

The UK VoD market

Current status and future developments

The emergence of Video-on-demand (VoD) services in the UK is fundamentally changing how consumers watch content. As the VoD market continues to grow, and new entrants compete for viewing time, the impact will be felt across the entire UK video landscape.

This report looks at the present and future of the UK VoD market, and how it is likely to evolve. The report was commissioned by Ofcom, and all views reflected are Ampere's own.

Executive summary

- There are seven video-on-demand (VoD) services used regularly by over 5% of households: BBC iPlayer, ITV Hub, All4, My5, Netflix, Amazon Prime Video and Now TV. Growth is currently being driven by the international subscription video-on-demand (SVoD) platforms, but as this starts to plateau in the next few years it will soon be driven by the next wave of (largely US) market entrants, set to launch by early 2020.
- A number of market entrants are set to launch in late 2019 and early 2020. These will come from a range of companies: broadcasters are set to consolidate, with the BBC and ITV combining original content from their TV archives to form a new UK joint SVoD venture, BritBox; studios are looking to move into direct-to-consumer models, spearheaded by the upcoming launch of Disney+; and technology firms such as Apple are looking to expand into video, leveraging their existing customer relationships to become global aggregators.
- Three new SVoD market entrants (Apple TV+, BritBox and Disney+) are all likely to gain at least 2m subscriptions (more than 5% of UK households) by 2023 and – under more aggressive scenarios – could collectively create 10m new subscriptions in this time period.
- Competition between services is growing, with the volume of content on the largest SVoD services tripling in the past three years. Exclusivity of content is therefore increasingly critical, which will likely lead to content siloes forming. Ampere expects content providers will progressively choose to keep premium content in-house, on their own consumer-facing VoD services.
- With consumers' personal content libraries spread across a growing range of services, greater levels of VoD aggregation will be required by the market. The best aggregators will have existing audience scale, direct billing relationships with consumers, and hardware plays—with Amazon and Apple well positioned to capitalize internationally. In the UK market, major primary TV platforms such as Sky, Virgin Media and Freeview all also have audience sizes that would enable them to act as aggregators.
- Most existing VoD services are largely comfortable with aggregators integrating search across their libraries, and directly billing customers on their behalves. However, there are sticking points with the largest VoD services around how aggregators blend content discovery and whether playback occurs via a central aggregator system or through standalone, service-specific applications. At its heart this comes down to who controls metadata and viewing data about the audience, and how that can be leveraged.
- Existing VoD services can adapt to changing market conditions by adjusting business models, to better target and monetise elements of their user bases. Broadcaster-led services will offer premium ad-free subscription tiers, to increase monetization at the higher-end of their user bases (as in the case of ITV and Channel 4). Meanwhile, subscription services may introduce advertising tiers, either at reduced rates (to potentially expand user-bases) or directly into entry-level offerings (with ad-free tiers then available in more expensive packages).
- Aside from national broadcasters, UK-focused VoD services are increasingly struggling as international scale becomes critical. VoD services that are available internationally are better positioned to: increase power in content negotiations; gain prominence and influence with third-party aggregators; widen their potential audience (particularly for niche content that targets a low proportion of the population); and amortise technology spend across a broader market.
- UK broadcaster video-on-demand (BVoD) and SVoD services provide very different content mixes. BVoD services are typically highly local (80%+) and are broadly split 50/50 between scripted and unscripted; whereas SVoD services are majority international (with ~10-20% local UK content) and highly focused around scripted content.
- However, not all BVoD catalogues are alike. ITV Hub stands out as the “purest” catch-up player with over 85% of content available on the service available for one month or less; while All4 is focused around boxsets, with most content available on longer-term licensing deals of a year or more.

Section 1: The current UK VoD market

The recent explosion in global video-on-demand (VoD) users has caused a seismic shift in the way content is consumed. Traditional methods of media consumption constitute a shrinking share of viewing time, as an increasing proportion of viewers turn to online services. The UK has become one of the most developed on-demand markets globally, with local and international players jostling for space in an increasingly saturated market.

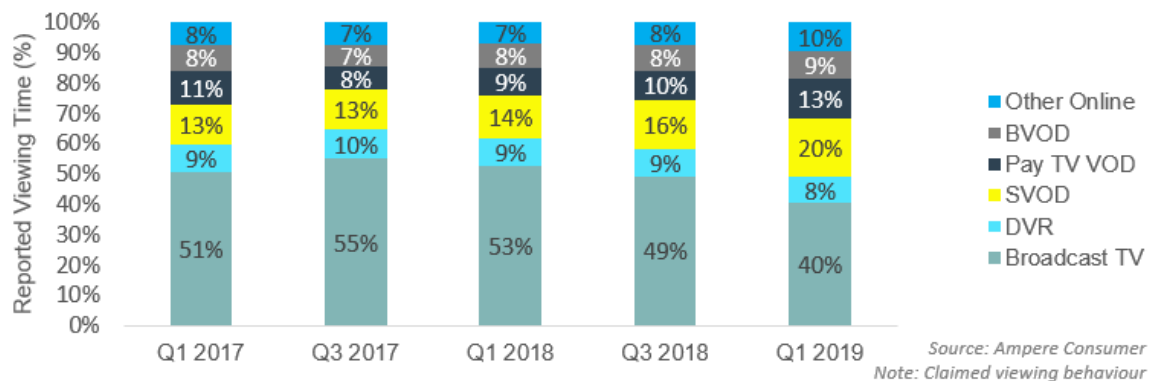
This section offers an overview of the current UK VoD market, by first looking at the global context for VoD and then breaking down the largest UK services and mapping out the landscape from a user-demographic and content perspective.

Section 1.1: Overview and global comparisons

VoD services account for over half of reported viewing time

The global market for on-demand video services has expanded rapidly in recent years, as major pay TV operators, broadcasters and tech players grow their online consumer bases and market presence. This growth has impacted the amount of time that audiences spend watching broadcast TV. Results from Ampere’s consumer tracker, which asks internet users about their viewing habits, indicate that for Q1 2017, 60% of the average respondent’s daily viewing time was through broadcast mechanisms (including DVR viewing), with this proportion dropping to less than 50% by Q1 2019. At the same time, each category of VoD service increased its share, with SVoD particularly pronounced—rising from 13% to 20% of claimed viewing between Q1 2017 and Q1 2019.

Graph 1.1.1: Percentage of claimed viewing time by service – selected countries¹



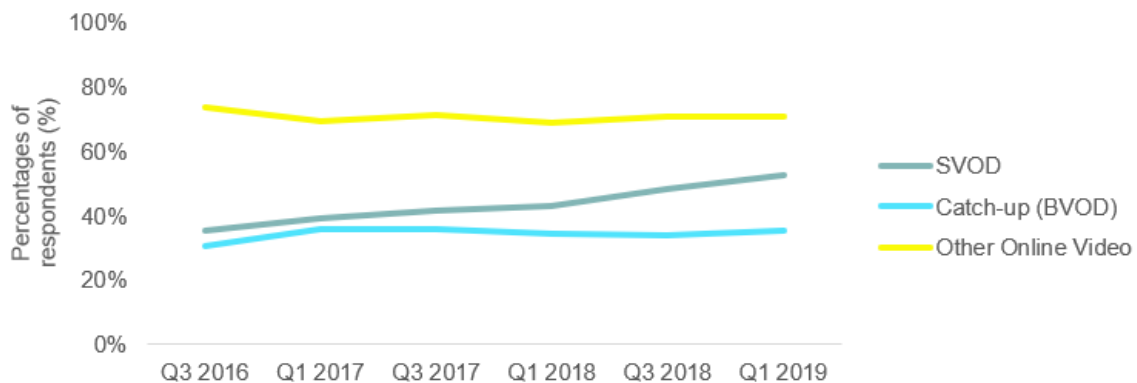
The global transition towards VoD viewing has been primarily driven by convenience for consumers, which manifests in several ways. From a distribution standpoint, consumers can access VoD services via the Internet, meaning that content can be easily consumed outside of the home, and that there is no need to install external satellite dishes or aerials. From a viewing perspective, the on-demand model enables users to watch any video from a provider’s entire library at any time, rather than waiting for a show to be broadcast. And from a pricing perspective, VoD services have lower overheads and fewer tiers than pay TV, meaning that prices are typically far lower, and contracts are more flexible.

Social, online video sites draw the most users, but not the most revenue

While all VoD services may be increasing viewing time, they do not all reach the same sized audience. Ampere’s consumer tracker shows that social, online video sites—primarily YouTube and Facebook—have the largest regular monthly video audiences of all VoD services. Across the ten markets studied, YouTube is the largest platform by usage, with 66% using it each month, compared to 37% for the next most popular platform, Netflix.

¹ Selected countries: Germany, Denmark, Spain, France, UK, Italy, Netherlands, Poland, Sweden, USA

Graph 1.1.2: Percentage of respondents using VoD services monthly, in selected countries



Source: Ampere Consumer

Despite not having the largest audience, it is SVoD services which have recently been driving the VoD market forward, both in terms of viewing time and revenue. Subscription-based VoD services generated \$36bn globally in revenue in 2018, by Ampere's estimates, compared to \$25bn for ad-funded video, the majority of which is driven by more social platforms (such as YouTube and Facebook). This gap between SVoD and ad-funded online video will further widen over the next 5 years, driven by two key factors. Firstly, the SVoD user base is still expanding globally, with almost all territories and countries adding new subscribers, and new entrants set to launch. Secondly, SVoD services typically have higher average revenues per viewer than ad-funded platforms—a consequence of consumer willingness to pay for more valuable, longer-form content.

The other main way in which consumers watch content is via broadcaster catch-up services, also known as Broadcaster Video-on-Demand (BVoD). Since Q1 2018, there has been a significant divergence between the percentage of users that watch SVoD services regularly, and those that use BVoD. Catch-up services are typically used by around 35% of respondents across the ten countries measured—and this audience has remained stable over time, reflecting corresponding broadcast TV audiences. This is very different from SVoD services, which audiences are still undergoing growth in almost all major markets—and are thus still evolving in terms of demographics and content preferences.

Content providers are now going direct to consumers

The growth of VoD audiences and revenues has also generated opportunities for content providers. Direct-to-consumer (DTC) services are an example of this—referring to a change in business models from content providers, away from packaging and distributing content via third-party platforms, towards launching direct, consumer-facing services². Groups such as Discovery, HBO, Showtime and Starz are all examples of channel groups and premium TV programmers that have extended their portfolios to include VoD services – extending their business models one level further up the chain, going beyond operators and selling to consumers directly. These services are often localized to specific markets that a broadcaster is strong in, and are currently still quite US-centric. On the other hand, DTC plans from studios, such as Disney and Warner Bros, represent even greater divergence from existing business models, and potentially create a new global class of international SVoD competitors.

DTC platforms have to-date met with varying degrees of success globally, with commercial performance heavily dependent on the existing strength of each brand in given local markets. As DTC services typically take content from a single source (the underlying broadcaster or channel group) offerings tend to have much smaller catalogues than the leading SVoD platforms in each market—and are therefore reliant on the strength of a smaller core library of key titles. Those that have been most successful in this model to-date are premium channels, such as HBO or Starz, for whom DTC represents a small extension of their existing business model, that enables them to expand their audience directly beyond a pay TV subscriber base.

The most successful DTC service so far has been HBO, which has just under 5m subscribers globally under the *HBO Go* and *HBO Now* brands and operates across a range of countries, including the US, Brazil, Nordics, Spain, Poland and Hong Kong. HBO's approach to DTC has been selective—it has not deployed a single strategy globally, but instead targeted key markets. In countries such as the UK (Sky) or Netherlands (Ziggo) where there is a large, longstanding pay TV partner, HBO has continued to license content through its operator

partner; whereas in other territories in which it already has a strong consumer brand, HBO has launched DTC services alongside existing channels. This mix and match strategy is likely to be employed by smaller content owners and studios as they explore DTC models.

