



THE OC&C
DIGITAL
MEDIA INDEX



Online TV in 2019: Netflix on top, but under attack

Netflix continues to top consumer ratings,
but what are other players doing to attack
and to differentiate?



OC&C
Strategy consultants

uncommon sense



Netflix has kept its place at the top of our online TV index, winning across multiple genres and age groups. But being the rising star makes you a target. As we enter 2019 we ask...

... what can everyone else do to attack?

In our 2017 report, "To Platform or Not To Platform" we explored the potential for online TV to fall victim to the rise of super-aggregation - and likely impact on industry economics.

Now in 2019 Netflix has stayed the leading online TV platform and other players are looking to challenge. Against this background we explore:

- What are the areas of strength for Netflix (and potential weaknesses)?
- How do other online TV services (e.g. PSBs, Sky, Amazon, specialists) measure up across age groups, genre, selection criteria?
- What are the key priorities of these challengers - and the potential strategies available to them?

Rank	2016	2018	2016-18 Change in Rank ²
1	NETFLIX	NETFLIX ◀▶	-
2	BBC iPlayer	sky go ▲	+2
3	amazon primevideo	BBC iPlayer ▼	-1
4	sky go	amazon primevideo ▼	-1
5	NOW TV	NOW TV ◀▶	-
6	itv	ALL 4 ▲	+3
7	BT TV	Google Play ▲	+4
8	Google Play	itv ▼	-2
9	ALL 4	UK TV ▲	-2
10	my5	my5 ◀▶	-
11	UK TV	BT TV ▼	-3

Currently Netflix is the leading proposition in UK video on demand, but other players are looking to attack

Netflix continues to dominate brand rankings

At the beginning of 2019 Netflix is in a strong position, audiences see it as the top rated brand in nearly all key performance criteria from content range to functionality, and overall value for money. Netflix's appeal spans all generations as well, being the top (or joint top) multi-genre brand from Gen Zs to Baby Boomers. While the catch-up services such as BBC iPlayer are still used more by older generations overall, for Baby Boomers who do use Netflix, it is their joint top rated service.

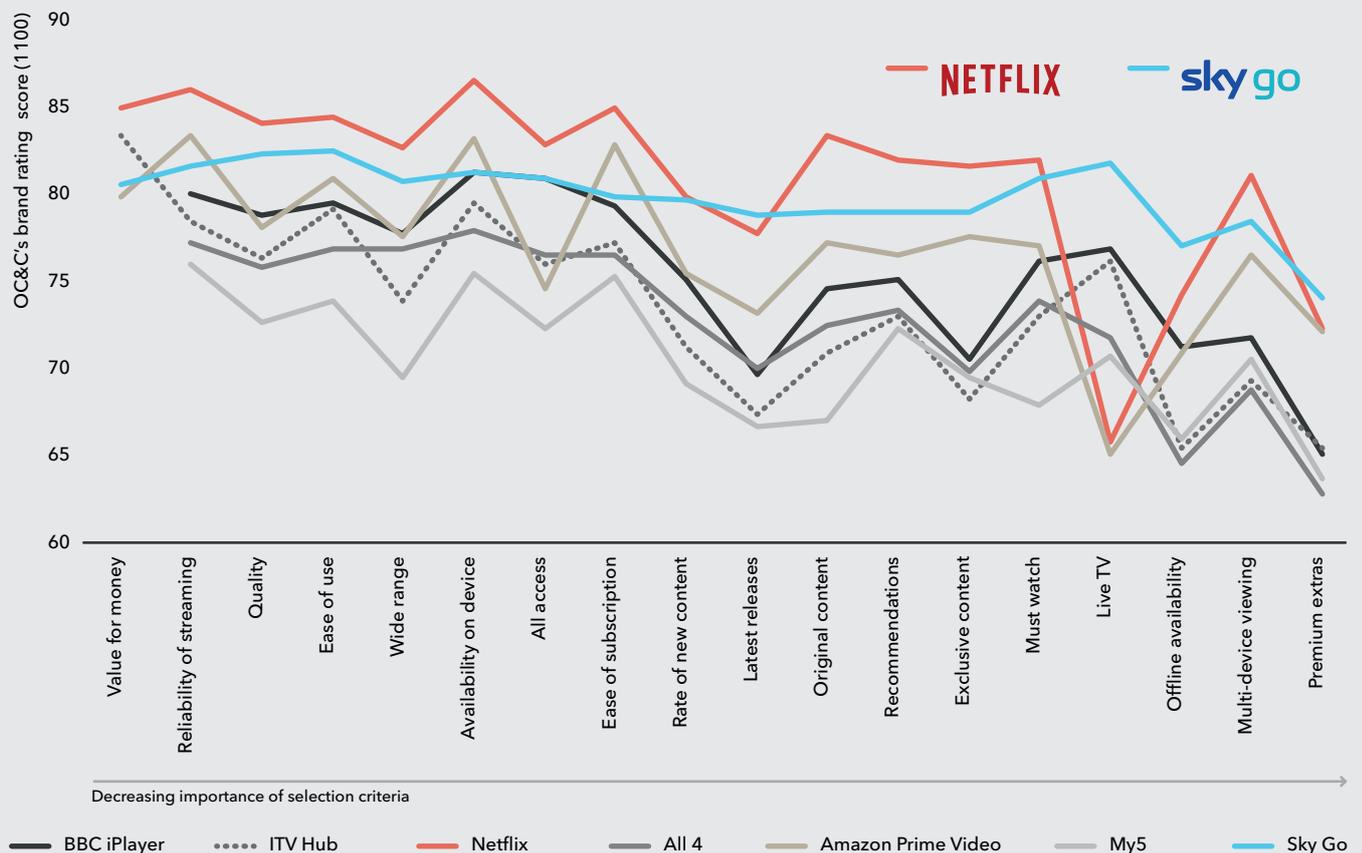
These high brand ratings have translated into excellent subscriber growth too. UK subscribers grew to an estimated 9.7m in Q3 2018 according to tracking agency BARB, a growth of 30% vs Q3 2017. The next highest subscription service, Amazon Prime Video, is half the size (4.9m subscribers) and growing more slowly.

