THEME 01

The Battle for Streaming Survival

STREAMING SERVICES | MEDIA | BUSINESS MODEL

The streaming services market has undergone immense growth over the past decade. In line with changing customer preferences and industry dynamics, these companies are adapting their business models, albeit in largely different ways. For some, streaming services are at the core of their business, while others pursue them more as a means to an end. Considering the still highly uncertain landscape, it is uncertain which of these players will establish the most suitable portfolio of assets and capabilities to survive upcoming transitions.

Our observations

- Streaming services, or in other words, over-the-top (OTT) services, have been thriving worldwide in recent years, as exemplified by the enormous popularity of Netflix and Spotify. The term OTT services refers to streaming media distributed as a standalone product directly to viewers over the internet, thereby bypassing traditional platforms. According to PwC, streaming services will continue to grow rapidly, at a 10% CAGR, reaching global revenue figures of U.S. $65 billion by 2022.

- While streaming services cover a multitude of industries (e.g. music, gaming), streaming video on demand (SVOD) accounted for 79.6% of total OTT revenue in 2017 and is expected to account for 81.6% in 2022. The popularity of SVOD is largely driven by smartphone proliferation, with smartphone connections expecting to reach 5.2 billion, accounting for 44% of all internet traffic, by 2022.

- Cord cutting (consumers dropping their cable and satellite TV packages) figures hit record after record with a subscription drop of 3.4% in 2017. Analysists find that cable packages are becoming increasingly unappealing due to the lack of entertaining content and flexibility. Consequently, consumers are shifting to more flexible and affordable alternatives such as Netflix, internet TV subscriptions or shorter programming such as YouTube.

- Netflix is currently the biggest force in the SVOD market, with players such as Amazon Prime, HBO Go and Hulu also covering significant market share. Recently, new powerful players have entered the market. Specifically, Disney has launched Disney+, an OTT subscription video on demand service through which Disney will share Disney content directly with its customers. In addition, Apple has launched Apple TV+, a streaming service with both original Apple and external content.

- While SVOD services are part of Netflix's core business, its challengers Disney and Apple are investing in streaming services as means of meeting their original core business (i.e. selling more Apple products and monetizing on Disney original content).

- The popularity of SVOD goes hand in hand with increasing competition and a shift towards original programming and exclusive content, because consumers are demanding more personalization. This, in turn, results in consumers having to subscribe to a range of streaming services to receive the specific content they desire. Seeing as consumers do not want to subscribe to a countless number of streaming services, analysists believe pricing pressure will increase, which could result in the rise of bundled OTT services.

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Connecting the dots

The growing popularity of streaming services is evident, considering people's changing preference for ever-increasing personalization and identification. For organizations that offer OTT services, this creates an opportunity to reinvent their business model and tap into the rich prospects of the OTT market, but survival in such a market is accompanied by unprecedented convergence of multiple entertainment services (e.g. music, video, gaming) into one platform and hence, a race to accumulate valuable assets and capabilities across the entire ecosystem.

While a significant number of firms entered the SVOD market in recent years, Disney's and Apple's own announced SVOD services are not only expected to challenge Netflix's dominance, but especially the industry's competitive landscape, as each company brings a different portfolio of assets to the table.

Over the years, Netflix has transformed from a relatively straightforward service that offers external video content into a proactive producer of Netflix original content, thus trying to build a strong brand. In addition, Netflix benefits from its experience with recommendation algorithms and a subscriber base well north of 150 million. However, with the arrival of other players with a more diverse set of capabilities beyond content, Netflix could find itself in a tough position. Disney, on the other hand, has already established a powerhouse brand over the past century, backed by strong clout, capital and content assets. With a library that includes not only Disney-brand titles, but also Pixar, Marvel Studios and Star Wars, Disney's content quality might turn out to be the real differentiator. With its streaming service, Disney can both monetize its content and merchandise, as well as learn about viewer preferences. Nevertheless, Disney's service is expected to be more modest in price and quantity of content than Netflix and Apple.

Next, Apple's decision to enter the streaming services market is more peculiar. While Apple used to identify itself more as a hardware company, its launch of Apple services indicates a strategic reformulation to complement its hardware capabilities with a plethora of services to reduce churn, thereby creating a "digital ecosystem" with capabilities along the entire stack. Experts believe Apple is aiming for lock-in because its service is best compatible with Apple products, which further stimulates consumers to buy their products (e.g. iPhone). Overall, Apple can bring a strong portfolio of assets to the table, not only due to its good reputation when it comes to privacy and quality, but also because, as Oprah Winfrey argued "they are in a billion pockets, y'all, a billion pockets". On the flipside, there is still much doubt about Apple's ability to compete with the rich catalogues of Disney and Netflix, especially given its lack of an audience in comparison to Netflix's 150 million subscribers.

Thus, the multitude of companies that cover the SVOD market are pursuing their own motives, ranging from lock-in (e.g. Apple) to content monetization (e.g. Disney) to engagement (e.g. Amazon Prime) and so on. Considering consumers' changing behavior and preferences, it's evident that although streaming services successfully meet people's personalized content demands, people do not want to pay an average of €10-€15 a month for 5 different SVOD services. It is therefore highly likely that different streaming services will be bundled into packages, which raises the question which of these players has established the most suitable business model for what's next. This will depend, in turn, on how consumers will adapt over time. This will not only be a question of quality vs. quantity (i.e. Disney has quality content, but not quantity, while Apple is expected to have the quantity, but not quality), but also of comprehensive entertainment offerings (i.e. full package vs. one medium).

Implications

- **If different streaming services get bundled into a small number of popular packages, consumers might come to criticize the firm controlling all their entertainment content in a similar way as people are rebelling against Facebook's control in the social media sphere. In addition, such packages could also restrict the diversity and creativity of content.**
- **If streaming packages become extremely popular, mastering capabilities along the entire stack might become the real differentiator, in which case Apple could have a clear advantage with its digital ecosystem. In contrast, if the content becomes a key differentiator, parties such as Netflix and Disney might be better positioned.**
- **With the entrance of wealthy firms such as Apple and Disney, the battle for streaming services might play out as a long power struggle, because the "Apples of the world" can afford to follow an unlucrative line of business for a longer period of time. This would mean that, ultimately, firms with the deepest pockets have the highest chance of survival.**
- **Whichever firms survive the battle for streaming services, future entertainment will look very different from our current hybrid structure of cable TV combined with online streaming service subscriptions. Some believe we may eventually end up paying for something that looks surprisingly similar to TV services of 10 to 15 years ago, while others believe we will move away from cable TV completely, entering a new era of OTT service packages to access what we want, whenever we want, wherever we want and on which device we want.**

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