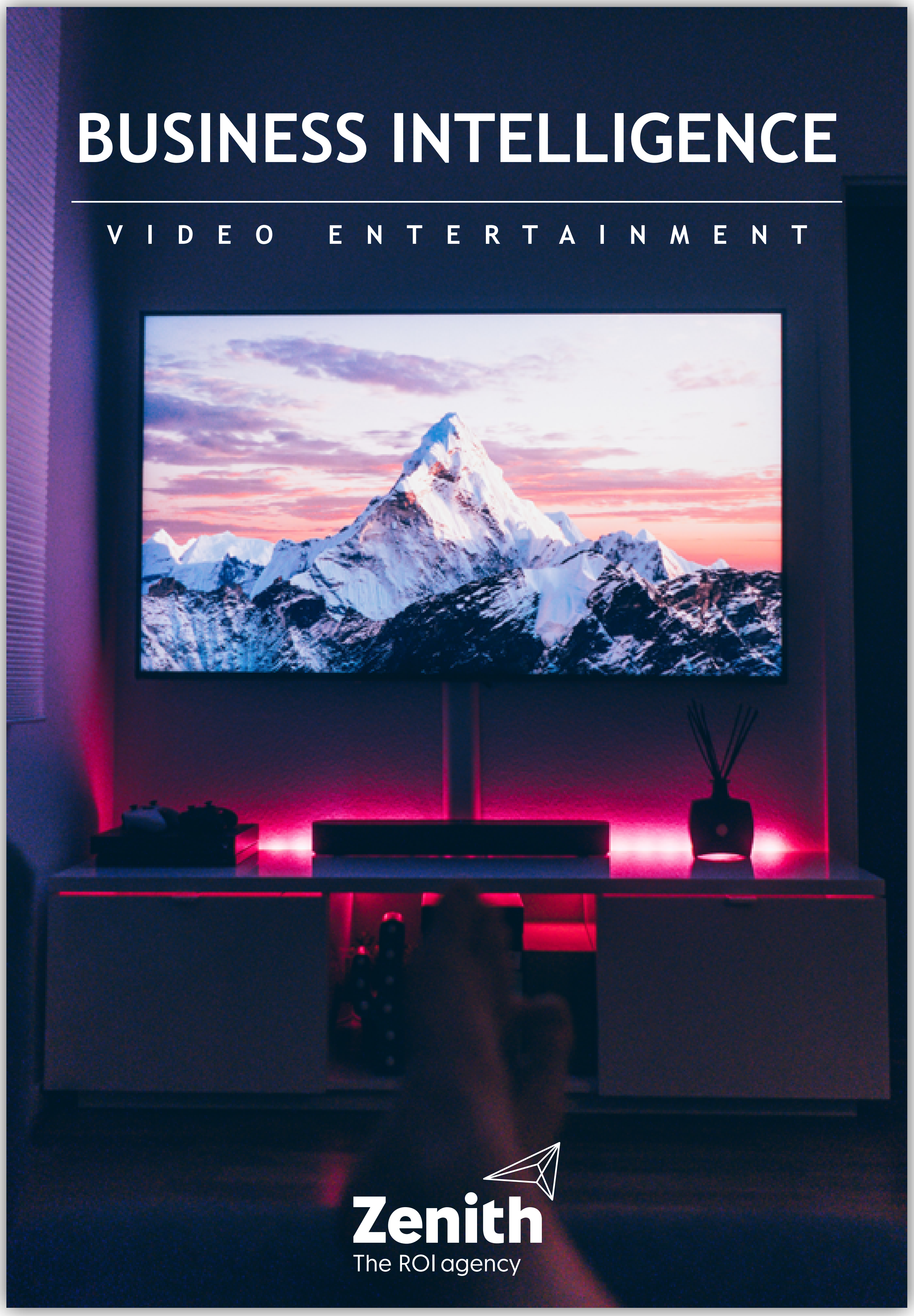
BUSINESS INTELLIGENCE

VIDEO ENTERTAINMENT



Zenith
The ROI agency

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Introduction

Welcome to the second edition of Zenith's new Business Intelligence reports, which focus on the advertising, business and consumer behaviour trends shaping particular industries.

For this edition we look at video entertainment, which covers all forms of television and online video. Unlike most industries, demand for video entertainment has increased this year as consumers have been confined at home, but video brands have also faced more competition than ever before. Television companies are launching new video-on-demand platforms to capture for themselves some of the value of the fastest-growing revenue stream – online video subscriptions – but video brands are also competing with social networks, video games, and even fitness and mindfulness apps, usage of which has surged during lockdowns.

The current abundance of video entertainment is not sustainable. Video-on-demand platforms are collectively spending a lot more on content than they are generating in revenue, while television revenues are in long-term decline. Brands are striving to recruit loyal audiences while the opportunity is still available. A shake-out is coming: in fact, with the closure of Quibi in October, it has already started. Their long-term survival depends on cementing a reputation for providing unmissable content that viewers find personally interesting with the minimum of fuss.

Scope of report

In this report, video entertainment refers to video content viewed by consumers on any device, transmitted either by television or over the internet. Video entertainment brands include all television channels, cable and satellite TV operators, and video-on-demand platforms, both AVOD and SVOD. These will obviously vary by country, but in the US, for example, would include networks like ABC, NBC and FOX; cable channels like CNN, MTV and HBO; cable operators like Xfinity; AT&T TV and Spectrum; satellite operators like DirecTV and DISH Network; and VOD platforms like Disney+, Hulu, Netflix, Amazon Prime Video, Apple TV+ and Peacock.

Glossary

Advertising expenditure: Money spent on advertising by video entertainment brands to promote their services.

Advertising revenues: Money received by video brands from other companies in return for running ads within their content.

Cord-cutting: Cancelling a pay-TV subscription, often by households using online alternatives instead.

E-sports: Computer gaming as a spectator sport.

Free TV: Television broadcasts freely available to all viewers.

Online video: Video content transmitted over the internet.

Pay-TV: Television broadcasts only available to paying subscribers. Basic pay-TV is a large package of channels received by all subscribers, who can top it up by choosing to pay for additional premium channels.

Subscription revenues: Money paid directly to video brands by consumers in return for receiving their content.

Television: Scheduled, linear programmes transmitted to viewers over the air, or by cable or satellite.

Video-on-demand (VOD): Specific video content transmitted at the request of the viewer, normally over the internet. Can be funded by subscription (SVOD) or advertising (AVOD).

VIDEO ENTERTAINMENT ADVERTISING FORECASTS

Competition for online viewers will keep video entertainment adspend stable in 2020, while the market as a whole shrinks 9%

Spain and India will enjoy the fastest growth in video entertainment adspend through 2022, fuelled by strong appetite for video-on-demand

Video brands will spend 57% of their budgets on digital advertising in 2020, up from 53% in 2019, as they compensate for lost cinema and out-of-home audiences

Adspend on cinema and out-of-home will make up some lost ground in 2021, but will be well below 2019 levels even in 2022

VIDEO ENTERTAINMENT ADVERTISING WILL BE STABLE THIS YEAR DESPITE PANDEMIC

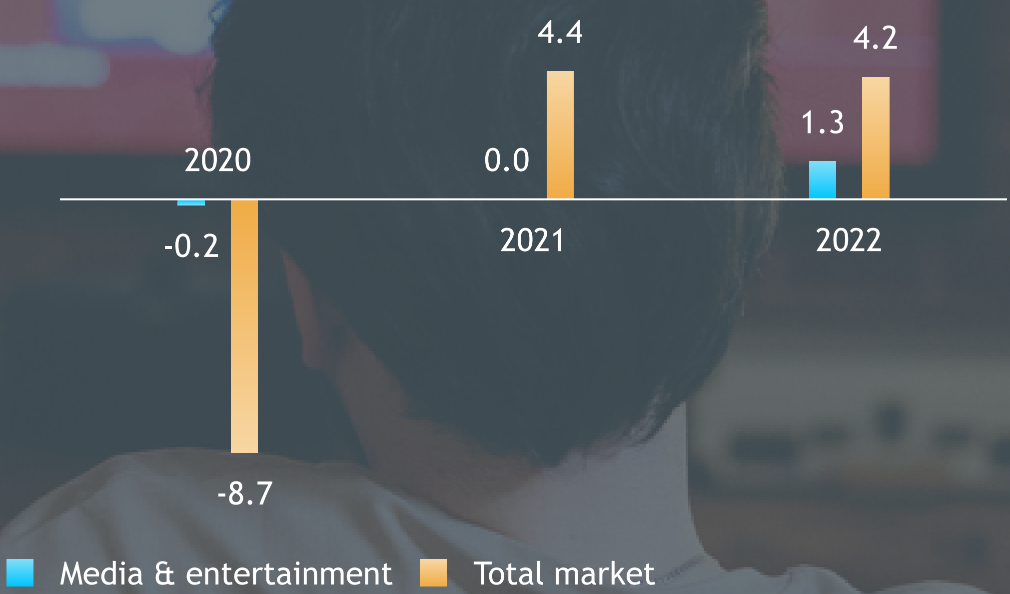
Zenith forecasts video entertainment advertising to shrink by just 0.2% in 2020 across ten key markets this year, far outperforming the ad market as a whole, which will drop by 8.7% across these same markets.

The ten markets included in this survey are Australia, Canada, Germany, India, Italy, Russia, Spain, Switzerland, the UK and US, which collectively account for 57% of all global adspend.

The remarkable resilience of video entertainment adspend in this year of pandemic and global recession is the result of increased demand from consumers, increased supply of content, and intense competition among video brands for viewers. Faced with spending much more time at home, consumers have turned to video content to keep themselves informed and entertained, though the initial spike in demand now eased somewhat.

Online video platforms have invested huge sums in content to attract new viewers: more than US$95bn in 2020 alone, according to Cowen and Company. This has forced traditional broadcasters to up their game, by both reinforcing their conventional television offerings and investing in online platforms. Following the launch of the global platforms Disney+ and Apple TV+ from late 2019 onwards, more local platforms have launched in 2020, such as HBO Max and Peacock in the US.

Year-on-year growth in adspend (%) - ten key markets



Source: Zenith

“This remarkable resilience is the result of increased demand from consumers, increased supply of content, and intense competition among video brands for viewers.”

ADSPEND TO EXCEED 2019 PEAK BY 1.2% IN 2022

Adspend by online video brands has far outpaced traditional television recently, though the rate of growth has varied depending on market and the launch dates of new platforms. In the US, online video brands increased their ad budgets by 142% in 2019, while television brands increased their spending by 15%. In the UK, adspend by online video platforms increased by 79%, while adspend by traditional television grew 34%.

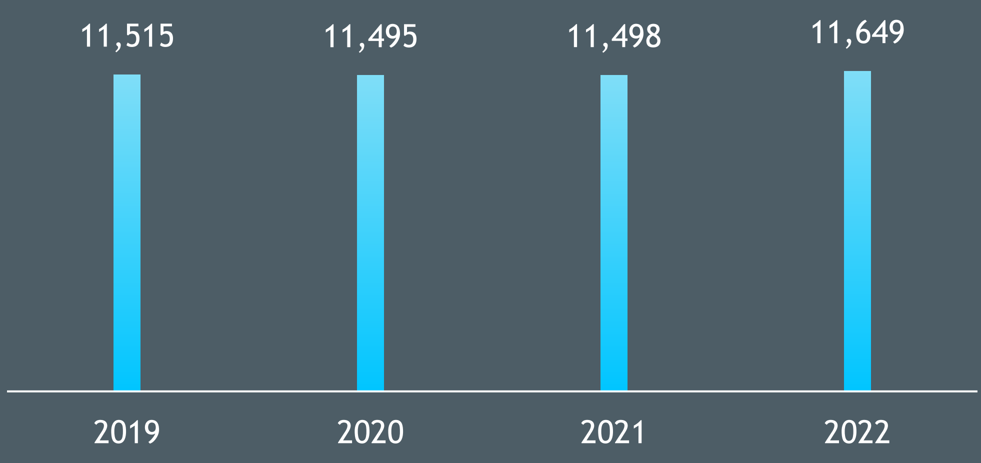
In both markets, television broadcasters and pay-TV platforms temporarily pushed up spending in response to new competition, but this will prove unsustainable in the face of ongoing decline in their revenues, both COVID-19-related and structural. See the Category Growth sections for more details on this. Meanwhile, online video platforms have continued to raise their budgets as they seek to exploit the current window of opportunity to build a loyal customer base.

Consumers may be willing to subscribe to multiple platforms at the moment, thanks to free or cheap promotional offers and heightened demand for home entertainment during the pandemic. But according to the International Monetary Fund, unemployment in advanced economies will rise by 52% in 2020, while economic output will shrink by 5.8%. As the promotional offers come to an end and the economic pain mounts, consumers will cut back. Each platform is spending heavily on advertising to ensure that they are top of mind while consumers consider which ones to commit to for the long term.

While video entertainment is expected to outperform the market in 2020, Zenith forecasts it to underperform over the next two years, with no growth in 2021 and 1.3% growth in 2022. Online video platforms will have less capacity to raise budgets after spending heavily in 2020, and traditional TV broadcasters will be weighed down by shrinking revenues from TV advertising and pay-TV subscriptions. Nevertheless, we expect video entertainment adspend to be 1.2% higher in 2022 than it was in 2019, while overall advertising will still be 0.6% below its 2019 peak.

"Each platform is spending heavily to ensure that they are top of mind while consumers consider which to commit to for the long term."