"We don't do news, we don't do [live] sports. But what we do do, we try to do really well."

Reed Hastings, Netflix CEO, March 2018

Netflix is highly rated across most selection criteria

BRAND PERFORMANCE AGAINST KEY PERFORMANCE CRITERIA



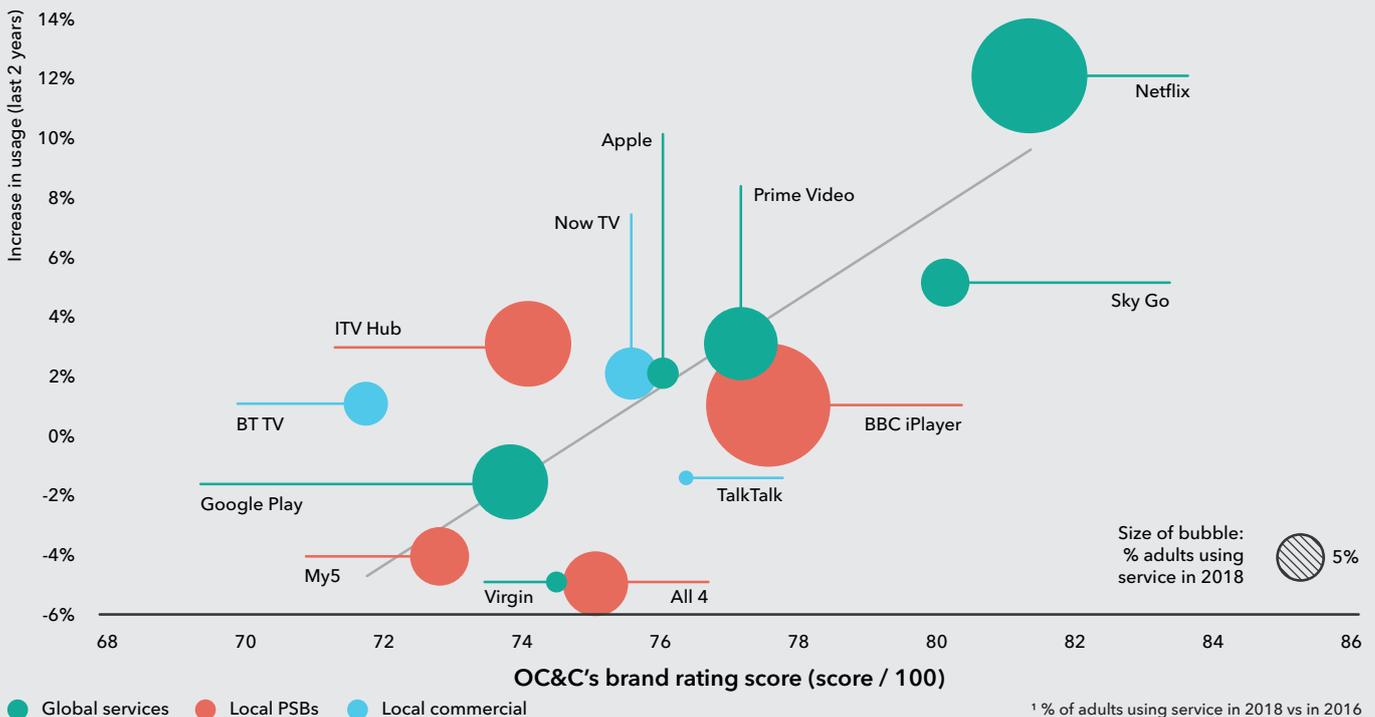
Netflix is highly rated across genres...

