Content Ownership and the Streaming Wars

Sourcing: All the viewing data in this report comes directly from **Digital i's unique SVOD analysis and visualisation software, SoDA 3.0**

REPORT SUMMARY

- Netflix viewing across the UK, France, Italy, German and Spain is relatively homogenous with just under 50% of all viewing time in Q1 2021 generated by the top 50 titles and 73% of the viewing-time generated by the top 500.

- Netflix is currently reliant on long-form US acquired series to keep subscriber-base engaged.

- Many major studios are now rolling out competitor streaming platforms and will be expected to withdraw their IP from Netflix when licensing deals come to an end.

- Netflix may initiate a content arms race in local markets, as it searches for new content to replace competitor IP.

- Younger account-holders are heavier viewers of long-form US acquired series which are either owned by the major studios or their subsidiaries.

- There are approximately between 1 and 2 million subscriber accounts which are at a high risk of churn if key major studio content were to be withdrawn and further content deals limited. Churn has already been noticed in the US and Canada where the major studio streaming competitors launched first.

- Netflix is inking exclusive deals with well-respected producers and newly formed production companies to future-proof their content funnel and continue to engage subscribers.

- If Netflix could reduce account sharing it could help drive growth in already established markets.

INTRODUCTION

The aim of this research is to understand the strengths and weaknesses of Netflix's position as many major studios move to establish their own global streaming platforms.

- Netflix is the world-leading streaming platform with an estimate of 209 million number of global subscribers.

- For approximately five years, Netflix's only true global competitor was Amazon Prime Video which trailed far behind in terms of platform engagement. Digital-i's research has revealed that, while Prime Video subscription numbers are similar to Netflix in many European territories, the amount of time spent on Prime Video is far lower.

- In 2019, when the streaming landscape began to shift. Disney+ began its global roll-out, the COVID-19 pandemic accelerated the consumer take-up of SVOD subscriptions and then the remaining major studios entered the scene.

- In the past 18 months, not only has Prime Video expanded its reach, but Disney+ has gained over 100 million subscribers worldwide, HBO Max and Paramount+ rolled out in the US, LatAm and further afield as well as NBC's Peacock has made large gains in the saturated US market.

The risk to Netflix does not lie simply in the potential cannibalisation of its subscription base as a result of more competition, it is also a threat to their content catalogue and funnel. This is because all of the major studios have licenced their content to Netflix and continue to do so, for now.

This report looks at the importance of this major studio content to Netflix's subscriber base to determine the potential risk to Netflix's growth were the major studios to not renew any licensing deals in favour of displaying their content on their own streaming propositions.