Audiences for VoD services younger than linear, particularly SVoD

As elements of the global TV audience transition from broadcast TV towards VoD services, there is a clear progression in generational terms around the way in which content is consumed:

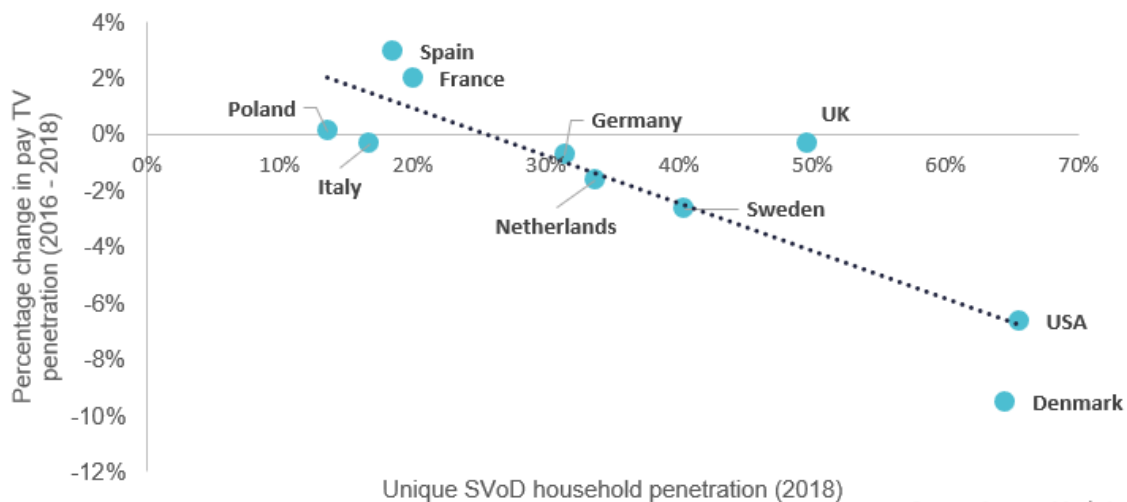
- Audiences for **broadcast TV channels** are increasingly skewed towards older generations. By Q1 2019, consumers in Ampere's polled markets aged 55-64 claimed to watch nearly 4hrs of broadcast TV a day, compared to just over 1hr a day for those aged 18-24.
- **BVoD audiences** skew slightly younger. They overlap significantly with the audiences for broadcast channels, but are less likely to be used by the oldest demographic groups. Despite this, 42% of BVoD users are over the age of 54 and the proportion of 18-34 year olds that use the service mirrors the national average of 37%. BVoD audiences are also much more likely to rely on free TV services such as Freeview and are 37% more likely to do so than the average consumer.
- **SVoD services** reach further beyond BVoD to attract a much younger audience. SVoD audiences are younger, with 44% of users in the 18-34 bracket. Users are also more likely to be families with young children. 47% of SVoD users live in a household with a partner and child.

SVoD services can be both complementary and substitutive to pay TV

As the number of SVoD subscriptions grow, SVoD services are taking viewing time away from broadcast TV. What is less clear, however, is whether that is impacting the number of overall broadcast TV viewers, and particularly the number of pay TV subscribers.

The first thing to note is that SVoD has expanded the overall universe of homes that pay for TV. Across the 10 major markets surveyed by Ampere since 2015, the proportion which subscribe to TV in some form (either via pay TV or SVoD) has grown from 76% in Q3 2015 to 86% by Q1 2019. Yet the interaction between SVoD and pay TV service uptake is complex and varies significantly by market. In some territories, including the UK, SVoD has thus far been largely complementary to pay TV platforms—TV operators still aggregate rights, and SVoD services effectively become a “package” in an overall subscription suite. Equally, in several markets, such as the US and Nordic countries, there are signs SVoD growth has been to the detriment of pay TV—with the proportion of households taking up pay TV subscriptions undergoing slight decline as consumers either reduce pay TV spend or substitute entirely for on-demand services.

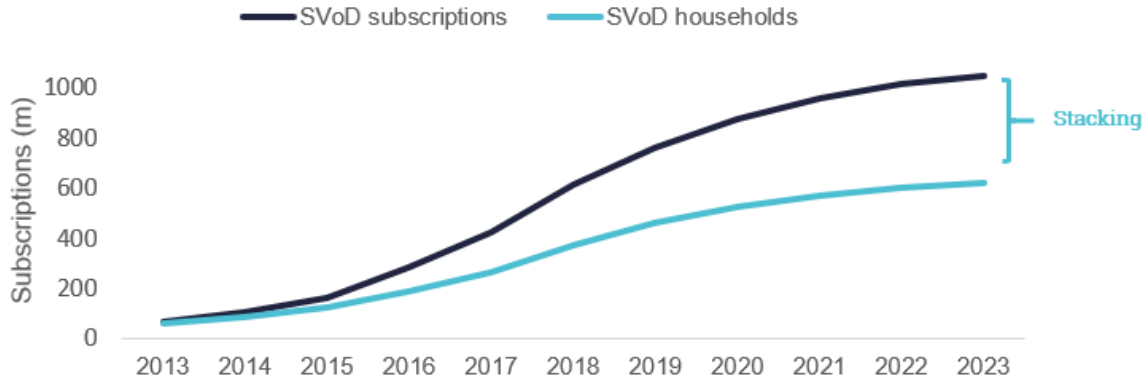
Graph 1.1.3: Comparison of SVoD household penetration (2018) vs change in pay TV penetration (2016 to 2018)—for selected countries



Stacking of SVoD services increasingly mirroring channel packages

But while SVoD services can be both complementary and substitutive towards pay TV subscriptions, the way consumers are purchasing them is increasingly beginning to mirror pay TV channels structures. This is reflected in SVoD service stacking, which refers to the way in which households purchase multiple SVoD subscriptions to different services, in a manner similar to the way pay TV packages aggregate multiple channels.

Graph 1.1.4: Global SVoD subscription and unique households (m)



Source: Ampere Markets

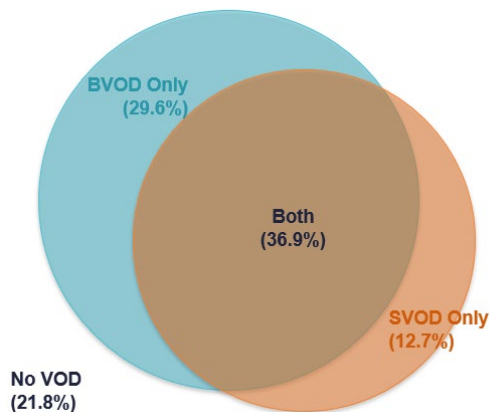
SVoD service stacking is growing across markets, as consumers are faced with more services and an increasing array of content to choose from. The most pronounced examples can be found in Western Europe and North America—the USA has the highest SVoD stacking rates, with an average of 1.7 subscriptions per SVoD household while the UK is close behind, with 1.5 subscriptions per SVoD home.

Section 1.2: UK VoD services and user bases

High VoD uptake across UK households

As of Q1 2019, the vast majority (78%) of all households in the UK watch VoD monthly in one form or another—either via SVoD or BVoD services. This is higher than in other comparable European markets; in Germany this figure sits at 64%, while in France it is just 51%.

Figure 1.2.1: SVoD and BVoD household overlap in the UK (Q1 2019)



While SVoD uptake is higher in the UK than in many other developed markets, broadcaster catch-up is the major factor behind the particularly high percentage of homes that watch VoD. Public Service Broadcasters (PSBs), heavily driven by the BBC and ITV, have been successful in the UK at transitioning their broadcast audiences towards using BVoD services. This means that a far higher percentage of older, free TV-dominated households in the UK use VoD services than in other European markets—extending the potential VoD audience.

BVoD services have largest audiences in the UK

The extended audience reach of BVoD services in the UK can be seen by looking at the most commonly used VoD services by country. Using Ampere's consumer tracker to examine the proportion of users in each market who access a service at least once each month, it is clear that an unusually high number of the most popular platforms in the UK are broadcaster-led catch-up—with BBC iPlayer, ITV Hub and All4 all in the top five.

Table 1.2.2: Most used online services for watching video each month – Q1 2019

Key: BVoD Services, Social/Online VoD services, SVOD services

Rank	UK	USA	Germany	France	Spain	Denmark
1	BBC iPlayer	YouTube	YouTube	YouTube	YouTube	YouTube
2	YouTube	Netflix	ZDF Mediathek	MyTF1	Netflix	Netflix
3	Netflix	Amazon Prime	Amazon Prime	Netflix	Facebook	DRTV/dr.dk.tv
4	ITV Hub	Hulu	Netflix	6play	Amazon Prime	Viaplay
5	All4	Facebook	ARD Mediathek	Facebook	Instagram	TV2 Play

Source: Ampere Consumer

Note: Facebook and Instagram uptake refers purely to consumers that use them to watch video

BVoD services are also popular in several other European countries—particularly France, Germany and the Nordic countries, each of which has strong local broadcasters among the top five services. Where the UK differentiates itself from other major markets is in both the volume of popular BVoD services (all four UK PSB VoD services are used regularly, compared to typically one or two major services in other markets) and in the relatively lower frequency usage of popular social media services for video - with only YouTube regularly used by a large audience. To put this in context, in the UK, each of BBC iPlayer (60%), ITV Hub (40%) and All4 (25%) is used by over a quarter of the population each month – while in Germany the largest catch-up services come from both ARD (23.6%) and ZDF (28.3%); and in France come from TF1 (25.3%) and M6 (18.8%).

Seven major VoD services dominate the UK

Looking across SVoD and BVoD, the market in the UK is currently dominated by seven major services: from the five largest “traditional” UK broadcasters (BBC, ITV, Channel 4, Channel 5 and Sky); and the two largest international SVoD platforms, Amazon and Netflix. Each of these services reaches more than 5% of, or just under 1.5m, households in the UK – although there are large differences in scale between them, with some platforms reaching half of all homes. Collectively, these seven platforms account for the vast majority of SVoD and BVoD viewing time in the UK.

Table 1.2.3: Summary of KPIs for major VoD services

Company	Owner	Business Model	Launch Date	UK VoD revenue (2018 estimates)	UK Monthly Users
Netflix	Netflix	SVoD	Q1 2012	£693m	9.9m subs
Amazon	Amazon	SVoD	Q1 2014	£400m	7.7m subs
Now TV	Comcast	SVoD	Q3 2012	£170m	1.5m subs
BBC iPlayer	BBC	Public Funded	Q3 2007	-	13.4m homes
ITV Hub	ITV	AVoD (SVoD Tier)	Q4 2008	~£250m	8.8m homes
All4	Channel 4	AVoD	Q4 2006	~£80m (2017)	6.8m homes
My5	Viacom	AVoD	Q2 2008	~£30m	4.0m homes

Source: Ampere Markets, Ampere Consumer, Ampere Analytics, Ampere Analysis estimates

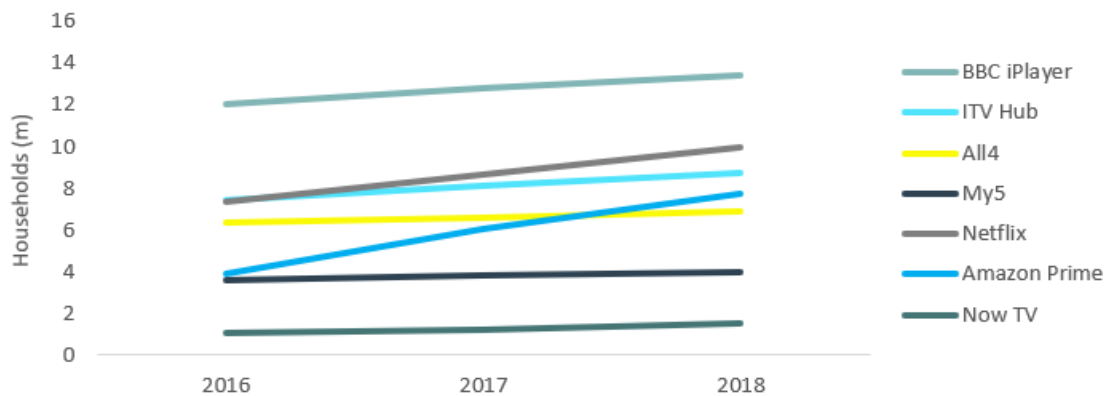
After these services, there is a significant drop off in both audience size and content library investment and size. The next largest BVoD service is UKTV Play, which features catch-up from channels such as Dave, and is watched monthly by just under 5% of homes; while the largest other SVoD services are DisneyLife (1.5%); ITV Hub+ (1%) and Hayu. Beyond this, there are a multitude of other video services, centered around movies/TV (BFI Player, Curzon Home Cinema, Mubi, Starz Play) and sports (NBA League Pass, NFL League Pass, Eurosport Player), all of which are used by under 1% of homes.

