



Subscription Video on Demand From challenger to challenged?

August 2023

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The UK video industry is in a state of flux. It is undergoing multiple significant and concurrent changes. Linear television is in a long, slow process of declining reach and hours viewed, yet the traditional broadcasters continue to attract more than half of all viewing, with their content consumed live, on-demand and played back from personal video recorders. Furthermore, TV advertising, although affected by a slowdown in spend, remains critical to most major brands.

Over the past decade, Subscription Video-on-Demand (SVOD) was widely perceived as the main challenger, given its compound annual growth rate (CAGR) of 26.9 per cent in revenues in the UK market between 2017 and 2022.¹ SVOD enjoyed substantial and consistent growth in reach up till 2021, but since then many dynamics have changed. Penetration has stalled, churn has risen, and the extent of sharing individual subscriptions across multiple physical households has become more apparent. SVOD reaches about three-quarters of the UK population every month,² and typically makes up about a seventh of all viewing in the UK. In contrast, broadcaster content has over 60 per cent of all viewing, from about 90 per cent reach.³ SVOD programmes rarely break into the top 50 most watched each week: in most weeks, broadcaster content dominates the list.⁴ Traditional TV may be in decline in terms of time spent, but in 2022 it garnered 2 hours and 38 minutes' viewing per day,⁵ which was over four times more than SVOD's 37 minutes.⁶

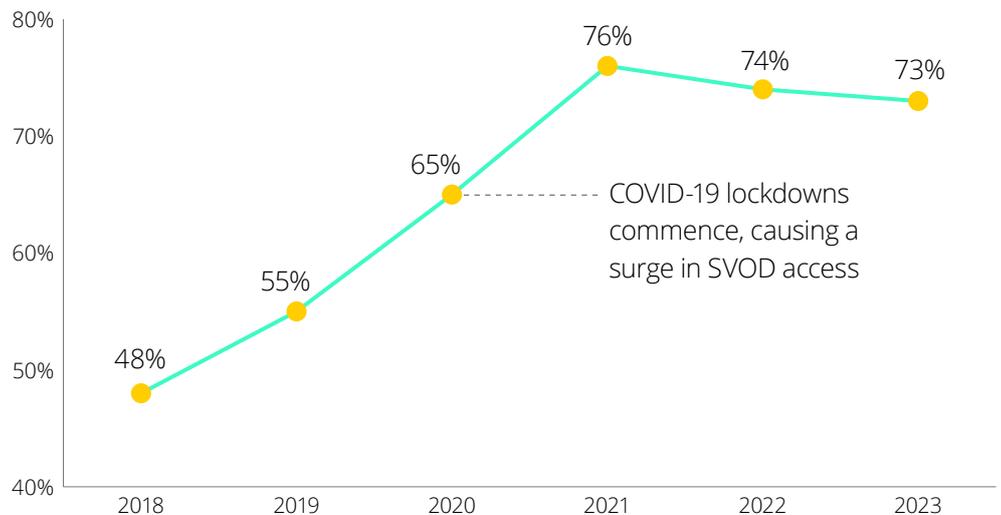
Globally, and not just in the UK, the perception of the standalone SVOD business model has shifted⁷. There is no longer the sense that SVOD is the inexorable future of TV, particularly at a time when SVOD players are having to put much more focus on profitability.⁸

In this report we have picked out three key themes that are likely to characterise the market over the coming year: **growth** (or the lack thereof), **subscription sharing**, and **churn**.

SVOD growth remains stalled

Access to SVOD has plateaued in the UK and may even be in a gentle decline (see Figure 1). Having peaked at 76 per cent among survey respondents in 2021, access to SVOD (the measure which we are using as a proxy for users) has dropped back to 73 per cent in 2023, a one percentage point fall from 2022.