Total video entertainment adspend (US$ million)



Source: Zenith

SPAIN AND INDIA TO LEAD GROWTH IN VIDEO ENTERTAINMENT ADSPEND

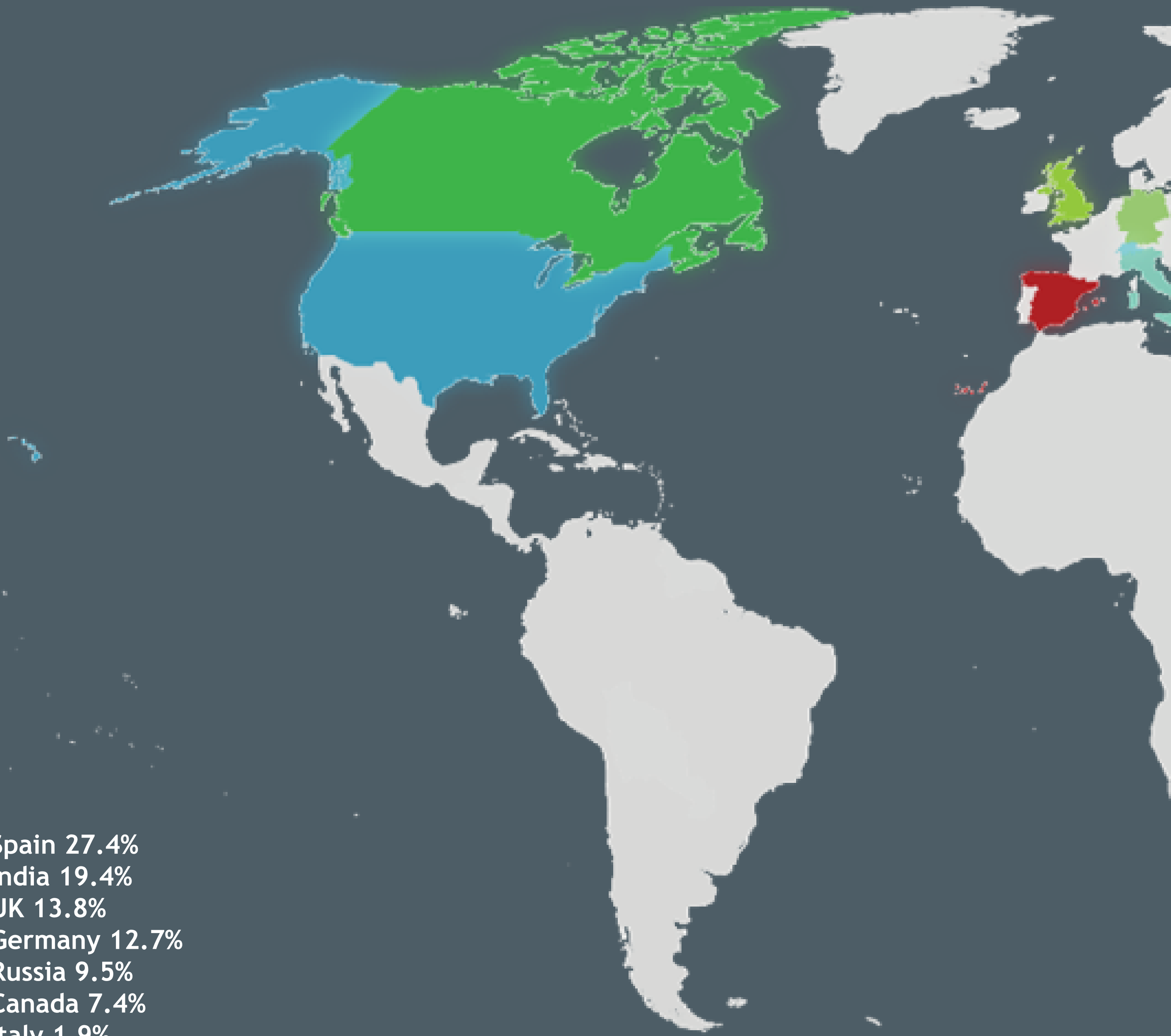
The stable headline figures for growth across the ten markets hide considerable variation between the markets. Video entertainment brands are forecast to spend 27% more in 2022 than in 2019 in Spain, and 19% more in India. Meanwhile, spending is expected to decline by 5% in the US and 7% in Australia over the same period.

Spain has a large and fast-growing appetite for video-on-demand, with 41% of internet homes using at least one subscription platform in 2019, up from 31% in 2018, according to the markets regulator Comisión Nacional del Mercado de Valores (CNMC) – and that was before lockdown and the local launch of Disney+ in 2020. India is another fast-growing market for video-on-demand, especially on smartphones. Its television ad market also enjoys rapid long-term growth – unlike in most Western countries – and should bounce back quickly in 2021.

The US is the only market where video industry revenues are expected to continue to decline after 2020, as rising online revenues fail to compensate for the ongoing declines in TV advertising and pay-TV subscriptions. This will reduce available ad budgets, leading to 0.7% annual declines in US video adspend in both 2021 and 2022. The video industry is healthier in Australia, but here the ad market as a whole is retrenching after COVID-19 brought Australia's extraordinary 29-year record of economic growth to a halt, so video brands can maintain share of voice without raising budgets.

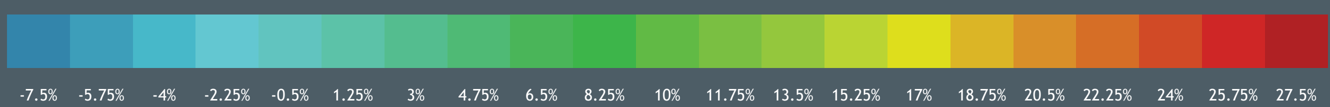
"The US is the only market where video industry revenues are expected to continue to decline after 2020."

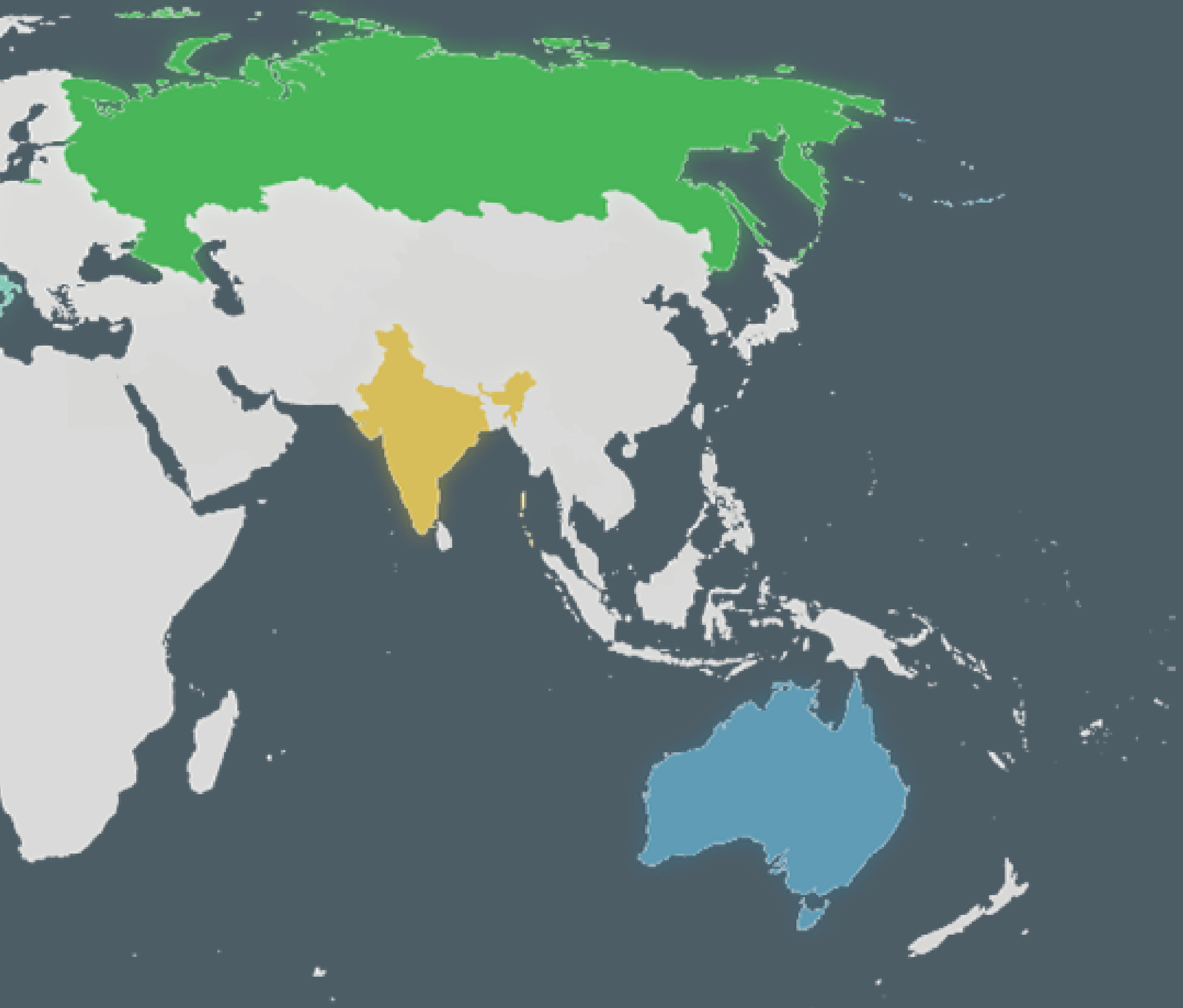
Total growth in video entertainment adspend 2019-2022 (%)



Spain 27.4%
India 19.4%
UK 13.8%
Germany 12.7%
Russia 9.5%
Canada 7.4%
Italy 1.9%
Switzerland -1.4%
US -5.1%
Australia -6.7%

Source: Zenith





LOCKDOWN HAS MADE DIGITAL EVEN MORE VITAL TO VIDEO BRANDS

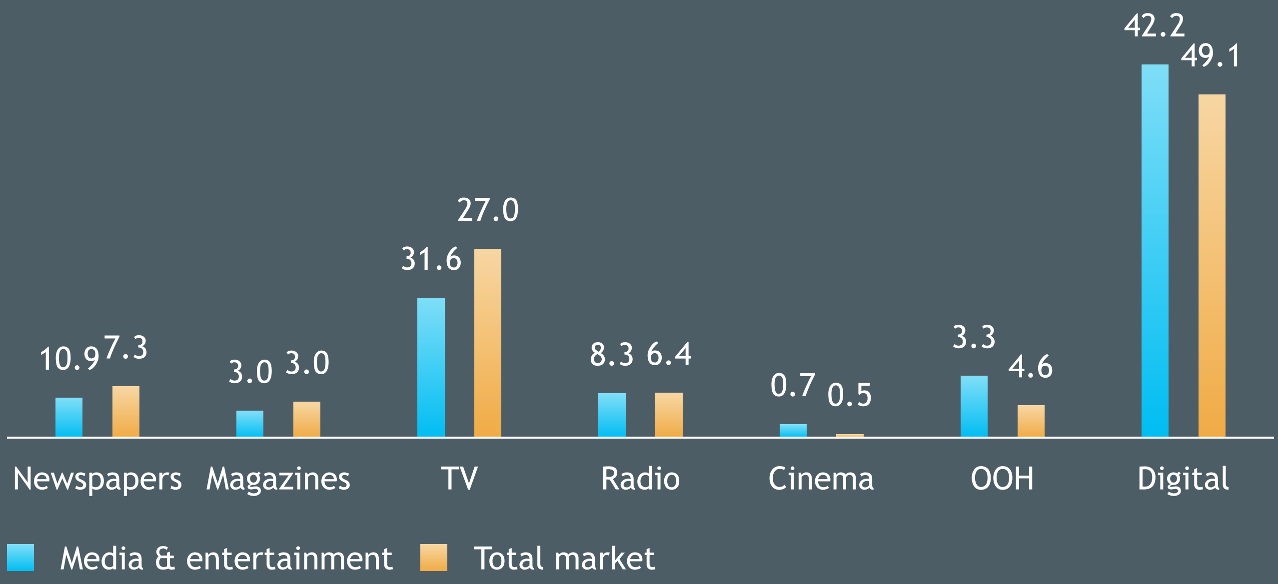
Video entertainment brands spend more on digital advertising, out-of-home and cinema than the average brand, and less on television, newspapers and magazines.

Video brands' reliance on out-of-home and cinema has posed a particular challenge this year, as they have been forced to compensate for lost audiences from empty cities and closed cinemas. This means even more digital spending, which is forecast to rise from 53% of total video entertainment spend in 2019 to 57% in 2020. This money is unlikely to return to traditional media: by 2022, digital is forecast to account for 59% of all video entertainment spending.

Video brands underspend on television because so many of them get free promotion on their own television channels. This promotion plays a vital role in creating brand identities and attracting the right audiences to the right programmes, and television channels are lucky enough to get it for free. Video brands that don't own their own television channels, in contrast, often face extra difficulties or penalties when advertising on their competitors' channels, so are more likely to spend elsewhere.

"Video brands have been forced to compensate for lost audiences from empty cities and closed cinemas by spending even more on digital advertising."

Share of adspend by medium, 2019 (%)



Source: Zenith

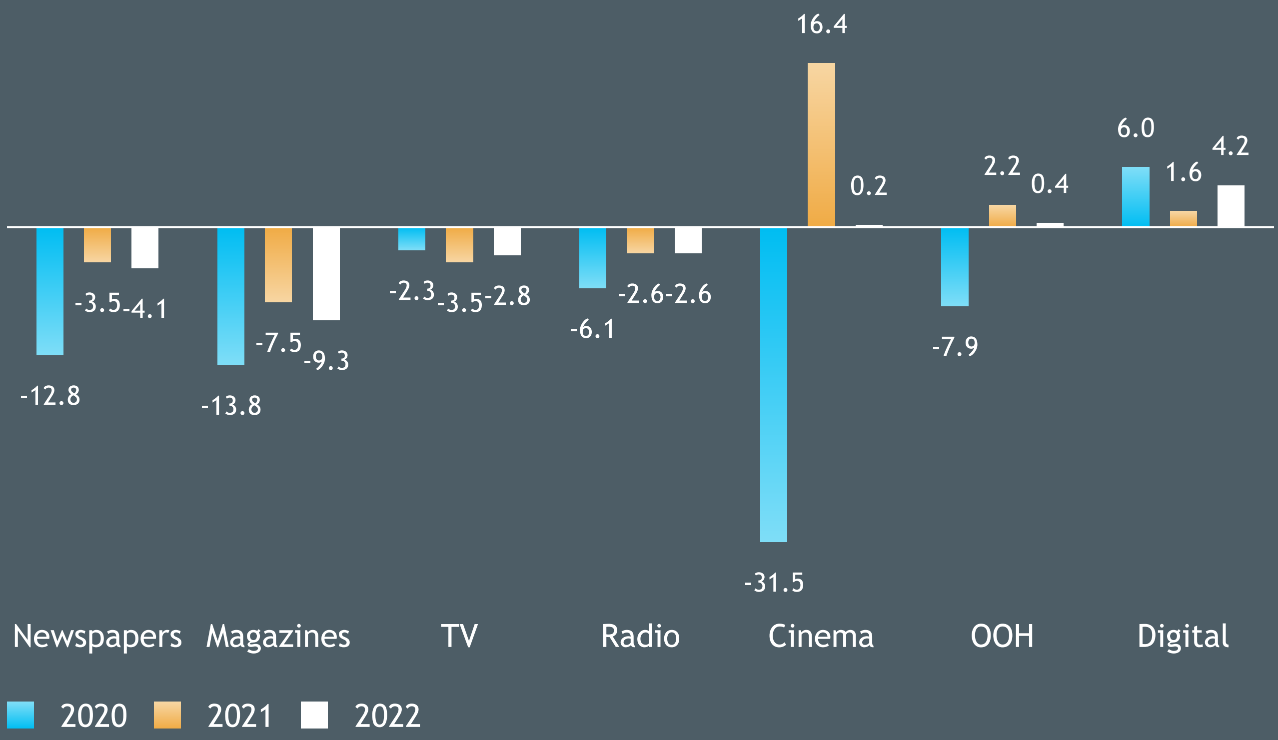
CINEMA AND OUT-OF-HOME WILL RECOVER SOME OF THEIR LOST GROUND IN 2021

Video brands will spend 6% more on digital advertising in 2020 than in 2019, and then increase their spending further in 2021 and 2022, by 2% and 4% respectively. By 2022 video brands will be spending 12% more on digital advertising than they did in 2019.

The only other media expected to enjoy any annual growth over this time are cinema and out-of-home. Restrictions on movement and assembly may still be in place in 2021, but are likely to be less severe than in 2020, particularly during the months of strictest lockdown. Both media will therefore recover some of their lost expenditure in 2021, before stabilising in 2022, although adspend will remain well below 2019 levels even by the end of this period.

"Cinema and out-of-home will recover some of their lost expenditure in 2021."

