In PwC's Global Entertainment & Media Outlook 2016-2020, one recurrent theme emerges consistently from the analysis and revenue projections: that today's global media landscape is multi-shifting, diverse and fast-evolving. These qualities reflect the fact that E&M globally is experiencing ongoing change and disruption whose nature and impacts vary between segments and geographies — resulting in drastic slowdowns in some areas and stagnation in others, coexisting with spectacular expansion in "hot" sectors, countries and regions.

In no area of E&M is this diversity – the "world of differences", as we've termed it – more evident than in the global TV and video market. It's a segment that has already undergone a profound transformation in recent years driven by the rise of digital distribution, changing the market and competitive dynamics virtually beyond recognition. And as the reverberations from the disruptions seen to date continue to spread, there's every reason for expecting the rapid shifts to continue.

## The headlong global rise of SVOD...

So, what's driving this transformation? To answer that question at a global level, consider a couple of facts. First, total worldwide subscription spending on Netflix and other over-the-top (OTT) subscription video-on-demand (SVOD) services grew by 33.8% in 2014 and 32.3% in 2015 — that's 77% in two years. During the same period, total global TV and video revenue rose from US\$271 billion to US\$289 billion — a two-year rise of just 6.6%.

The second fact is that, at the end of that two-year period of headlong growth, Netflix announced in January 2016 that it had tripled its global reach by expanding overnight into an additional 130 countries. Netflix is having a transformational influence on how SVOD evolves — especially in English-language markets — through its wide range of content and heavy investments in programming, creating competitive pressure that has forced local players in some markets to exit the marketplace.

However, the countries where Netflix is active do not include China, one of the world's fastest-growing VOD markets – a fact that neatly encapsulates the complex blend of powerful global trends and local divergences in today's global video landscape. While Netflix's absence from China is ascribed to regulatory factors, forging local content relationships would be a further challenge if it were to launch there.

## ...is impacting pay TV content and distribution strategies

At the same time, looking across countries worldwide, the growth of SVOD is having the most impact on traditional distributors of pay-TV or MVPDs (aka multichannel video programming distributors) whose subscriber growth in many markets has begun to decline. In parallel, other players in the TV ecosystem – specifically TV networks – are responding to these developments by focusing on owning more of their content and IP – and in many cases launching their own OTT offerings. Finally, the growth of SVOD has precipitated an "arms race" for original premium content – especially in genres like dramas and kids/family – where the primary beneficiaries have been studios, producers, IP owners, and, of course, consumers.

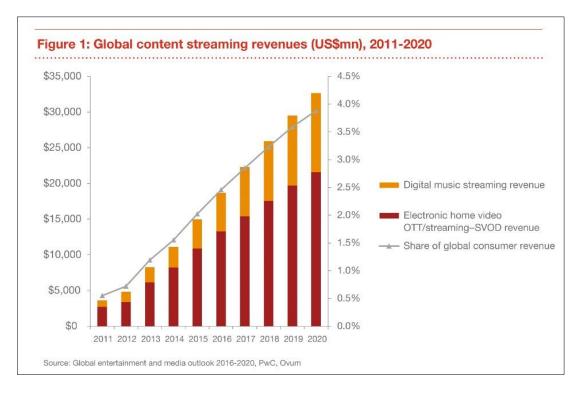
As these shifts play out, there are a number of unanswered questions. One is whether we are at – or approaching – "peak TV" in terms of this dramatic expansion in the volume of original content production and acquisition, or whether this is a phenomenon that can continue even with anticipated improvements to video discovery. Another is whether there are already too many SVOD options in the marketplace, meaning a shakeout might already be in the cards. Such a process could result in an SVOD marketplace characterized by a limited number of mass-market players – the likes of Netflix and Amazon – and perhaps a handful of smaller, more focused players that succeed by concentrating on a set of niche consumer segments.

# Adjusting to new realities across multiple dimensions...

These are just a few illustrations of the diverse and differentiated environment that has emerged as the global video market adjusts to the realities of near-universal internet access and on-demand digital distribution. Overall, it's increasingly clear that the global rise of SVOD services doesn't mean video content is becoming more globally homogeneous. Instead, the content is being continually redefined by forces of globalisation and localisation simultaneously – with content-based business models across the world being transformed to support this coexistence of global and local content offers.

So, what kind of a world are TV and video businesses now operating in? It's a world where more than 16% of respondents in a <a href="PwC survey">PwC survey</a> of US consumers said they'd unsubscribed from pay-TV services in the past year – energized and informed by a proliferation of "cord-cutting guides". Deep consumer insight derived through data analytics is increasingly pivotal to delivering the personalisation that customers demand. And where pay-TV operators in mature markets are looking to consolidate as a way to counter the growing competitive pressures from streaming services, as with the merger of AT&T and DIRECTV.

