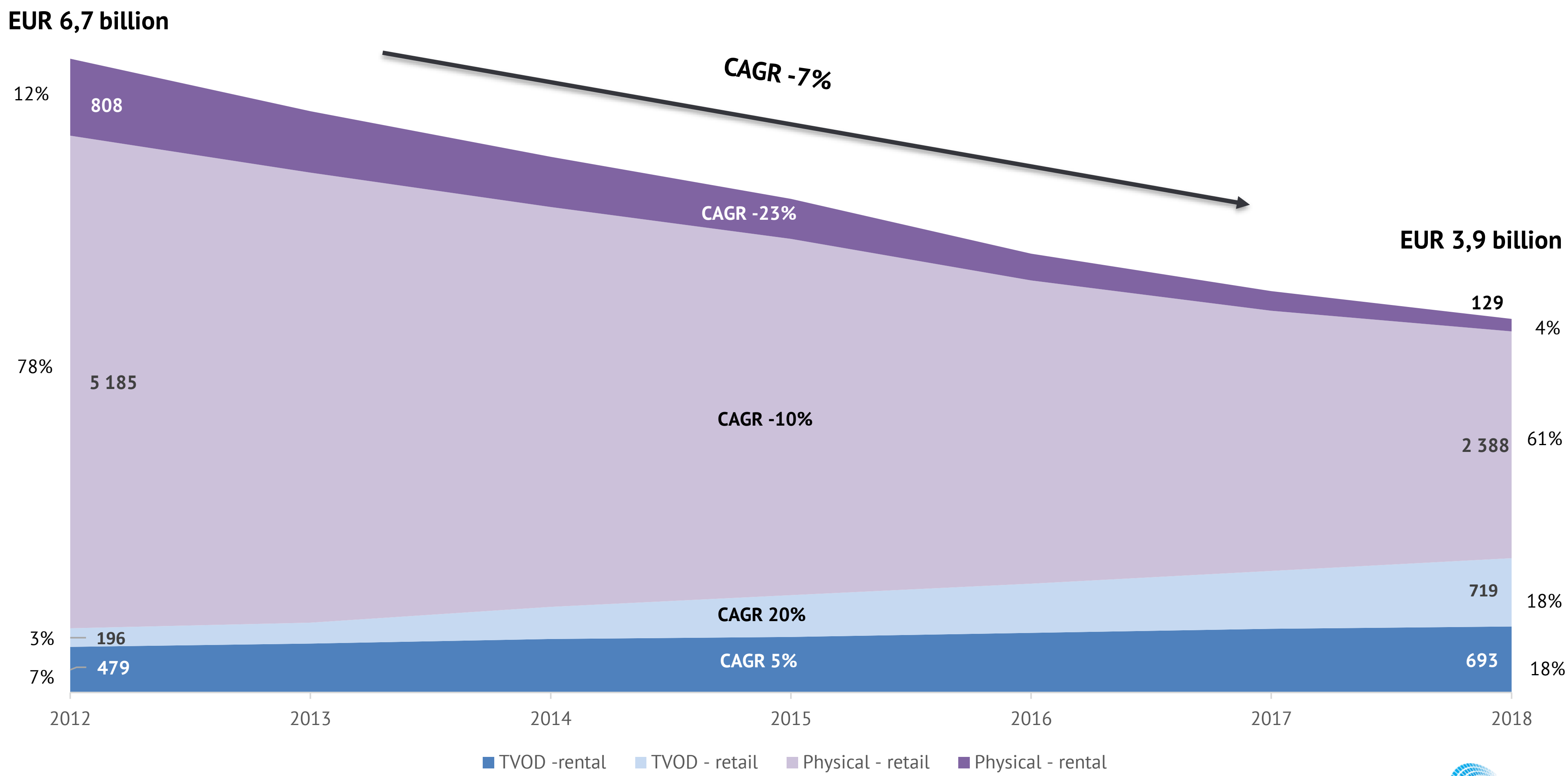
- A Variety of services
  - Generalist offers (Film, TV content) by big groups (Google Play, iTunes, Orange, Sky, Telefonica, Microsoft…)
  - Niche, editorialised offers targeting special audiences (cinephiles, documentaries) by other players (UniversCiné, Filmin, FilmDoo, vod.lu…)