Year-on-year growth in video entertainment adspend by medium (%)



Source: Zenith

CONCLUSION

Intense competition for subscribers among online video platforms, both new and pre-existing, will keep video entertainment adspend stable in 2020, a year when most other categories are suffering steep declines. In 2021 and 2022 platforms will begin to reduce the gap between their spending and their income, and consumers will decide which platforms they will commit to for the long term. The one-off spike in adspend seen this year will subside, so there will be little recovery of video entertainment adspend even as other categories bounce back.

Video brands already spend more of their budgets on digital advertising than the average brand, and their reliance on digital advertising will only increase in the coming years. Consumers rely more on digital channels to seek out, watch and discuss video entertainment. It will be more important than ever for video brands to use digital communications effectively, using first-party data to foster long-term relationships with consumers by addressing their personal tastes and preferences.


tv shows
iTunes
BBC
iPlayer
itv
HUB
My5
NOW TV
vevo
Absolute
FRANCE

VIDEO ENTERTAINMENT CATEGORY GROWTH

Falling television ad revenues mean subscriptions are becoming even more important, accounting for 62% of video revenues in 2022, up from 59% in 2019

Online video will grow by 11% a year between 2020 and 2022, while television will shrink by 2%

The number of online video subscriptions will overtake pay-TV subscriptions in 2020

Huge investment in original content and first-mover advantage have helped Netflix grow faster than all the other top video entertainment companies

VIDEO ENTERTAINMENT WILL SUBSTANTIALLY OUTPERFORM THE ECONOMY IN 2020

The video entertainment industry is forecast to shrink by just 1.7% in 2020, a strong result in a year marked by a global pandemic and recession. Revenues were bolstered by extra demand from consumers forced to spend more time at home during the pandemic, and also the launch of several new video-on-demand (VOD) platforms, including Disney+ and Apple TV+ globally, and local platforms like HBO Max and Peacock in the US, Salto in France, Canal+ in Poland and Zee Ples in India.

There are two principle sources of revenue for video entertainment companies are advertising and subscription revenues. There are also two methods of supplying entertainment content to consumers, television and online video. The main business models for television are free TV, paid for entirely by advertising, and pay-TV, where subscription revenues provide most of the funding, but advertising is often sold to supplement subscriptions. Online video has both ad-funded video-on-demand platforms (AVOD) and subscription video-on-demand (SVOD), though in this case subscription-funding is more common and most SVOD platforms sell no advertising.

Zenith has tracked and forecasted advertising revenues globally for more than 30 years. The advertising revenue figures here come from Zenith's regularly published Advertising Expenditure Forecasts, as well as some internal estimates. The subscription revenues, as well as the figures for number of subscribers, are provided by Omdia, the global technology research and consultancy company, which tracks more than 11,000 companies in over 200 markets. The figures cover Australia, Canada, China, France Germany, India, Italy, Russia, Spain, Switzerland, the UK and US.

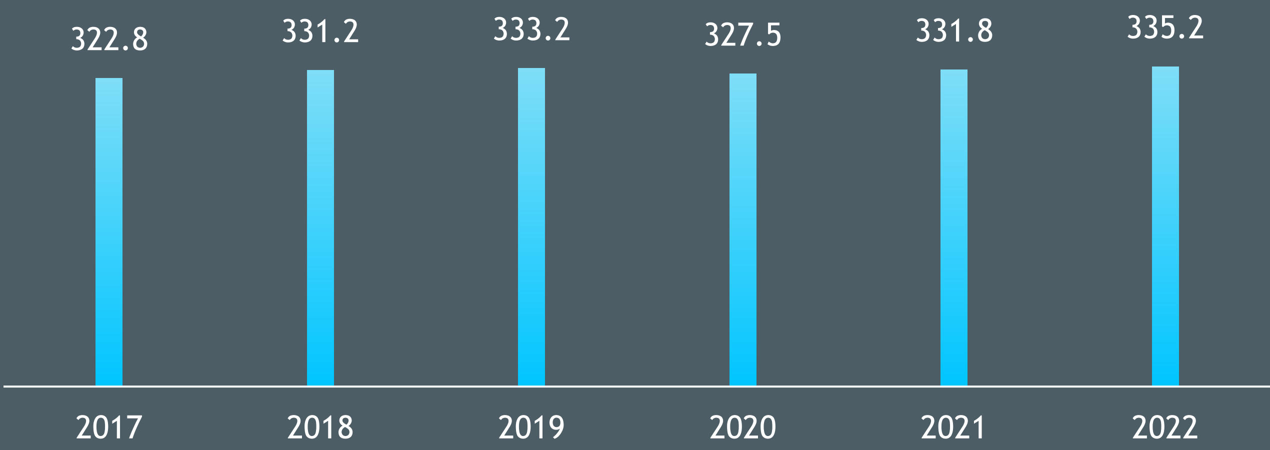
At the moment, VOD platforms are facing intense competition, and operating at much greater cost than they are receiving in revenue. This means consumers are currently being offered great bargains. For a couple of platforms, stand-alone profitability is not necessarily a priority. Apple TV+ is partly a promotional tool for Apple hardware, and Amazon's long-lived Prime Video platform is bundled together with other Prime services. But most will eventually have to balance their investment in content with their revenues, tempering their appeal. Omdia therefore expects 2020 to be the high point of growth in VOD subscriber numbers.

While the video entertainment downturn has been mild, its recovery will be restrained. Overall video revenues are forecast to grow just 1.3% in 2021 and 1.0% in 2022. The ongoing migration of television ad budgets to digital channels, and the continued cord-cutting erosion of pay-TV subscriptions, will counterbalance some of the rise of online video revenues. By 2022, however, total revenues will exceed the pre-coronavirus 2019 levels by 0.6%.

"Video entertainment revenues have been bolstered by extra demand from consumers forced to spend more time at home, and the launch of several new VOD platforms."

Disney+'s The Mandalorian. Image courtesy of Disney.
https://dtcimedia.disney.com/disney-plus/the-mandalorian/photos

Video entertainment revenues (US$ billion)



Source: Zenith, Omdia

GERMANY AND INDIA ENJOY HEALTHY GROWTH DURING THE DOWNTURN

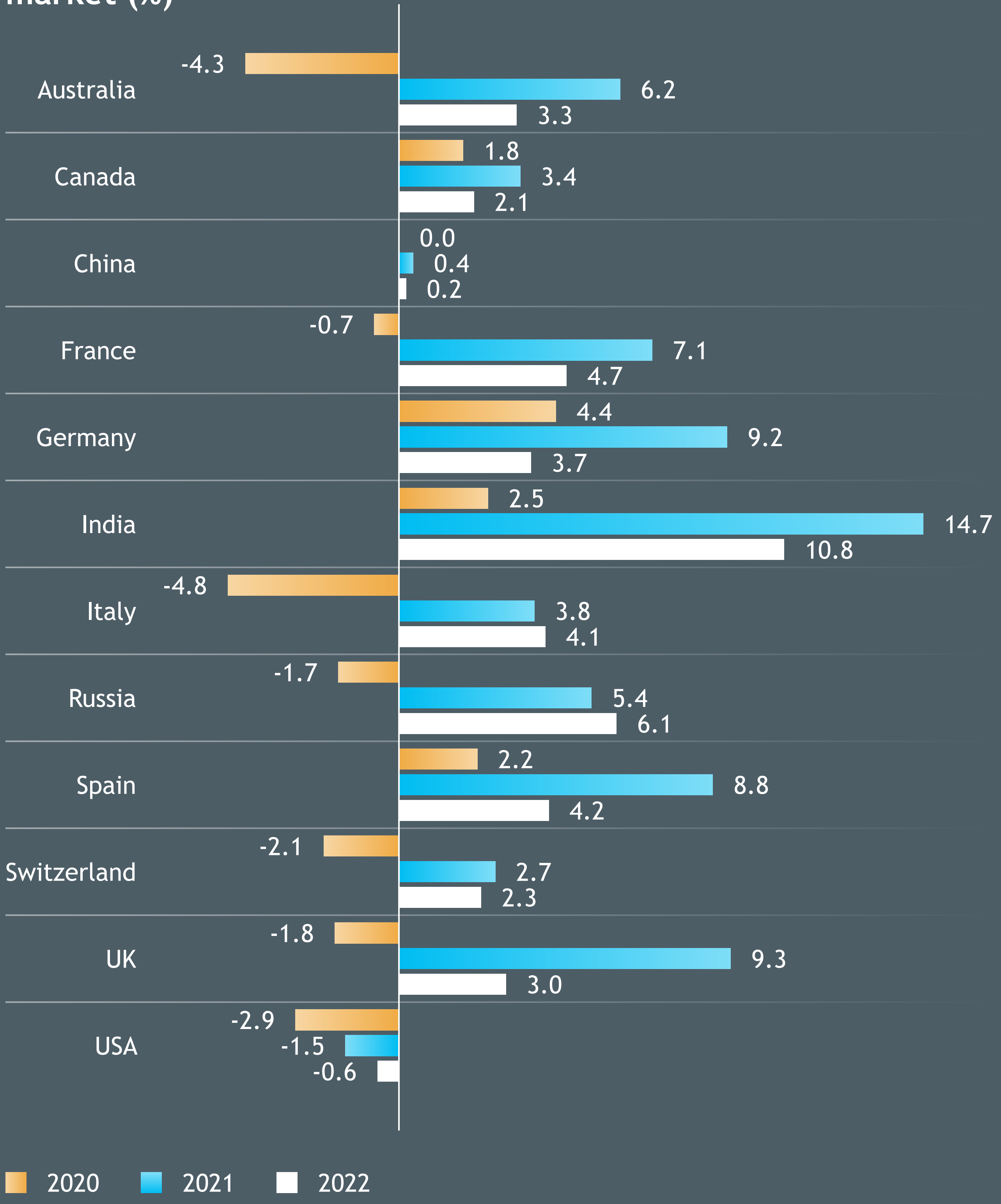
While the total revenue figures for the video entertainment industry are relatively stable, each market has a very different growth rate, both when compared to other markets and from year to year. The only two markets expected to grow over the next two years are Germany and India.

Like many markets, Germany is benefiting from strong growth in online video subscriptions, but unlike many, its pay-TV subscriptions are growing strongly too. In most developed markets, pay-TV is a mature business losing ground to online video. But in Germany most households have historically been content with basic pay-TV packages, generally treating them as utilities. It is only recently that investment in strong content has started to convert households to paying extra for premium channels and packages.

India is in an earlier stage of development than the other markets, and has in recent years enjoyed strong growth in television advertising and pay-TV, as well as online video advertising and subscriptions. Television advertising will shrink in 2020, but the other three revenue streams will continue to grow; television advertising is forecast to resume growth in 2021.

The US is the only market forecast to shrink during all three years. Here, pay-TV revenues have been shrinking for years as 'cord-cutting' households ditch their expensive cable-TV subscriptions for bespoke options online, often free or much cheaper than cable. Television advertising peaked in 2017, after which rising prices failed to compensate for falling ratings. Rising online video revenues will not be enough to make up for declining TV revenues in the US, even after 2020.

Year-on-year growth in video entertainment revenues by market (%)



Source: Zenith, Omdia

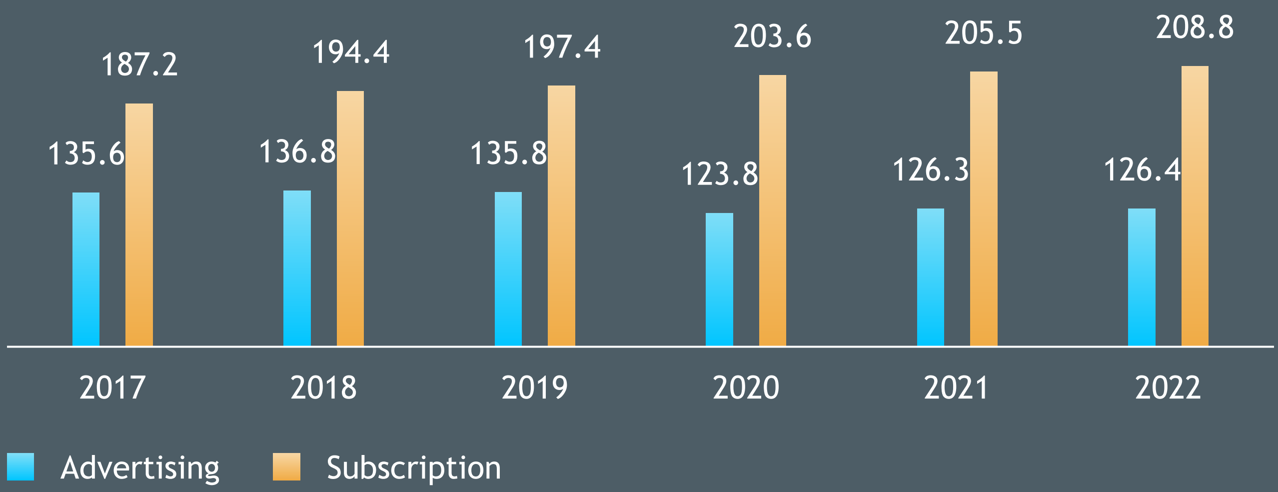
SUBSCRIPTIONS CEMENT THEIR POSITION AS A DOMINANT SOURCE OF VIDEO REVENUES

Subscriptions are becoming an ever-more important source of revenue for the industry. Television advertising is falling as audiences move online, and while online video advertising is rising, it is struggling to make up the difference. Because many of the online video platforms are ad-free, betting that viewers will pay a premium for an uninterrupted viewing experience, some of the lost viewers are now unavailable to advertisers. This bet is paying off for now, as subscriber numbers and revenues continue to rise rapidly. In 2019 subscriptions accounted for 59% of video entertainment revenues; by 2022 they are forecast to account for 62%.

According to Cowen and Company, the top six global SVOD platforms will spend US$95 billion on content in 2020. This is nearly twice as much as the total SVOD revenues in the 12 key markets in this report - US$53bn, according to Omdia - and 27% more than Omdia expects to be spent on SVOD even in 2024. The platforms will eventually have to narrow this gap between spending and income, and some may decide that adding advertising to their subscription revenues is too good an opportunity to miss.

“Platforms will eventually have to narrow the gap between spending and income, and for some, adding advertising to their subscription revenues may be too good an opportunity to miss.”