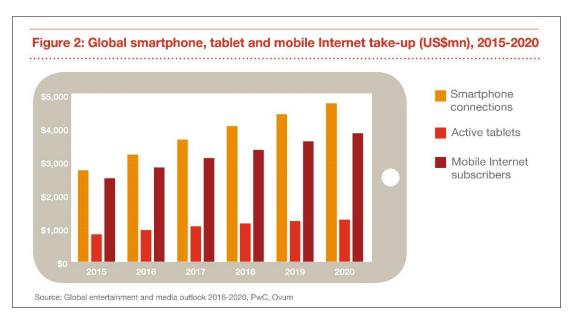
It's also a world where the impacts of simultaneous and interrelated shifts are occurring across all five dimensions of the global video marketplace: competition, demography, consumption, geography, and business models. To pick just a couple of these, in the area of competition we're seeing producers and distributors of video content experience contrasting headwinds and tailwinds. For example, video content producers are benefiting from the collapse of physical distribution, but being hampered by the proliferation of digital outlets; while online OTT distributors are being boosted by cord-cutting and rising online viewing, but face the challenge of having to negotiate local content deals. Meanwhile, in the area of demography we're seeing a growing correlation between the pace of E&M revenue growth in a country and the youth of its consumer base – with younger people tending to be more open than their older counterparts to adopting digital behaviours such as streaming.



The impact of such global forces can be seen in the steady rise in revenues from content streaming of all types (see Figure 1). And while streaming still accounts for only a tiny proportion of global E&M consumer revenue, its current low base points to continued opportunities for future growth. This potential is all the greater given the ongoing rapid



increase in smartphone and tablet penetration across the world (see Figure 2), which is driving headlong take-up in second-screen and multi-screen viewing in many markets. Consumers' ability – and desire – to access content across a variety of devices at any time has been a key factor behind the acceleration in OTT revenues in recent years.

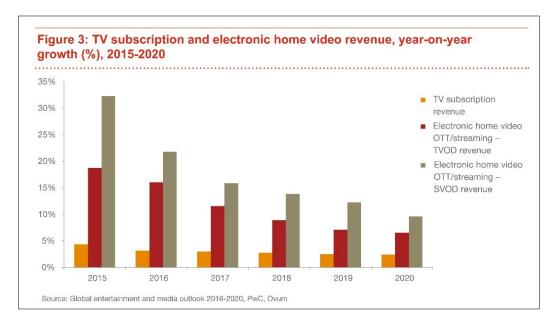


#### ...as the bundle lives on...

As the impact of multi-screen viewing underlines, perhaps the most profound and powerful shifts under way in the video market are those arising in the consumption arena. In recent years, the global rise of content streaming and the related ability for consumers to design and curate their own media diet has caused many pundits to proclaim the end of the bundle — the set of offerings that cable and satellite companies have traditionally sold together. But the view that the bundle is dead is well wide of the mark.

As Figure 3 shows, pay-TV networks are having to battle hard for growth against the streaming entrants, both SVOD and non-subscription transactional VOD (TVOD). But while consumers don't want to pay for a large subscription TV bundle with lots of channels that they never watch, they do like the convenience of having their favourite content aggregated in one place, and being able to access it across all devices.

The pay-TV players were initially slow off the mark, but they're now taking the fight back to the SVOD entrants. As well as consolidating to gain scale and reach, they're also offering their content in smaller bundles or even on a TVOD basis to non-subscribers, and making it accessible as an integrated, cross-device user experience across TV, laptop, tablet, and smartphone. A good example of this strategic response is Sky's Now TV stand-alone streaming service in the UK, which it offers alongside a separate streaming capability for subscribers to its main pay-TV offering.



As services like these gain traction, we believe the bulk of digital OTT mass-market services will gradually be reabsorbed into aggregated offerings that echo the traditional analogue-style bundle, but which will be more flexibly priced and available on a full range of devices. As this move gains momentum, the competitive battle in the video market may move up a notch from the OTT service level to the realm of service aggregators, ranging from giants such as Amazon, Netflix and Apple to small entrants like WeShow – which scours the Internet for video content and then delivers it on a tailored, targeted basis to viewers worldwide.

#### ...and the competitive battle evolves and escalates

In the competitive landscape that's now taking shape, the big battles won't only be fought over the best content between incumbent pay-TV networks and technology-enabled entrants. They'll also play out among pay-TV incumbents, tech giants and telcos over access to users. And the outcome of auctions for ownership of broadcast spectrum will be potentially pivotal in determining who has the upper hand – because whoever buys and owns spectrum may be better placed to enter and win the race to offer video streaming bundles.