- TVOD catalogues more concentrated on films and recent films than TV content

- In 2018, TVOD retail revenues surpassed rental and will generate the highest share of TVOD revenues in the future – early access to cinema films

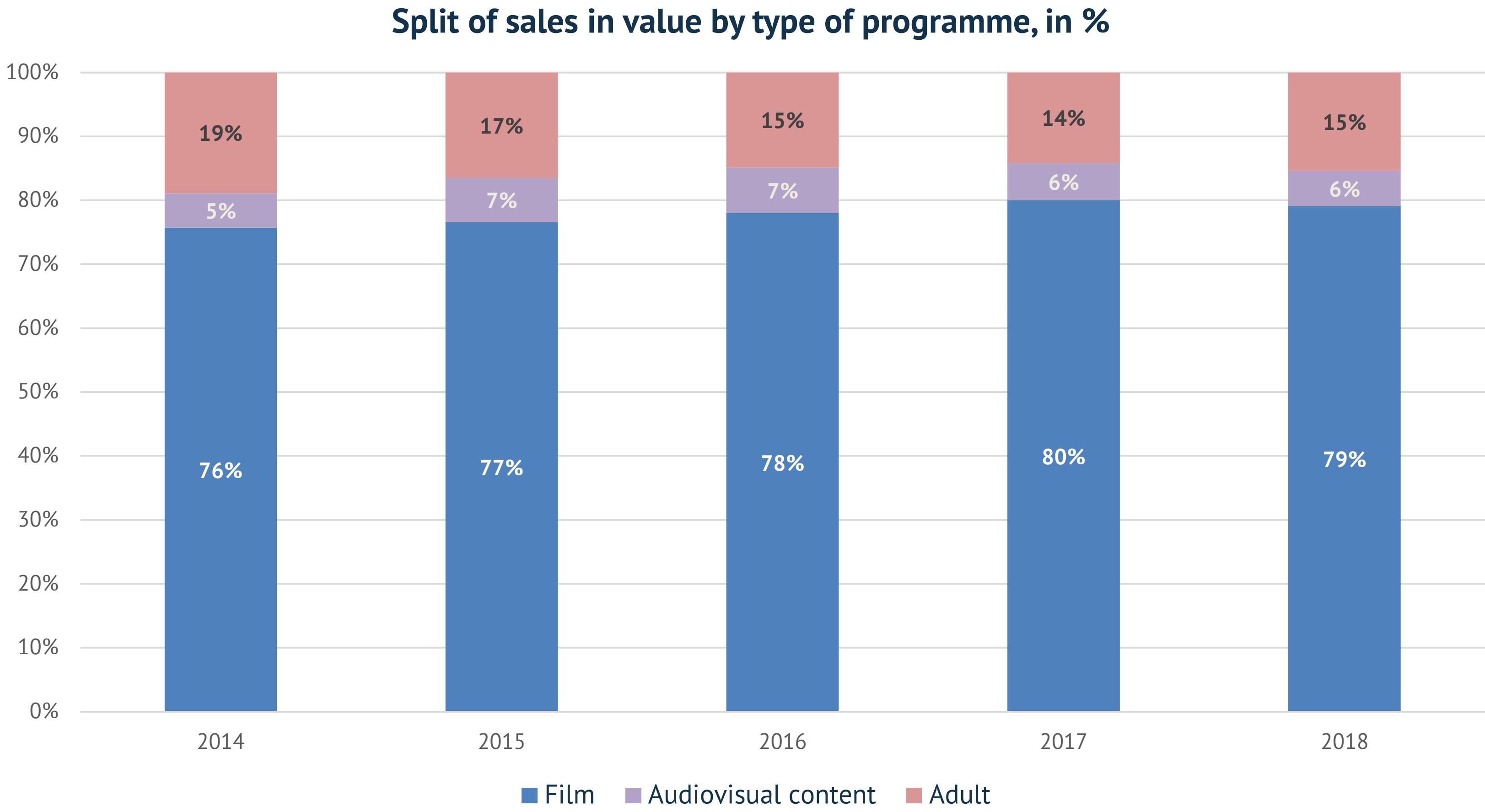
- The increase of TVOD revenues however does not compensate the decrease of the physical market which decreased by 60% from 2012 to 2018

