

European Media Markets

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The European Television Market: THE IMPACT OF SVOD PLATFORMS ON LINEAR TV

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Thanks to the emerge of digitalization, multiple over-the-top (OTT) players managed to rise in popularity, having certain advantages in comparison over linear TV broadcasters. These OTT players took the concept of content and viewing to be transferred in ways that were different and unknown before, making most of the audience switch their attention away from traditional players. What should be done? What approach should linear TV take to remain relevant? This White Paper aims to explore, understand, and offer solutions for how linear TV can use digital techniques and other strategies to secure its market share.

Highlights

Linear TV remains one of the significant sources for news and entertainment in Europe.

The future of media is looking more towards what SVODs are offering to their customers (these being the features of interoperability and recommender systems).

Online media streaming benefited from the coronavirus pandemic. For example, Netflix announced: “The extraordinary events of Covid-19 led to unprecedented membership growth in 2020”.

Traditional linear TV can utilize DDL (data-driven linear) and ACR (automatic content recognition) technologies and broaden cooperation to empower its capabilities.

1. Current state and key data of the television market

Historically, the media market in Europe was dominated by traditional TV including private and public broadcasters. People tuned in to linear TV to watch news and entertainment. However, due to the emergence of smart devices like smartphones and smart TVs, there was a noticeable shift in European media consumption behaviour from linear TV channels to on-demand services especially subscription – video-on-demand (SVODs). SVOD is similar to the conventional TV packages, as it allows consumers to view unlimited amounts of content at a fixed monthly rate.¹ With the availability of SVODs, opt-out of services became easier, since users aren’t forced to an agreement for a lengthy period of time. Hence, SVODs are faced with stronger competition in the market. This might involve providing a set of content that is exclusive to a certain SVOD, a strategy mostly adopted by Netflix or strict pricing scheme strategies.²

Revenues of traditional TV broadcasters in Europe rely heavily on advertising, which has dropped by 3% over the last 5 years.³ While SVOD players do not necessarily compete directly with linear TV broadcasters for profits, the competition they are facing now is for audience’s

¹ Thomas Halkyard. “What Are SVOD, TVOD, Avod?” Imagen, 1 Sept. 2021, <https://imagen.io/blog/what-are-svod-tvod-avod/>

² Idem

³ Dziadul, C. (2022, 19 januari). SVOD “most concentrated audiovisual market in Europe”. Broadband TV News. <https://www.broadbandtvnews.com/2022/01/18/svod-most-concentrated-audiovisual-market-in-europe/>

attention, especially the young viewers as they are more prone to online watching.⁴ Usually, the threats of SVODs towards linear TV lays in the following: First of all, streaming platforms are already operating with big budgets whether in terms of originals productions or content acquisition, which resulted in “cost inflation” in audio-visual productions in Europe. However, this might be seen as an opportunity according to a recent study,⁵ which suggests that TV channels can often license European content to SVOD platforms and hence create new income. Secondly, streaming platforms often prefer audio-visual content with an international appeal to serve their audiences worldwide. This is not the case when it comes to, for example, public service broadcasters (PSBs) who tend to usually focus on local content to serve national interests. Lastly, distributors prefer to work with streaming platforms over PBSs due to the international appeal of these platforms. This resulted in a shortage of content for linear TV channels as most of the content is being acquired by platforms.⁶ However, linear TV remains one of the significant sources of news and entertainment in the European market despite the aggressive competition from streaming platforms according to Statista (2021).⁷

Impact and Consequences of International SVOD Platforms on linear TV	
“Cost Inflation” in audio-visual productions	
<u>Opportunity</u>	Linear TVs to license European content to Netflix (extra source of revenue from content licensing)
<u>Threat</u>	Users’ abandonment of TVs as their content is being already streamed on platforms
- Streaming platforms prefer content with a global appeal - PSBs tend to usually focus on local content to serve national interests)	
<u>Opportunity</u>	Linear TV remains one of the significant sources for news and entertainment in the European market at a national level
<u>Threats</u>	- Distributors and producers tend to prefer working with streaming platforms (Netflix) over national TVs for the international appeal and the exposure that these platforms give - Shortage of content supply for linear TV channels; because of the abandonment of producers and distributors

