

# European Media Markets 2021:

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## The European TV Market: Rivalry for eyeballs - Pay-TV vs. SVOD

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Since TV programmes in high definition went on air for the first time on BBC in 1936, the European TV market has changed significantly as new players started showing up in recent years, namely VOD (video-on-demand) services such as Netflix, Amazon Prime, and Disney+. Nowadays, the rivalry between linear and non-linear TV has become one of the major struggles for the TV market in Europe. This White Paper focuses on the comparison of pay-TV and SVOD services to find the answer to the following question: is the “cord-cutting” process inevitable, and will there be a winner in this competition for audiences’ attention?

### Highlights

- Some researchers predict “cord-cutting” will continue, while others claim that this phenomenon mainly depends on local market conditions.
- Linear and non-linear TV players in Europe seem however to coexist in the foreseeable future.
- Strategy plays a crucial role when it comes to both becoming a successful SVOD player in local TV markets and staying relevant as a pay-TV service in TV markets with a high SVOD penetration. Spain is a primary example of a market where pay-TV and SVOD seem to be able to coexist due to market strategies.
- Data collection and processing are essential for the provision of personalised TV content.

## 1. State of TV in Europe

### Who are the main players in the European TV market?

For this research, we chose to focus on the pay audio-visual (AV) services. Therefore, we compared two main competitors for subscribers, revenues and acquisition of exclusive TV content: SVOD players and traditional pay-TV services providers (linear TV channels). In SVOD, like in other online markets, several players can coexist and compete, but only a few are able to dominate. In the case of Europe, these few dominant players are US-based companies, considering the fact that Netflix, Amazon, Apple TV+ and Disney+ together account for 83.1% of the subscriptions. It is important for this research to note that despite of the rapid growth of SVOD platforms, they are still one of the smallest actors of the European audio-visual market when it comes to revenue. In 2019 they contributed merely 6% of the total turnover of the audio-visual market, while pay-TV represented 30%.<sup>1</sup> Despite the popularity of SVOD platforms, traditional linear television remains the most dominant method of video consumption. For instance, it represented 90% of viewing in Italy and 80% in France in 2019.<sup>2</sup>

### How does content reach viewers?

In terms of distribution of pay AV services in Europe, the overall subscription rate for pay AV services grew from 137 million subscribers in 2008 to 260 million in 2017. Most of the growth was delivered by OTT (over-the-top) (50%) and IPTV (30%). In contrast, given the rapid rise of other networks of content distribution, market shares of cable shrank from 59% in 2008 to 31%

<sup>1</sup> Grece, Trends in the VOD market in EU28.

<sup>2</sup> Moyser, R. (2020, June 27). TBI Tech & Analysis: Five takeaways reflecting consumption changes. TBI Vision. <https://tbivision.com/2020/07/27/tbi-tech-analysis-five-takeaways-reflecting-changing-consumption-habits/>

in 2017.<sup>3</sup> The recent statistics show the significant growth in the number of Europeans paying for SVOD every year from 2015 to 2020, while the subscription rate for pay-TV remains almost the same. Therefore, the growth of SVOD is not happening at the expense of a decrease in pay-TV consumption.

### **Cord-cutting: to be or not to be?**

According to research conducted by Ofcom, we might experience intensified “cord-cutting” in the future. Cord-cutting refers to the cancelling of subscriptions to multichannel television services available over cable or satellite, dropping pay television channels or reducing the number of hours of subscription TV viewed. Linear TV still plays a huge role in people’s everyday life in general, however, precisely younger generations are more eager to watch content on streaming services and YouTube.<sup>4</sup> This assumption can be supported by Digital TV Research 2020 that predicts a 15% decrease of the overall revenue from the pay-TV in Western Europe in 2026 and a 4% decrease of the number of pay-TV subscribers. As for SVOD services, the overall count of subscribers may increase by more than 70% reaching 234 million viewers in 2026.<sup>5</sup> However, the European Audiovisual Observatory claims that the European TV market is too heterogenous to make any judgments about cord-cutting because market conditions differ from one Member State to another. Therefore, even though we can see some shifts from pay-TV to SVOD services in Europe, the exact outcome might not be predictable just yet.

## **2. Case study: The Spanish Boom**

This case study looks at SVOD as a disruptor in Spain. It is an interesting country to take a deeper look at in terms of the development of the European TV markets and especially the pervasiveness of SVOD in Europe. The success of Spanish TV series on Netflix like *La Casa de Papel* and *Elite* and the rapidly growing SVOD penetration have transformed the Spanish TV market greatly, while also attracting global attention. Consequently, this phenomenon has been in literature referred to as the “Spanish Boom”.