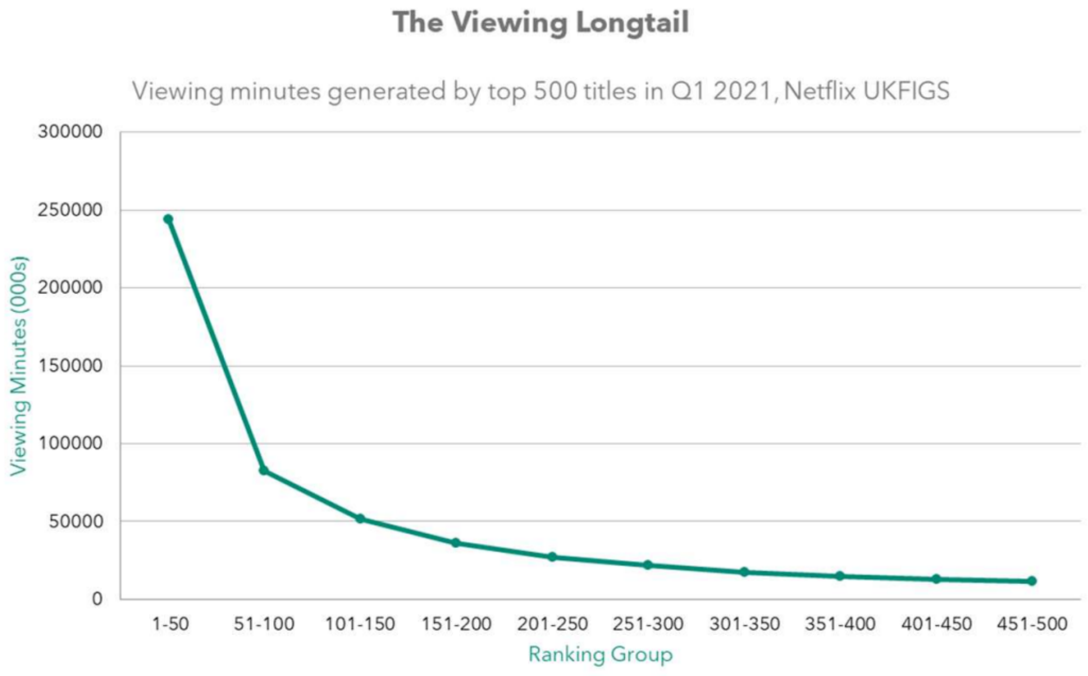
THE CONTENT LONG-TAIL

In Q1 2021, the top 50 titles accounted for 46.8% of the total viewing minutes for Netflix subscriber accounts in the UK, France, Italy, Germany and Spain (UKFIGS). The chart shows the distribution of viewing across the top 500 titles which accounted for 73% of total viewer minutes in this quarter.

- The Netflix catalogue: while over 8000 titles were watched across the quarter in these five regions; viewing was principally powered by the top 500 titles which contains the head and part of the longtail of viewing.

- Netflix viewing is relatively homogenous so the top 500 titles are the most significant assets for Netflix when it comes to engaging subscribers.

Thus, by determining the distribution of rights and ownership of these top 500 titles, it is possible to understand the strengths, weaknesses and reliance of Netflix's catalogue on other studios.



MAJOR STUDIO CONTENT DRAWS AUDIENCES

When looking at the ownership of the top 500 titles for UKFIGS Netflix subscriber accounts, there is a clear leader, but the major studios and soon-to-be competitors have a strong presence.

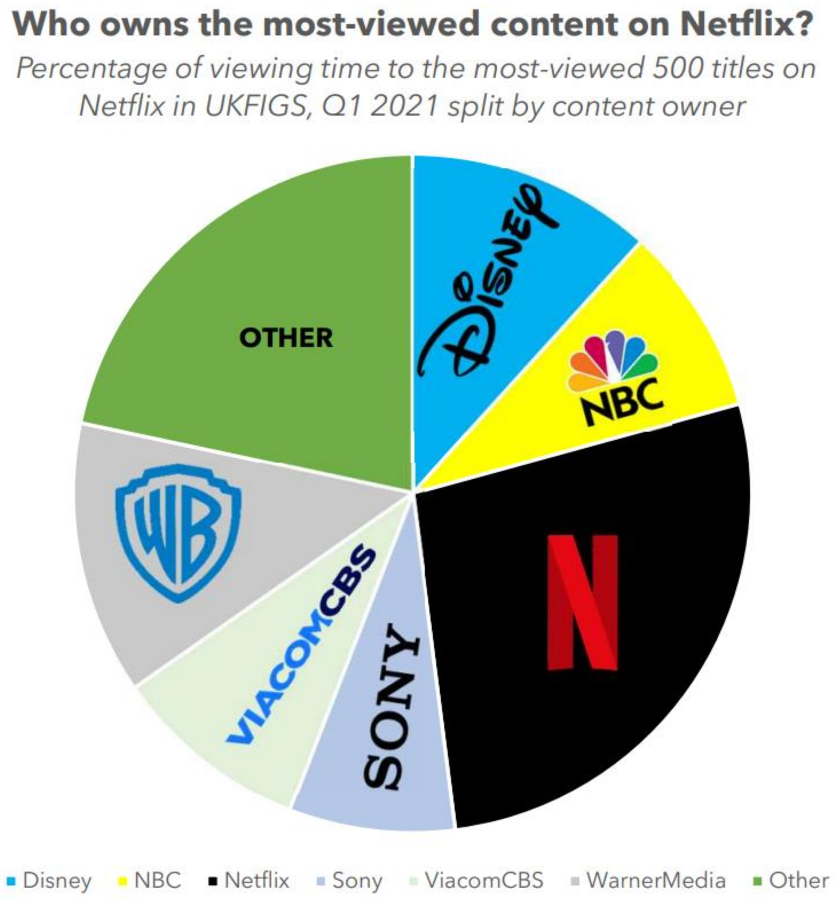
• Netflix-owned content (produced or co-produced by Netflix) drove 27% of the viewing-time to the top 500 titles.