CONSUMER RATINGS OF UK ONLINE TV PROPOSITIONS BY MULTI-GENRE BRANDS ONLY (2018)

	Winner	2nd Place	3rd Place
Drama	NETFLIX	BBC iPlayer	sky go
Comedy	NETFLIX	sky go	BBC iPlayer
Kids	NETFLIX	sky go	amazon prime video
News	BBC iPlayer	sky go	itv
Documentaries	BBC iPlayer	sky go	NETFLIX
Reality TV	sky go	NETFLIX	itv
Classic box-set	sky go	NETFLIX	amazon prime video
Sports	sky go	BBC iPlayer	NETFLIX
Live events	sky go	BBC iPlayer	itv
Movies	NETFLIX	NETFLIX	amazon prime video

...and higher survey ratings are matched by usage growth real data points from BARB

OC&C 2018 DIGITAL MEDIA INDEX BRAND RATINGS VS CHANGE IN USAGE 2016-18¹ %



Source: OC&C 2018 Digital Media Index, Ofcom Media Nations 2018

So how could everyone else respond?

Six years since launching in the UK Netflix is in a strong position, but could be vulnerable to attacks from other players in the industry.

Netflix is strong and has grown rapidly...

Since entering the market Netflix has grown rapidly, and though BBC iPlayer has remained the most used online TV platform in the UK Netflix is now a clear #2 in terms of usage. If Netflix maintains its current trajectory it would overtake iPlayer to be the most used hub within the next two years.

Netflix's growth has also outpaced other UK online TV players. Amazon's investment in Prime Video, and ITV's show successes (e.g. Love Island) have put them on a growth trajectory; whilst Sky's NowTV has gained some traction with consumers. However Channel 4 and Channel 5's online offers have seen their usage decline since 2016.

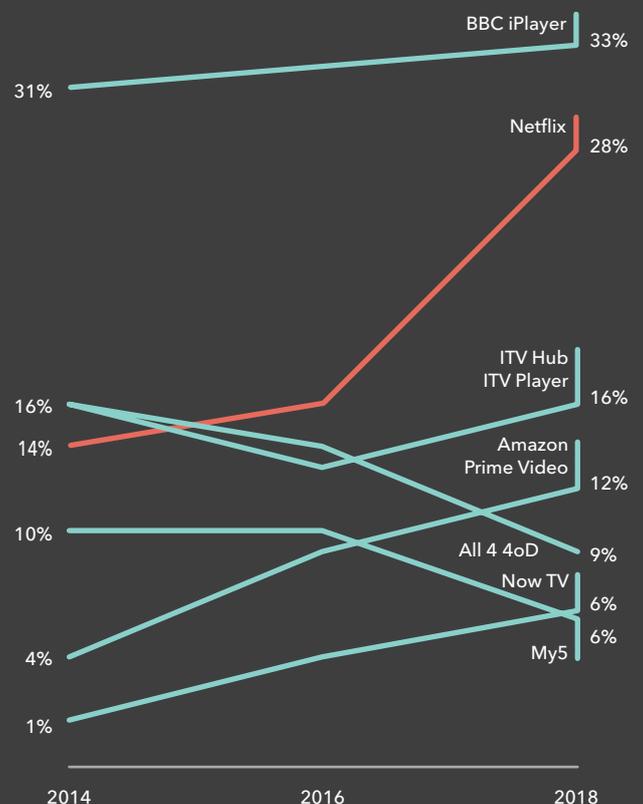
... but has vulnerabilities other players can exploit

