BBDO KNOWS

GET CONSUMER SMART

The Next Stage of Streaming

For the past decade, streaming platforms have defined our water cooler chats, viewing habits, dictated our spend, and defined our culture, with shows like Disney's The Mandalorian and Netflix's Stranger Things making waves in popular culture. In August 2022, People spent 23% more-time streaming content than a year ago and 9% less time watching cable television.[1] But in the midst of the cost-of-living crisis, consumers are increasingly interrogating their spend and clicking unsubscribe. Consumers are no longer stuck at home and are increasingly price sensitive. Subscription churn was the highest with the youngest generations – for example, in the US, 52% of Millennials and 51% of Gen Z have either cancelled, or both added and cancelled, a service within the last six months.[2]

Streaming has defined an age. Within the "streaming wars", new players enter, and new business models have emerged victorious. But is this golden age of streaming coming to an end? With considerable choice and cost in the streaming arena, consumers are re-evaluating their streaming portfolios. As we look to what comes next, platforms must navigate three defining challenges: consolidation, advertising, and future proofing.

CONSOLIDATION

When Netflix first launched, consumers could easily access everything they wanted to watch in one place. Now that there are many different subscriptions, streaming is no longer efficient, and users are looking for ways to manage the choice: for some, it's turning to piracy, for others, it's looking for smart aggregators who will help them cut through the noise. In economics, the "rule of three" holds that three companies tend to dominate any sector run on a free-market basis. This will remain true in the world of streaming as Tencent Video, Netflix, and Disney+ are all likely to remain top platforms by 2027.[3] Companies that service consumers as a single platform with lots of content will foster flexibility, while providing audiences with the wide variety of choices they crave. However, consolidation will increase the competition between more niche platforms such as Starz, Crunchyroll, Discovery+, and Shudder.

ADVERTISING

Amidst falling revenues, streaming platforms need to find new ways to increase their profitability. In the past, HBO Max and other platforms have reported greater revenue per user in ad-supported tiers than a subscription.[4]

Netflix is hoping to echo this success: the platform launched its ad-supported subscription programme on 3 November. The reaction from advertisers has so far been positive, and Netflix

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[1] Biz News, August 2022, Link
[2] Campaign, Link
[3] Omdia, June 2022
[4] Alex Weprin, Twitter, Jan 2022, Link

had no problem enticing advertisers to sign up, selling out of its available 15- and 30- second spots in advance. They expect their ad-supported subscription plan (which is cheaper than their usual subscription plan) to reach around 40 million viewers worldwide by Q3 2023.[5] The platform hopes that the additional revenue will bring in an additional $2.2 billion by 2027.[6]

> Advertising will open up new revenue streams, but consumers are decidedly lukewarm to the idea.

However platforms need to proceed with caution: Renee Whittingstall, the SVP of UM stated, "nobody wants to turn on their favourite show and see the same ad at every ad break", if consumers are frustrated, it is a wasteful use of adspend.[7] Streaming platforms should take heed in creating advertising experiences that allows for monetization, makes advertisers happy, and allows consumers to find utility, not annoyance.[8]

FUTURE PROOFING

In the future, the metaverse will be immersive, gamified, and personalized to consumers. The metaverse has huge potential to enhance the experience of watching a movie, making a televisual experience into a rich, sensory experience.

> "What if, in the future when you're watching… [a horror] movie, you can actually feel the person standing behind you? You're in it; you're in the movie with the actors"

-Kristi Tausk, McKinsey[9]

Before we reach full metaverse integration, platforms are exploring integrating more traditional gaming features into their offering. But this process is not as simple as just clicking play: a triple-A game can cost $50-100 million+ to develop.[10] Platforms need to find ways to churn out collaborative, cost-efficient and fun collaborative gaming experiences, or else consumers may rage quit, or leave the game. Collaboration may be the answer: partnering with User Generated Creation platforms (UGC) offers open-ended gaming experiences that can generate revenues in

