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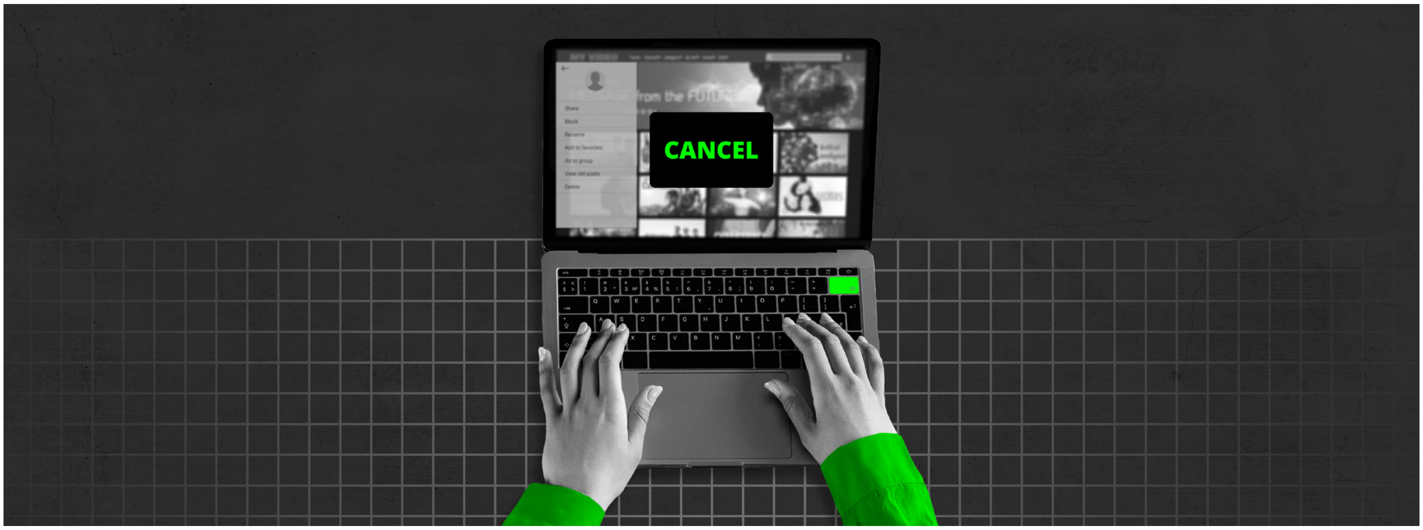


As the world churns: The streaming wars go global

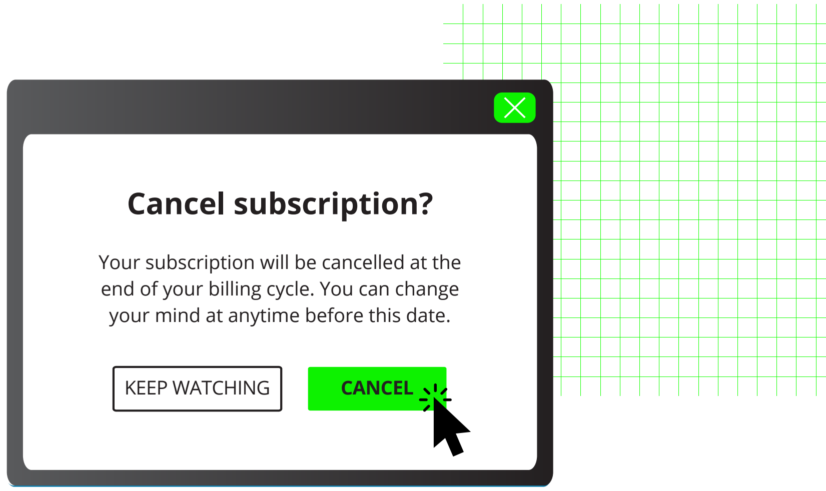
Subscription video-on-demand providers' pursuit of global viewers is igniting competition and catalyzing SVOD churn. Customizing business model by market may be key to success

Chris Arkenberg, Paul Lee, Andrew Evans, and Kevin Westcott

AS LEADING STREAMING providers expand globally while national media companies spin up their own domestic streaming services, the amplified competition is creating abundant consumer choice—and churn is accelerating as a result. Deloitte Global predicts that in 2022, at least 150 million paid subscriptions to streaming video-on-demand (SVOD) services will be cancelled worldwide, with churn rates of up to 30% per market.

