case study

Streaming wars

Phil Waterhouse looks at developments in the streaming market

> **Exam links**
>
> This case study is relevant to the following topics in the **AQA**, **Edexcel**, **OCR** and **WJEC/Eduqas** A-level specifications:
>
> - marketing mix and branding
> - pricing strategies
> - market differentiation and segmentation
> - meeting customer needs
> - diversification
> - risk and uncertainty
> - Boston matrix
> - price elasticity of demand

When Microsoft first ventured into the video games console market, it realised the potential for tapping into the vast profits that could be accrued by producing a device that could rival Sony's PlayStation. Right now, a similar battle is emerging in the world of streaming television. A market that was once dominated by domestic national broadcasters has been opened up through the advent of technology and streaming content directly onto TV screens or other Wi-Fi enabled devices.

The creative disruption of the new technologies means that consumers are turning their backs on the old model of watching television. The success of the model employed by Netflix and more recently Amazon Prime has meant that the traditional broadcasters are attempting to strike back and retain relevance in the market segment that they have long dominated.

Churning through customers

The traditional business model for entertainment firms such as NBC, Time Warner and Disney was to package their programmes together and create channels that other providers such as Sky and DirecTV would sell on to consumers via subscription fees. The networks collected huge revenues via advertising and every party benefitted financially.

However, many users no longer find it acceptable to have to watch advertising and have programmes interrupted. A zero-advertising model puts huge pressure on firms to exist just via subscription fees, and while signing up to new services such as Netflix and Amazon is quick and easy, so too is cancellation of a subscription.

The loss of existing customers is known as *churn* and even the most successful streaming provider, Netflix, has a churn rate of around 7% per year. This means that, to be successful, the services must have programmes that attract and then keep customers, and so having 'content' has become a crucial unique selling point (USP) for the providers. Historically this was about signing up existing sitcoms, dramas and films to gain exclusivity. When *Friends* was offered on Netflix, the company benefitted from a higher level of subscriptions and the number of people viewing the show was rumoured to be higher in 2017 than when the series had been shown originally 15 years before. Rumours about Netflix losing the rights to show *Friends* caused a social media frenzy — so much so that Netflix has paid an additional $100 million to continue showing the 236 episodes until 2020.

However, firms cannot rely on customers wanting to watch old shows, so the drive for new and original content has become a key component for firms to win, gain and maintain market share. Shows such as *Stranger Things* and *The Crown* have proved important to Netflix. However, just like any business, coming up with a new product takes up a lot of research and development resources without any guarantee of success. For every successful new 'must see' programme, there are ten or more that fail to gather traction or interest and are cancelled after one series.

New players

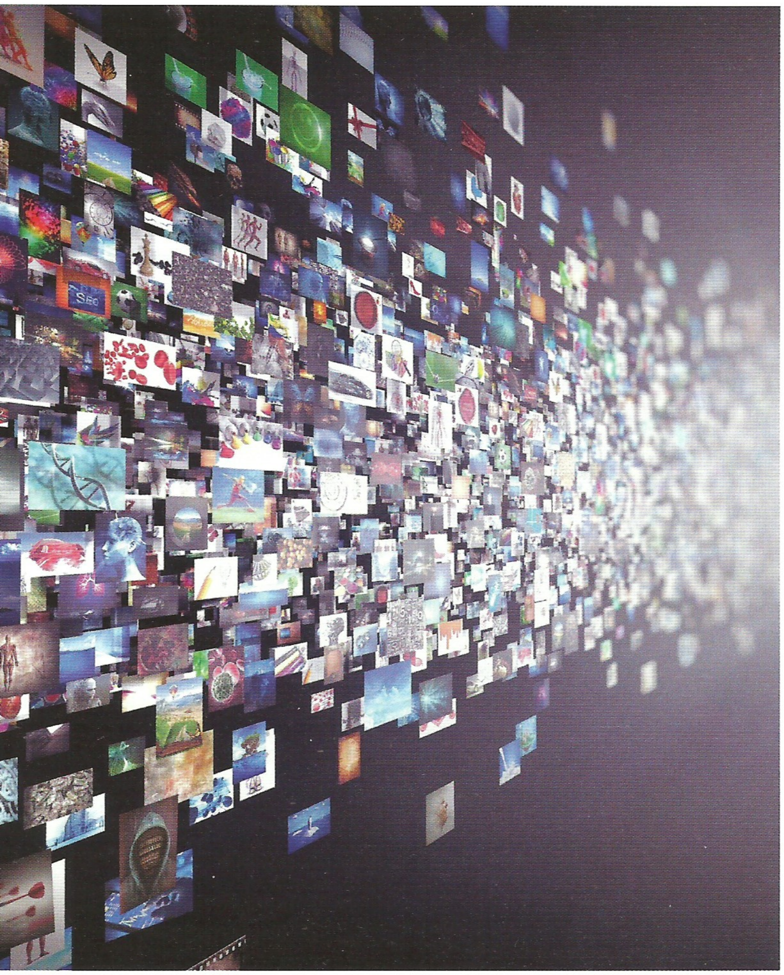
This has always been the case within the entertainment industry, but under the old business model, firms were insulated somewhat, as it was difficult to cancel subscriptions for certain channels, as they were bundled together with other channels that you might watch frequently. It was also more of a challenge and hassle to cancel subscriptions, and this meant that the churn rate was below 4%.