Where the UK differs from other VoD markets is in the lack of premium, broadcaster-centric services, with Now TV dominating this market. Companies which have successfully carved a share in several international markets—such as Starz, HBO or Showtime in the USA—have not made inroads into the UK market. This is primarily due to the positioning of Sky, through its high value exclusive deals with HBO and the US majors, and also the strength of the UK public service broadcasters. The strong position of these five local players makes it difficult for new entrants to take significant audience share, and for content players to move to a DTC offer without forgoing substantial revenue. Only the two largest, best-funded international SVoD platforms have been able to disrupt the existing balance to date.

International SVoD players driving growth in VoD audience

While BVoD services may have the largest audiences in the UK, recent audience growth has been driven by the two international SVoD giants, Netflix and Amazon Prime Video. Between 2016 and 2018 these two platforms added 6.4m UK subscribers between them by Ampere's estimates—with Netflix increasing its subscriber base from 7.4m to 10m and Amazon Prime Video growing from 3.9m to 7.7m.

Graph 1.2.4: UK VoD services by number of households using monthly (2016-2018)



Source: Ampere estimates based on Ampere Consumer, Ampere Markets
Note: BVoD monthly households; SVoD subscriptions

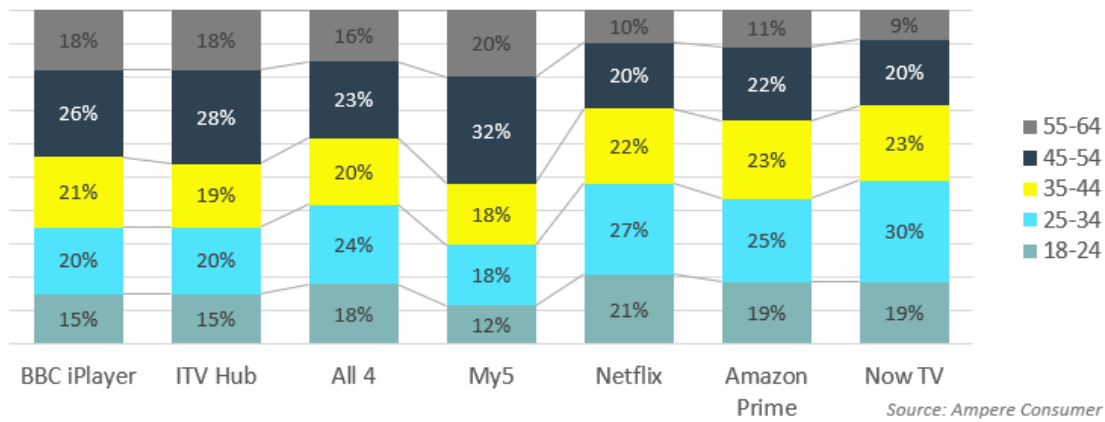
That BVoD services are growing audiences more gradually than their SVoD counterparts is to be expected - BVoD services had a head start, with each of the four main PSBs establishing high user bases in the early part of the decade. However, it does illustrate a challenge that broadcaster-led services face; namely that their content has been curated over many years to target and appeal to their linear channel base. This has ensured strong uptake for their BVoD services, but the focus on broadcast content also makes it harder for these players to grow outside their core audiences - even with innovations such as *Walter Presents* on All4. By contrast SVoD services have been more malleable, with international players leveraging their financial strength to acquire different types of content and tap into new audience segments.

All4 reaches youngest BVoD audience; My5 reaches more young families

As is the case globally, UK SVoD users are considerably younger than the average TV viewer. Almost half of those who watch the three largest SVoD services—Netflix, Amazon Prime and Now TV—are under the age of 34, with these households much more likely to have young children. This is opposite to BVoD service audiences, which are typically much older. My5 skews significantly older, with over half the viewers above the age of 45.

There are two BVoD services that stand out as more unusual demographically. The first is All4—whose users profile much more similarly to those of an SVoD service, with 62% under the age of 44. This younger audience is rooted in several aspects of the service—both the younger audience of Channel 4's broadcast channels, including E4's reality offerings such as hit reality series *Made in Chelsea*; and the large catalogue of boxsets available, which encourage more SVoD-like binge-viewing. The second exception is My5, which has a considerably higher proportion of consumers with younger families using the service than would be expected considering the user age profile alone. This over-index is directly linked to its *Milkshake* catalogue of popular kids' content - which includes shows such as *Peppa Pig* and *Ben and Holly's Little Kingdom*.

Graph 1.2.3: VoD service household breakdown by age (Q1 2019)

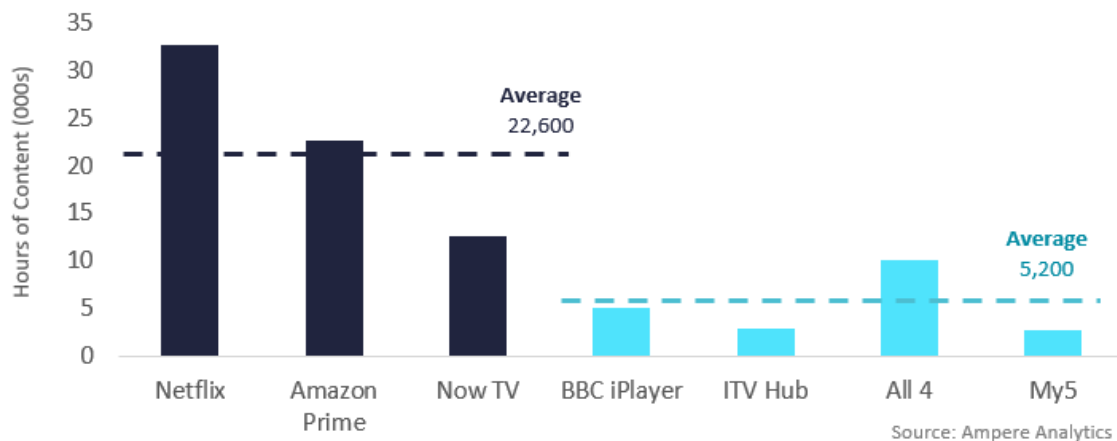


Section 1.3: Content libraries and investments

SVoD catalogues dwarf BVoD

Based on analysis of the total volume (in hours) of movies and TV seasons present on content catalogues for March 2019, SVoD services in the UK are significantly larger than those of BVoD services—with the average SVoD catalogue over four times the size of the average BVoD catalogue. One key difference here is movies which comprise 20-30% of total content hours on UK SVoD platforms, but are typically rare on BVoD platforms (due to rights issues). However, even excluding movies, the average UK SVoD platform still has 17,000 hours of TV content, over three times as much as the average BVoD counterpart.

Graph 1.3.1: Hours (000s) of content available – Q1 2019



This large content differential is in part driven by the greater number of full TV boxsets available on the SVoD services—a feature BVoD platforms are less easily able to replicate, as they service a more national remits, and rarely go outside their prior broadcast or back-catalogues. Longer-term rights are not always available to public broadcasters, depending on their terms of trade and whether the title was produced in-house. Even if longer-term or boxset rights are negotiated, the broadcaster is frequently incentivised to sell these rights to other international SVoD services rather than placing them on their service, in order to best monetise the asset.

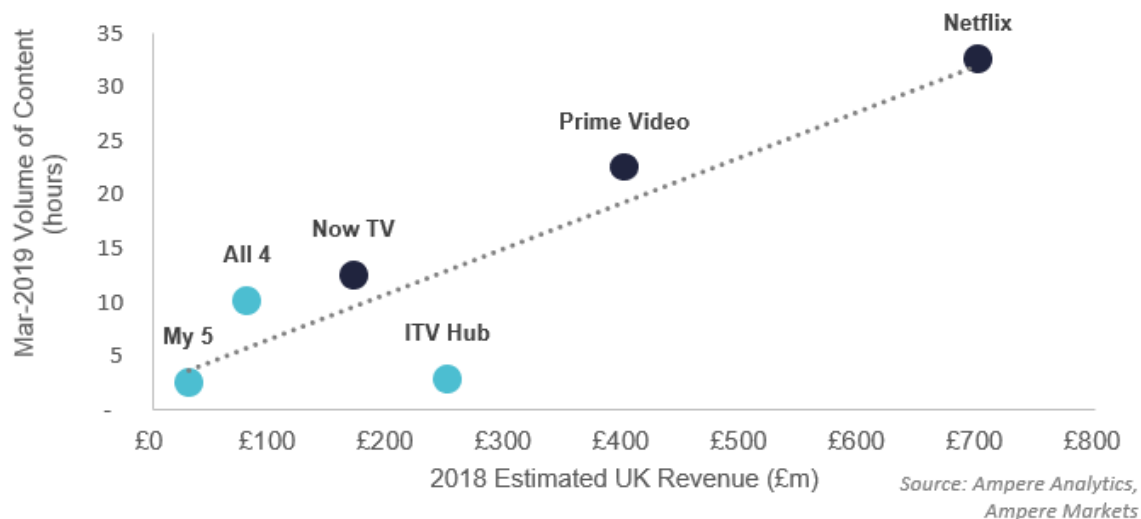
The two notable standouts are All4 and Now TV. The size of All4’s content library can largely be attributed to the number of boxsets available on the platform, which in many ways looks similar to a typical SVoD service. Channel 4 has acquired an extensive array of boxset rights—including archive titles originally broadcast by

Channel 4 (but no longer aired), older series of currently broadcast shows, and a small number of international titles. Conversely, Now TV has much in common with the catalogues of other UK BVoD platforms, including a number of catch-up shows previously broadcast via channels available from Sky, and a smaller back-catalogue of boxsets than either Netflix or Amazon Prime.

UK revenue tightly aligned to size of content catalogue

Having significant volumes of content on a VoD platform does not necessarily drive revenue. Indeed, globally the correlation between volume of content and revenue is not particularly strong, with other factors such as exclusivity of key titles and quality of content more important drivers of uptake than sheer size of catalogue. In the UK, however, there is a clear correlation for the seven largest VoD platforms between how much content a service has and how many consumers regularly use it (and thus – loosely—how much revenue it can make). Cause and effect can be difficult to separate here - as more popular services generate more revenue, that can be spent on a larger content library; and equally a larger initial investment in content can lower churn and increase the attractiveness of a service to consumers. Nevertheless, what is clear is that the largest VoD services in the UK have continued to invest in building up content libraries, to continue to grow in a competitive market.