Netflix is obviously a very strong player in online TV, however it has vulnerabilities that other players can look to exploit.

For example:

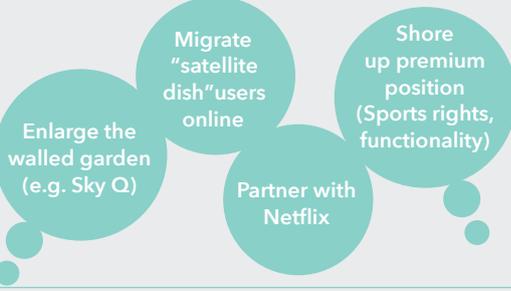
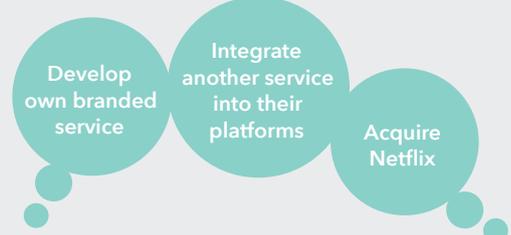
- Netflix relies on licencing agreements for 85% of its content hours. When these deals expire it can be vulnerable - either losing content or paying inflated prices to keep it
- Netflix can't use other operations to subsidise streaming. Companies like Amazon can subsidise their streaming platforms to increase use of their other services, whilst Netflix has to be self-funding
- Netflix is weak in some genres. Time sensitive content like news or live sport aren't well covered; and reality shows tend to be older series.

USE OF ONLINE TV SERVICES 2014-18



Source: Barb Establishment Survey via Ofcom Communication Market Reports 2015 and 2016, and Ofcom Media Nations 2018

Netflix's competitors and their potential strategies

Player	Key priorities	Potential strategies
PSBs    	<ul style="list-style-type: none"> Protect overall domestic audience engagement (especially youth) Find new, growing revenue streams (including international) Monetise catalogue content 	
 	<ul style="list-style-type: none"> Protect Pay-TV (and triple/quad play) subscriber base whilst giving cord-cutters options Maintain premium positioning Reduce cost to serve (especially physical infrastructure) 	
	<ul style="list-style-type: none"> Improve attractiveness of overall Amazon Prime package Build "media marketplace" to mirror retail service Use extra data to improve retail service and recommendations 	
Genre Specialists  	<ul style="list-style-type: none"> Get access to scale distribution Build brand and subscriber base Improve content offer/be distinctive 	
Global Content Giants     	<ul style="list-style-type: none"> Future proof against decline in core TV advertising/affiliate revenues Protect direct relationships with their audience Expand internationally (especially via D2C) 	
   	<ul style="list-style-type: none"> Increase size user base * Increase "share of attention" from users and overall strength of their platforms Protect (or open) media revenue streams (e.g. iTunes, Google Play, Facebook Watch) 	



Public Service Broadcasters have a range of options to challenge Netflix and other on-demand services. First is to pool combined content into a shared (paid) VoD service. There has recently been renewed interest from PSBs in a consolidated UK VoD offering (Project Kangaroo). In our survey 58% of respondents said they would be "Interested" or "Very Interested" in such a service; with 24% of those willing to pay for it as a subscription package. However, at the time of writing the latest industry rumours are that despite keenness from ITV, the BBC has pulled out.

PSBs can also attempt to fortify their natural areas of strength - e.g. news, live events, and local/social flavoured shows - the classic 2018 case study was ITV2's "Love Island". With this strategy the challenge for broadcasters is to generate enough set piece content to longer term adoption of the platform, rather than a one-off bump.