[5] Wall Street Journal, October 2022 Link
[6] The Observer, August 2022 Link
[7] Renee Whittingstall, SVP UM, Link
[8] Bill Durrant, MD Exverus Media, 2020, Link
[9] Kristi Tausk, McKinsey, June 2022, Link
[10] McKinsey & Company, July 2020, Link

a variety of ways, allowing for microtransactions, advertising, and limited paid access, while keeping costs low.[11]

SUSTAINABLE STREAMING EQUATION

Streaming is a fluid business; flux is inherent. Success requires companies to cater to three non-negotiables: content, experience, and price.

All consumers want the broadest content and the best experience for the smallest price - regardless of their budget. Brands must justify their place in the basket by making themselves unmissable and making the customer experience seamless.

PRICE

In the past year, 39% of consumers cancelled their subscriptions to save money, or because the subscription's price was simply too high.[12] With subscription rates being the only revenue stream for pure SVOD (Subscription Video on Demand) platforms, brands are highly sensitive to customer disloyalty. SVODs can broaden their business model to a mixed SVOD and AVOD (Advertising-based Video on Demand) model to maximize the utility of their subscriptions and continue to entice their customers.

Subscription services should consider offering tiered systems and premium content that will allow consumers to choose when to downgrade their access, instead of cutting the cord.

> Consumer needs and wants exist on a price-based spectrum, and many are willing to consume advertisements in return for more subsidized content.

But still, several US consumers are keen on premium content. Many make one-off-payments to access premium content upon release. Black Widow was Disney+'s most successful hybrid release of last year. The movie brought in over $60 million in VOD sales on Disney+ in addition to the 158 million the film raked in from foreign and international markets.[13] Consumers used

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[11] McKinsey & Company, July 2020, Link
[12] Simon + Kucher, August 2022, Link
[13] Wired, 2021, Link

Disney's Premier Access to buy the film while the movie was still in cinemas.[14] Brands can communicate the value of their subscription to consumers by offering a mix of free and bundled content to consumers.

CONTENT

Communications surrounding a brand's content should illustrate their differentiation and unmissable programming. TV shows help create memorable moments that ensure programs live beyond the screen into the wider cultural conversation. User Generated Content ensures that media characters assume lives beyond their on-screen narratives and into the wider cultural context, The Minions being one great example. Up to 40% of US consumers say that they spend more time watching user-generated content than they do TV shows on streaming services.[15] In other words, consumers will tune into shows to prevent the FOMO that comes from not understanding the latest twitter trend.

EXPERIENCE

Consumers hate the dance of choosing what to watch, foraging through their saved lists and top categories. To make things easier, viewers are turning to critic and rating sites like IMDB, Rotten Tomatoes, and Letterboxd. A.I. streaming platforms can partner with these sites to create personalized, seamless services for consumers, introducing new viewers to content and embedding the already obsessed.

Brands can also improve the consumer experience by offering them experiences that reward them for waiting. Consider Netflix's strategy for Stranger Things Season 4, which premiered the season to users in a two-fold release. This approach helped maximize user interest in their content, creating longer and "more meaningful, memorable and longer-lasting experiences" that helped users avoid the spoilers.[16]

WHAT THIS MEANS FOR BRANDS

As consumer budgets are squeezed, streaming platforms and their respective communications must justify their place in the basket: offering the best content and experience to consumers at the greatest value. As different platforms consolidate, niche players will have to find different ways to differentiate themselves. Brands can find ways to keep consumers subscribed, while

[14] Wired, 2021, Link
[15] TV Tech, March 2022, Link
[16] Kantar, July 2022, Link

increasing their profitability by exploring the possibility of adding advertisements or creating pricing tiers within their services.

ABOUT BBDO KNOWS

BBDO KNOWS is a planning resource for the BBDO network.

BBDO KNOWS offers thinking, strategy, insights and inspiration on key categories, key themes and consumer segments.

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