Graph 1.3.2: Volume of content (000 hrs) in Mar-2019 vs 2018 UK company revenue (estimated)



The main exception to this is ITV Hub, which Ampere estimates generates considerably higher annual revenue than would be expected considering the volume of content available on the service. Despite having a much smaller library than comparable BVoD services, ITV Hub is catch-up focused, containing high numbers of recent, short-windowed content that appeals to a broad audience, and has been successful at converting this higher-value, recent content into advertising revenue.

SVoD catalogues focus on largely scripted, international content

The increasing in the number of international rights for large global SVoD services has resulted in a decrease in the proportion of local content in these catalogues. In isolation, the number of UK-based titles has actually grown since January 2017 – with Netflix going from 595 to 747 movies and TV season, and Amazon from 218 to 699 – but the overall increase in catalogue size has actually seen the proportion of UK content on each platform decline, by 2% in each case. To put this internationalization into context, a mixture of more original content, allied to pan-regional acquisition deals, means that between a third and a half of all content currently on these platforms in the UK is also available in a majority of other markets. BVoD platforms, on the other hand, have a much higher percentage of UK-produced content, largely as a result of the broadcasters' UK focus. BBC iPlayer is particularly dominated by local content, with only 6% of titles produced outside the UK.

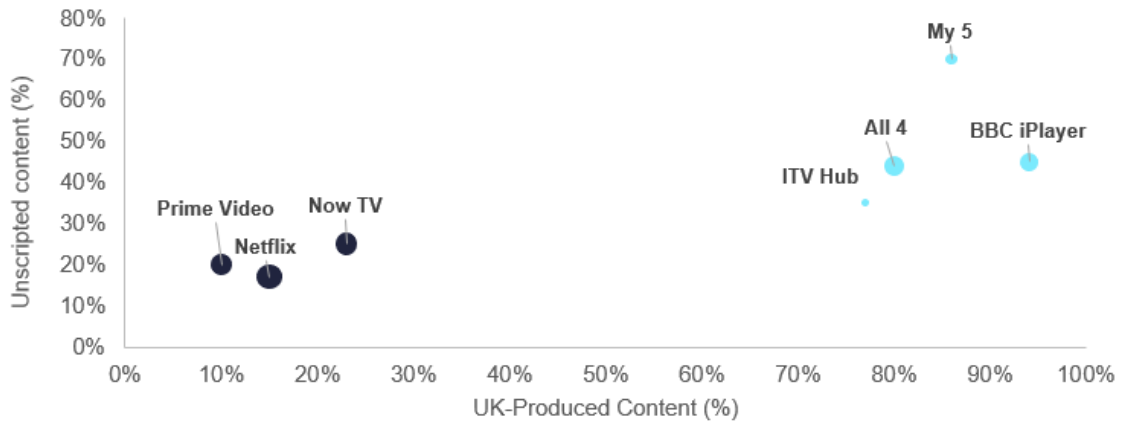
Similarly, BVoD services have a much higher proportion of unscripted programming than SVoD. Channel 5's My5 catalogue consists primarily of unscripted content (86% of its library). This largely consists of documentaries, which make up nearly three fifths of all content on My5 and are typically produced in-house. In general, BVoD platforms have a much greater focus on reality and entertainment than SVoD services, which are likely to contain more comedy, action and adventure and crime and thriller. Meanwhile, Now TV differs slightly from the other

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SVoD services – with a high proportion of its catalogue is made up of entertainment and documentary titles, largely taken from Sky’s extensive back-catalogue of documentaries.

Graph 1.3.3: VoD services: Local content compared to nonscripted content proportions (Mar-19)

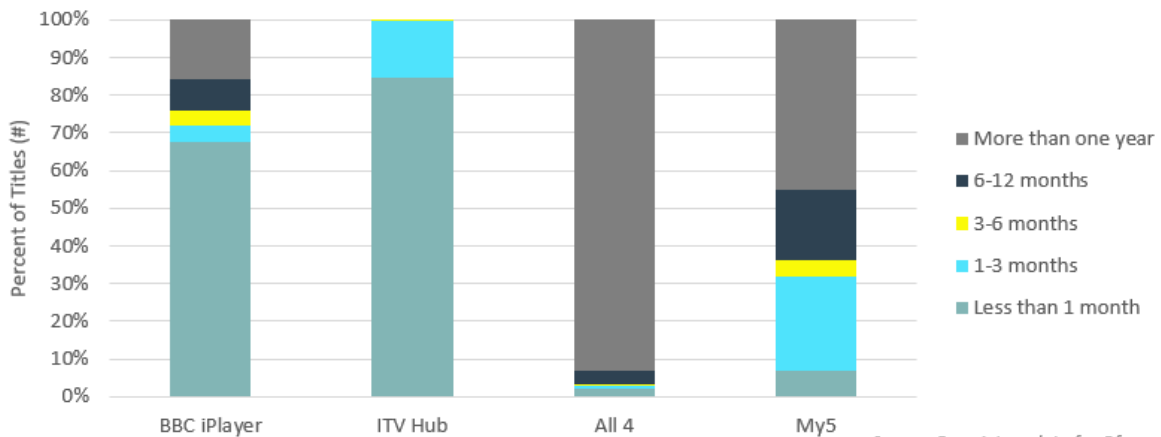


Source: Ampere Analytics

ITV Hub “purest” catch-up, while All4 takes a boxset-heavy approach

However, while BVoD catalogues share many commonalities regarding local, unscripted content, not all BVoD catalogues are alike. In particular, Ampere has assessed the windowing of content available on individual BVoD platforms in March 2019 – with significant strategic differences emerging between the various broadcaster approaches.

Graph 1.3.4: VoD services: Lifecycle of titles in catalogue (Mar-19)



Source: Proprietary data for Ofcom

ITV Hub stands out as the “purest” catch-up player; over 85% of content available on the service stays for one month or less, with almost all remaining content available for between one and three months. BBC iPlayer, although primarily catch-up-focused, also has a small selection (~20% of catalogue) of boxsets and features available for longer term periods of six months or more – as part of Ofcom’s interim directions, that allow for a limited amount of content to be available for longer time periods.

All4 and My5 take different approaches. The My5 catalogue contains a very even mix of short-term catch-up and longer-term content, while All4 has a huge volume of longer-term rights, with many ‘catch-up’ series remaining on the service for a prolonged period. This longer windowing, boxset-heavy approach positions the All4 library closer to the profile of an SVoD service, playing a key role in attracting and retaining its younger audience.

Section 2: Future developments

The emergence of VoD and OTT platforms has already created fundamental change in how UK households and viewers consume content. While the market is now established, the rate at which consumer viewing time is moving towards VoD services is set to cause further changes still. Broadcasters and channel groups are adjusting their service strategies; established SVoD platforms are altering content commissions to reach a wider audience; and new entrants are eyeing the market.

This section is driven by a mixture of Ampere’s own analysis and views on the market, combined with interviews from dozens of key stakeholders across the UK broadcaster, video service, production, distribution and technology landscapes. Any quotes used have been paraphrased and anonymised.

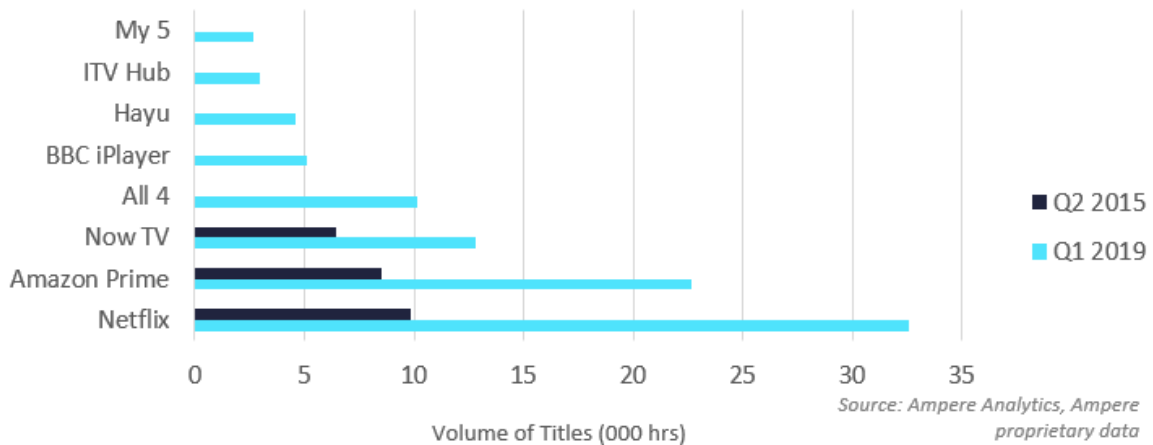
Section 2.1: Content and service evolution

Barrier to entry higher than ever

As the number of UK VoD users and subscribers has grown, content offerings have become increasingly competitive. Between Q2 2015 and Q1 2019 the volume of content in hours available across the three largest SVoD services in the UK (Netflix, Amazon Prime Video and Now TV) grew collectively by 175%, from 25,000 hours to 68,000 hours.

This same growth is reflected in content spend. While neither Netflix or Amazon reports local spend, over the same time period their global investments in content have increased by 116% and 213% respectively. Significant portions of spend by both platforms has been concentrated on original production, as this content can be monetized in every market that the platforms are available. Between 2015 and 2019 Netflix spend on originals increased from an estimated \$650m to \$2.3bn – while over the same time period Amazon increased its original spend from an estimated \$100m to \$900m

Graph 2.1.1: Volume of content (000 hrs) of VoD services in the UK



Growth in the volume of content was particularly driven by TV series and seasons, which rose by over 200% in the same timeframe. This fits with a more general change in viewing habits across the UK: the rise of boxset binge-watching was identified by interviewees as the major driver of national VoD traffic, particularly for drama-based series. Ampere’s consumer data suggests that, as of early 2019, 62% of the UK population now binge-watch TV episodes frequently—a figure that rises to 71% when considering SVoD households only.

The result of this is increased competition, both in terms of volume and quality of content. New services will need to launch with a far more competitive content offering than in the past; while existing services need a mix of flagship titles, to market the service, and exclusive content, to drive viewing.

Exclusivity of content key, and will drive siloes

In the context of increased content competition, exclusivity matters. Exclusivity can come in two forms: produced or commissioned content, in which rights are retained for a defined period by the VoD service; or content via acquisition, such as the deal between Sky and HBO. The end goal is the same—exclusivity in each case accentuates the value of an individual service, while simultaneously depriving rivals of potential content.

The rise of original-branded content from SVoD providers ultimately feeds into the same exclusivity equation. The concept of an original is not new—a large proportion of content present on PSBs in the UK is commissioned by the broadcaster, and therefore classifies as “exclusive”. However, the context is different: for international platforms, original content can be immediately distributed globally to the service’s subscriber base, with the economy-of-scale making it in many cases more cost-effective than localised content acquisition.

Table 2.1.2: Examples of Original content strategies

Purpose	Company	Description
Audience targeting	All	All major broadcasters create original content to target subsections of their specific audiences. SVoD platforms are increasingly moving outside of drama/comedy for originals, with more reality and entertainment released in 2018
Flagship titles	Netflix, Amazon, BBC, ITV, Sky	Production of smaller volume of more expensive, high-profile dramatic series. Used to differentiate services and drive marketing and subscriptions (for SVoD)
International distribution	BBC, ITV	Both the BBC and ITV have large sales outside of the UK (through BBC and ITV Studios). While flagship shows focus on the UK, they also often work with foreign broadcasters to create content with a more international focus
International scale	Netflix	High volume of original content commission, designed to reduce reliance on (and in many cases replace) third-party content acquisition across all international markets

As exclusivity increases in importance, content will progressively be siloed across services. Content producers with DTC services will want to keep content in-house; broadcasters such as Channel 4 already showing signs of utilizing their own back-catalogues as boxsets on BVoD; and SVoD platforms will continue to grow the proportion of original content in their catalogues.

