



THE GROWTH OF SUBSCRIPTION-BASED VIDEO-ON-DEMAND SERVICES

DEVELOPMENT STRATEGIES AND IMPACT ON USE

Joint study conducted by Hadopi and the CSA

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Summary

Part 1: Overview of the SVOD market in France and abroad

The SVOD market is still growing in France: the number of services available continues to increase (78 in 2020 compared to 63 in 2017), including the launch of Apple TV+ in November 2019 and Disney+ in April 2020. SVOD revenue has increased tenfold since 2015, reaching €851 million in 2019¹. It is expected to exceed 1.2 billion in 2020, according to the first available estimates. However, it is still significantly lower than pay-TV revenues, which stood at €2.9 billion in 2018².

While usage is concentrated on the main generalist offerings, led by Netflix, the positioning of SVOD services is very varied: services focused on the youth market account for 23% of the total offer, ahead of generalist services (22%) and services dedicated to reports and documentaries (22%). The SVOD services available in France are published by a wide range of players, including digital solutions companies (23%), French audiovisual groups (18%), American groups (14%), French programme production or distribution companies (9%), and press and publishing groups (6%).

Netflix also occupies a prominent space in other European countries, where it also seems to have made a significant contribution to the growth of the SVOD sector. The United Kingdom, the Netherlands and Scandinavia were the first European markets to be won by US player Netflix, due to their favourable characteristics for its establishment (English-speaking population or population with a good level of English, technophile, and with a strong propensity to pay for cultural content). They are now the most advanced countries in terms of SVOD in Europe. Although Netflix leads by a substantial margin in these countries, it nevertheless faces competition from local players such as Viaplay, Videoland and Now TV, which have been able to take advantage of the growth in audiovisual demand.

The rapid expansion of SVOD demand has pushed the historical audiovisual groups to react in order to limit the growing erosion of their audience share. In the United States, the “Majors” – the historical players in television and cinema – have developed ambitious strategies ranging from the creation of Hulu in 2007 through to takeovers worth several tens of billions of dollars (acquisition of most of the assets of 21st Century Fox by Walt Disney, takeover of Time Warner by AT&T and merger of Viacom and CBS).

Although the response has been faster and more extensive in the United States, several initiatives have gradually emerged in Europe through alliances between historical players: Salto in France (France Télévisions, TF1 and M6), Britbox in the UK (BBC, ITV, Channel 4 and Viacom), Joyn Plus in Germany (ProSiebenSat.1 and Discovery), Streamz in Belgium (Telenet and DPG Media) and LOVEStv in Spain (RTVE, Atresmedia and Mediaset). These initiatives, which aim not only to respond to changes in demand but also to stimulate new demand by delivering a differentiated offering, currently remain limited to each individual country.

The response of the historical audiovisual groups to the emergence of the SVOD players also involves content production agreements and strategies for distributing offerings (as in the case of the Canal Plus group in France).

¹ CNC, *Observatoire de la Vidéo à la Demande*, December 2020.

² CSA, financial statements from pay-TV and free-TV channels.

Part 2: Player strategies in the face of intensifying competition

International deployment is a key strategic element for SVOD services, and for US services in particular, enabling them to expand their subscriber base outside their home market in order to better recoup their increasing investments in content acquisition and production. Netflix and Amazon are now competing on the world stage with new players such as Apple TV+, Disney+, HBO Max and Peacock, who are able to compete on the basis of their strong brand image and substantial economic resources.

To establish themselves on new markets in the long term, these players must adapt to specific local characteristics (sectoral, regulatory, cultural, economic, technological and usage). For Netflix and Amazon, this process of adaptation involves an investment in local content. Other services, such as Starzplay Arabia in the Middle East and Disney+/Hotstar in India, are the result of a decision by international players to partner with local players to roll out their offerings. French services can leverage the international French-speaking community when deploying outside France, as the Canal Plus group does in French-speaking Africa.

The strong growth in the number of SVOD services also requires the players in this market to differentiate themselves in the face of increasing competition. This is done primarily through their editorial positioning and the content they offer. Generalist services – especially from the US – are investing huge amounts of money in content for which they are seeking to acquire exclusive rights. They are increasingly involved at the pre-financing stage to obtain more control over the operational chain for the work and reduce their dependence on the studios. According to the CNC, SVOD publishers invested 86 million euros in 2020 on original French creations, of which 71 million are attributable to Netflix and 15 million to Amazon Prime Video³. Between 2016 and 2021, 56% of the investment in original French production by these publishers will have been directed towards the production of series.

Faced with competition from generalist SVOD services, and given the impossibility of competing financially with equivalent catalogues, a space seems to be opening up for a range of highly editorialised themed services, some of which can make a profit with a few tens of thousands of subscribers. Themed services are therefore positioned as complementary offers to generalist services, marketed at lower prices overall; they contribute to the diversity of the offer with a specialised content offering.

In addition to the catalogue of available content, the technical features offered by SVOD services are key factors in satisfying consumers. Thus, it appears that one of the primary strengths of SVOD services is to be able to offer a user-friendly, technically efficient interface that delivers an optimal user experience, whatever the size of the service.