### **Netflix’s expansion to Spain**

The significance of Netflix in the European TV market has especially grown in Spain. As of 2019, Netflix has 19 on-going productions in Spain.<sup>6</sup> Netflix entered the Spanish market in 2015.<sup>7</sup> In 2019, it established its first European production hub in Madrid. Currently, there are 28 SVOD services in Spain and Netflix is the biggest player with 44% market share. The expansion of Netflix into Europe and especially into Spain can be attributed to its new TV production strategy that has proven very successful. Netflix has consistently purchased rights to already initiated TV productions and then adapted these to a more internationally attractive format. For example, the Spanish Netflix show *La Casa De Papel* was initially a Vancouver Media and Atresmedia production for Antena 3 television channel until Netflix bought the show and re-formatted it to fit the standards of Netflix. *La Casa de Papel* has been one of the most important breakthroughs in the Spanish audio-visual sector. It has made Spain very attractive as a producer of audio-visual content and gain important global visibility.<sup>8</sup> This is especially ground-breaking for Spain as Spanish television has not traditionally attracted a global audience.<sup>9</sup>

### **The impact of SVOD in Spain**

Although the trend in Europe seems to be that pay-TV revenues remain stable while SVOD revenues increase, in Spain both revenues have been increasing and the growth of both seem to be picking up. According to a report on Spanish SVOD subscriptions: “Nearly a third of homes in 2023 is forecast to have one or more SVOD service, not far below the predicted number of pay-TV households”.<sup>10</sup> Netflix is the winning SVOD platform in Spain, with Amazon following on the second and Apple TV+ on the third position. The success of pay-TV in Spain is an interesting development as one of the biggest challenges for all pay-TV and OTT services alike in Spain initially was the weak internet/pay-TV culture in Spain as free over-the-air broadcasting was the

<sup>3</sup> Laura. Pay AV services in Europe: The state of play.

<sup>4</sup> Media Nations 2020 UK report. (2020, August). Ofcom. [https://www.ofcom.org.uk/\\_\\_data/assets/pdf\\_file/0010/200503/media-nations-2020-uk-report.pdf](https://www.ofcom.org.uk/__data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf)

<sup>5</sup> Easton, J. (2021, April 8). Western Europe pay TV subs to drop by 4 million. Digital TV Europe

<sup>6</sup> Fontaine & Jiménez Pumares (2020). European high-end fiction series: State of play and trends.

<sup>7</sup> Wayne, M. L., & Castro, D. (2020). SVOD Global Expansion in Cross-National Comparative Perspective: Netflix in Israel and Spain. *Television & New Media*, 00(0), 1–8. <https://doi.org/10.1177/1527476420926496>

<sup>8</sup> Castro, D., & Cascajosa, C. (2020). From Netflix to Movistar+: How Subscription Video-on-Demand Services Have Transformed Spanish TV Production. *Journal of Cinema and Media Studies*, 59(3), 154–160. <https://doi.org/10.1353/cj.2020.0019>

<sup>9</sup> Wayne & Castro (2020). SVOD Global Expansion in Cross-National Comparative Perspective: Netflix in Israel and Spain.

<sup>10</sup> Foster, A. (2019, October 29). SVOD AND PAY-TV THRIVE IN SPAIN. Retrieved April 21, 2021, from <https://www.ibt.org/trends/SVOD-and-pay-tv-thrive-in-spain/5143.article>

dominant way of watching television. The Spanish people were not accustomed to paying for viewing, which was a challenge for both pay-TV and OTT players. It was especially challenging for Netflix, as one of its most important strategies in entering national markets is to make partnerships with local pay-TV providers.<sup>11</sup> However, due to increased investment and improvements in infrastructure, this obstacle has taken the back seat and allowed new ways of watching television to emerge. Moreover, Spain is predicted to become the top Western European country with regards to its consumer spend on video by 2023.<sup>12</sup>

### **Cord-cutting in Spain: The final verdict**

In conclusion, pay-TV and SVOD seem to be able to coexist in the Spanish context, at least for the time being. Therefore, cord-cutting is not considered an issue yet in the Spanish TV market. However, the future of the rapidly changing audio-visual landscape is difficult to foresee and swift changes in the context might take place (un)expectedly. Trends like the emergence of “cord-nevers” pose a real threat for pay-TV providers as new generations with new viewing preferences start dominating consumer demand.<sup>13</sup> Statistics show that SVOD is in a rapid growth phase in Spain but the sustainability of the growth is unclear. An important strategy for pay-TV in Spain is providing access to SVOD platforms through pay-TV subscriptions. This way, pay-TV has found a (temporary) way to remain relevant for consumers.<sup>14</sup> Whether these partnerships will last, is not clear yet.

## **3. Future Outlook and importance of data for the TV market**

OTT and VOD viewing accumulates a completely new stream of big data. VOD players in the TV market are more data driven. Big players like Amazon, Apple, Netflix and Hulu, have been improving their use of big data and analytics.<sup>15</sup> This impacts decisions on what content will be produced in the future in Europe, because these big data companies base their production spent decisions on the data that they collect and analyse.