2. Case Study: COVID-19 and Netflix

The arrival of COVID-19 pandemic and severe quarantine restrictions around the world has been accompanied by increased demand for TV and online streaming. This has not only increased subscriptions to platforms like Netflix, but even users who have traditionally been accustomed to using TV have turned to online streaming. According to the report of the BBC⁸ about UK adults media habits during COVID-19 pandemic, “one-third of 55-64-year-olds, and 15% of people aged 65+ used subscription services in the early weeks of lockdown.” Netflix is one of the US-based platforms that benefiting from the lockdown measures due to the COVID-19 global pandemic.⁹ This platform which had less than half a million subscribers in 2007, is now providing services to more than 200 million people from around the world. Netflix announced last year: “The extraordinary events of COVID-19 led to unprecedented membership growth in 2020”.¹⁰

Netflix is not the only company providing online broadcasting services globally. The presence of other companies affects the growth of Netflix’s margin. In the latest report of Netflix, the company announced that it will continue its core policy of boosting growth in every country and region where there are new alternatives. Netflix highlighted in the report: “Over the years, we’ve

⁴ Ofcom (2019a) Ofcom’s annual report on the BBC. Available at: https://www.ofcom.org.uk/data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf

⁵ D’Arma, A., Raats, T., & Steemers, J. (2021). Public service media in the age of SVoDs: A comparative study of PSM strategic responses in Flanders, Italy and the UK. *Media, Culture & Society*, 43(4), 682–700. <https://doi.org/10.1177/0163443720972909>

⁶ D’Arma, Raats, and Steemers.

⁷ Statista. (2021, 1 maart). Television advertising expenditure in European countries 2019. <https://www.statista.com/statistics/428906/tv-ad-spend-in-europe-by-region/>

⁸ BBC. (2020). TV watching and online streaming surge during lockdown. BBC. <https://www.bbc.com/news/entertainment-arts-53637305>

⁹ Vlassis, A. (2020). Online Platforms and Culture: The Winning Actors of the Great Lockdown?(Global watch on culture and digital trade, n° 4). International Federation of Coalitions for Cultural Diversity

¹⁰ Dominic Rushe. (2021, April). Netflix records dramatic slowdown in subscribers as pandemic boom wears off. Guardian. <https://www.theguardian.com/media/2021/apr/20/netflix-records-dramatic-slowdown-in-subscribers-as-pandemic-boom-wears-off>

learned that big hits can come from anywhere in the world (with great subtitles and dubbing), as we've seen with *La Casa de Papel*, *Squid Game*, and *Lupin* to name just a few. But our goal with non-English originals is to first and foremost thrill audiences in their home country. And in the quarter, we saw big local viewing for titles such as *Love is Blind Brazil*, *My Name* from Korea, superhero film *Minnal Murali* from India and Danish thriller *The Chestnut Man*".¹¹

While Hollywood productions faced significant obstacles during the lockdown, Netflix has been able to start more than 200 projects.¹² As shown by Rahman and Arif's (2021)¹³ research, 'portability' is one of the biggest advantages of Netflix during the pandemic. A review of Netflix statistics shows that the company's policy in recent years has focused on increasing its content budget. Netflix costs for its content have recorded an annual growth rate of 28.93% between 2016 and 2020, and estimates indicate that it spent USD 17 billion in 2021.

Despite optimism about Netflix's growing audience and revenue from the constancy of the COVID-19 outbreak, the situation does not appear to have been very stable. On April 19, 2022¹⁴, Netflix wrote a letter to its stakeholders announcing a significant reduction in revenue. Netflix's slowdown in revenue happened while the company had expected to add 2.5 million customers in the quarter.¹⁵ Despite signs of slowing user growth, Netflix has raised subscription prices in a way that a monthly package now costs USD 15.49 for US customers. It seems Netflix continues its previous strategies. As the company explains in its recent letter¹⁶ to its stakeholders by improving all aspects, especially its programming and recommendations, Netflix aims to reaccelerate its viewing and revenue growth. In addition, Netflix believes much of its growth is funded from outside the US and it focuses on different programs that better cope with local preferences.

3. Future outlook

With the growing popularity of SVODs such as Netflix, which offers a high amount of content to its subscribers, we could see less interest in the traditional mode of watching TV. One impact that the latter is facing is the high interoperability that Netflix presents, as it is more effortlessly to handle on numerous devices and brands, from Android to iOS, from smartphones to tablets and even game consoles such as Xbox. The main advantage of Netflix is the uncomplicated usage and comfort to watch the desired content even on multiple screens at once.¹⁷ This means that the individual is no longer required to sit in front of the TV to fully watch what he wishes to, and this is a challenge and competition for the traditional TV players.