Video entertainment revenues from advertising and subscriptions (US$ billion)



Source: Zenith, Omdia

THE GAP BETWEEN TELEVISION AND ONLINE VIDEO REVENUES CONTINUES TO NARROW

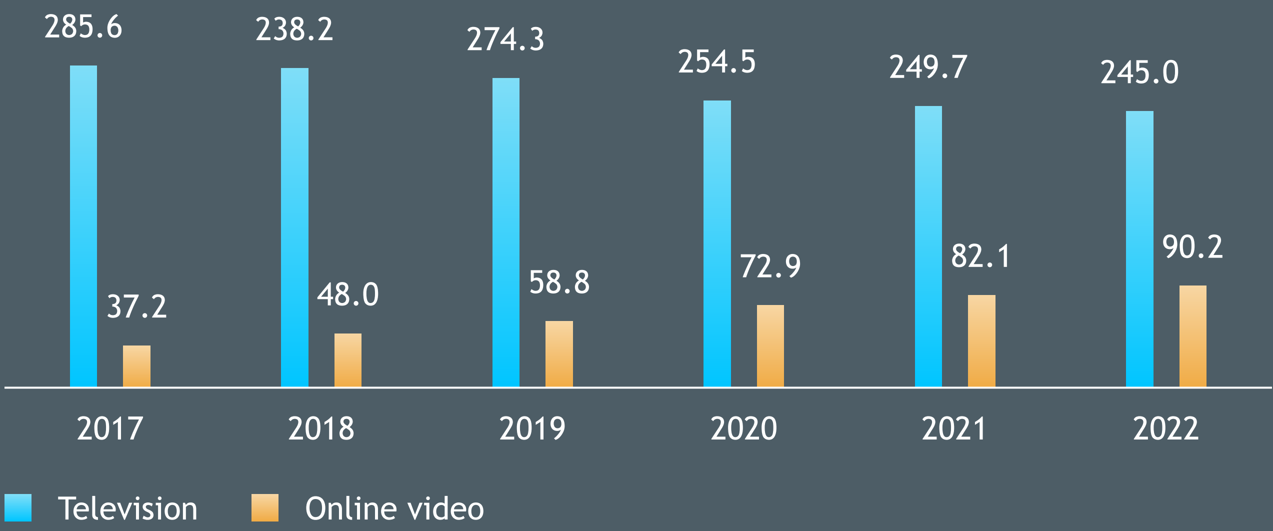
Conventional television still generates much more revenue than online video - 366% more in 2019 - but online video is catching up remorselessly. From 2019 to 2022 the gap between the two is forecast to shrink by US$61bn. Television still has its advantages: it's convenient, familiar and offers a shared experience to its viewers. But the flexibility, breadth of choice and relatively low price of online video will make it the main source of growth in the industry for the foreseeable future. Online video is forecast to grow by 11% a year between 2020 and 2022, while television will shrink by 2% a year.

Online video revenues are growing quickly in all markets - by between 10% a year in the US and 27% a year in India. But there is a wide variation in the performance of television in different markets. Only two markets are forecast to shrink between 2020 and 2022, but these are the two largest markets, the US and China. The US is suffering the most from cord-cutting, where consumers have found online alternatives to provide particularly good value compared to the offerings of local pay-TV monopolists. Television advertising is shrinking particularly quickly in China, losing market share to the explosive growth of online e-commerce advertising.

"Online video revenues are growing quickly in all markets, but there is a wide variation in the performance of television."

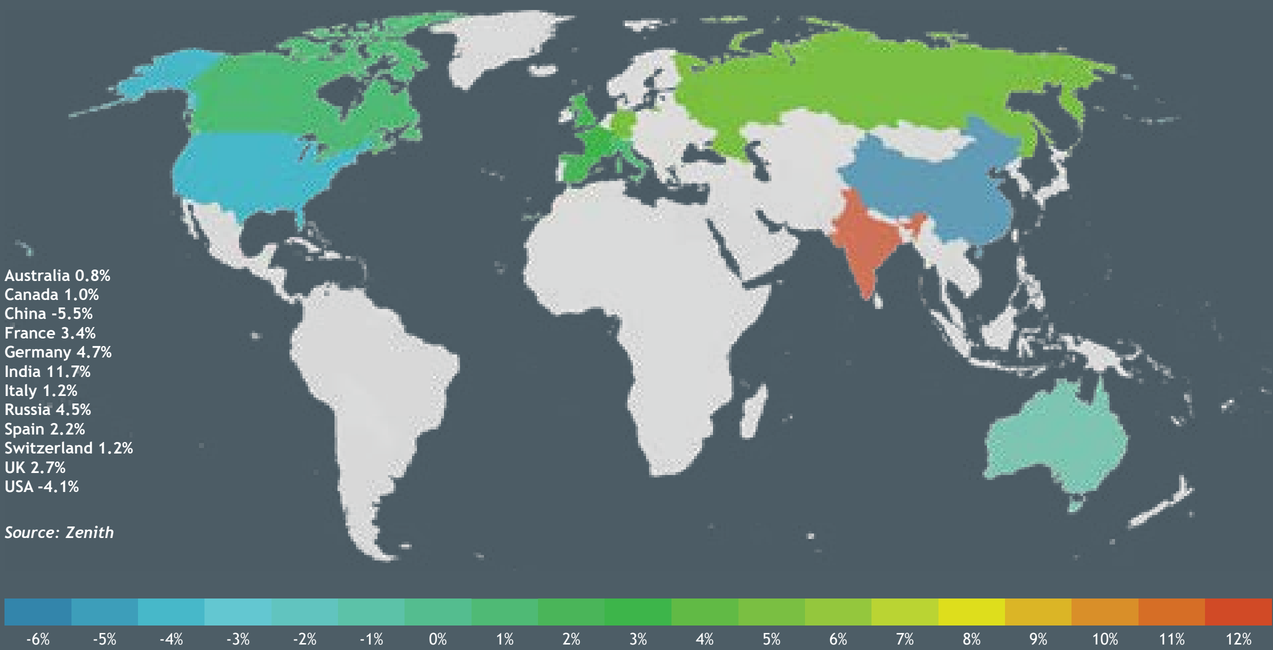
Most other markets are forecast to experience some growth in TV revenues between 2020 and 2022, which will be partly due to the sharp drop in ad revenue in 2020. India, though, will grow by 12% a year, thanks to continuing strong demand from advertisers and viewers.

Video entertainment revenues from television and online video (US$ billion)



Source: Zenith, Omdia

Average annual growth in television revenues 2020-2022 (%)

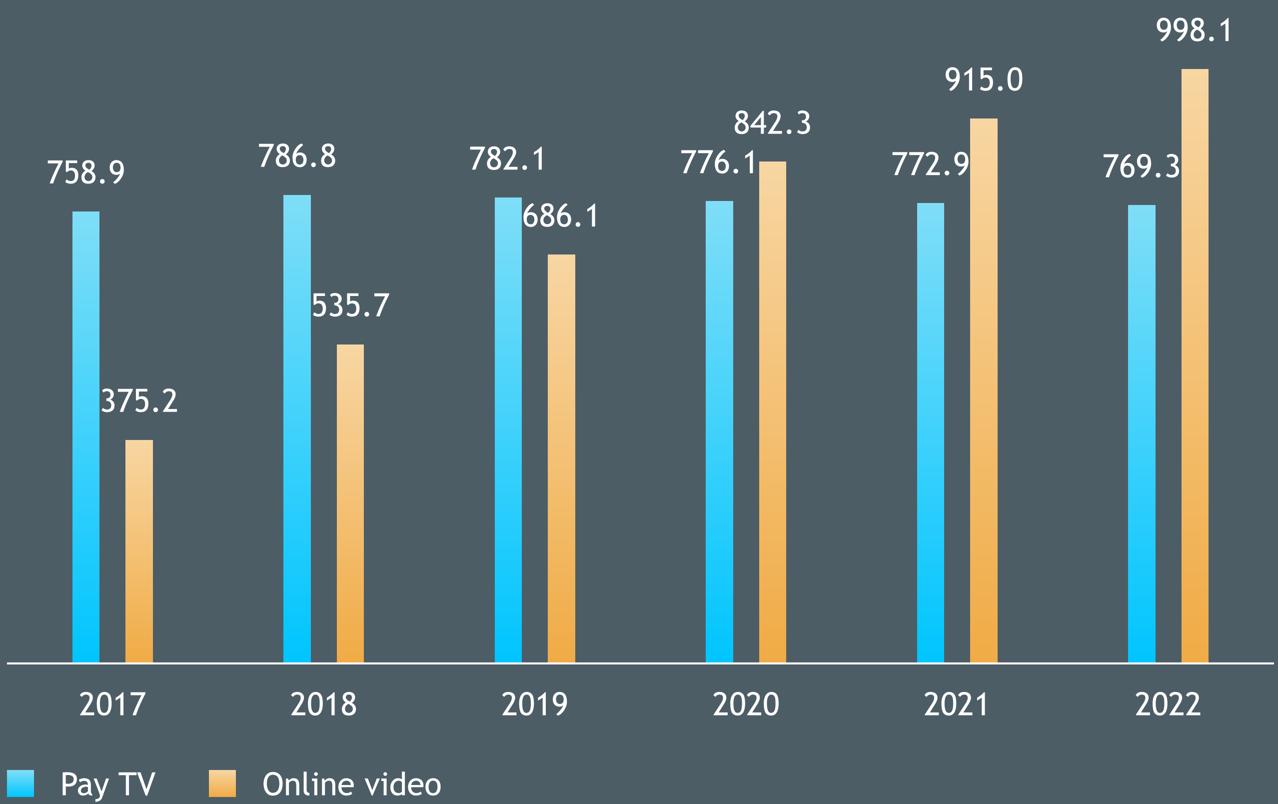


ONLINE VIDEO SUBSCRIPTIONS TO OVERTAKE PAY-TV SUBSCRIPTIONS IN 2020

The number of subscriptions to online video platforms is forecast to overtake the number of pay-TV subscriptions this year. Pay-TV subscriptions peaked in 2017 and are now in long-term decline, while online video subscriptions have grown at double-digit annual rates. It's common for households to have multiple online video subscriptions, so the overall reach of pay-TV will still be higher.

There is a very wide disparity in the take-up of online video subscriptions by market. The US is the most developed market: here the average household subscribes to 2.11 online video platforms, according to Omdia. These services are popular in other English-speaking markets too. In the UK, Canada and Australia, the average household each has between one and two online video subscriptions. India and Russia have the greatest potential for development, with just 0.15 subscriptions per household. But the number of subscriptions is growing in all markets – between 2020 and 2022 – and are forecast to grow at average rates ranging from 3% a year in Switzerland to 13% a year in Italy and Spain.

Number of pay-TV and online video subscriptions (million)



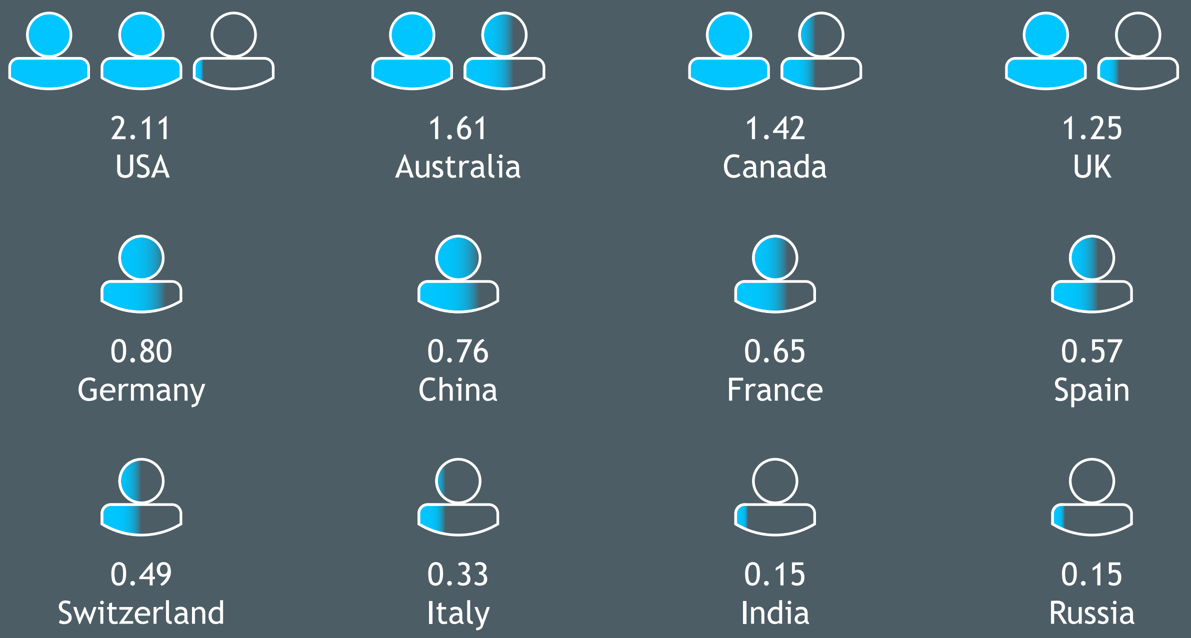
Source: Omdia

Countries with the highest penetration of online video subscriptions are generally also the markets where pay-TV subscriptions are eroding the fastest. Omdia expects the number of pay-TV subscriptions to fall by 6% a year in the US, 3% a year in Canada, and by between 1% and 2% a year in the UK, Australia and China. Meanwhile, there will be modest growth in demand for pay-TV in France and Germany, and stronger growth in Russia, India and Spain.

"Countries with the highest penetration of online video are generally also where pay-TV is eroding the fastest."

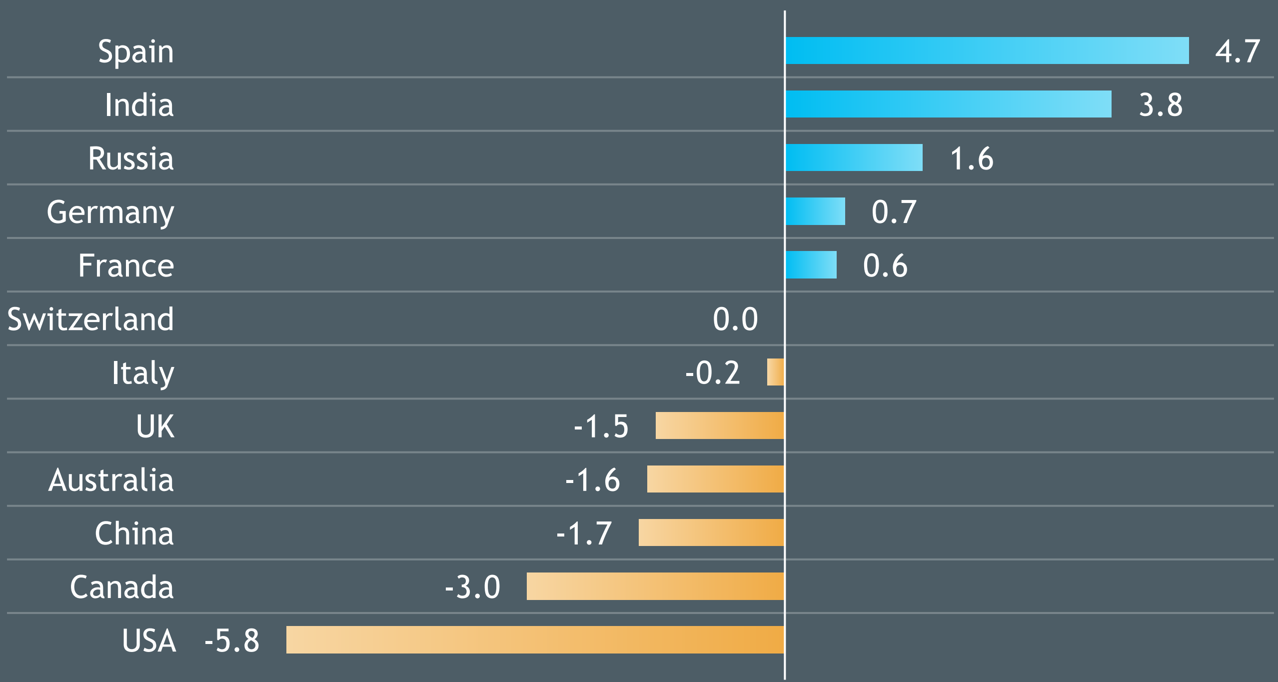
Disney+'s Togo. Image courtesy of Disney.
https://dtcimedia.disney.com/disney-plus/togo/photos