As bandwidth comes up for grabs, so too will the role of aggregator. Indeed, developments are already under way in this area: while we're unlikely to see the larger players co-mingling with each other any time soon, there have been some significant moves towards re-aggregation and with it improving the user experience, such as Amazon Video's Streaming Partners Program and Comcast's agreement to integrate the Netflix app into its X1 pay-TV platform.

#### Global contrasts: the US still leads globally – but China's closing the gap

So, as these shifts play out, what will be the impact on the shape of the global video market – and the positioning of the countries within it? Looking across the "world of differences", the US will likely remain comfortably the largest and most sophisticated market globally, but one where overall growth has effectively stalled. Total TV and video revenue in the US is projected to rise to US\$122.09bn in 2020, a CAGR of just 0.4%. But despite lagging behind global growth of 2.6% compounded annually, US TV & video revenue will still account for 38.4% of the global total in 2020. Within the US's flat performance overall, electronic home video will rise at a 9.0% CAGR, physical home video will decline at 12.4% compounded annually, and TV subscription revenue – by far the largest component – will remain flat.

A key driving force in the US market is consumers' changing expectations, with growing demand for relevant (often fewer) channels, more personalisation and choice, and lower monthly bills. In response, several operators are creating more segmented and affordable "slim bundles" and content aggregation offerings, which may be more attractive to consumer groups including "cord-cutters" who've cancelled their pay-TV subscriptions; "cord shavers" who stay with



pay-TV but only for a video subscription at the right (smaller) size and cost; and "cord-nevers", younger viewers who don't plan to take traditional TV subscriptions. And consumers in the US are very much up for grabs: PwC <u>consumer intelligence</u> reveals that while Netflix leads the OTT pack in the US – with nearly two out of three Americans having a Netflix subscription – some 52% of Netflix subscribers also subscribe to cable, and 55% subscribe to at least one other OTT platform.

Meanwhile, China is set to massively outpace the US in terms of revenue growth from electronic home video – and also has the largest number of subscription TV households in the world, at 254mn in 2015. China's total TV and video revenue is forecast to rise at a CAGR of 8.9%, with electronic home video OTT/streaming—SVOD the star performer, seeing its revenue (excluding through-TV VOD subscriptions) rise to US\$2.34bn in 2020 at a breath-taking CAGR of 35.7%. With – as discussed earlier – Netflix not currently present in the Chinese OTT market, the handful of video streaming providers licensed to operate in China are seeing healthy growth, mostly by using a freemium model where basic content is available for free and viewers can pay a subscription to access premium content.

Another noteworthy market in the "world of differences" is Saudi Arabia – set to be the fastest-expanding TV and video market globally over the coming five years, with total revenue set to rise at a CAGR of 14.9% to US\$523mn in 2020. With no cable sector, digital satellite is the predominant TV delivery method in Saudi, but its subscription TV providers face the continuing challenge of competing against a multitude of free-to-air (FTA) satellite channels available to most consumers. Nevertheless, subscription TV penetration in Saudi is set to exceed 50% by 2020, helping TV subscription revenue to rise at a CAGR of 12.9% to US\$421mn. But this growth will be far outpaced by the smaller OTT/streaming market, whose revenue will likely surge at a CAGR of 26% to US\$102mn in 2020.

#### **Navigating multispeed markets**

Overall, the message is clear. In common with players in other E&M segments, video providers need to equip and reposition themselves for a diverse, multi-speed world characterised by profound global disruptions and sharp local variations. As market participants learn from experience and become nimbler, each of the shifts we've highlighted – the power of youth, the primacy of localized content, the resilience of new kinds of bundle, and more – will help them plan and do business better in the fast-evolving market.

For those companies able to base their strategies on the right blend of global insights and local knowledge, there are many potential opportunities. And the shifts under way play to the strengths of companies with big market positions, capital to invest, strong brands, and a firm grasp of local tastes and preferences. If they apply these assets in the optimal way, video incumbents can capitalize on the next phase of change and accelerate their growth. To achieve this, they'll need to ensure that their capabilities are both up to the job and aligned, and that their brands are underpinned by the best talent, empowered by low-friction, efficient processes and deep, data-driven consumer insight. As change continues, TV and video companies that combine these attributes to target the hot-spots in the "world of differences" will be well-placed to succeed.



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# Global entertainment and media outlook

PwC's Global entertainment and media outlook 2016-2020 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 13 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. Subscribe to the Global entertainment and media outlook at <a href="https://www.pwc.com/outlook">www.pwc.com/outlook</a>

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