This convenience that SVODs provide also leads to another impact that linear TV is facing, the recent phenomenon of *cord-cutting*, which means a real loss of share in audiences, as they still need to adapt when it comes to interoperability on electronic devices. This is further stated in a forecast conducted by eMarketer, which predicts that by the time we will reach 2024, the situation will be as follows: "46.6 million total cord-cutter households, or more than a third of all U.S. household that no longer have pay-tv".¹⁸

Netflix has a specific advantage in the business model, represented by its status as a content aggregator, but especially by the fact that it has recently started to produce as much original content as possible, which brings financial advantages and direct income, without intermediaries. But this may potentially alter the diversity of content if most of them are of US origin. This content produced exclusively under the Netflix brand will occupy more and more of

¹¹ Netflix. (2022). Letter to Shareholders. <https://ir.netflix.net/investor-news-and-events/financial-releases/default.aspx>

¹² Vlassis, A. (2021). Global online platforms, COVID-19, and culture: The global pandemic, an accelerator towards which direction? *Media, Culture & Society*, 43(5), 957–969.

¹³ Rahman, K. T., & Arif, M. Z. U. (2021). Impacts of Binge-Watching on Netflix during the COVID-19 pandemic. *South Asian Journal of Marketing*, 2(1), 97–112. <https://doi.org/10.1108/SAJM-05-2021-0070>

¹⁴ Netflix, 'Letter to Shareholders', Netflix, 2022, pp. 1–12 <https://s22.q4cdn.com/959853165/files/doc_financials/2022/q1/FINAL-Q1-22-Shareholder-Letter.pdf>.

¹⁵ Edward Helmore. (2022). Netflix shares fall more than 35% after streamer loses over 200,000 subscribers.

Guardian.<https://www.theguardian.com/media/2022/apr/20/netflix-shares-fall-losing-subscribers>

¹⁶ Netflix, 'Letter to Shareholders'.

¹⁷ O'Reilly, L. (2016, February 24). Netflix is making it even easier to binge-watch shows on your phone. *Business Insider*.

<https://www.businessinsider.com/netflix-ios-android-and-chromecast-mobile-updates-2016-2?r=US&IR=T>

¹⁸ Perez, S. (2020, September 21). Pandemic accelerated cord cutting, making 2020 the worst-ever year for pay TV. *TechCrunch*.

<https://techcrunch.com/2020/09/21/pandemic-accelerated-cord-cutting-making-2020-the-worst-ever-year-for-pay-tv/>

the total titles within its overall catalogue, assuming that by the year of 2022 it will sum up to a total of 75%.¹⁹

Another valuable asset of Netflix is represented by the accurate and complex recommender system that it uses for its customers. For this strategy, Netflix is operating through specific algorithms that display a certain type of content on its page that could be of interest for its customers. Thus, Netflix uses a “Top Picks” that shows a list of personalized content, as well as a “Trending Now” that brings out the client’s curiosity to investigate the most popular and viewed movies, as well as “Continue Watching”, which the algorithm considers a content that was started but not finished to have high chances of being chosen again by the user, as well as “Video Similarity”, which presents content with high similitude in terms of genre, synopsis or other features that the subscriber is looking for.²⁰ In order to provide all of the above recommendations as precise as possible, Netflix looks much deeper into its customers’ data, starting from the moment they created an account, leading to access into their viewing history, how much time spend watching a particular movie, and the genre that the user has searched for the most often.²¹ All these details may seem harmless at first glance, but they may also impose some hidden disadvantages, such as unavoidable filter bubbles, also known as “The Netflix Bubble”²², which could reduce the diversity that viewers are exposed to.

4. Conclusion

Uncertainty surrounds how linear TV and streaming services will influence the future of the TV ecosystem. However, linear television in its present form will not disappear as rapidly as many have projected shortly. Even though linear television has passed its peak and lost its previous absolute strength, several years after the discussion began, no government, media company, or advertiser in any nation has yet declared that it has no value. In addition to running and exploiting its present capabilities, linear television is still evolving and adopting new technologies to stay relevant in a multidimensional medium.