Another option - pursued in many other industries disrupted by digital platforms - is to change regulations and seek government assistance. Steps so far have been gradual, such as the BBC asking Ofcom to allow it to extend the period a programme can be viewed on iPlayer beyond 28-days. However, in the future we might see more radical interventions. Will the "digital sales tax" one day be applied to media?

"The idea that every individual UK broadcaster will have its own, independently produced online player is just not going to happen. I think some form of collaboration around the next generation of collaborative player is really important."

- Steve Unger, Group Director, Ofcom

"European broadcasters are unlikely to stop licensing their content [to VoD players] anytime soon... With that in mind, Netflix and deep-pocketed peers like Amazon will continue to have the upper hand as audiences in the UK continue their migration to on-demand platforms."

- Media Editor, Financial Times

Whilst content investment, bundling and me-too strategies are common strategic responses to OTT media, the Sky Q platform is genuinely innovative

As the internet increasingly provides credible alternatives to satellite distribution Sky has had to transition as a company. So far it has taken a two pronged approach.

To protect its pay TV business Sky has used its set-top-box hardware to deliver a superior customer experience (Sky Q); locked customers in by bundling other telecoms services (e.g. Sky Broadband); built up its own premium content proposition (e.g. co-production deals with HBO); and cut costs by moving to a online distribution.

To appeal to cord cutters Sky has also built up its own online subscription service (NowTV) which offers access to a smaller amount of Sky content and limited functionality. NowTV has been successful with the viewers (growing to 6% penetration in 2018) but poses a financial gamble that more users will compensate for the much lower revenue per user than the traditional pay TV bundles.

Whilst content investment, bundling and me-too strategies are common strategic responses to OTT media, the Sky Q platform is genuinely innovative. The platform brings a range of new features to the market including Ultra-HD viewing, ability to record live TV then stream recordings to mobile devices, and the ability to search different content libraries from a single search bar through a partnership with Netflix itself. In our Digital Media Index 48% of Sky Q subscribers said they liked it "significantly more" than other platforms, and 46% said they were watching a broader range of TV shows as a result.



CASE STUDY



THE LOVE ISLAND FORMULA BRINGS MILLENNIALS AND GEN Z TO THE ITV HUB

LEDE: Like the other UK public service broadcasters, ITV has had to reckon with a declining audience for live TV. With Love Island and similar shows, it has found a way to boost viewership and bring younger audiences to its online hub.

Love Island was the smash hit of the summer with the show averaging 5 million viewers per episode across live TV and catch-up, and the biggest 16-34 year old audience on TV¹. The show features young, attractive contestants sharing a romantic summer in a villa in Mallorca, and competing in a Big Brother style public competition to win £50,000 and find love. The show aired 6 days per week over an 8 week run on ITV2, with multiple tie-ins including a weekly discussion programme, daily podcast, social media feeds, and an interactive app.

Much of ITV2's content, Love Island included, share elements of a formula. For Love Island this was:

- Irreverent, cheeky tone
- Escapism
- "Shareable" on social media
- Competition structure
- Cross media tie-ins

The formula seems to be working. ITV2's schedule dovetails Love Island with a wider roster of youth content including Celebrity Juice and Celeb-ability, and animated series American Dad and Family Guy. In 2017 ITV2 overtook E4 as the most watched digital channel for 16-34 adults, and the ITV Hub (ITV's online streaming service) has seen usage increase.

Love Island's younger viewers also engaged with the show more so than any other show in the last year. For a majority, Love Island was the only show they watched or posted on social media about in the last year. This demonstrates the show's strong ability to engage viewers in a world, but most importantly for broadcasters in their battles with video-on-demand, viewers said they were more likely to watch more live TV in the future as a result.

SURVEY OF RESPONDENTS WATCHING LOVE ISLAND (%)



1. Excluding the 2018 FIFA Men's World Cup matches.



Amazon is running a twin strategy to compete with Netflix. First, its Prime Video service is tackling Netflix and TV networks head-on with its investment into premium programming. In 2018 Amazon is reported to have spent c.\$5bn globally on non-sports content vs \$12bn for Netflix and \$2.5bn for HBO.