Competition for content production will heat up

As content becomes more siloed, production assets and facilities become increasingly valuable. The demand for high-end UK content domestically and abroad, together with the UK’s successful tax relief scheme for high-end film and TV production, is driving greater volumes of content to be commissioned. Several interviewees discussed the strain that high-end production (defined as costing over £1m per hour to produce) is placing on UK production assets – both from a facilities and talent perspective, with concerns even about writing talent being ‘priced away’ from national broadcasters. This concern did not reach to mid-range production—but there is a fear in the market that broadcasters could be priced out in many cases by international platforms looking to utilise UK facilities. This would weaken the ability of broadcasters to compete at the highest level, and damage VoD (and TV) competition.

‘WE ARE NEARING A SATURATION POINT IN HIGH-END PRODUCTION IN THE UK, DUE TO A LACK OF ADDITIONAL FACILITIES AND SKILLSETS’

One solution that is already used is a co-production model, either with foreign broadcasters or international SVoD platforms. In the latter scenario, used for titles such as *The Handmaid’s Tale* or *Good Omens*, a UK broadcaster typically commissions a title, and retains the UK rights, while a Netflix, Amazon or Hulu finances much of the production, and holds international rights. This business model enables UK broadcasters to fund ambitious, expensive series. Since 2016, Ampere has identified 22 examples of such joint SVoD/UK broadcaster projects greenlit. However, commissions have dwindled recently, as UK broadcasters increasingly express disquiet at partnering with competitors and losing international distribution revenue. Instead, broadcasters are returning to more traditional partnerships between themselves. Ampere has identified 12 new co-production deals involving UK broadcasters across Q1 2019; all are with other national or international broadcast groups.

Co-production from UK broadcasters will increase in the coming years, as they seek to support the costs associated with high-end TV production, but Ampere expects the focus to gradually shift towards deals with other public and commercial broadcasters.

International scale will drive VoD efficiencies

It is not just content production models that are being affected by international VoD platforms. A common refrain from interviewees across all industry segments was that in the VoD world, scale and internationalisation matter.

For larger international players, their economies of scale allow them to outbid local players for talent, marketing, production and acquisition. Deals can be struck on an international basis, across the entire business: originals can be produced with an audience of tens of millions of subscribers; global distribution can be promised and leveraged in content acquisitions; and hundreds of countries can be covered when striking deals to license applications to aggregators such as Smart TV or streaming device manufacturers. A number of interviewees expressed concerns about the knock-on effect this could have in the wider industry, particularly for independent UK production companies – as with international players negotiating for global VoD licensing of 10-20 years when commissioning content, these producers are losing the rights to distribute existing assets in the future, should the UK film and TV production market slow down.

It is not just large companies that extol the benefits of scale. Smaller, more niche SVoD platforms are also embracing internationalisation, citing many of the same benefits. It increases power in content negotiations; increases a service's attractiveness to third-party aggregators; widens the potential audience (particularly for niche content that targets a low proportion of the population); and amortises technology spend across a broader market. Several interviewees expressed to Ampere that over the next few years they believed "local" SVoD services in the UK would become a thing of the past, outside of national broadcasters.

Services to mix business models

Business models will also evolve in the next five years, as lines blur between ad-funded, free platforms and subscription-funded pay platforms. In many parts of the world this practice is already common –with US-platform Hulu the most high-profile case, currently offering: a base SVoD tier with limited ads for \$5.99 a month; an ad-free SVoD tier for \$11.99 a month; and a live TV (plus SVoD) package for \$44.99 a month. This blending of business models is also common across Eastern Europe, the Middle East and parts of Asia.

The first signs of developments in this direction have already begun in the UK. In early 2017 ITV rolled out a premium subscription tier to ITV Hub, called ITV Hub+, which provides ad-free access to the hub, including consumers outside of the UK, for £3.99 a month. At the end of 2018, ITV reported 265,000 subscribers to ITV Hub+, from which Ampere estimates annual revenues at around £8m. Meanwhile, Channel 4 is undergoing a trial of a similar product, All4+, which started with a small-scale experiment late in 2018 and was expanded to a wider test-base in early 2019.

Ampere foresees two common scenarios developing: broadcaster-led services offering premium ad-free tiers to increase monetization at the higher-end of their user bases (as in the case of ITV and Channel 4); and subscription services introducing advertising tiers, either at reduced rates (to potentially expand user-bases) or directly into entry-level offerings (with ad-free tiers then introduced higher up). This view was echoed by interviewees, with the consensus that BVoD services would move to subscription tiers quickly, but that SVoD players would be more cautious, with Amazon the most likely to trial ad-based tiering.

'IN THE FUTURE, IF YOU ARE SMALL VOD PLAYER AND NOT INTERNATIONAL, YOU'RE DEAD'

'THERE IS CURRENTLY A DEMARCATION BETWEEN AD-FUNDED AND SUBSCRIPTION VOD IN THE UK– BUT THAT WILL CHANGE'

Section 2.2: New market entrants

Influx of new entrants, driven by tech firms and content producers

The seven major VoD platforms in the UK have all been operating since Q1 2014, when Amazon entered the market. Since then there have been five years of relative stability. Many new entrants, including DisneyLife and Hayu, have launched, but no new platforms have grown to reach more than 5% of UK households. This has partly been due to the dominance of the major VoD platforms—particularly the way in which the three core SVoD service have aggressively acquired rights from major providers—but equally few new entrants have had the capital or content to compete with the largest VoD services.

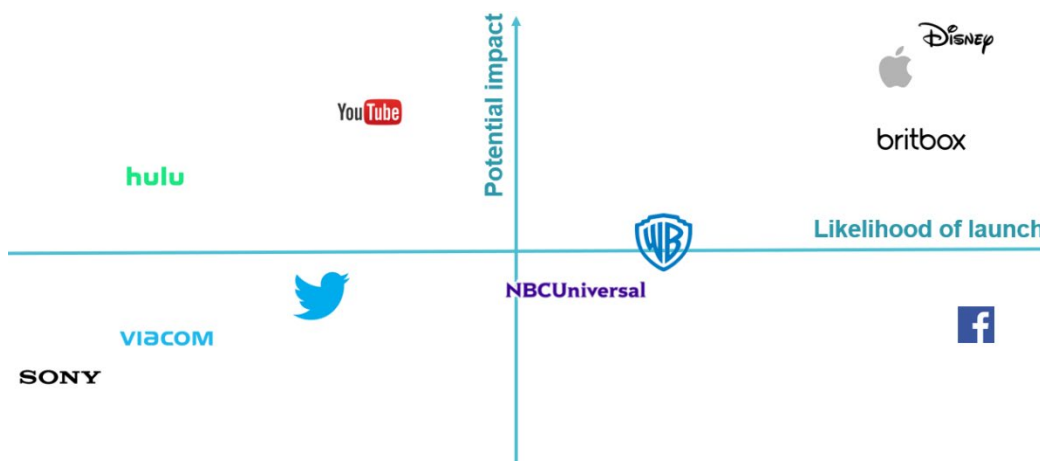
Table 2.2.1: Potential entrants to the UK VoD market

Type	Example Companies	Description
Tech companies	Apple, YouTube	Tech giants looking to launch (or relaunch) VoD services to synergize with other business lines, in a similar manner to Amazon. Likely to be open to mixed business models, including aggregating other VoD services
Studio groups	Disney, NBC Universal, Sony, Viacom, Warner Bros	Major US studios looking to disintermediate and launch DTC offerings based on existing content libraries. Launches are likely to be international, though potential still exists for carriage/content sales deals to take place with large platforms in key markets
Social media players	Facebook, Twitter	Social media players have a heavy presence in video through their advertising business. In the future they could look to leverage their way into ad-funded VoD – with Facebook already purchasing sports rights in multiple markets
Broadcasters	BritBox, Channel 5	Broadcaster collaboration between the BBC and ITV on BritBox is set to be extended to the UK in late 2019/early 2020. Meanwhile, existing broadcasters can follow in the footsteps of ITV Hub+ and launch SVoD tiers
Themed or international players	e.g. groups like A&E, AMC, Discovery, Scripps, Zee TV*	Existing SVoD services present in other markets may look to international expansion, as may channel groups (such as A&E or Discovery) looking to go DTC with themed content offers.

**Note: Illustrative examples only – Ampere has no specific knowledge of local launch plans*

This is set to change in 2019 and 2020. The rate at which VoD is capturing viewing time from broadcast TV is propelling strategy changes, and generating opportunities, for many of the largest companies. New entrants come from various parts of the industry, and three service launches set for 2019 have already been announced: **BritBox** (a joint SVoD service from BBC and ITV, a version of which is already available in the US); **Disney+** (an SVoD service based on Disney/Fox content); and **Apple TV+** (an SVoD add-on attached to Apple’s planned aggregation service, Apple Channels).

Figure 2.2.2: Future market entrants by potential impact



Apple TV both an aggregation and an SVoD play

In March 2019 Apple released details of its reimagined TV strategy. The planned offerings, set for 2019, can be split into three core components:

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- **Apple TV:** In the US, the selling of linear free and pay TV channels was offered, though details of whether this would be expanded internationally were not confirmed
- **Apple Channels:** A selection of SVoD channels that users can subscribe to and manage through Apple. For the announced USA version: most platforms can be searched within an integrated platform; Hulu and Amazon can be searched only as standalone apps; while Netflix is absent from integration
- **Apple TV+:** An SVoD service housing Apple original content, and possible future Apple content acquisitions

This is predominantly an aggregation play, bearing similarities to the strategy of Amazon. Apple TV+ is an SVoD service that will house Apple’s original content, including the initial slate of 30 titles Apple has invested an estimated \$1bn on. However, the content disparity between Apple TV+ and rivals suggest this will be a flagship play only, used to draw in customers and bundled on top of other services, with a likely three-month plus initial free trial period. Instead, Apple is primarily positioning itself as a re-seller of both broadcast TV and VoD content.

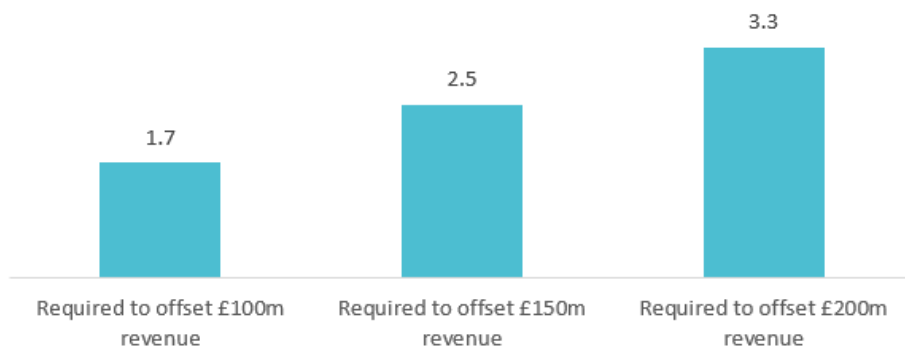
Interviewees were muted on Apple’s own SVoD service aspirations—to have a competitive content slate it would need to combine an acquisition strategy with a larger number of original productions, so the expectation is that it will initially be low-priced and possibly bundled with other services, such as Apple Music. Apple has so far spent a reported \$1bn on original content, with a focus on high-budget scripted shows. So far, of Apple’s 31 series orders, 87% have been for scripted content, with Crime & Thriller (7 titles), Sci-Fi & Fantasy (6 titles) and Drama (6 titles) the three most-commissioned genres. Talent attached to Apple vehicles includes Oprah Winfrey, for a book club talk show format; a mental health docuseries also featuring Prince Harry; a psychological thriller series from M. Night Shyamalan; and Reese Witherspoon, Jennifer Aniston and Steve Carell in newsroom drama The Morning Show.