That's the bad news. The better news is that, overall, more subscriptions will be added than cancelled, the average number of subscriptions per person will rise, and, in markets with the highest churn, many of those cancelling may resubscribe to a service that they had previously left. These are all signs of a competitive and maturing SVOD market. As SVOD matures, growth across global regions that may have different cost sensitivities will likely require different business model innovation and pathways to profitability.

Choice for consumers, churn for providers



Churn, as the term is used here, occurs whenever a subscriber cancels their subscription. This can be highly problematic for SVOD providers, which may spend up to US$200 to acquire each subscriber, though acquisition costs vary by market.[1] As the number of SVOD services grows and the pool of untapped consumers declines, acquisition costs may rise higher still, making retention even more important.

Churn has been most marked in the United States, where SVOD has the highest adoption and the most services launched. A maturing market features tentpole content spread among major services, and as new providers have entered the US market, consumers have added more premium and niche subscriptions to acquire and maintain the exact content they want. However, many have become overwhelmed by managing and paying for all those subscriptions, and they have become more sensitive to their cost. These conditions can drive customers to cancel subscriptions and/or seek less expensive ad-supported offerings, both to manage costs and as a way to pay only for the content they want by adding and cancelling services as needed.

Providers seeking to retain customers through the strength of their content are spending billions of dollars annually to develop and acquire top-tier programming.

The net result is that, in 2021, around 80% of households in the United States had a paid SVOD subscription,[2] with about 35% churn.[3] Providers seeking to retain customers through the strength of their content are spending billions of dollars annually to develop and acquire top-tier programming. But it may not be sustainable to spend so heavily, and consumers will only take so many price hikes. More US SVOD providers are hence looking to pricing as another lever to fight churn, offering cheaper or free ad-supported packages.

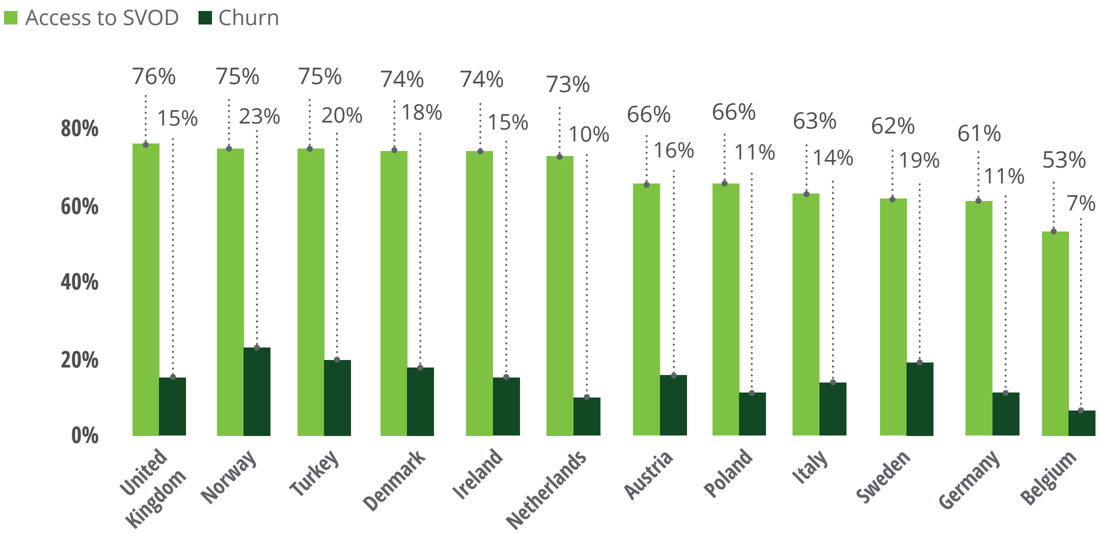
The younger European SVOD market has mostly replicated the US model. European broadcasters initially launched on-demand services with relatively small libraries, often at zero cost. But US-based providers followed with paid subscription services, much broader content portfolios, and simpler user experiences with data-driven content recommendations. The competition prompted many European providers to follow suit, yielding stronger growth. Across Europe, churn ranged from 7% to 23% as of mid-2021 (figure 1).[4] But in 2022, the European market is likely to become more competitive, and higher churn will be the probable result, although we still expect it to stay below 25%.