The second element to Amazon’s strategy is the same play it made in retail with Amazon Marketplace, pursuing a “super-aggregator” role by allowing 3rd parties to distribute their content through its platform. Amazon Channels is currently the less well known family member compared to Prime Video, launching in the US in 2015 and the UK in 2018. Though nascent, our research suggests potential for the super-aggregator strategy. As viewers have cord-cut and ditched single TV subscriptions, the number of brands used has increased. Now, younger viewers are driving demand for simpler choices, in our 2017 survey 40% under-35s agreed with the statement, “There are too many services out there – I find the choice confusing”. In our 2019 survey c.75% agreed with the statement.

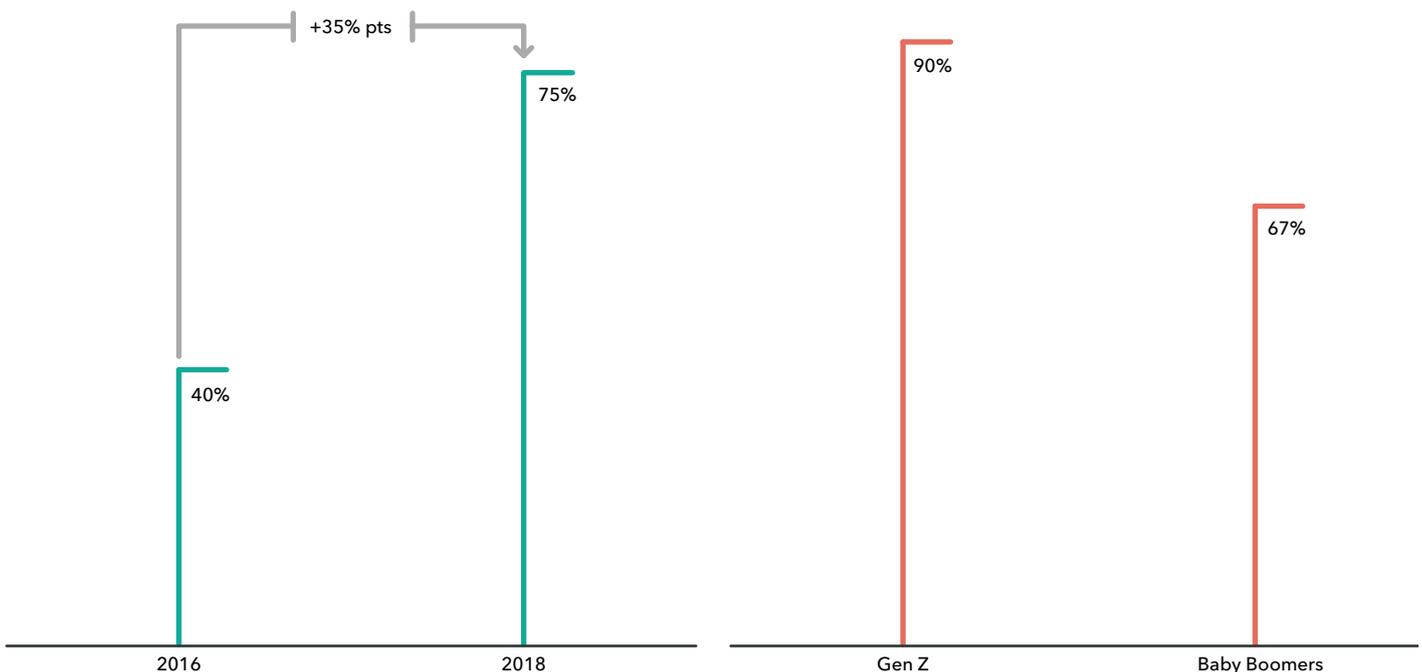
Genre specialists such as Hayu (a reality TV subscription service), rate well after picking genres not well served by Netflix and building good offerings in these areas. For these businesses, their challenge is how to expand their audience. Here the choice of how to go it alone, or who to partner with is crucial. Amazon Channels is hugely appealing in terms of its access to massive distribution but as with all “marketplaces” there are strings attached, in terms of commission and a lack of a direct consumer relationship. Speak to any retailer and they will warn about the dangers of giving too much data to Amazon marketplaces.