2–The EU transactional market –rapid digital retail increase did not compensate



- Physical – loss of EUR 3,5 billion over 7 years -58%
- Digital – gain of EUR 0,7 billion over 7 years +109%
- Transactional market expected to grow again by 2021

2– Large majority of TVOD revenues comes from films – the French example



Source: Panel GfK – NPA Conseil
Film = films released in theaters in France or straight-to-video

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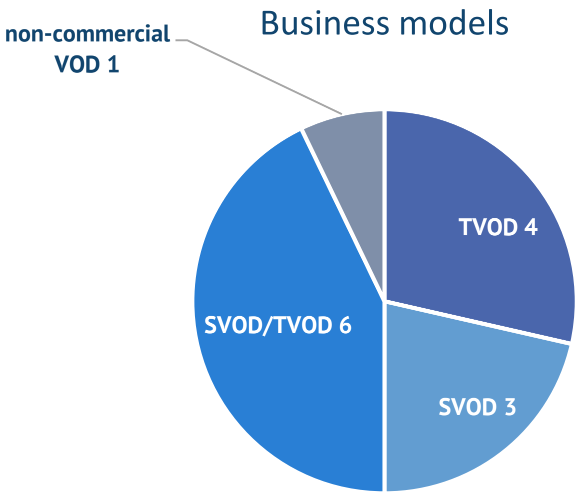
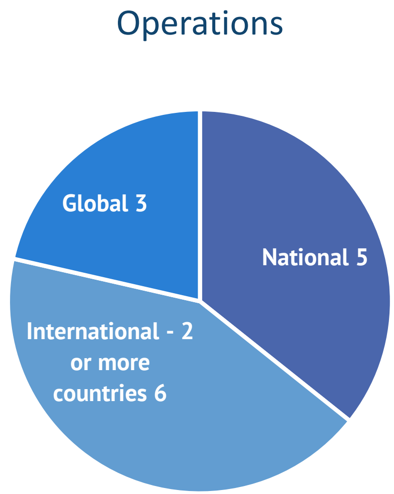
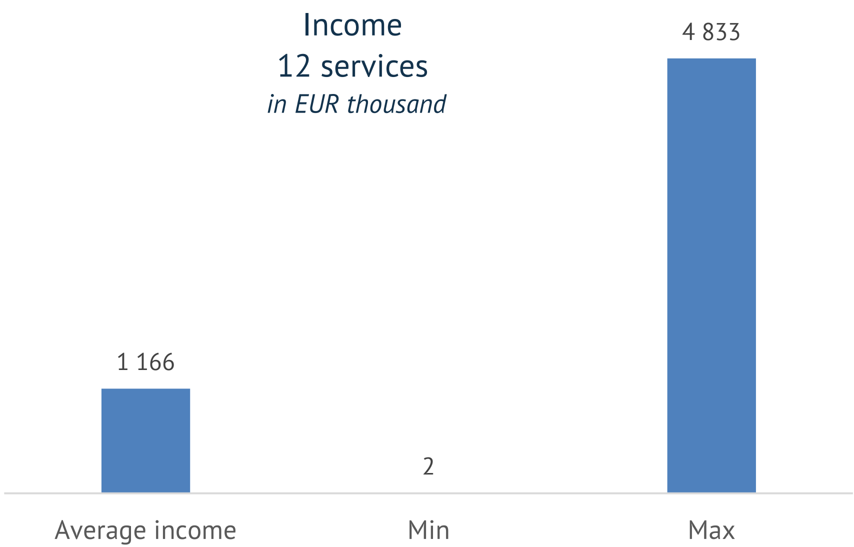
Results from the EUROVOD survey - 14 independent VOD services