User experience primarily takes the form of service availability. In France, the vast majority of SVOD services are accessible in OTT (“Over TheTop”) form via a website (73% of services). 21% of services are available both via self-distribution on the internet and in the offerings of audiovisual service distributors, 14% of services are available only via the distributors’ offerings, and 65% are available only via the internet.

³ Services established in France are subject to production obligations above an annual turnover threshold of €10 million, which did not apply to any service in 2020. The Canal Plus Group’s investments are made under the obligations attached to its linear channels, although programmes that are financed may subsequently be included in the catalogues of MyCANAL and/or Canal+ Séries.

Quality of service is also a central element of the user experience. In order to guarantee optimal quality of service (no latency, pixellation, sound lags, etc.), content providers can use “content delivery networks” (or CDNs), installed in ISP networks, at regional level (i.e. as geographically close as possible to the end customers), in order to optimise content delivery. This type of network enables content to be made available more quickly than if it had been obtained from a server on another continent, for example. These solutions can be offered by internet services providers (ISPs) or specialised third-party operators such as Akamai or Limelight, or developed by the content providers themselves (as in the case of Netflix).

Additional features offered by the services – such as recommendation tools, offline viewing and the ability to create multiple profiles – also contribute to the user experience.

The structuring of the SVOD sector in France can be analysed in relation to the situation in the American market, which has reached maturity with household SVOD penetration equivalent to that of pay TV, with growth now coming mainly via multi-subscription practices. The bundling of offers (such as Disney+/Hulu/ESPN or smart box offers) seems to be a response to the need to retain subscribers by offering them a single offering and a simplified user experience. The US market has also seen a rise in advertising video on demand (AVOD) services – financed via advertising and free to the consumer – and a renewed interest in terrestrial television reception. Lastly, the previous study published by the CSA in May 2018 considered the possible short-term development of SVOD offers from American studios as a counterweight to Netflix or Amazon. By the end of 2020, the switchover was almost complete, with video-on-demand services being backed by almost every major studio.

Part 3: Consumer practices in the face of the proliferation of supply options

The consumption of SVOD has been following an upward trend for several years: in spring 2020, 46% of French internet users (i.e. more than 22 million French people) had access to at least one offering within their household, while subscriptions to pay-TV offers have remained at a stable level over the last few years (21% of internet users)⁴.

The growth of the SVOD market accelerated particularly sharply in 2020, due to the health measures – such as lockdowns and curfews – taken to limit the spread of the Covid-19 pandemic, and the consumption of cultural goods increased strongly amid this situation. This growth is now translating into the recruitment of new consumer profiles. While younger people have been the driving force behind the adoption of SVOD practices and represented a very large majority of the audience of these services in late 2019 (60% of users were under 35 years old), people aged 50 and over now account for a significant market segment (31%). Overall, the average monthly expenditure of subscribers to a SVOD service amounts to just over 15 euros, with an average of 1.7 SVOD or pay-TV subscriptions among internet users who subscribe to at least one of these offers.

Nevertheless, in parallel with the development of legal SVOD services, illicit use remains considerable, despite an overall downward trend that began a few years ago, albeit slowed down by the first lockdown in spring 2020. Such practices are particularly common among subscribers to a SVOD offering, who are looking for alternative options for accessing the widest possible range of services without paying for multiple subscriptions.

The segmentation carried out using information from the quantitative survey identified seven consumer profiles among the internet user audience surveyed, based on content consumed, subscriptions to SVOD or pay-TV and the legality of their practices. While the vast majority of internet users (91%) consume films, series and sport on a weekly basis, half of them (55%) have a

⁴ Hadopi, *Baromètre de la consommation des biens culturels dématérialisés*, 2020.

paid subscription, compared to more than a third (36%) who consume this content without a subscription.

An analysis of scenarios involving multiple offerings or price variations highlights differing results depending on the nature of the content consumed.

Subscribers to film and series offerings show low sensitivity to changes in market conditions. This means that a scenario involving an increased number of movies and series services offerings would have a limited impact on consumer behaviour, in terms not only of subscriber share, but also of average spending by internet users on these services. Similarly, a variation in prices would have a low impact on internet users' budgets. Consumers are adapting to the new market conditions in order to maintain constant budgets for their consumption of films and series.

Subscribers to sports offerings, however, are more sensitive to market conditions. The proliferation of offerings, including the arrival of cheaper entry-level offerings, is prompting an increase in the number of subscribers to this type of service, but a decrease in average expenditure. In addition, an increase in prices is causing the number of subscribers to decrease. Nevertheless, some sports fans are adapting and increasing their budgets in line with market conditions so that they can continue to follow the competitions, increasing the average expenditure.

Finally, there is little variation in illicit practices as the number of available offerings change, reflecting growing satisfaction with legal offerings – unlike illicit sites, which only partially meet expectations in terms of content quality and ease of access in particular.

For this reason, the ability to take out a subscription with no time commitment makes it easy to subscribe to and unsubscribe from a service, depending on the interest in the content being broadcast, and without increasing the number of paid subscriptions. Account sharing is also used by consumers as a way of adapting to proliferating offers and increasing service prices, and of managing their budgets for audiovisual offerings.