However, interviewees were bullish on Apple’s aggregation plans. Its device ecosystem, existing BVoD iOS app integration, combined with its ability to purchase critical sports rights in the future, position it powerfully as a content aggregator moving forward.

International studio SVoD launches likely in 2019 and 2020

Disney+ is planned for US launch in 2019 at a \$6.99 price point (with international territories set to launch through 2020 and 2021, starting with Western Europe and Asia). It will feature content from both the original Disney and Fox entities. The service will be a Direct to Consumer (DTC) proposition that will contain content from across Disney’s different assets, including its animation archive, Pixar, Lucasfilm, Marvel and Fox. SVoD service launches from other studios are likely—Warner Bros has already indicated that it will bring an SVoD service to the US towards the end of 2019 (with international expansion planned a year later), while NBC Universal (Hayu), Sony (Funimation Now) and Viacom (Pluto TV) have each already dipped their toes in VoD waters.

Graph 2.2.3: Estimated subscribers (m) required by Disney+ to offset potential loss in carriage revenues



Source: Ampere proprietary modelling

The challenge each new studio-backed DTC service will face is compensating for existing carriage or content sales deals with other VoD and pay TV broadcast services. Taking Disney as an example, the UK & Ireland business generates ~£900m a year (according to Disney's last UK filing) – across TV, merchandise, games and other business segments. Ampere considered scenarios in which just 10%-20% of this revenue would be at risk should Disney cancel existing deals. Offsetting these existing revenue streams would require between 1.7m to 3.3m subscribers paying £5.99 a month, or between 6%-12% of UK households.

'DISNEY'S FAMILY-ORIENTED CONSUMER BRAND, TOGETHER WITH ITS STAR WARS, FOX, MARVEL AND PIXAR ASSETS, GIVES IT A STRONG SVOD PROPOSITION'

Such a transition is widely considered to be achievable, and interviewees were particularly bullish on the prospects of Disney+—many believed it could grow to reach 10%-15% of UK households over the next five years. But history has shown that VoD subscriber acquisition takes time, and such growth is only viable over a multiple-year timespan. For the next few years, as DTC propositions grow, and in order to avoid cliff-edge revenue scenarios in key markets, Ampere expects studios to continue to strike high-value first run deals on specific newer or more popular titles with major players such as Sky or Netflix. If a DTC service remains smaller (with fewer than 5% of homes subscribing) these deals would continue to be made further into the future. In such a scenario, studios would effectively monetise certain recent and back-catalogue titles through their own DTC services, while separately selling rights to a selection of the newest, highest-value content to platforms with greater reach and buying power.

Ultimately these DTC launches must be judged within a global context. Launching internationally creates both positives, such as technology efficiencies, a wider audience and potential streamlining of sales costs; and negatives, such as bearing the brunt of marketing costs which had previously been shared with pay TV platforms and channels. Each studio will have to employ different strategies in different territories, factoring in their reliance on local partners in key markets. Ampere expects strategies to broadly echo those employed by HBO, which operates DTC in some European markets, such as the Nordics and Spain, and partners leading pay TV platforms in other markets (such as Sky in the UK or Ziggo in the Netherlands).

Social media firms to focus on clips and highlights

The final major potential new market entrants come from social media and video firms – with Facebook, Twitter and YouTube the three companies that all interviewees focused on. Each of these three big firms has different core business lines (social networking, commentary and videos respectively), which informs slightly different strategies moving forward.

'THE UK IS FAR AHEAD OF OTHER EUROPEAN MARKETS IN TERMS OF ONLINE VIDEO ADVERTISING'

Facebook's video strategy takes two core forms: the monetisation of videos placed in a user's news feed; and *Facebook Watch*, a dedicated video platform that integrates Facebook-commissioned content with acquired sports and user/brand-generated video. Of these two products, Facebook Watch is most competitive to the existing VoD market players, although the news feed videos also compete with YouTube. From a commissioning perspective, Facebook Watch has focused around unscripted light-entertainment and lifestyle TV shows – making it most directly competitive, from a content perspective, with BVoD services. However, to date the volume of content commissioned is low (54 series at time of publication) and the focus has been very US-centric.

Meanwhile, while sport has been a global driver for Facebook, deals have mostly been struck in Asia and South America (aside from a Major League Baseball deal in the USA). Combining this with both the nature of its ad-driven model and the price of sports rights in the UK, interviewees did not see Facebook going after major UK sports deals – and instead foresaw a rise in Facebook forming broadcaster partnerships around sport. Such a development would place Facebook in a similar position to Twitter – whose existing model also focuses around a model of publisher partnerships (Twitter has deals with all the major broadcasters), selling inventory around select broadcaster clips and highlights.

Ampere does not anticipate a switch in business model for Twitter – primarily due to the transient nature of Twitter's content and the high costs of rights – and instead its evolution is likely to focus on discoverability of content, driving its clips business further, and helping broadcast partners push showcases of video (with

advertising) to users. As the smallest of the social services assessed, Twitter is also the most vulnerable to changes in regulation around online content, lacking the financial and development muscle of Google and Facebook. Dealing with the outcome of any changes in the UK stemming from the forthcoming Online Harms White Paper was felt by some interviewees to be likely to be a proportionally greater investment for Twitter.

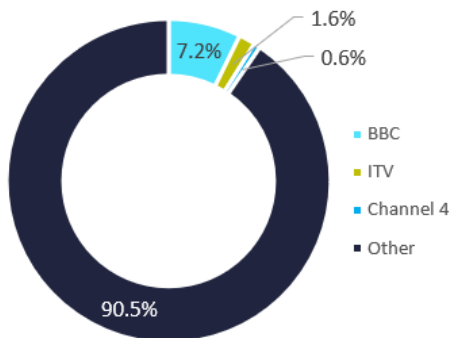
Finally, YouTube's presence on the TV market comes through three products: *YouTube* itself, with ad-funded uploaded videos; *YouTube TV*, a virtual cable operator in the US with broadcast and thematic channels; and *YouTube Premium*, a subscription service that offers YouTube original content, Google Play Music and ad-free regular YouTube videos. The first of these, YouTube, is seen by broadcasters as a BVoD competitor, as it takes away viewing time from ad-funded VoD services and reaches a young demographic – but fundamentally exists as a very different proposition, centered about free, uploaded video. The second core product, YouTube TV, has shown no signs of international launch ambitions, and would struggle to compete with UK pay TV operators which have low-price entry packages, such as BT, Talk Talk or Virgin Media. Meanwhile, the final core product, YouTube Premium, is the most direct VoD service competitor – but Ampere's consumer tracker has shown little uptick in subscriber growth, and several recent original commissions have been cut after one season. While there is certainly potential for YouTube Premium to become an important VoD player, interviewees did not currently believe that either the investment in original content or the current price-point (£11.99 per month) was competitive, and the focus of YouTube moving forward would be centered around how its core ad-funded video proposition competes with broadcaster VoD.

Section 2.3: Consolidation and aggregation

BritBox expected to launch in the UK

As more VoD services launch in the UK, service consolidation is a future option for market development. Consolidating multiple VoD services under a 'parent' service would drive technological, marketing and even potentially production efficiencies.

Graph 2.3.1: Content from UK PSBs on Netflix UK – March 2019



Source: Ampere Analytics

Most BVoD services are national, and consolidation is underway in this space as broadcasters seek to compete with international platforms – for example, the launch of Salto, a joint service from France Televisions, TF1 and M6, is currently under regulatory consideration in France. These same dynamics have driven BritBox - a joint SVoD venture between the BBC and ITV, that has been available in the USA for several years and has been proposed for potential launch in the UK in late 2019. The mooted service is expected to focus on catalogue assets rather than catch-up content, with some original production also confirmed. There could also be potential for other public broadcasters, Channel 4 and Channel 5, to join the BritBox venture - but the degree of any involvement is unconfirmed at present.

From a content perspective, a combined service between UK public broadcasters would be impactful. As of Q1 2019 (according to data from Ampere Analytics) UK broadcaster TV content comprises 7% of TV seasons on Prime Video and 9% on Netflix, and the overall volume of UK PSB content on those platforms has grown by 60%, from 268 titles to just over 400 titles. Simply moving those series to a potential UK BritBox service would create

an initial library of 3,500 hours of content, while weakening competitors. The current USA BritBox catalogue is of a similar size, with 3,600 hours of content (84 movies, 628 TV seasons), and Ampere believes an initial UK catalogue could scale to around two or three times as large. A potential UK BritBox service at launch will likely have: a UK focus (with content having typically been commissioned for a UK audience); brand loyalty from consumers towards the major broadcasters involved; and a comparable library size to NowTV or Disney+.

But interviewees all foresaw challenges ahead to BritBox, relating to business models and content library size. BritBox is seen as the spiritual successor to the former Project Kangaroo venture, blocked from launch in 2009, and industry stakeholders foresaw difficulties in managing the competing interests of each business partner. These specifically focused around which content is made available; how that aligns with individual BVoD service strategies; and whether ad-funded mechanisms are included. Beyond that, the consensus was that a library formed primarily of catalogue-focused PSB content would be a competitive market entrant but would lack the breadth of the major international players. Ultimately, this would lead to it competing against players such as NowTV and Disney+, targeting between 5% and 15% of UK households.

Other consolidation unlikely in the VoD market

Aside from PSBs, interviewees considered it unlikely that any consolidation (M&A) of SVoD services would be centered around other VoD assets. That is, consolidation deals that affect the UK VoD market could occur, but the rationale behind such deals would not be about consolidating VoD services, but instead around wider business issues. As content becomes more siloed, Netflix, Amazon and Apple could look to expand production facilities or content assets, leading to the purchase of broadcasters or content producers; content producers could look to expand distribution channels; or content producers could merge to form a more powerful pool of assets, as in the case of Disney and Fox.

Aggregation key as volume of services grows further

Content aggregation will be the key way SVoD services “consolidate” over the next five years. This is analogous to pay TV—as Sky aggregates individual channels from broadcasters into packages, which it sells direct to consumers, so too can SVoD aggregators combine SVoD services from different providers and manage them within a single interface (potentially alongside broadcast TV channels).

Table 2.3.2: Different levels of integration for VoD aggregators

Feature	Description
Unified Billing	Services can be acquired (or cancelled) within the aggregator platform, with subscribers paying a single bill that covers all relevant subscriptions
Service Bundling	Multiple SVoD services can be purchased in tandem (effectively as “packages”) with discounts or special offers applied by the aggregator
Unified Search	Content can be searched through a single user interface across all VoD platforms that the user has access to. This requires a degree of metadata rationalization by the aggregator
Unified Recommendation	The aggregator is responsible for recommending content from different VoD services. Several of the largest services currently insist on control of recommendation, citing greater knowledge of their audiences
Unified Playback	Content is played-back within the aggregator’s platform, rather than via an individual service. This has implications for who owns viewing data from the consumer

The need for aggregation is driven by service acquisition and content management. For small or medium sized services there are difficulties in competing against the largest VoD players. Device and OS vendors naturally prioritize integrating with the largest services; marketing and technology costs are high; and consumers are reticent to set up too many direct billing relationships with different VoD services. Meanwhile, as consumers stack more VoD services, content discovery is an increasing challenge. Having each service within unique, walled garden application means consumers are unable to search across titles or services in a unified manner.