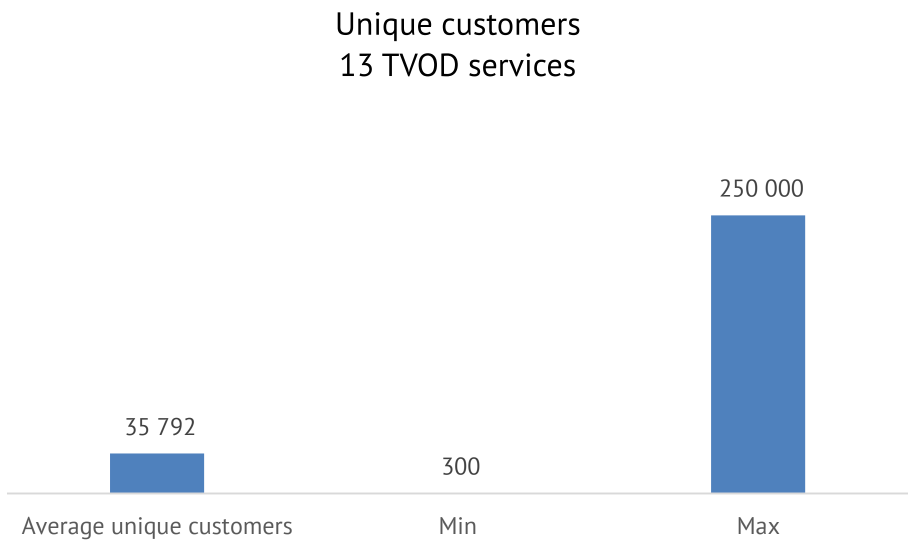
- Data from 14 answers
- Main challenges
- Importance of European films