Having consumers pay up front for subscriptions is a great business model, as it guarantees cash flow and revenue streams into the business, which then makes it easier to plan. However, maintaining levels of revenue is going to be even more challenging in the future, as the market has attracted some major players such as Apple and Disney.

It is highly unlikely that consumers will pay a subscription to four different providers. At best, most people might be prepared to pay two monthly subscriptions — so the race is on to be one of them. Netflix and Amazon might have enjoyed first-mover advantage, but whether they can maintain it in the long term will be interesting to see.

Disney+

Disney is one of the world's most recognised brands, with a back catalogue of films and shows that are renowned throughout the world. However, the company still felt the need to increase its product portfolio to make its streaming service seem like value for money.



The corporation paid over £50 billion for the rights to content from 21st Century Fox, and owns the *Star Wars* and *Marvel* franchises. Disney is looking to tap further into these cash cows by producing new back stories that are linked to the original movies.

In another strategic move, Disney bought out Hulu for over £4 billion. Hulu has struggled to challenge the likes of Netflix and Amazon. While its customer base and market share is small in comparison, the takeover has allowed Disney to utilise Hulu's experience and knowledge of the streaming market.

In total, Disney is planning to spend more than $1 billion on original programming by the end of 2020 and is not expecting to make a profit until 2024 at the earliest. The firm is betting on the long-term profitability that can be untapped.

Apple TV+

Apple intends to leverage its position within music entertainment into the world of streaming. With some of the deepest pockets in the business world, it is likely to quickly become a major player. Apple has already signed up Stephen Spielberg to direct one of its new shows, and the fact that the Apple TV app will come preloaded onto its mobile and tablet devices suggests that it will soon have a willing and substantial target audience.

Apple used to benefit from customers downloading music and movies from the iTunes store, but the emergence of Spotify and rival streaming services had a big impact on this. The people that it has hired and the money it is throwing at the content suggests that Apple wants to be part of the new streaming world instead. It had set aside $3 billion for commissioning new content and securing access to current shows before the service had even launched.

Product and promotion

All the while, Amazon and Netflix continue to move forward in terms of innovation and content. Amazon has already acquired the rights to make a TV series based on *The Lord of the Rings*, which cost the company $250 million before it had even hired an actor or written a script.

Netflix continues to lead the field, having amassed over 150 million global users. The company is now targeting other areas of the world for further growth, investing heavily into Africa, Asia, Latin America and Europe and trying to secure local stars in exclusive contracts. Comedians such as Ricky Gervais and Chris Rock have been hired, and the idea of comedians recording a live show and selling a DVD at Christmas is becoming obsolete (who even owns a DVD player these days?) Instead, an original and exclusive show for Netflix is much more lucrative for the performer and adds another talent within the Netflix family.

Product is ultimately the most important aspect of any firm's marketing mix, and in the streaming world the quality and quantity of content is crucial to success. However, in such a congested market, the promotion used is also important. Netflix spent nearly £2 billion on marketing last year, which was more than HBO paid for its entire programming.

With Disney being able to market its streaming service to the millions of people that visit its parks each year, and Apple having millions of device-users worldwide, Netflix and Amazon are set

The incumbent streaming services will have an established and experienced back-office staff

to have to increase their marketing spend even more over the coming years to try and stop the new players taking market share from them. What they arguably have in their favour, however, is an already established back-office operations staff that deals with the billing, and software engineers that manage and maintain the streaming platforms. All these factors will add costs to the new entrants, and any initial teething problems could see negative publicity for them that could prove financially damaging.

Streaming and supplying

The race is most definitely on. Disney strategically removed its content from Netflix ahead of the launch of Disney+, while other companies are continuing to happily provide their content and collect revenue from the streamer. While Netflix and the larger companies have the economies of scale to establish market power, there is an argument that the established companies that don't compete for streaming revenues should reinvent themselves to provide content for the major players. This is something that channels like Nickelodeon are contemplating — their programmes will still be in demand, and can be sold to the highest bidder. There is still plenty of money to be made supplying everyone else with shows.

The BBC is another interesting player in the market. The uniquely funded quasi-public sector organisation enjoys certain advantages within the UK, and the development of the BBC iPlayer certainly angered Apple executives who felt that they had the rights to anything with the letter 'i' in the name.

The iPlayer has emerged as a streaming service that has the potential to offer a huge back catalogue of content, together with new shows. Series such as *Peaky Blinders* and *Sherlock*, together with nature shows featuring David Attenborough, are highly regarded around the world. While the BBC's funds don't quite match those of the US giants, the British corporation still benefits greatly from the licence fee that is required to watch its content. The BBC has been developing its own strategy to try and monetise its content in overseas markets, and one of the larger global firms may want to make a considerable offer for the rights to stream BBC content.

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Answers to 'Brainteasers' (p. 13) and 'Making connections' (p. 25)

1 (c)	4 (b)	7 (a)	10 (a)
2 (b)	5 (c)	8 (b)	
3 (b)	6 (d)	9 (d)	

[1]C	A	[2]P	I	[3]T	A	[4]L	I	[5]S	A	[6]T	I	[7]O	N
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