Number of online video subscriptions per person (2020)



Source: Omdia, Euromonitor

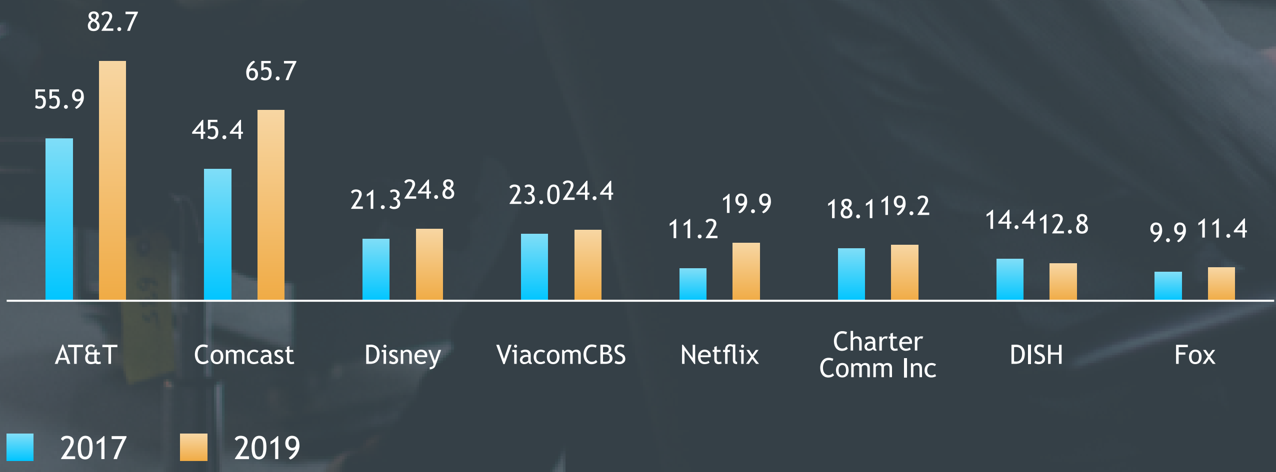
Average annual growth in pay-TV subscriptions 2020-2022 (%)



Source: Omdia

ACQUISITION-LED GROWTH HELPS AT&T AND COMCAST DOMINATE VIDEO MARKET

Top video entertainment companies - annual video revenues (US$bn)



Source: Annual reports

AT&T is the biggest video entertainment company globally, generating US$83bn in video revenues in 2019. It also added the most video revenues between 2017 and 2019: US$27bn. Most of that growth came from AT&T's acquisition of Time Warner in June 2018, which brought with it the Turner basic cable channels, premium channels HBO and Cinemax, and 50% of The CW Network.

Comcast is the second biggest, with US$66bn in video revenue in 2019, and is second to AT&T in adding the most revenues - US$20bn between 2017 and 2019. Again, most of this came through acquisition, in this case the November 2018 takeover of European pay-TV broadcaster Sky.

Netflix is the fifth-largest video company, and the only one of the top eight to have built its position as a native digital business. The others are all legacy broadcast and pay-TV businesses, though most now have their own VOD platforms, such as AT&T's HBO Max, Comcast's Peacock, Disney's Hulu and Disney+, and ViacomCBS's CBS All Access.

"Most of the growth in video revenues at AT&T and Comcast came through acquisition."

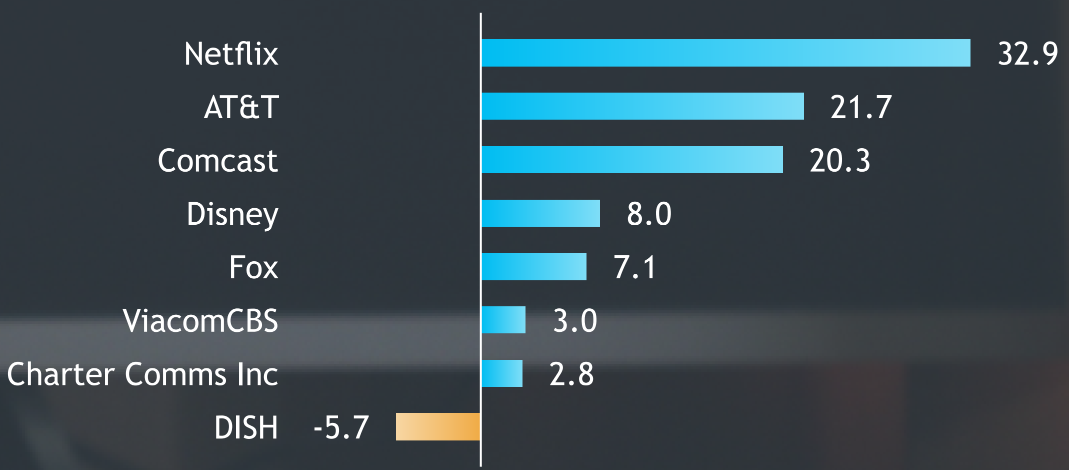
NETFLIX LEADS GROWTH WITH HUGE INVESTMENT IN CONTENT

Netflix has been the fastest growing of the big video companies in percentage terms, increasing revenues by 33% a year between 2017 and 2019. It has achieved this through marketing and investment in content rather than acquisition: over this period, it spent US$6bn on marketing and US$36bn on new content. This has included very heavy spending on creating and promoting original content, some of which has become enormously successful, such as *Orange is the New Black*, *Stranger Things* and *The Umbrella Academy*. It has also benefited from first-mover advantage in many markets, though its highly capitalised competitors are doing their best to erode this now.

DISH Network Corp, a pure-play pay-TV operator, is the only one of these companies to have lost revenue over this time.

"Netflix has achieved its growth through marketing and investment in content rather than acquisition."

Average annual growth in video revenues 2017-2019 (%)



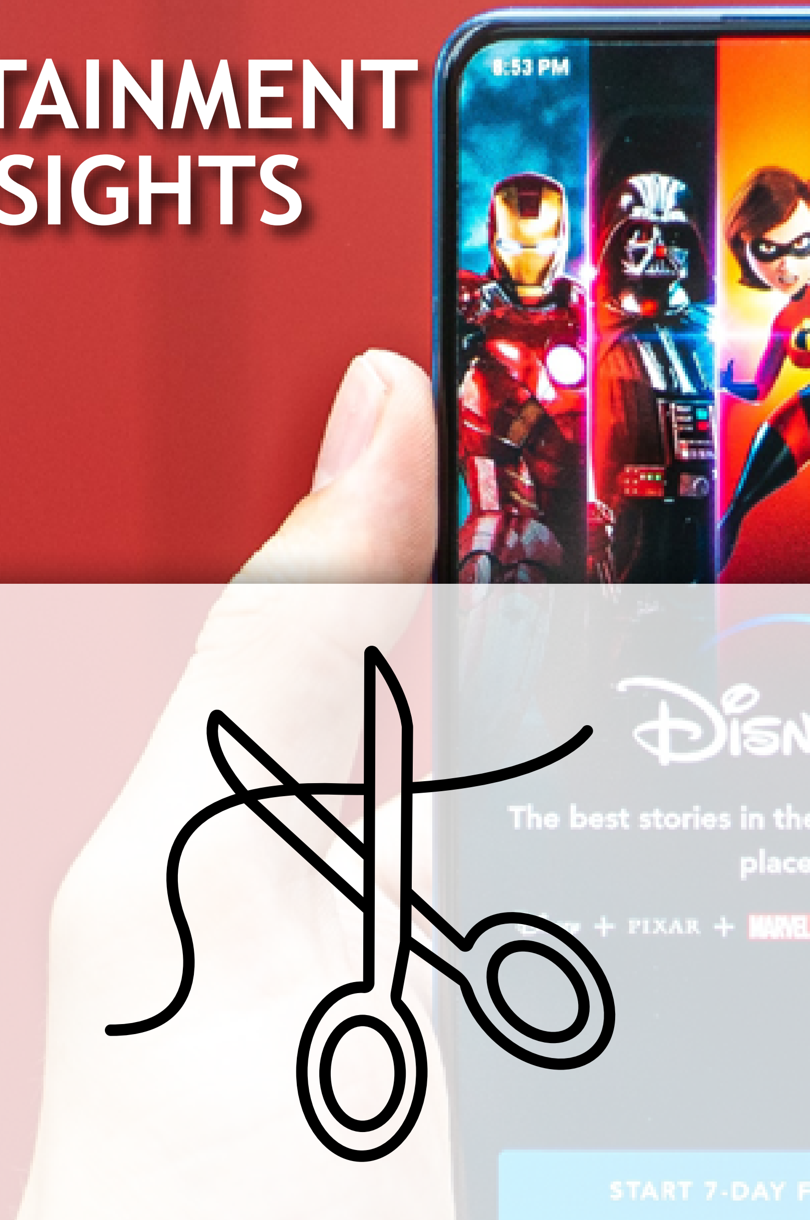
Source: Annual reports

CONCLUSION

The video entertainment category is undergoing two fundamental structural shifts: from scheduled broadcasts to on-demand online distribution, and from funding by advertising to funding by subscriptions. Innovative SVOD platforms like Netflix and Amazon Prime Video established new and fast-growing business models, often using plenty of content from existing video brands. Now these existing brands are launching their own SVOD services to claim some of this growth for themselves. Original content is now the selling point of the different platforms.

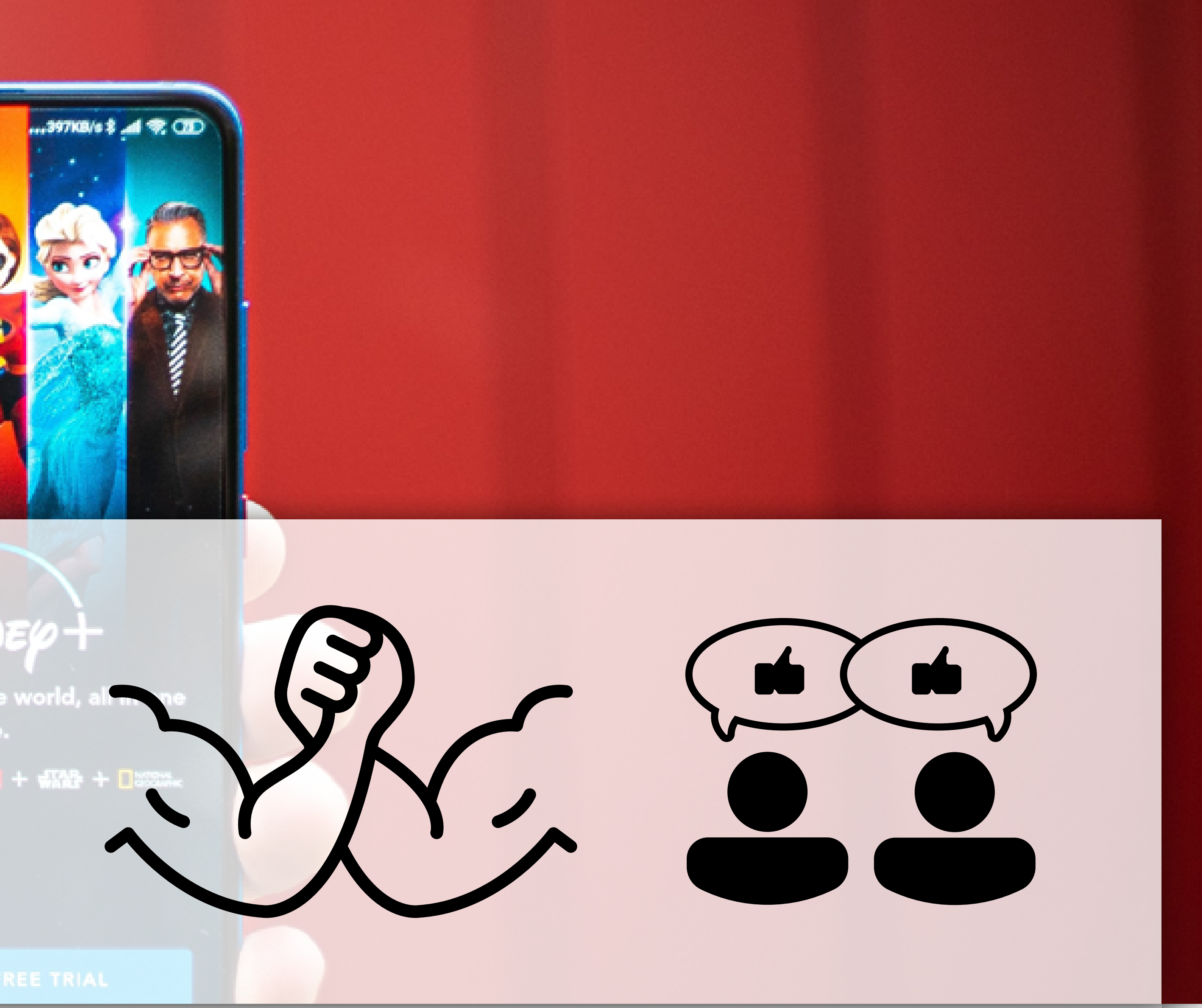
But it's not enough to have great content. Consumers are now faced with more choice than ever before, making it more and more difficult for them to keep track of content they might be interested in. Platforms need to be able to help consumers navigate the bewildering array of choice facing them easily and efficiently, and give them entertainment that matches their personal preferences with minimum fuss. The platforms with the best user experiences will be able to make the most of their content and build loyal long-term audiences.