There are several different levels to which VoD services can be aggregated, outlined in Table 2.3.2. The simplest level of aggregation is what interviewees termed “storefronts” or “access-points”—effectively services that provide a selection of standalone applications for different VoD services, which consumers can then purchase and

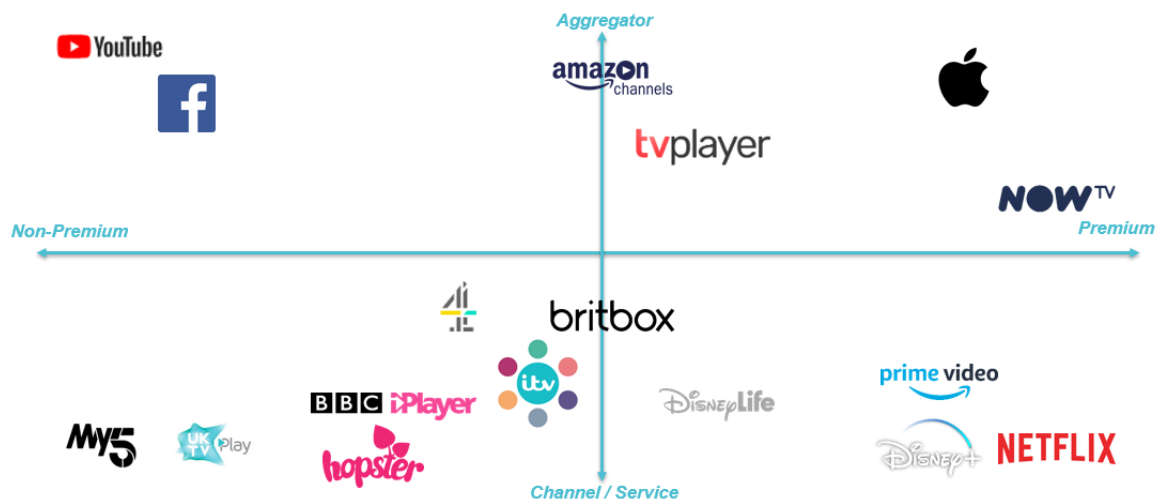
navigate individually. More sophisticated services are already available, from the likes of Amazon, Sky, Virgin and Freeview, but so far, no individual aggregator has become a central hub for VoD search and billing. Interviewees all anticipate a transition occurring in the next three to five years, where VoD services become progressively more integrated within aggregator platforms.

Apple and Amazon international contenders, together with national platforms

The most established international aggregation play is from Amazon, via Amazon Channels, which is available in Japan, Germany, UK and USA. Amazon Channels has around 70 partners in the UK, with some high-profile broadcaster and channel groups services, such as Hayu, ITV Hub+ and Starz Play.

The announced US partners for Apple Channels give it a very similar profile to Amazon Channels with one notable exception: the presence of Hulu as a partner. Interviewees expect Apple and Amazon to be the two largest VoD aggregators competing in the UK market over the longer-term, noting that their scale and more diverse revenue streams make them more attractive to third parties. Google, through YouTube, is seen as having the potential to make a similar play in the future, but there is no current sense that such a launch is imminent, and currently its primary aggregation product is Chromecast streaming sticks.

Graph 2.3.3: Aggregator and service positioning in the UK



Competition will come from incumbent pay and free TV platforms—with Sky, Virgin Media and Freeview having the widest reach.

- **Sky** has two different aggregation strategies underway. The first is a joint, integrated TV service that combines Sky Boxsets with Netflix's TV catalogue, called the 'Ultimate on Demand' package, available for £12 a month. The second is the addition of a "Hayu Pass" to its Now TV service, which can be purchased and viewed through NowTV.
- **Virgin Media** has an existing unified search service for customers in possession of a TiVo box. The search facilities encompass BVoD, Netflix and Starz Play, with Starz Play also purchasable directly. Once a title is selected, playback takes place through the individual service's app.
- **Freeview Play** provides Freeview households with a free service that aggregates and searches across BVoD services through a traditional EPG interface. Shared metadata is displayed within the EPG, and then individual applications are activated to playback selected content.

Depth of integration will vary by service

The success of these aggregation services depends on the depth of third-party content integration. This in turn depends on the extent to which different VoD services are willing to allow aggregators to use their content—and what the different aggregators can offer the services in return.

- Sport platforms, such as NBA League Pass or NFL League Pass, typically avoid aggregation (although they are present on some platforms in the US, such as Amazon Channels). They do not have large marketing costs, as fans typically seek them out, and are unlikely to pick up too many casual followers

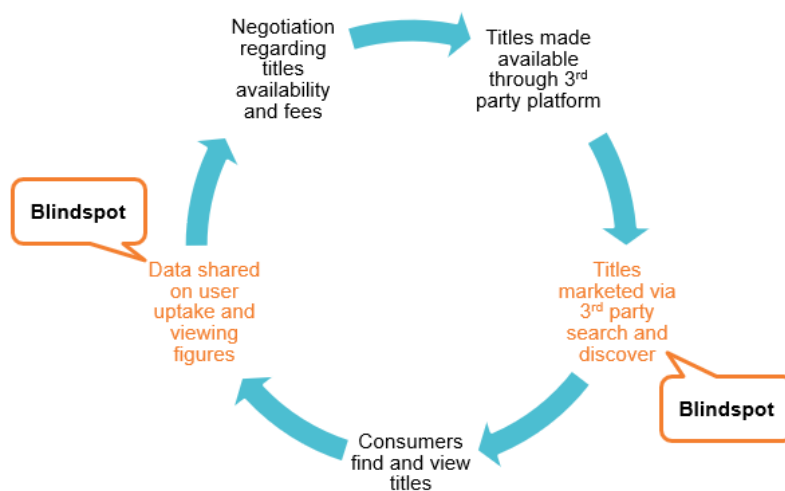
through greater exposure on an aggregator. Most streaming is live, and therefore of little value for unified search

- Smaller, niche VoD platforms embrace integration, as it can offset technology and marketing costs. All levels of service integration are options, with many already available on services such as Amazon Channels. There are concerns over content discovery, as there are a lack of current mechanisms to ensure their content is given prominence alongside larger VoD platforms
- Thematic SVoD “channels”, from channel groups and studios such as A&E, Discovery, Fox and Paramount, are engaging with aggregators, but experimenting with different aggregation business models. Some, such as Hayu, Shudder and Starz Play, enable direct re-sale via Amazon Channels or NowTV; and looking abroad, VoD services such as Fox+ and Paramount+ have been released through pay TV operators. The end result is likely to be an adaptation of the existing affiliate model, in which the services are re-sold by pay TV and tech aggregators.
- PSBs embrace aggregation, with integrated search common. They are unlikely to let playback take place through other services, due to control of advertising and viewing data. Most enable recommendation of content via the aggregator, but the largest players, such as the BBC, maintain control of this.
- The largest SVoD platforms, such as Netflix, Amazon and NowTV, have enabled integrated search solutions with some providers, but insist on control of recommendation and playback. There is precedence for integrated billing solutions, but only with larger pay TV platforms that can expand customer reach. Amazon has engaged with Apple Channels in the US, but Netflix is absent.

Content discovery and viewing data challenges to collaboration

While VoD services fully integrating content into aggregators would potentially be beneficial to consumers, there are several reasons from the service side that explain why this is currently not a reality. The main reservations given by interviewees revolved around the sharing and usage of metadata and viewing data and maintaining control of user experience.

Figure 2.3.5: Aggregator data feedback loop



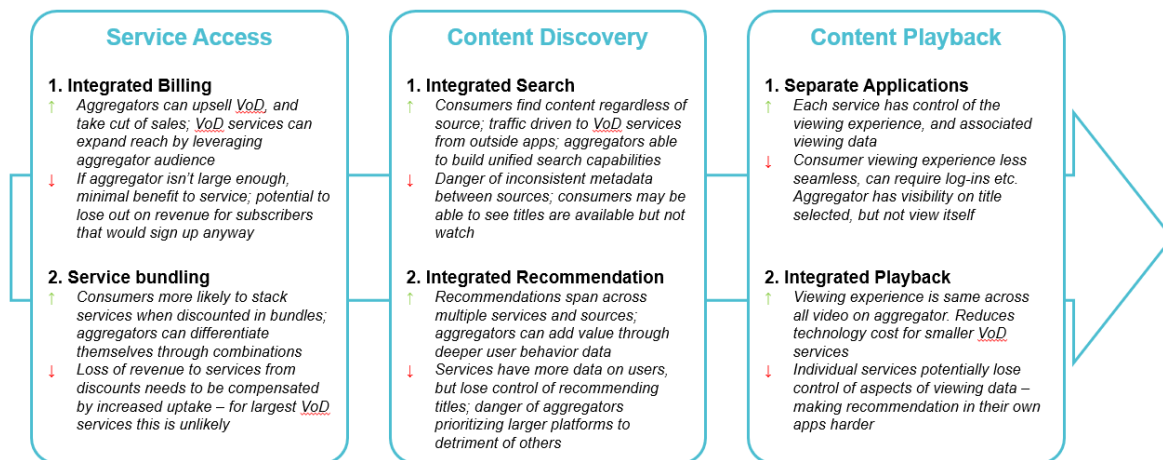
Recommendations are driven by knowledge and information relating to the audience. The largest VoD services have spent years understanding and feeding content to that audience and are concerned that aggregators will lack the data and insight around which content individual users would most value. Recommendation is also about marketing and content prominence—major new shows, or recently added titles, can be positioned within a service to build greater awareness of them amongst a user base. Once recommendation control is handed to a third-party, many assurances over this are lost: larger platforms worry that the ‘wrong’ content will be highlighted, and that viewing figures may suffer; smaller platforms fear getting lost in the crowd, with consumers unaware much of their catalogues are even available.

This is the start of a feedback loop that drives the purchase and sale of content. Once a title has been chosen by a consumer, the platform then needs data on how that content was viewed—was it binged; finished; paused;

discontinued? This viewing data can build up both a picture of the audience for an individual show, but also of individual registered audience members for advertising purposes. Viewing data also can be critical in future rights negotiations, either in the UK or abroad, as it demonstrates the popularity and core audience for an asset. This was the main reservation expressed by interviewees—and aggregators will need to engage with VoD services on how data is used and shared going forward.

Some interviewees highlighted the importance for BVoD players (or any joint platforms) to avoid inadvertently creating barriers to reach – particularly asking technology players to pay additional fees for accreditation of their devices before they would allow app integration. In such instances, the interviewees felt that this would result in the de-prioritisation of local services over international services, to the longer term detriment of the BVoD sector.

Figure 2.3.6: Pros and cons of different integration types



Both integrated search and unified billing exist in the current market and are likely to become standard features in the next few years. SVoD service bundling is likely to become a reality for the largest aggregators, which can offer services a wide audience reach. But recommendation and integrated playback currently imposes a loss of control over user and viewing data, which many services find unacceptable. For smaller or niche services the issue is usually offset by the significant rise in reach and reductions in technology/marketing costs; but for the largest services, Ampere expects them to maintain this level of control over the viewer's experience.

One future factor highlighted by a number of interviewees was the role of voice search for video, and how to manage the competing demands of content prominence and relevance of search results. While still at a very nascent stage of development for the video sector, many interviewees felt that ensuring that BVoD services were integrated appropriately into voice search systems should be a mid-term strategic priority.