While paid subscriptions have worked well in advanced economies, audiences in developing economies favor free ad-supported options.[5] In Latin America, global and local SVOD providers are

FIGURE 1

Churn in Europe ranged from 7% to 23% as of mid-2021

Access to SVOD and churn rate in selected European countries, percent, 2021



Questions: "Which, if any, of the following digital subscription services do you have access to? In the last 12 months, have you or someone else in your household subscribed to any paid subscriptions for a video streaming service, or cancelled any existing ones?"

Notes: Weighted base: Respondents age 18–75 in Austria (1,000), Belgium (2,000), Denmark (1,000), Germany (2,000), Ireland (1,000), Italy (2,000), Norway (1,000), and Sweden (1,000); age 16–75 in the United Kingdom (4,160); age 18–70 in the Netherlands (2,000); age 18–55 in Turkey (1,000); and age 18–65 in Poland (2,000).

Source: Deloitte Digital Consumer Trends, June–August 2021.

delivering content that is highly tailored to those regions at lower prices than in developed economies.[6] Many use advertising to offset subscriber acquisition and content costs, reducing the effect of monthly subscription costs as a cause of churn. Some large regional players are also targeting expat communities while partnering with leading streamers to get their content to more viewers.[7]

In Asia/Pacific, free, ad-supported video-on-demand (AVOD) services predominate. AVOD subscriptions in China and India number in the hundreds of millions—much higher than SVOD. India's Hotstar, for example, has 300 million active users of which 46.4 million are paid subscribers,[8] while China's iQiyi counts 500 million viewers with 100 million paid.[9] These services offer multiple pricing tiers from free to premium; their focus is on upselling free ad-supported users into a paying tier,[10] betting that this subscriber revenue will balance out potentially higher content and acquisition costs.[11] Importantly, they also offer multiservice bundles that include innovative content and advertising, gaming and music, and mobile-first engagement.[12] This array of services allows providers to aggregate very large audiences and monetize them in various ways, not just through subscriptions and video,[13] and it can also help insulate them from churn.

The Asian model may inform how US services can expand globally and how providers in Europe, Latin America, and Africa can grow their own offerings.[14] As SVOD matures in multiple markets, we predict that their growth will be increasingly based on ad-supported models, and that the metric for SVOD success will be less about subscriber count and more about overall revenue from all services and sources. This may favor media companies that offer more than just streaming video.

THE BOTTOM LINE

Whatever the business model, providers worldwide should keep churn under control as competition intensifies. The cost of content development and acquisition is unlikely to decline, and the pressures to acquire and retain audiences will persist. To succeed, SVOD providers should work to better understand their customers and their lifetime value, develop more options for different audience segments, and offer value across an array of entertainment options.

Offer more pricing tiers. Providers could add more pricing tiers for different subscriber segments, customized to each market. They could attract viewers through multiple ad-supported and ad-subsidized tiers, then target premium subscribers with VIP tiers and access to exclusive content such as first-run movie premieres and premium sporting events. Providers could also offer reward programs to free ad-supported subscribers as a pathway to access premium content and exclusives.