VIDEO ENTERTAINMENT CONSUMER INSIGHTS



Consumers are spending more time at home, but video platforms are just one of many services vying for their attention

Consumers are cutting the cord with all-in-one pay-TV packages, giving way to a wide variety of pick-and-mix services, meaning consumers are spending more money and time searching for content



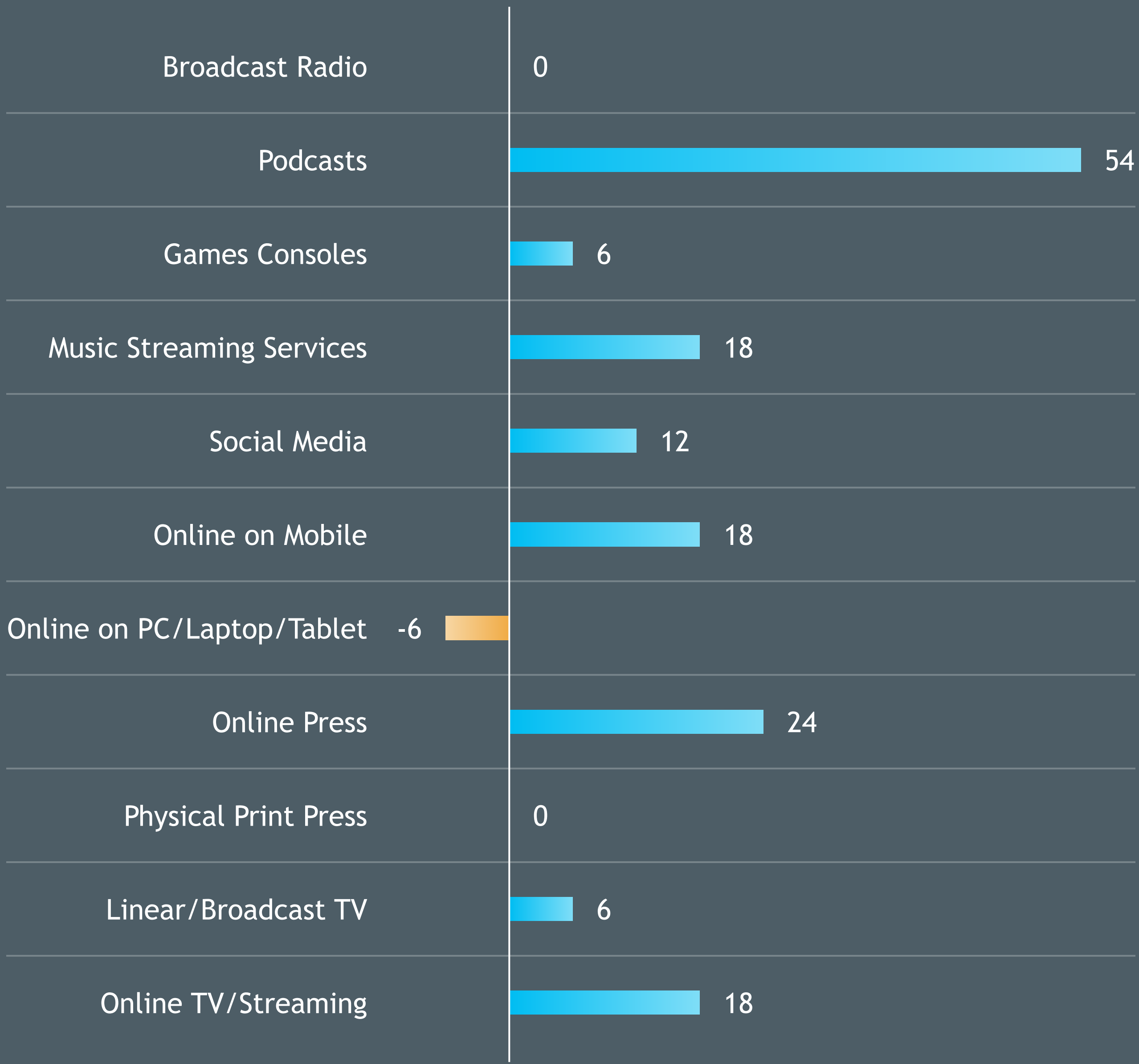
Huge competition amongst brands for the content that consumer want to share

Earned media is more important for driving both brand growth and retention in the category

CONSUMERS SPEND MORE TIME AT HOME, BUT VIDEO PLATFORMS ARE ONLY ONE OF MANY SERVICES AVAILABLE TO THEM

In a year when many categories struggled with the effect of the COVID-19 pandemic, the video entertainment category has remained largely unscathed. Enforced lockdowns and the slow reopening of businesses meant people have spent an increased amount of time in their own homes, where they have sought entertainment. Global Web Index data shows an overall increase in daily media consumption across nearly all media channels in Q2, compared to the same period last year.

Daily minutes Q2 2020 vs. Q2 2019

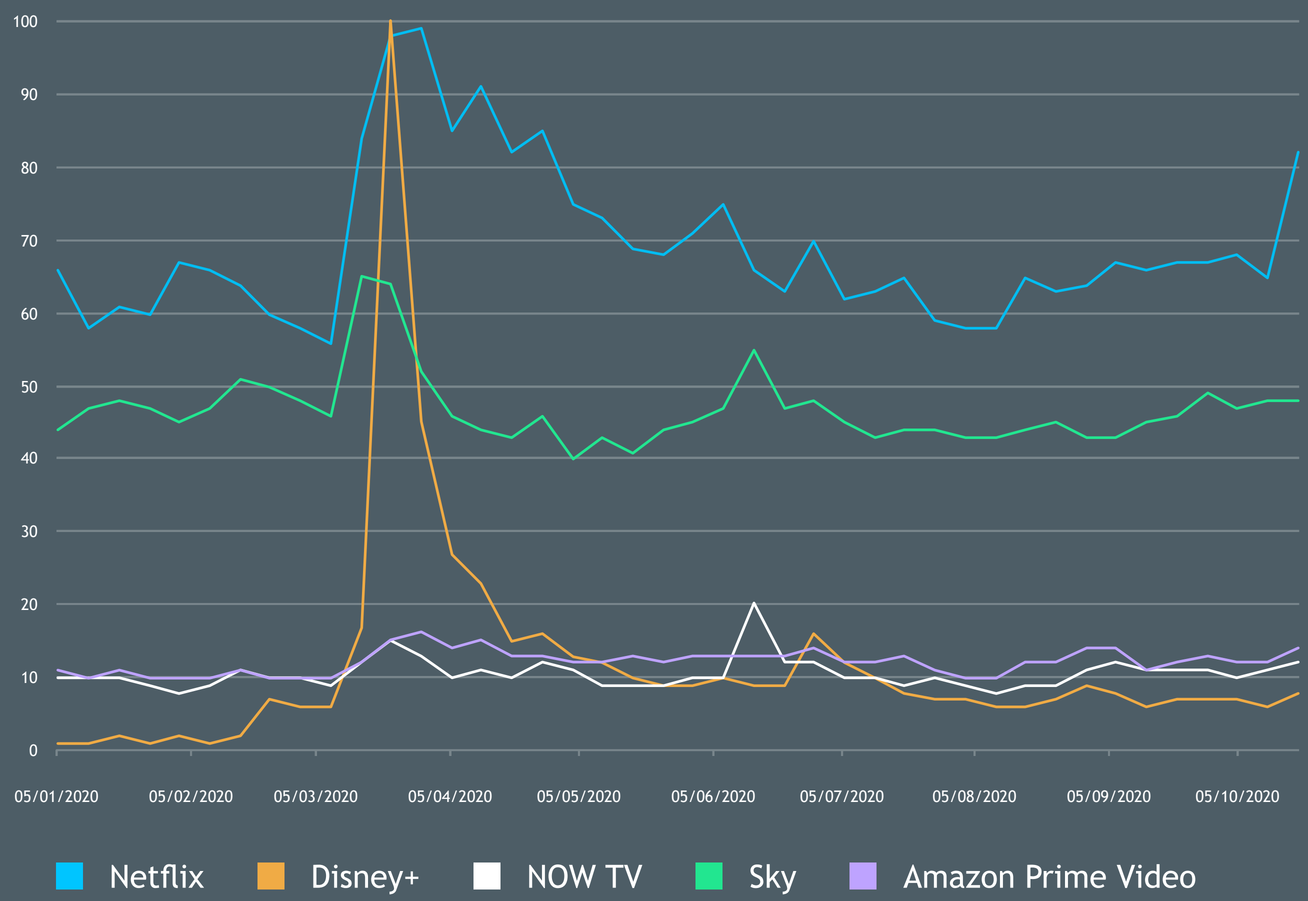


Source: Global Web Index; podcasts not asked in Q2 2019

Understandably in a time of global uncertainty, consumers have sought news and information much more than usual. This has resulted in increased engagement with free TV channels. Global Web Index reported that 44.2% of consumers believe news channels on TV are a trustworthy source of information about the pandemic, second only to government updates. The Broadcasters' Audience Research Board (BARB), the organisation that compiles audience measurement and television ratings in the UK, reported that the Prime Minister's addresses were the most-watched broadcasts since the closing ceremony of the 2012 London Olympic Games.

Google searches for pay-TV and online video-on-demand providers spiked the week that lockdown was announced in the UK, which suggests that these channels benefitted from an increase in interest and trial.

Google Trends UK 2020



Source: Google Trends

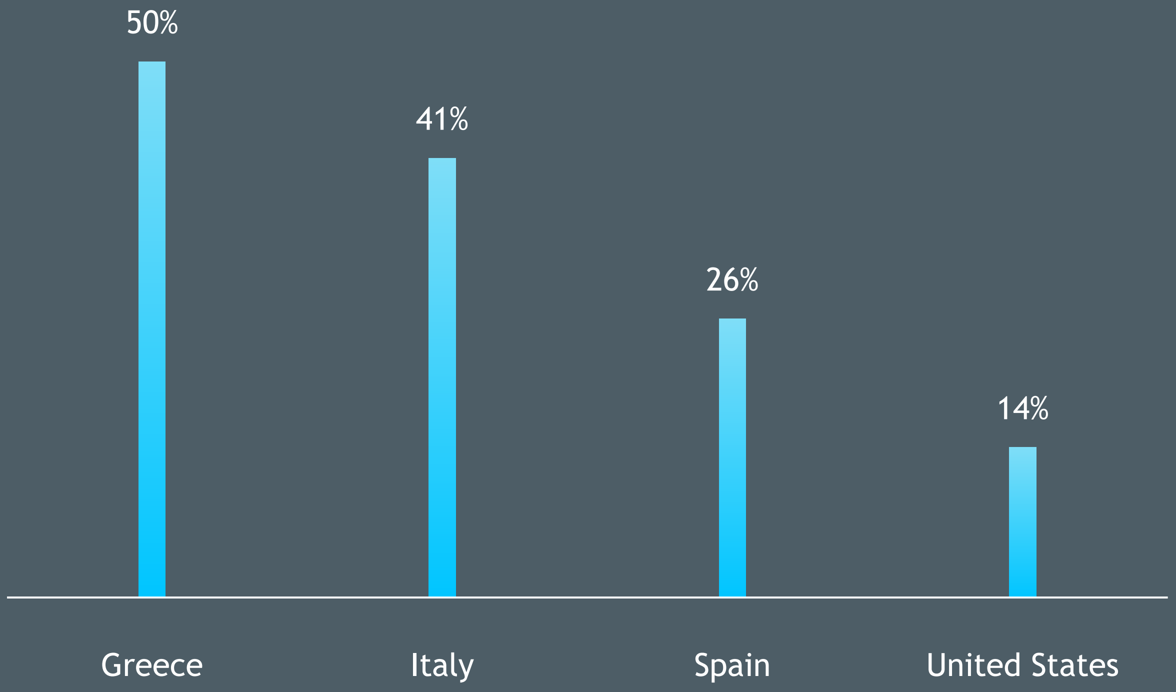
However, in the battle for consumer attention, video entertainment brands aren't only competing with each other. In separate years, Netflix's CEO Reed Hastings listed sleep and the video game Fortnite as their biggest competitors. And in 2020, consumers have never had more entertainment opportunities available.

"In the UK, it is reported that the Prime Minister's addresses were the most-watched broadcasts since the closing ceremony of the 2012 London Olympic Games."

Given the high reach and engagement of social media networks, it is no surprise that Global Web Index shows that 43% of consumers have spent longer on these platforms as a result of the pandemic. Social networks provide an easy way to keep in touch and maintain relationships, ever more important in a year of social distancing and restricted movement. However, it's the successes of TikTok, a short-form video sharing network app, that show just how much social networks are used as a form of entertainment, particularly amongst the younger generations. Global Web Index found that 27.6% of 16-24-year-olds were creating/uploading more videos as a result of COVID-19, and 70.1% were watching more videos. During lockdown the TikTok "challenges" proved popular across all ages, and with celebrities. Sensor Tower reported that in Q1 2020 the TikTok app had 315 million downloads, which is the best quarter of any app, and in June alone it was downloaded more than 87 million times worldwide.

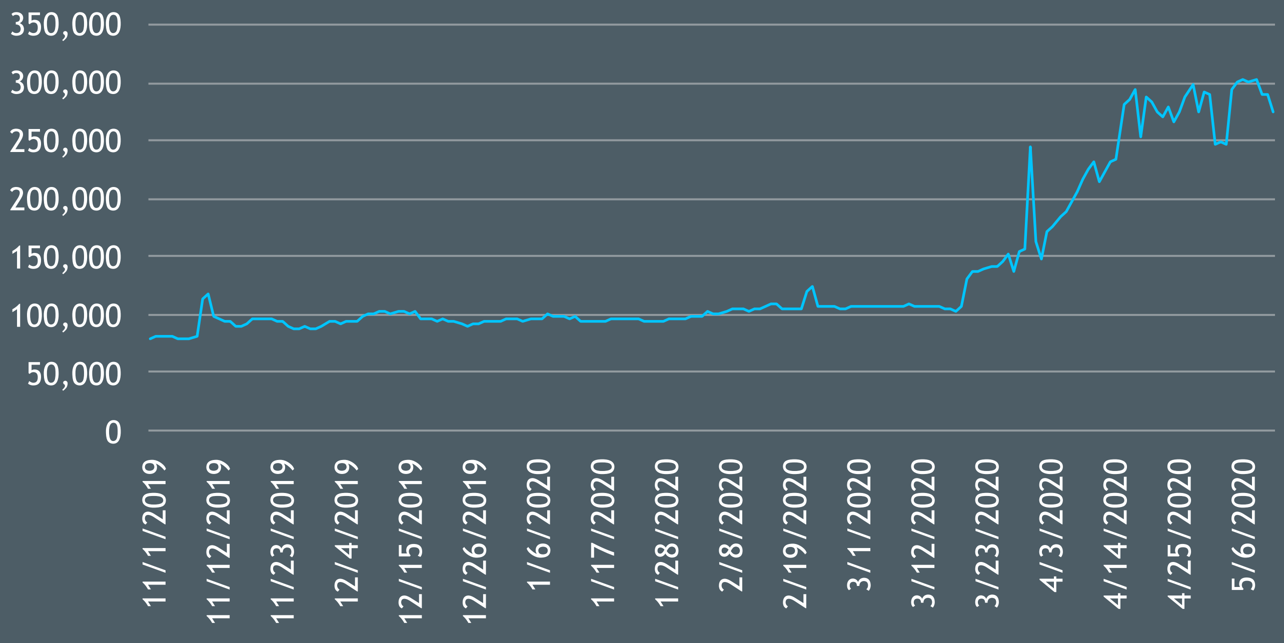
Gaming has also increased during the COVID-19 pandemic – 35.3% of the 16-64 online population surveyed by Global Web Index, have spent more time on computer/video games, a trend more pronounced in the younger generations (for 16-24 its 48.6%). The fact that Netflix considers Fortnite their biggest competitor is likely reference not only to the battle for consumer attention, but also to how similar gaming has become to video-on-demand. Gaming is no longer restricted to consoles and computers. Cloud gaming platforms make it accessible on-demand in the same way video-on-demand platforms do for TV and films – no need to download and install, and available on a wide range of devices. Similar to TikTok, platforms like Twitch – a live streaming platform for gamers, where users share, watch and comment in real time – that have an added social element have experienced a surge in popularity during lockdown, with huge increases in downloads and active users.

Twitch first-time download increase 2020



Source: Washington Post; Sensor Tower

Daily active users of Twitch on android and iOS devices in the UK 2019-2020



Source: Priori Data

“According to App Annie, health and fitness apps set a global record for the highest weekly downloads (59 million) for the week of 22 March 2020, a growth of 40% on the weekly average for January and February. Plus, consumers spent 113 million hours in those apps during that same week.”