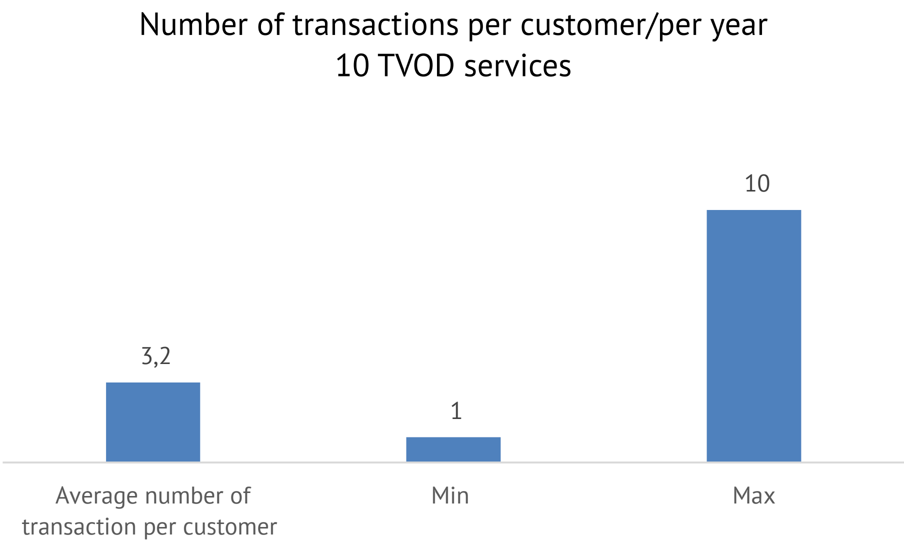


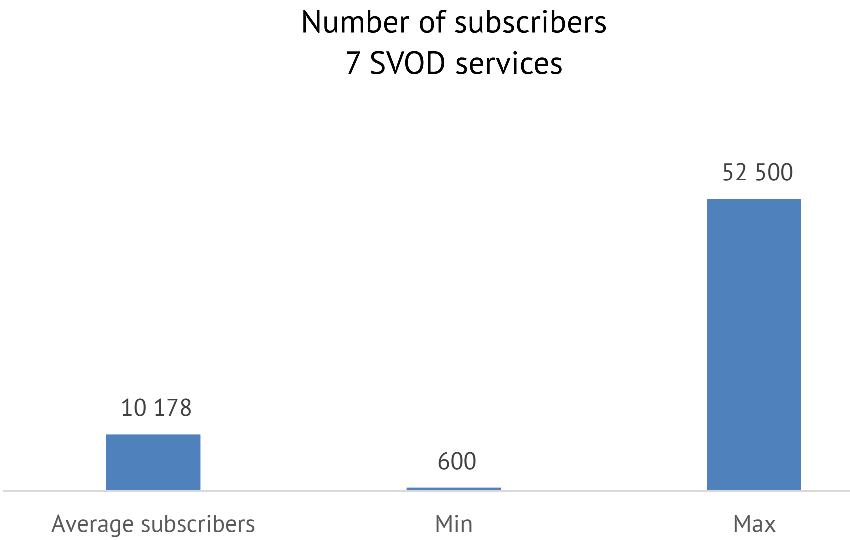


3– Revenues, customers and transactions – large disparities among services

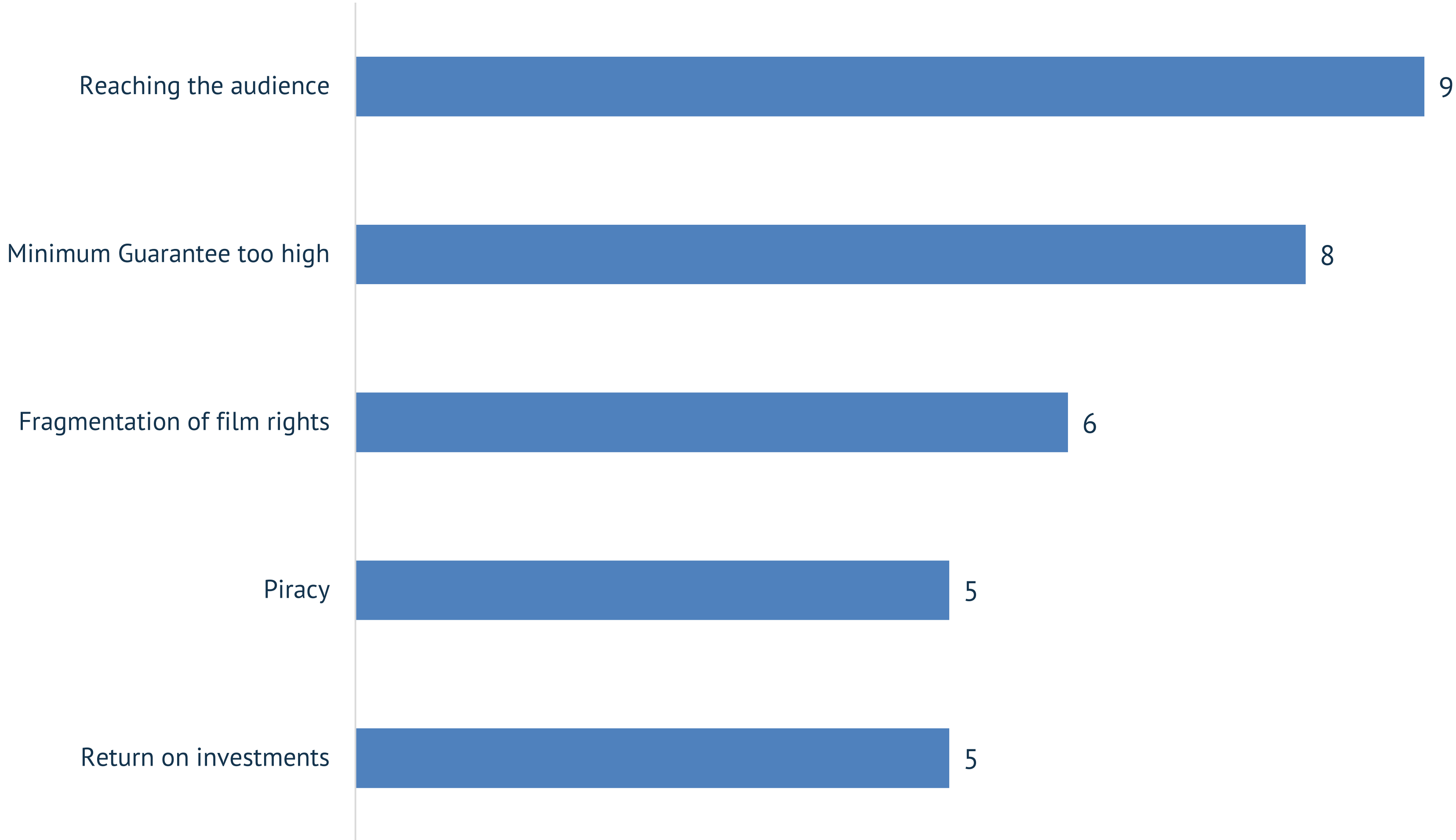




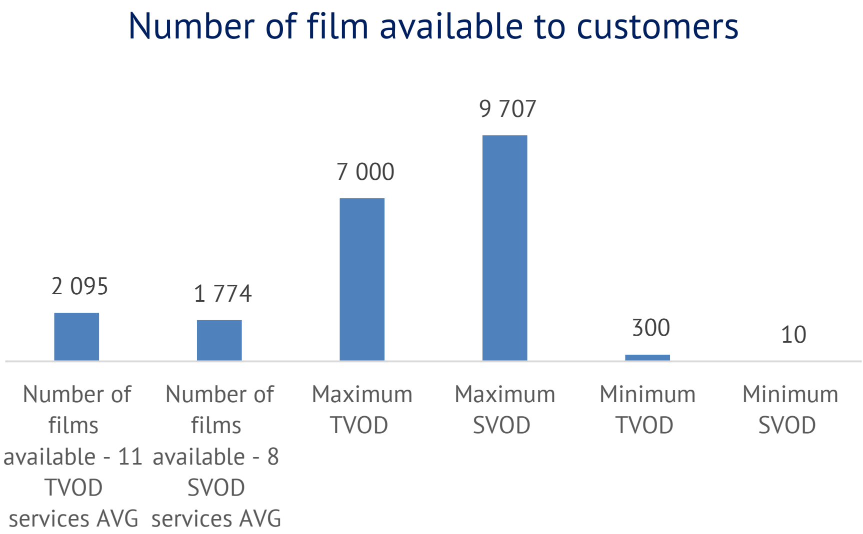


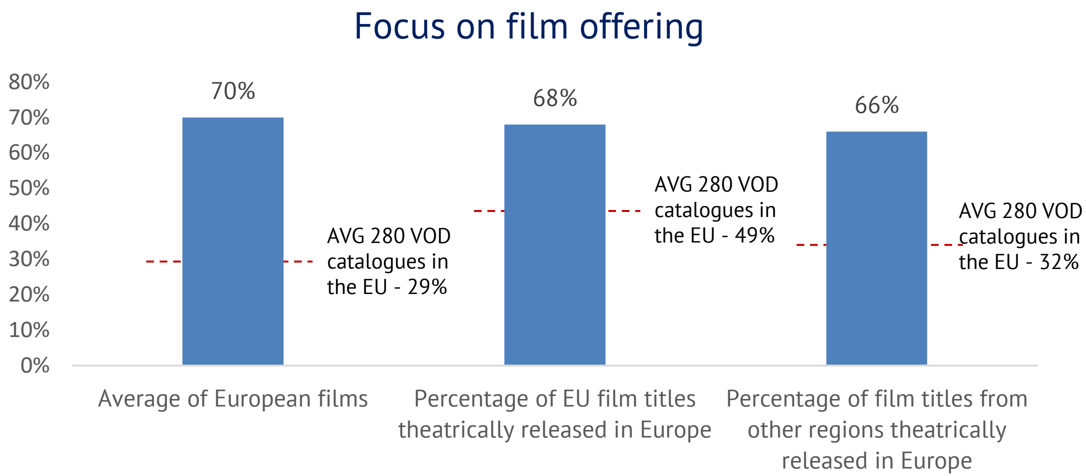


3– Main challenges faced by 14 services by number of respondents



3– A large film offer composed of mainly European films, theatrically released





Source: LUMIERE VOD

- Members of EUROVOD, a curated film offering concentrating on European films
- Majority of films theatrically released in European cinemas
- Very diverse catalogues, with films from 120 different countries of origin

More information:

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