Recommendation 1 – Linear television should continue to reinforce the strengths of live programming

The future of linear television will be dominated almost solely by live sporting events and breaking news events.²³ Moreover, for most people throughout the globe, linear television continues to offer a regular source of content. Live television broadcasts of major athletic events like the World Cup and the Euros²⁴, televised debates between candidates for governing parties or other important news, and influential great music events like the Eurovision Song Contest²⁵ all reach large audiences. There is still a substantial interaction between some of the world’s most recognizable brands and traditional linear television in terms of advertising exposure during live broadcasts of major sporting events.

Recommendation 2 – Give linear TV a new competitive edge with digital technology

¹⁹ Moore, K. (2021, August 16). Netflix Originals Now Make Up 40% of Netflix Library. What’s on Netflix. <https://www.whats-on-netflix.com/news/netflix-originals-now-make-up-40-of-netflix-us-library/>

²⁰ Chong, D. (2020, April 30). Deep Dive into Netflix’s Recommender System. Towards Data Science. <https://towardsdatascience.com/deep-dive-into-netflixs-recommender-system-341806ae3b48>

²¹ India, S. (2019, November 5). How Netflix’s Recommendation Engine Works?. Medium. https://medium.com/@springboard_ind/how-netflixs-recommendation-engine-works-bd1ee381bf81

²² Holloway, T. (2018, July 16). The Netflix Bubble. Medium. <https://medium.com/taysblog/is-netflix-dangerous-d086ba14f19c>

²³ Lafayette, J. (2022, March 24). Bleak Future for Linear TV Has Arrived, Analyst Finds. Broadcasting + Cable. <https://www.nexttv.com/news/bleak-future-for-linear-tv-has-arrived-analyst-finds>

²⁴ EURO 2020-A Snapshot of Revenue Generators. (2021, June 22). Football Benchmark. Retrieved May 11, 2022, from https://www.footballbenchmark.com/library/euro_2020_a_snapshot_of_revenue_generators

²⁵ Eurovision. (2019, May 28). 182 Million Viewers Tuned in to the 2019 Eurovision Song Contest. (2019, May 28). Retrieved May 11, 2022, from <https://eurovision.tv/story/182-million-viewers-2019-eurovision-song-contest>

Automatic Content Recognition (ACR)²⁶ technology recognizes and digitizes the content on the television screen, therefore connecting content and advertising. ACR has two primary functions: the first is accurate real-time analysis of the content of the large display, i.e., the analysis of the images and sounds on the screen so that the computer can understand and record the user's behaviour on display; the second is to facilitate the connection between people and the screen. The ACR addresses the 4 Ws: when and who looked at this screen? What is happening in it? Where is the precise location?

Data-Driven Linear (DDL) TV refers to automated technology or a data-driven strategy to purchase broadcast and cable linear TV advertisements²⁷. This method has primarily been employed in top-of-funnel marketing and enables most marketers' largest strategic investment to become more efficient²⁸. Today's TV marketers are shifting away from demographic targeting and toward more exact precision purchasing based on influential audiences, as they want data beyond audience reach and conventional performance measures to verify ROI and validate that media mix tactics are optimum.

Recommendation 3 – Broaden the field of cooperation

Modern media firms should be possible to provide advertisers with an "advertising package" that includes a combination of prices for various platforms, channels, and time slots, thereby providing clients with a range of options and breaking free of the restrictions of channel categories when developing advertising strategies. Furthermore, linear television needs to be actively integrated into the diverse forms of digital development, using external platforms to extend its reach as far as possible and maximize the possibilities for different groups of viewers to watch it easily. For example, there are websites dedicated to providing broadcast platforms for linear programs, such as strimm.com.²⁹

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²⁶ Lu, C. E. (2019, December 28) The new technology disrupts TV ad delivery - Automatic Content Recognition ACR all explained! The Paper. Retrieved May 11, 2022, from https://www.thepaper.cn/newsDetail_forward_5362138

²⁷ Mckinley, C. (2021, March 1). Why Invest in Data-Driven Linear TV Advertising? Retrieved May 12, 2022, from <https://basis.net/blog/why-invest-in-data-driven-linear-tv-advertising>

²⁸ Sina. (2021, December 16). Ceros: DDL TV ad inventory to grow 58% in the next 12 months. Retrieved May 11, 2022, from <https://finance.sina.com.cn/tech/2021-12-16/doc-ikyammy922709.shtml>

²⁹ <https://strimm.com/>