Outside of traditional "entertainment," there has been a general increase in other activities happening in-home too, such as practicing mental and physical wellness behaviours. According to App Annie, health and fitness apps set a global record for the highest weekly downloads (59 million) for the week of 22 March 2020, a growth of 40% on the weekly average for January and February. Plus, consumers spent 113 million hours in those apps during that same week. In the UK, the fitness YouTuber Joe Wicks, known as the Body Coach, earned himself one million new subscribers in a single week, a Guinness World Record and a MBE for his morning PE classes during lockdown.

Gym classes and home exercise might not be a trend restricted just to lockdown either. Peloton, a brand that describes itself as an exercise equipment and media company, allow users to remotely participate in classes streamed from the company's fitness studio. Their total membership grew from 2 million in Q2 to 2.6 million in Q3.

These social and digital environments provide video entertainment brands with even more opportunities to engage with current or future customers in a more personal, relaxed way. They already have the advantage of large amounts of video content that can be tailored to fit the platform and communities on it – whether that's short, humorous, "behind the scenes" content for their TikTok account or releasing film trailers and screenings within online worlds.

CONSUMERS ARE “CORD CUTTING” TO SAVE MONEY, BUT ARE FACING AN INCREASING NUMBER OF “PICK AND MIX” SERVICES TO GET THE CONTENT THEY WANT

"Cord cutting" is the practice of cancelling or forgoing a pay-television subscription or landline phone connection in favour of an alternative internet-based or wireless service. It's something that consumers are doing on an increasing basis, with eMarketer estimating that 35.4% of US households will cut cords by 2024.

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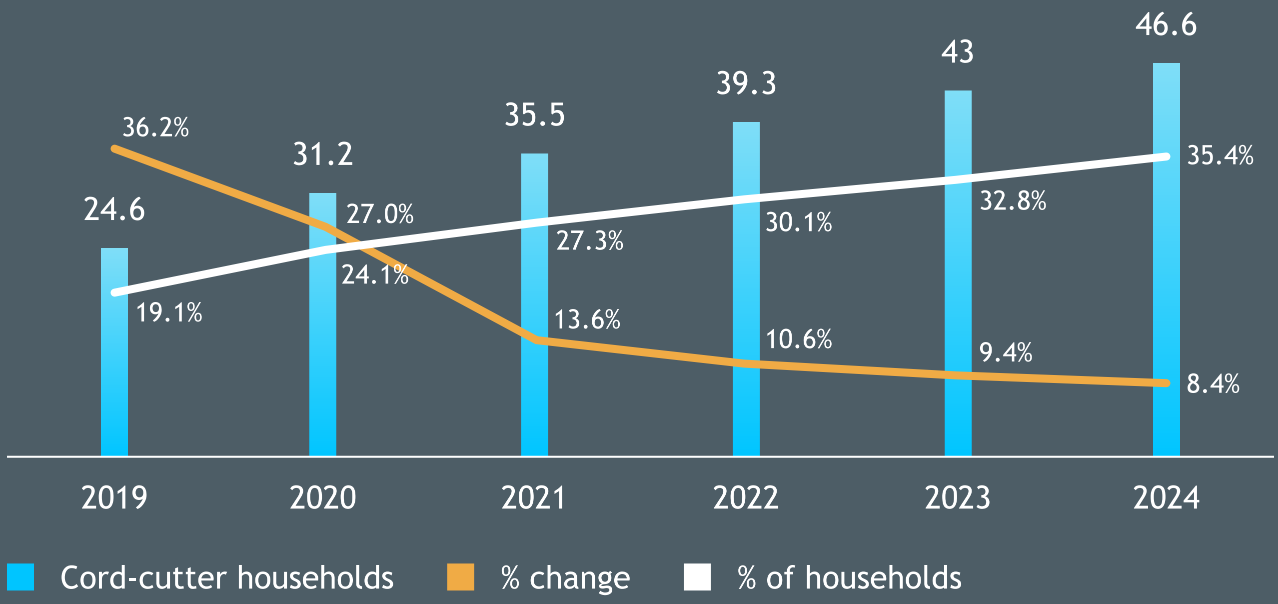
One of the biggest reasons for doing so is the growing cost. Data shows that 50% of Americans are paying between $101-$200+ a month for cable television, compared to $10-30 dollars paid for streaming services. According to the website "thesimpledollar," a typical cord-cutter could save up to $1,236 a year.

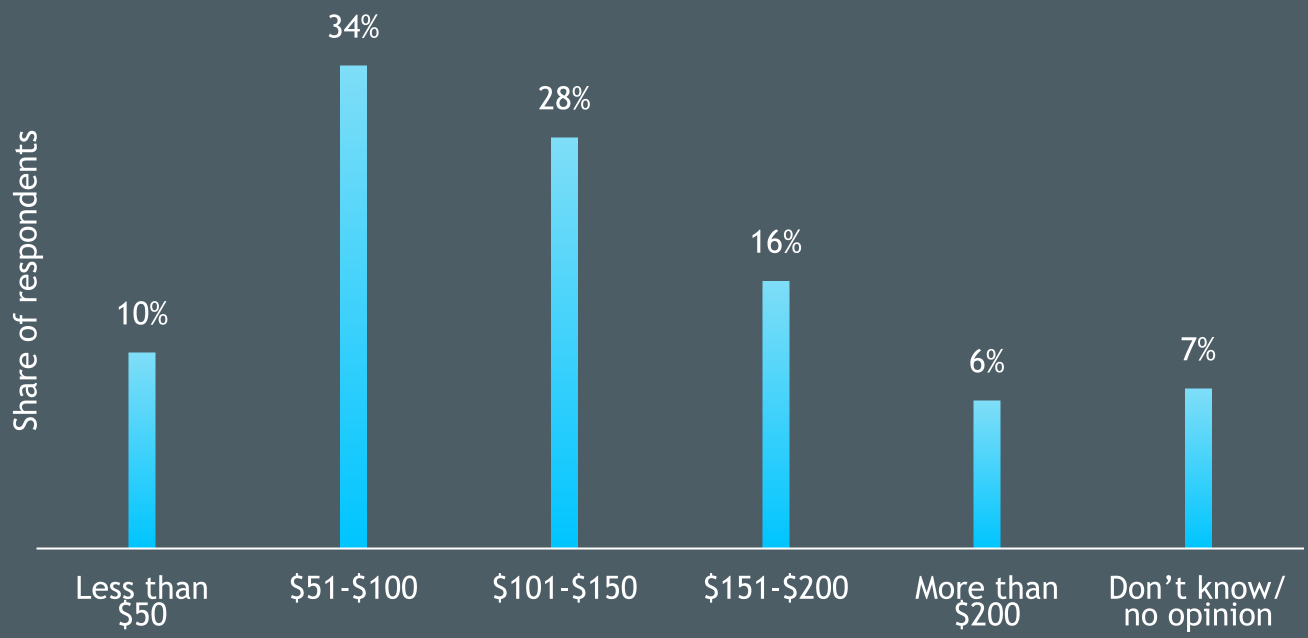
US Cord-Cutter Households, 2019-2024
Millions, % change and % of households



Note: pay-TV households are those with a subscription to traditional pay-TV services; excludes IPTV and pure-play online video services (e.g. Hulu, Netflix, YouTube, Sling TV, etc.); non-pay-TV households are those that have cancelled their subscription or have never had traditional pay-TV services.

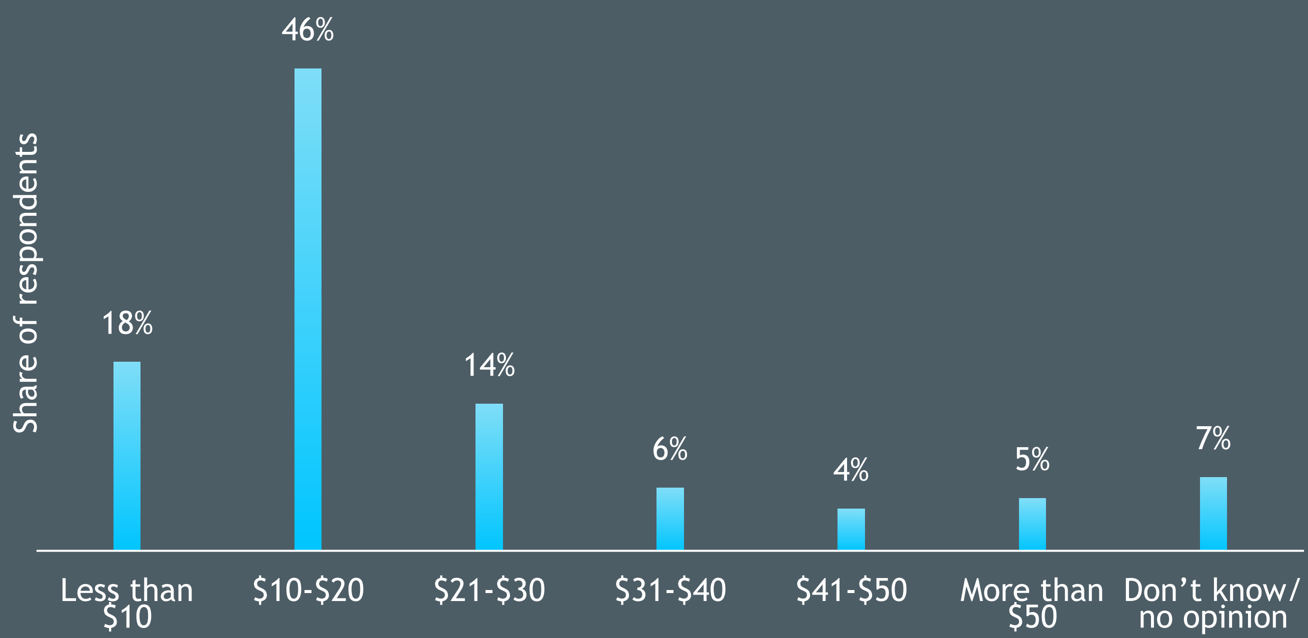
Source: eMarketer, September 2020

Average monthly spending on cable television in the United States as of July 2019



Source: Morning Consult; the Hollywood Reporter

Monthly subscription fee paid for streaming services among adults in the United States as of September 2019



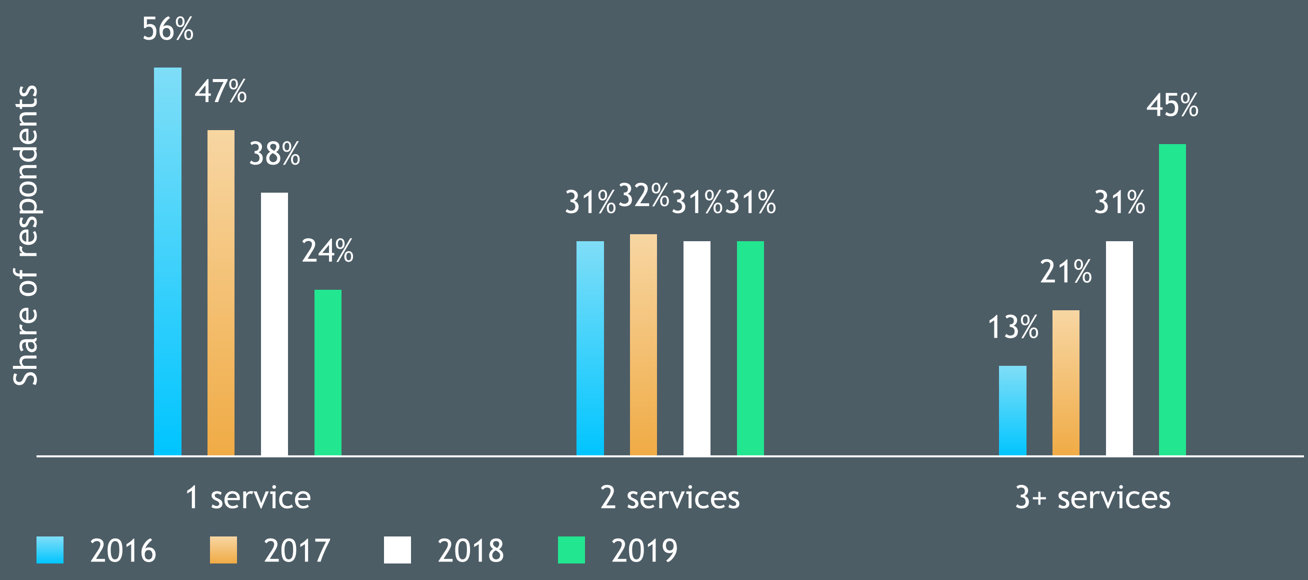
Source: Morning Consult; the Hollywood Reporter

These cord cutters have been moving their subscriptions to online video-on-demand platforms, which are a cheap and simple alternative - all the best film and TV content in one subscription that costs far less than pay-TV packages.

However, encouraged by the early success of these platforms, big media and tech companies have launched competing services - Disney (Disney+), AT&T (HBO Max), NBCUniversal (Peacock), ViacomCBS (Paramount+), Apple (Apple TV+), Amazon (Amazon Prime TV) and Google, which has a variety of subscription-based YouTube services. Even local broadcasters are combining to release services like Salto in France and BritBox in the UK.

As a result, consumers are subscribing to more services. In the US, the number of consumers who have subscribed to three or more services increased from 13% in 2016 to 45% in 2019. With more platforms comes the increased likelihood of "subscription fatigue," getting tired of signing up for more subscriptions and frustrated at using several different platforms to locate the desired content. Nielsen data shows that American adults spend an average of 7.4 minutes browsing when they're not sure what they want to watch.

Number of paid SVOD services subscribed to by users in the United States from 2016 to 2019



Source: Morning Consult; the Hollywood Reporter

One reason these platforms appeal to consumers is that they are relatively easy to join or cancel. At a time of slow GDP recovery, high market inflation and decreasing consumer confidence, people will likely re-evaluate how many subscriptions they have across all entertainment services – a decision based on the relative value or cost per hour of entertainment they can get from each.

This means video entertainment brands need to provide customers with a compelling reason to continue watching that service, especially for those new users who only joined as a result of the pandemic. Brands need to balance an engaging and easy-to-use platform, price and exclusive content. Online video-on-demand platforms have the advantage of detailed audience viewing data. Netflix is a great example of a brand that uses customer data not only to customise the content recommendations, box art and trailers shown to different audience segments, but also to create engaging content for viewers. Brands will need to look at their audience segments, how they've likely been affected by the events of 2020 in their country, and tailor both their content and communications.