### **How business models change through data**

Netflix is a prime example for data management and using business intelligence. They use the information from their collected data in flexible ways, really putting the user at the core of decisions in their business models. So-called “Netflix-taggers” are trained by the company to watch every TV show and movie imaginable and meticulously tag them with metadata.<sup>16</sup> This way, Netflix generated 76,897 unique micro-genres, “creating a stockpile of data about entertainment industry that is absolutely unprecedented”.<sup>17</sup> Combining human intelligence with algorithms and machine intelligence, Netflix basically de-constructed the whole TV show and movie industry. Netflix’ enormous advantage is that they can make use of big data for their production decisions. Having created a full database of their users’ TV show and movie preferences, this data can tell them what content they should produce. An example of using this business intelligence is their Netflix Original series House of Cards.<sup>18</sup> All production decisions are carefully considered and algorithmically or analytically evaluated, even where to produce and how to produce, how much money and time to spend or predicting the per-language consumption of a show.<sup>19</sup> Considering the high costs of producing original content, nothing is left up to chance at Netflix, and no decisions are made without considering data.

### **Issues with data-driven media services**

There are also issues that arise with strongly data-driven media services such as Netflix. The price that consumers need to pay for the use of big data to tailor to their needs, is a loss of privacy and surveillance of their viewing behaviour.<sup>20</sup> Big data might hinder creative or niche productions in the future in Europe.<sup>21</sup> Furthermore, many local players in Europe are still lacking

<sup>11</sup> Wayne & Castro (2020). SVOD Global Expansion in Cross-National Comparative Perspective: Netflix in Israel and Spain.

<sup>12</sup> Foster (2019). SVOD AND PAY-TV THRIVE IN SPAIN.

<sup>13</sup> Grece, C. (2015, November). Note 3 - The SVOD Market In The EU Developments 2014/2015. The European Audiovisual Observatory. Retrieved from <https://rm.coe.int/16807835c2>

<sup>14</sup> Grece (2021). Trends in the VOD market in EU28.

<sup>15</sup> Marr, B. (2016). Big Data in Practice. John Wiley and Sons Ltd.

<sup>16</sup> Fernández-Manzano, Neira & Clares-Gavilán (2016). Data management in the audiovisual industry: Netflix as a case study

<sup>17</sup> Madrigal, A. (2014, January 2). How Netflix Reverse-Engineered Hollywood. The Atlantic.

<https://www.theatlantic.com/technology/archive/2014/01/how-netflix-reverse-engineered-hollywood/282679/>

<sup>18</sup> Simon, P. (2014). The visual organization: data visualization, big data, and the quest for better decisions. In Wiley and SAS business series.

<sup>19</sup> Kumar, R., Misra, V., Walraven, J., Sharan, L., Azarnoush, B., Chen, B., & Govind, N. (2018, March 27). Data Science and the Art of Producing Entertainment at Netflix. Netflix Tech Blog. <https://netflixtechblog.com/studio-production-data-science-646ee2cc21a1>

<sup>20</sup> Quico (2019). Television Reshaped by Big Data.

<sup>21</sup> Shon, M., Lee, D., & Kim, J. H. (2021). Are global over-the-top platforms the destroyers of ecosystems or the catalysts of innovation? Telematics and Informatics, 60, 101581.

behind using their data.<sup>22</sup> Therefore, they cannot target their user's preferences and tailor it to what the people want as much as big players and data monopolies like Netflix can, being able to predict which shows would be successful in the market. This is disadvantageous to the local players because users would choose to subscribe to content distributors which target their preferences better. Ultimately, collecting and using big data is big VOD services' main competitive advantage.

#### 4. Conclusion

The big question about the trend of cord-cutting still cannot be answered. Although younger generations have a keen interest in the content provided by the streaming platforms – and that even gave rise to the term “cord-nevers” – linear TV in Europe continues to hold a major part of the total viewership. Therefore, linear and non-linear TV seem to be able to coexist with each other in the foreseeable future. The SVOD market is dominated by the US-based players. However, actions of the EU and its Member States, like Spain, prove that the threat of “Americanisation” can actually be turned into their benefit and even stimulate investment in the production of European originals.

Many viewers still choose linear TV because of the specific programmes that are not usually provided by the SVOD players (like football matches) and their willingness to consume content more passively. However, streaming services' remarkable rise in popularity has been due to the wide variety of originals and their user-oriented approach. Linear TV players should follow the example of SVOD players in working with the audience. They should acquire more flexibility and recourse to data-driven decision-making to secure their place in the TV market and not fail in the ‘rivalry for eyeballs’ with recently launched but rapidly growing market disruptors.

##### Recommendation 1: Data-driven decision-making

More data-driven decisions will let linear TV players provide more personalised content that meets the preferences of the different types of audiences.

##### Recommendation 2: Cooperation is the key

Cooperation among the linear TV players might help them create their own European VOD services to collect data and establish a level playing field with US-based companies.

##### Recommendation 3: Other essentials for the success

Linear TV players should also ensure they have well-developed infrastructure and availability of personalised video content on a wide range of devices and with various price plans to choose from.

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<sup>22</sup> Lippell, H. (2016). Big data in the media and entertainment sectors. In *New Horizons for a Data-Driven Economy: A Roadmap for Usage and Exploitation of Big Data in Europe* (pp. 245–259). Springer International Publishing.