Section 3: Forecasts and scenarios

As the next five years play out, the trends identified by Ampere in Section 2 will begin to impact the UK TV landscape, with content libraries evolving, new services entering the market, and aggregators bringing VoD services together. This will impact all manner of key metrics, including subscribers, households, revenues and viewing time

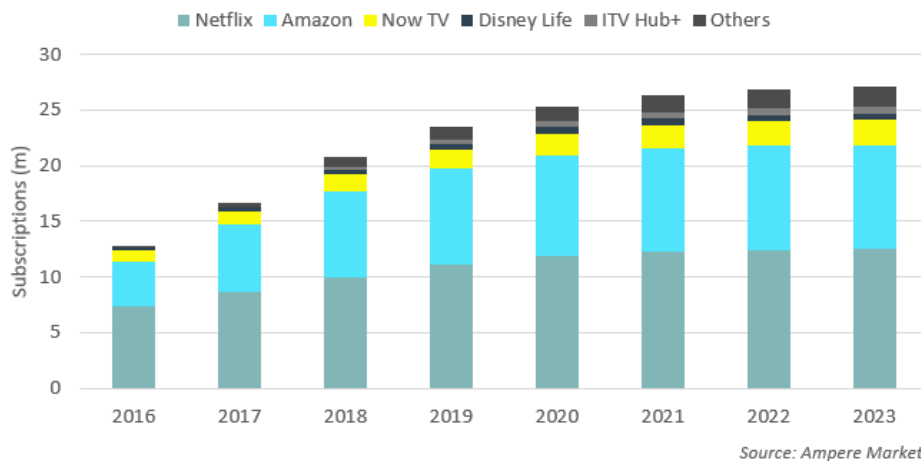
Ampere has produced a series of market forecasts, covering 2019 to 2023, for each of these metrics. Section 3.1 establishes a baseline for forecasts, outlining market expectations in the absence of new entrants or competitors; while Section 3.2 builds upon this and provides estimations for how this would change under different future scenarios

Section 3.1: The UK VoD market over the next five years

Major existing SVoD platforms will plateau from 2021 onwards

The past five years, from 2014 to 2018, has seen the rapid adoption of SVoD services, with total UK subscriptions rising from 5.2m to 20m. This growth has predominantly come from the two largest services in the UK—Netflix and Amazon Prime Video—which collectively account for just under 90% of all online video subscriptions. Aside from Now TV, no other SVoD platforms have been able to achieve significant market share, creating a market dominated by a handful of powerful services.

Graph 3.1.1: SVoD subscriptions in the UK: 2016—2023



The baseline forecasts in this section are in the assumed absence of new services, and under these assumptions the current dominance of Netflix and Amazon in the UK market will lead to a deceleration in SVoD subscription growth. Taking Netflix as an example, its current UK household penetration is 37% in the UK, with its largest household penetration globally being just above 45%, in Norway and the US. Uptake in each of these markets has been showing signs of plateauing, as the service starts to run out of suitable households to target, and Ampere forecasts a similar slowing down in the UK, with Netflix subs set to grow 25%, from 10m to 12.5m. These same dynamics will also affect Amazon Prime Video, while – given its lower penetration – Now TV is set to continue its steady growth rates.

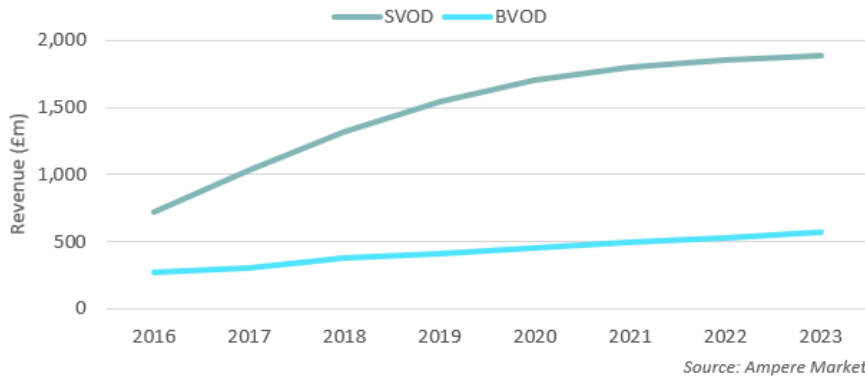
Subscription revenues will dominate VoD market

Over the next five years Ampere expects SVoD revenues to continue to grow in the UK, from £1.3bn in 2018 to £1.8bn by 2023. This growth will come mainly from new subscriptions, as SVoD ARPU's are anticipated to undergo relatively little change – rising from £6 per month a subscription to £7 per month as tiering and small price increases applied by the likes of Netflix and Amazon Prime are partially offset by the growth of smaller, cheaper VoD services.

Graph 3.1.2: UK VoD Revenues (£m) by business model: 2016-2023

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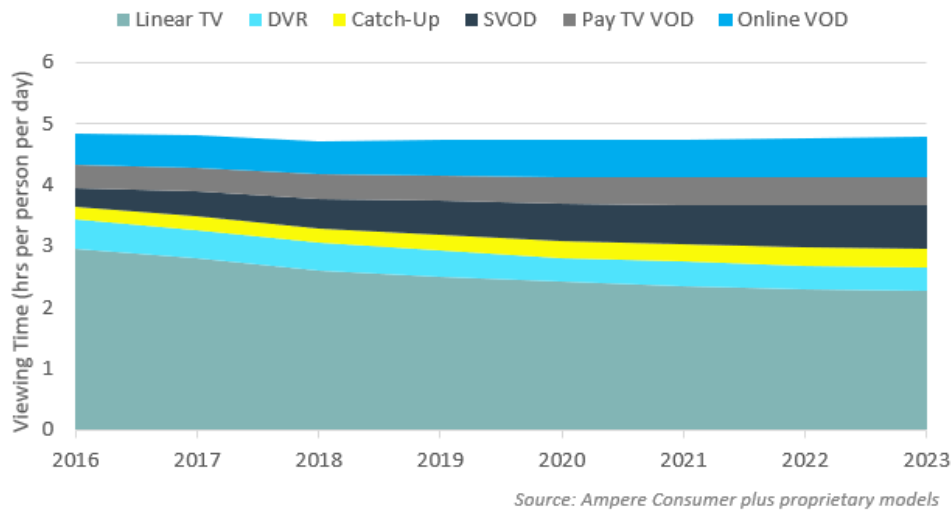


Growth in SVoD revenues will outstrip those of BVoD services, which are set to reach just under £0.6bn by 2023. Both BVoD users and total viewing hours are growing at a steady rate, which Ampere believes will continue for several more years. There will also be a small increase in ad-monetization, as targeting and personalisation technology improves. Ampere estimates that the major commercial PSBs are now making between £1-£2 a month per regular user from advertising revenues, which will rise gradually to between £2-£3 a month by the end of the forecast period – as targeting of consumer groups improves and more personalized adverts start to emerge.

Viewing time to stabilize, driven by surge in VoD

Ampere has combined its viewing time percentages from its consumer tracker, together with benchmarks from individual companies and third-party sources such as BARB, to produce viewing time data per person per day across different content sources.

Graph 3.1.3: UK consumer viewing time (mins per view per day) – 2016 to 2023



While broadcast TV has seen a steady decline in viewing over the past few years, growth in VoD has made up the difference, such that total video viewing time hovers at just under 5 hours a day. This trend has been consistent for a number of years, and Ampere expects the transition of viewing time from broadcast TV to VoD to continue, with broadcast TV accounting for 2h15m a day by 2023, and total VoD (across all forms and business models) accounting for 2h7m.

But while all forms of VoD are set to increase viewing time, not all growth will be equal. In 2018, SVoD took a huge leap in capturing viewing time, from 23mins per home a day in 2017 up to 28mins, while both catch-up and online social video grew far more slowly. This will continue through to 2023, with SVoD ultimately rising to capture 40 mins per home a day driven primarily by those aged 18-34, who are set to watch over 1h10m of SVoD each day on average. While UK commercial broadcasters have thus far felt less of the brunt of these changes

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than thematic networks, they are far more reliant on viewing times to drive revenues than their subscription peers, and thus continued declines in consumption necessitates diversification. There are three main approaches that broadcasters can take in this scenario: moving the existing advertising-focused business further into online distribution, via existing or new online video brands (such as All4's boxset library); extending the range of business models used in these online platforms (such as ITV Hub+, or the potential BritBox launch); or developing new business units in adjacent sectors (such as BBC Studios or ITV Studios).

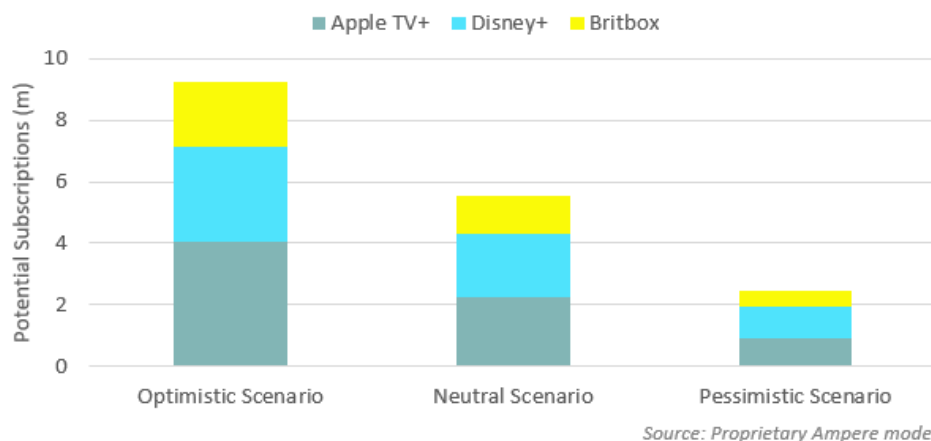
Section 3.2: Potential impacts from external events

New entrants will drive up subscriptions

There are three new entrants known to be launching in the UK market in late 2019 or early 2020: Apple TV+, BritBox and Disney+. Ampere believes that by 2023 each of these services is likely to pass the 5% threshold of UK households to become significant players in the UK VoD market, alongside the current core seven platforms. Subscriber estimates are based on optimistic, neutral and pessimistic growth scenarios, and assume that each service launches in the UK early in 2020. The price-points for both BritBox and Disney+ were assumed to be slightly lower than a current subscription to Netflix, at either £4.99 or £5.99 a month (Disney+ has not announced international pricing plans at time of writing, but is set to launch in the US at \$6.99 per month), while the ARPUs for Apple TV+ (due to anticipated bundling together with other Apple services) were assumed comparable to those of Amazon Prime Video, at around £2 per user per month.

Both Ampere and interviewees believed that based on these initial assumptions, and expected growth in exclusive content and investment, each of Disney+ and BritBox would grow to reach sizes comparable to NowTV within three years. Other industry consensus was that: i) as each platform would be reliant on a handful of larger content producers, they would not be able to compete at a similar scale to acquisition-heavy services such as Netflix or Prime Video (20%+ of households), and would therefore reach a maximum of 15% of homes; and ii) that Disney+ would have a faster growth trajectory, based on its existing ~500k subscriber base for DisneyLife, and the strength and recency of its Marvel, Star Wars, Pixar and Fox assets.

Graph 3.2.1: Potential subscription bases for new SVoD services in 2023



The most speculative service to forecast is Apple TV+, which has no confirmed price or business model, and a current launch slate of 30 original titles. Ampere's initial assumptions are based on Apple TV+ being a low-ARPU service that is bundled or trialed together with other Apple products, such as Apple Music. There are potentially several scenarios that could change this—Apple could acquire significant global rights deals, either in sports or higher value drama and comedy, and boost the competitiveness of its SVoD service; or Apple could sell standalone at a higher price-point, in which case Ampere would forecast far lower uptake.

Growth from these services is likely to be additive. Even in the most optimistic scenario, in which the three new services create nearly 10m new subscriptions by 2023, the UK would have just over two SVoD subscriptions per SVoD home—equivalent to the USA. This is a sustainable level of SVoD stacking in developed VoD markets, indicating that the launch of these three services is unlikely to have any material effect on the baseline SVoD forecasts for other services. This means that the UK could have up to 36 million SVoD subscriptions by 2023.

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However, there would be implications for viewing time – several interviewees believe that the launch of such high-profiles would rapidly accelerate the transition of audiences towards VoD. In this scenario, broadcaster-led services face the same options as in Section 3.1 (extension of ad-funded business online, diversification of revenue streams, adjacent new business units) but with greater time-pressure, particularly amongst those in the 25-to-44 year-old age bracket. These accelerated timelines could force more rapid consolidation of broadcaster offers, either through collaboration or through M&A activity for groups such as ITV or Channel 5.