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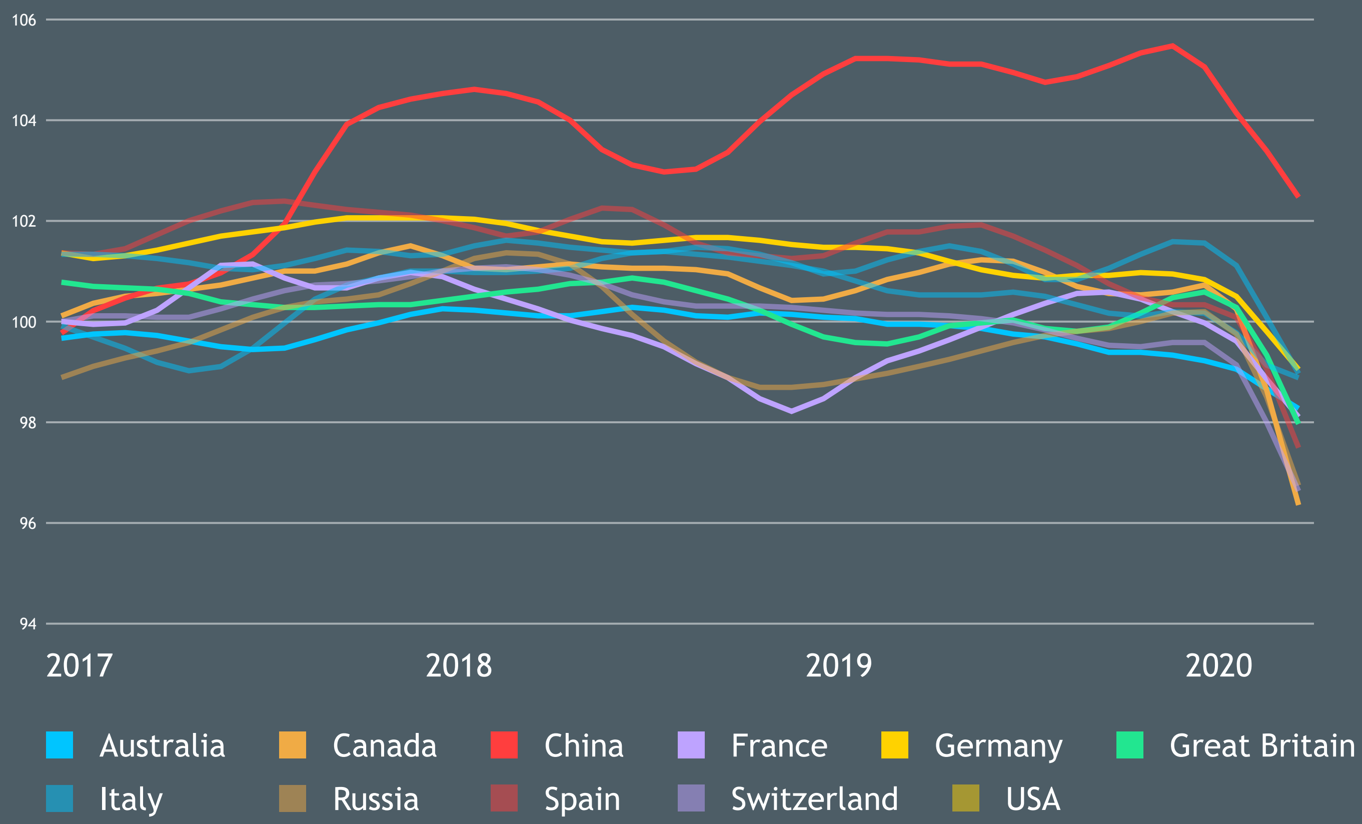
Consumer Confidence Index



Source: OECD

INTENSE COMPETITION FOR THE CONTENT THAT CONSUMERS WANT TO SHARE

With several new online VOD services globally, one key differentiator will likely be the type of content they offer. Google Trends data allows us to analyse both the related search terms (the terms users are searching for) and the rising search terms (the queries with the biggest increase in search frequency) for any given search term. If we look at VOD brands in the UK during 2020, the related and rising terms were for their own content. For example, Tiger King for Netflix, Little Fires Everywhere for Amazon, and Hamilton for Disney+. Consumers are searching not only for online VOD platforms themselves, but for the “water cooler” content that they can talk about with their friends and colleagues.

Brands in the category already know the importance of quality content. The big media companies are in the process of, or have already, requisitioned content they previously licenced out to make available on their own platforms, and tech companies have been more aggressive in the inevitable bidding wars for popular programming (e.g. Amazon outbid competitors for Fleabag, Apple TV won rights to The Morning Show). Brands that do not have the back catalogues or the spend power are investing in their own original content. In a report from BMO Capital Markets, entertainment analysts estimated that Netflix was set to spend $17.3 billion on content in 2020, the majority on originals.

UFC on ESPN+.
https://dtcimedia.disney.com/espn-plus/ufc/images

Even more so than film and TV, sport still has some of the highest viewing figures across markets and generations. So it is unsurprising that some brands have chosen to make moves in a category that has traditionally been dominated by pay-TV brands. Amazon bid on a number of sports broadcast rights, most notably winning a package of games for English Premier League football. In the US, an array of sports channels (including ESPN, FS1 and BTN) are also made available on streaming services like Sling TV, Hulu, YouTube TV, PlayStation Vue, fuboTV and AT&T NOW.

What this content has in common is the shared experience. This is evidenced in the popularity of remote viewing in the light of social distancing. Sky Sports introduced Fan Zone where users can watch sports with family and friends and post predictions, join polls and play quizzes; in April 2020 unique visitors to the Netflix party site in the US – an extension allowing users to watch Netflix content together and comment in real time – increased by 10.9X vs. January 2020 (comScore). Even concerts and live musical performances took place through social media streaming, VR, Twitch and in the game Fortnite.

Video entertainment brands will need to look at how best to utilise this desire for shared experiences, whether by leveraging virtual worlds, creating sharable content such as memes or short-form video, or by creating offline experiences that fans can enjoy together.

EARNED MEDIA NOTABLY MORE IMPORTANT FOR DRIVING BOTH BRAND GROWTH AND RETENTION IN THE CATEGORY

Touchpoints is Publicis Media's proprietary contact measurement and planning tool that evaluates and helps to optimise all forms of contact that brands have at each point on the consumer journey. By measuring the influence and recall of each contact point for each brand in a category, we can determine the percentage of "brand experience" that is delivered by paid, owned and earned touchpoints.

Looking at all projects in the pay-TV services category during 2017-2020, there are two key take-aways. Firstly, the percent share of average brand experience coming from earned contact points is 11.5% higher for this category vs. the global norms across all categories. As brand experience is a measure that consistently correlates with market share (86% on average), earned media is therefore important for brand growth. Secondly, there is a strong correlation (83%) between the percent of paid and owned brand experience and the percent of earned brand experience. This means driving greater brand experience through paid and owned touchpoints will help brands to gain larger earned brand experience also.

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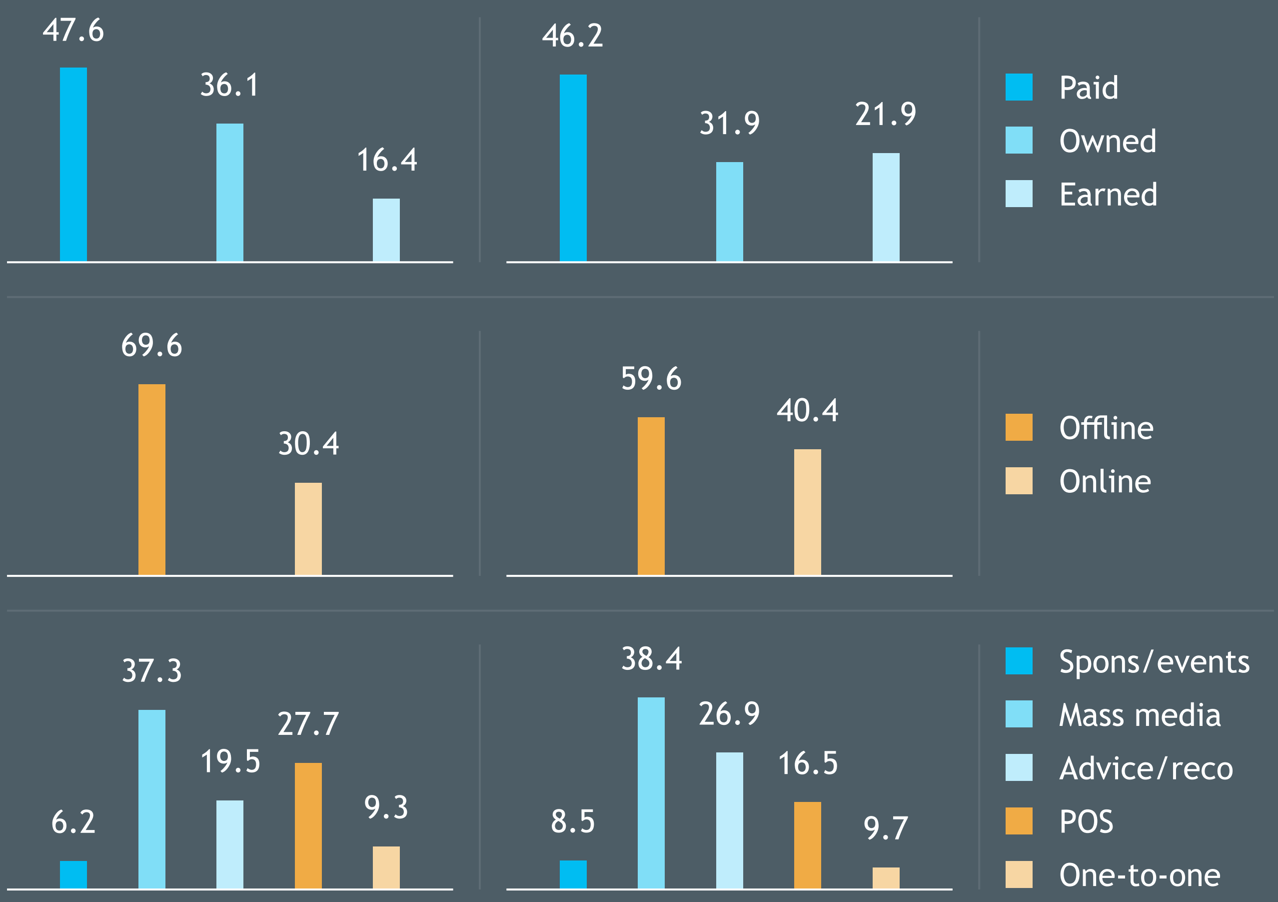
Global norms 2017-2019

Pay-TV Services 2017-2019



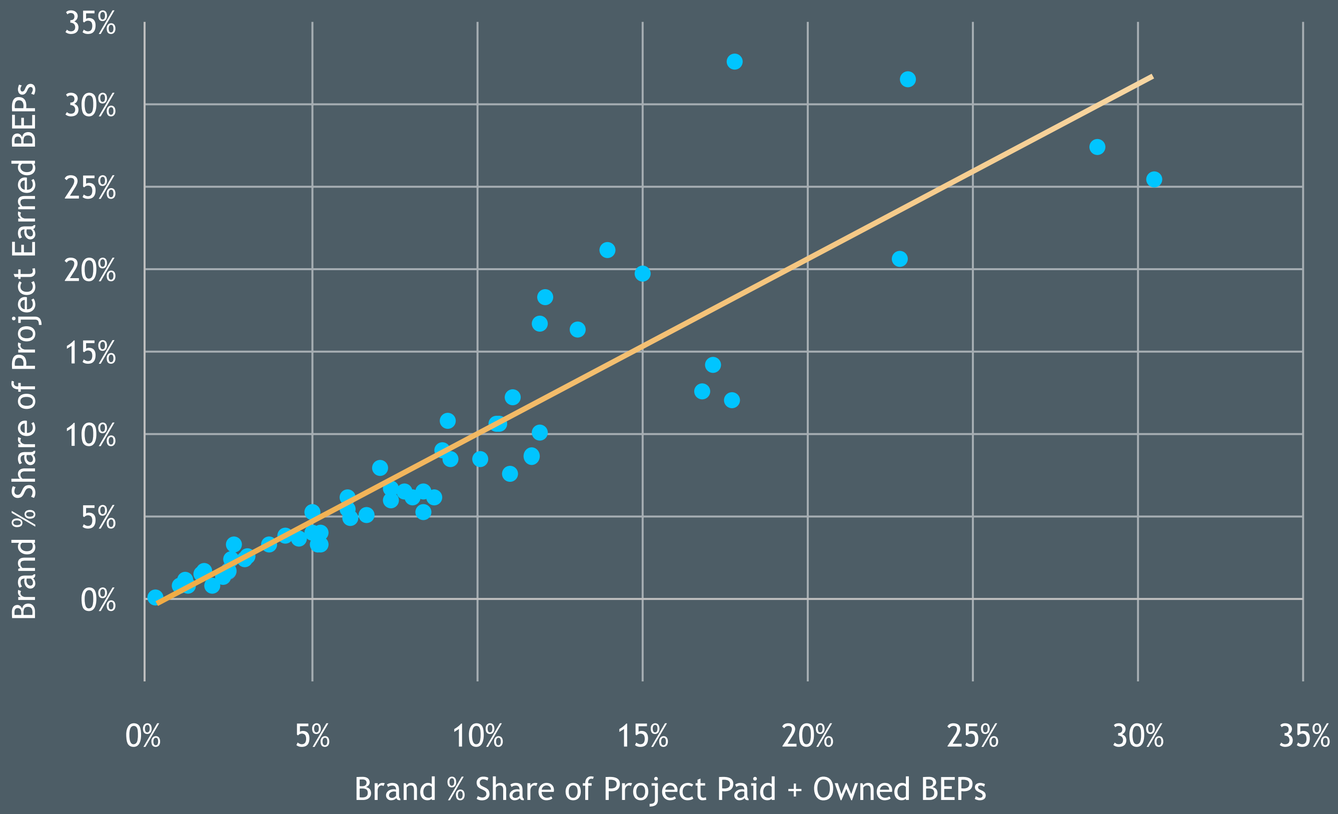
Source: Touchpoints ROI Tracker - Norms 2017-2020

Good recent examples include using stand-out executions and experiential events to generate buzz and awareness of specific titles, and then following up on social and digital. For example, earlier this year, Amazon Prime promoted its new Star Trek series by taking over London Tube stations - re-naming Piccadilly Circus to PICARDilly Circus, creating new signage and posters and even changing public service announcements to include show references. Similarly, Netflix partnered with Secret Cinema in the UK in late 2019 to recreate key locations and characters from their show Stranger Things in an immersive theatre experience. These events capitalise on the fanhood surrounding popular shows, and encourage the fan base to then promote the show online and to friends and family. Big media companies have long understood the importance of offline experiences in driving loyalty, engagement and recommendation - Disney being a successful example of a brand that has linked its TV and film content to real-life experiences in their parks, holidays and cruises.

Given the current dynamic nature of the market these big, stand-out executions are less viable. Instead, brands will likely turn their immediate attention to retention, particularly of those customers gained as a result of the pandemic. Content, pricing and the user experience are key. Anticipating future cancellations, Netflix recently launched a "Worth the Wait" feature on connected TVs that let users know what content is coming in the next year, and set reminders ahead of time. A measure that both highlights their content and makes the user experience better as a result.

Competition in the category is only going to grow in the immediate future, with not only new offerings from media and tech companies, but new challenger brands coming in to cater for niche interests. Brands need to be reactive to the current climate and to the changes (both temporary and permanent) in consumers' lives as a results of the events of 2020.

Brand Share of Brand Experience



Source: Touchpoints ROI Tracker - Pay-TV Services 2017-2020