Leverage partnerships. Partnering with telecom operators or cable TV can provide access to a large proportion of the population, especially in mobile-first markets. This can help SVOD providers trim distribution and customer management costs, or simply create more incentives for people to stay with a bundled option. Partnering with studios and distributors can similarly help providers manage costs and reach broader audiences, as well as develop regional content. However, SVOD providers should ensure that customer satisfaction—and access to customer data—is not diluted by such partnerships.

Understand customer value. Better data about smaller customer segments can be essential to developing more effective content personalization, acquisition, and retention tactics. It can make it easier to predict when a customer might leave due to growing cost sensitivities or indifference to content—and even lower the risk of developing new content through a better understanding of what will succeed for different segments. By using data to understand the lifetime value of a customer, providers can develop more enduring relationships, especially with more-profitable age groups: A 20-year-old customer who remains loyal can yield decades of recurring revenues.

Learn from other providers. SVOD providers can anticipate and mitigate churn by learning from maturing on-demand services around the world. They can also look to learn from telecoms, which have spent decades managing churn, as well as companies in gaming and social media—SVOD's two largest competitors.

SVOD's success was built on offering a flexible alternative to the costs and constraints of pay TV, and consumers are not likely to relinquish the freedom they have become accustomed to in assembling their own select baskets of entertainment. SVOD providers' ultimate success will likely lie in building a nuanced and granular relationship with consumers to deliver ongoing value—not finding ways to make it harder for them to leave.

Endnotes

1. Deloitte calculated this range by dividing "marketing" expense by "net subscriber adds" for three major streaming services. Using the same calculation, J.P. Morgan estimates Netflix's customer acquisition costs for the following years—2018: US$82.81; 2019: US$95.31; 2020: US$67.89. See: Timothy Green, "Here's why Netflix's marketing costs exploded," Motley Fool, April 21, 2019.

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3. Kevin Westcott et al., *Digital media trends, 15th edition: Courting the consumer in a world of choice*, Deloitte Insights, April 16, 2021.

4. Deloitte, Digital Consumer Trends, June–August 2021. Weighted base: All respondents aged 18–75 in Austria (1000), Belgium (2000), Denmark (1000), Germany (2,000), Ireland (1000), Italy (2000), Norway (1000), and Sweden (1000); aged 16–75 UK (4160); aged 18–70 Netherlands (2000); aged 18–55 Turkey (1000); and aged 18–65 Poland (2000).

5. Hernán Amaya, "Claro Box TV to be launched in all Latin American countries," TAVI Latam, April 28, 2021.

6. John Hopewell, "HBO Max to launch in Latin America at $3–$6 per month with live sports, theatrical window for Warner movies," *Variety*, May 26, 2021.

7. Tom Grater, "How Brazilian TV giant Globo is planning to compete with Netflix & Amazon in the streaming war," *Deadline*, January 19, 2021.

8. Gaurav Laghate, "Disney+Hotstar FY21 net loss widens to Rs 600.8 crore; income up 5%," *Economic Times*, October 27, 2021.

9. iQIYI, "iQIYI announces first quarter 2020 financial results," press release, May 18, 2020; iQIYI, "Company overview," accessed October 7, 2021.

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12. Jeff Loucks, Mark Casey, and Craig Wigginton, *Ad-supported video: Will the United States follow Asia's lead?—TMT Predictions 2020*, Deloitte Insights, December 9, 2019. Deloitte's 2021 Digital Media Trends Survey found that churn for paid streaming video services—those who have cancelled or both added and cancelled a service—has stabilized in the United States around 34%.

13. Ibid *(Ad-supported video)*.

14. Netflix has announced a free tier for users in Kenya, as a way for people to experience its service. Netflix offers a subset of its catalog to watch for free with the intent that this encourages upgrading to a subscription. See: Cathy Conk, "Netflix launches free plan in Kenya," Netflix, September 20, 2021.

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