• Over half of the viewing to the top titles was to content produced by one of the five major studios or a subsidiary of their parent companies, WarnerMedia, ViacomCBS, NBCUniversal, Sony or The Walt Disney Company.

• Four of these five studios have their own mainstream streaming platform with potentially global ambitions.

• Sony owns niche streamers in the anime sector like Funimation and Crunchyroll.

While Netflix content is a key driver of engagement on the platform, a significant proportion of viewing time is generated by major studio content.



CONTENT ARMS RACE & LOCAL PLAYERS

Over the past near-decade, Netflix has honed and perfected its content catalogue. Part of their strategy has been to invest heavily in Netflix Originals in order to future-proof their catalogue and keep engaging their subscriber base. However, not all Netflix Originals are owned by Netflix. Some of these titles have been produced by other production companies and then licensed to Netflix as an 'Original'. This is the case with *The Crown* and *Orange Is The New Black*.

While Netflix can consider these titles as low-risk to leaving the catalogue, there is always a small chance that a new streamer could pick up the rights for a new season or a feature film.

Thus, as the major studios withdraw their content (if they choose to do so), the focus will turn on the 'Other' section to keep Netflix's content funnel intact.

There is a possibility that this could end up disadvantaging local players when it comes to rights acquisition as they find themselves pitting against global platforms with global spending budgets.

YOUNG ACCOUNT-HOLDERS & CHURN

Younger subscriber accounts are more likely to be heavy viewers of acquired major studio content than other age groups.

In Q1 2021, there were several key programmes produced by major studios which dominated the viewing time for a significant number of 18-24 year old subscriber accounts. Below is the list of the content that generated the most viewing time for these accounts along with the average time spent per week viewing that content for each account in Q1 2021, UKFIGS.

For programmes like Suits, How to Get Away with Murder, Modern Family and The Big Bang Theory; between 800,000 and 1 million subscriber accounts spent an average of at least 1.5 hours a week watching the show. For other age groups, there were similar cases, but, in comparison with the younger subscriber accounts, they were more likely to be lighter viewers of this content. When combined with the lower income of this age group, they are less likely to subscribe to several streaming services and therefore, at a higher risk of churning.

NETFLIX & THEIR FUTURE STRATEGY

Netflix does not have the advantage of a library catalogue of decades of IP like Disney, ViacomCBS and NBC. In order to prepare for the potential attacks on their content catalogue and content funnel, they have etched several long-term exclusive deals with well-known producers and production companies.

Most notable in these deals:

- Stephen Spielberg's Amblin Partners
- Alex Pina, the producer of Money Heist
- Locke & Key's Meredith Averill
- Danielle Sanchez-Witel, who is reported looking to create new productions for Netflix in the comedy genre.

In the long-term, the challenge for Netflix is to maintain their market dominance in UKFIGS. This means they need to win over the loyalty, attention and subscriptions of younger viewers. Especially as the smaller number of accounts held by 18- 24 year olds are more likely to be groups of friends in house-shares or at university who will then go on to start separate subscriptions as they go through life.

Netflix's exclusive deals span a range of genres including animation, children's content and sci-fi & fantasy. In order to maintain and continue to grow their subscriber base they will need to secure new deals for competitor content or increase their spending and contractual deals with production companies and local players.

CONCLUSION

Netflix will have to fight to keep subscribers engaged as major studio IP is removed from their platform.

This is especially the case for younger viewers, as they regularly engage with long-form acquired US series, meaning they are at a high risk of churn as major studio competitor platforms roll out in Europe.

Furthermore, if these younger account holders were to churn off the service in favour of HBO Max, Disney+, Paramount+ or Peacock there is a chance that Netflix could lose its market dominance in the long-term. Netflix's latest plans to launch a gaming aspect to the streaming platform would further suggest that Netflix is planning on cementing its connection to younger viewers in order to minimise churn.

While we have indicated the significance of the viewing time to major studio series, a factor which we have not covered in this report is the power of the Netflix brand. In our first data collection in 2019, an accompanying survey demonstrated an intense emotional connection to the Netflix brand, with subscribers apologising as part of their complaints and prefacing their suggestions for improvements with 'It's not really Netflix's fault, but…'

There is always the chance that Netflix subscribers will remain, in the majority, loyal and that the true streaming wars will be for the secondary streaming platform place affecting Prime Video and Disney+'s viewer engagement.