One trend in particular to watch is in live sport. Live premier league football has been pay-to-watch since the 1990s, but now more sports are moving behind paywalls too. In 2005, 8.4m watched the climax of the Ashes on Channel 4. In 2015 it had moved to Sky and the peak viewing figure was 1.3m. In 2019 F1 joins cricket, golf, football, rugby league, darts, basketball and boxing as a live sport shown primarily behind a paywall. As more sport moves into pay-to-watch a proposition that enables cheaper access is likely to be popular. DAZN has started on this journey, picking up rights for streaming sports (especially combat sports) in the US, Canada, Germany, Austria, and Japan amongst others. As it grows the challenge will be in sustainability and economics – and building a package that has critical mass.

OC&C 2018 DIGITAL MEDIA INDEX BRAND RATINGS VS CHANGE IN USAGE 2016-18¹ %

“There are too many services out there – I find the choice confusing” (% under 35s agreeing, 2016-18)

Respondents who agree searching for content should be simpler (% Respondents, 2018)



Source: OC&C 2018 Digital Media Index 2018, OC&C Digital Media Consumption Survey 2016

Global Content Giants - The businesses most threatened by Netflix's rise have been the existing global content conglomerates like Disney. They have been creating "clusters" of dominant brands with their own content libraries and subscriber bases. In theory larger content libraries should allow companies to

launch better direct to consumer propositions to compete with Netflix, however with cable subscriptions being a massive source of revenue, they equally have an incentive to pull their content from rival services (as Disney recently announced pulling its movies from Netflix) and slow the development of online TV.



Prior to the Fox acquisition, Disney unveiled two key pillars of its future digital strategy: two direct-to-consumer services focused on ESPN (sports) and Disney (entertainment); and removing its content from Netflix when the current licensing deal expires in 2019.

Part of Netflix's growth is often attributed to its bundling of kids and adult entertainment services in the same subscription - a tactic Disney may wish to adopt at Hulu, in efforts to reduce the losses there.



AT&T completed its acquisition of Time Warner in July of 2018.

The deal combined AT&T's vast telecoms distribution network with Time Warner's media assets for competitive advantage, with WarnerMedia planning on launching a direct-to-consumer streaming service in Q4 2019.

The service aims to provide a unique value proposition through a unified service with content from HBO, Turner and Warner Bros.

NETFLIX

After losing out on the Fox assets to Disney, NBC Comcast was successful in acquiring Sky.

Unlike other media giants, Comcast has been less aggressive in moving towards a direct-to-consumer model and has taken a more collaborative approach to Netflix's position in the market.

As a result, Comcast has partnered with Netflix to provide the streaming service through its Xfinity offering.



Launched in 2006, now available world-wide, included within Prime membership.

Amazon acts as an aggregator, enticing producers with access to Prime customers. Recent estimates suggest up to half of HBO's premium DTC subscribers are sourced through Amazon Prime.¹

In similar fashion to Netflix, Amazon is focusing on content by commissioning c.100 new original series in light of the increased competition from new direct-to-consumer services such as Disney.



1. The Diffusion Group.

With a strong consumer proposition centred on excellent content, Netflix continues to set the benchmark in online video - but it is also vulnerable to challenge from smart, well resourced rivals.

Rival content owners must think creatively about the strategic options available to them, and may have to take risks and collaborate rapidly and effectively or risk Netflix continuing to extend its dominance in the sector.

With the strength of its consumer proposition and subscriber growth, Netflix is challenging businesses across consumer media, but it has vulnerabilities

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WHAT IS OC&C'S DIGITAL MEDIA INDEX?

The OC&C Digital Media Index regularly surveys c.30,000 consumers across multiple markets, giving detailed ratings and perceptions on c.200 brands, and consumer input on industry hot topics. The Index covers propositions across digital consumer media including online TV and video-on-demand services; online news & magazines; online classified advertising; price comparison portals; and travel aggregators.

OC&C Strategy Consultants is a leading global strategy consulting firm that brings clear thinking to the most complex issues facing today's management teams. We work extensively across consumer media with expertise in proposition design; commercial performance improvement; and transaction related due diligence.

If you would like to discuss any of the themes covered in this report and OC&C's Digital Media Index we'd be delighted to talk.



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