Figure 1. Access to SVOD, 2018-2023



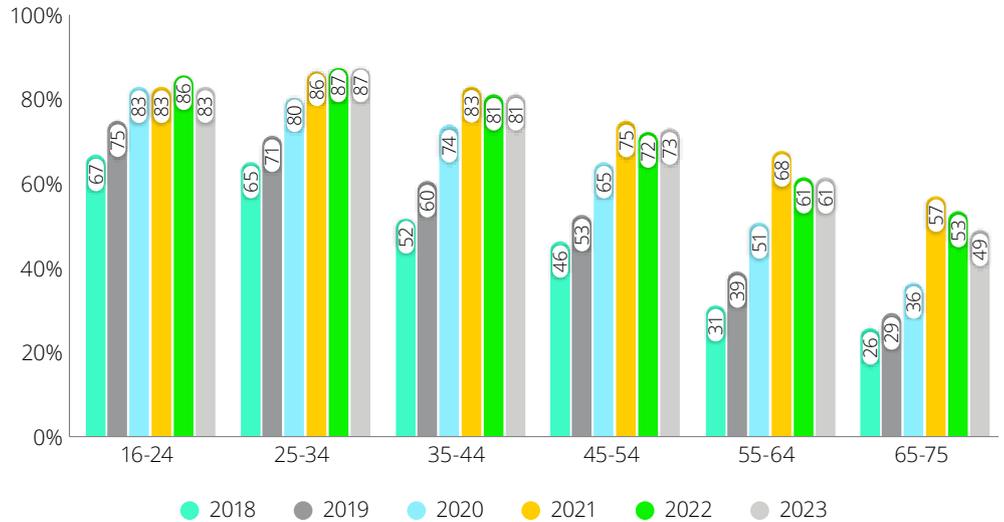
Weighted base: All respondents aged 16-75 years, 2018 (4150), 2019 (4150), 2020 (4150), 2021 (4160), 2022 (4161) 2023 (4,150)

Source: Deloitte Digital Consumer Trends, UK, 2018-2023

One small consolation is that the reported number of subscriptions per respondent continues to rise, up from 2.46 in 2022 to 2.62 in 2023, an increase of 6.5 per cent. This is however at a much slower pace relative to 2018-2021, when the number of subscriptions per respondent rose 60 per cent from 1.45 to 2.33.

One explanation for the decline in SVOD access may be the dip in usage among older age groups. Access to SVOD among 65-75-year-olds spiked during the first year of lockdown, surging from 36 per cent to 57 per cent in the 12 months to mid-2021. Since then, access has fallen back, to 53 per cent in 2022 and then 49 per cent in 2023. There has been a similar but less pronounced trend among 55-64-year-olds. Among other age groups, access to SVOD has remained relatively unchanged since 2021. The dip in access to SVOD among older age groups is likely one more example of a behaviour forged during lockdown that has receded with the post-pandemic ending of constraints on movement.

Figure 2. Access to SVOD by age group, 2018-2023

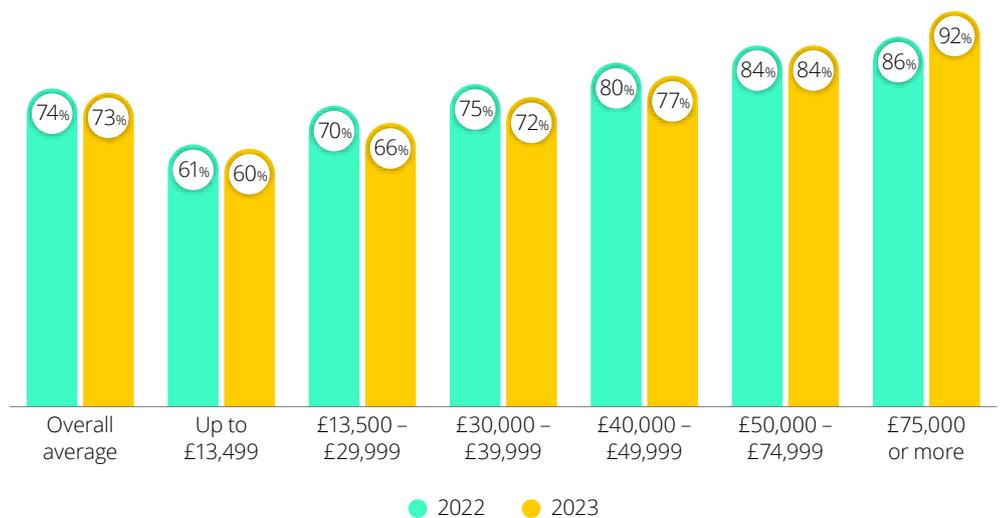


Weighted base: All respondents aged 16-75 years, 2018 (4,150), 2019 (4,150), 2020 (4,150), 2021 (4,160), 2022 (4,161), 2023 (4,150)

Source: Deloitte Digital Consumer Trends, UK, 2018-2023

Another driver of the decline may be affordability. Access to SVOD fell among all household income groups below £49,999 (see Figure 3) but increased from 86 per cent to 92 per cent among the highest income group (£75,000 or more) and was unchanged at 84 per cent in the next tier down (£50,000-£74,999).

Figure 3. Access to SVOD by household income group, 2022-2023



Weighted base: All respondents aged 16-75, 2022: earning household income up to £13,499 (568), £13,500-£29,999 (1,104), £30,000-£39,999 (540), £40,000-£49,999 (459), £50,000-£74,999 (541), £75,000 or more (412)

2023: earning household income up to £13,499 (534), £13,500-£29,999 (1,041), £30,000-£39,999 (526), £40,000-£49,999 (492), £50,000-£74,999 (573), £75,000 or more (473)

Source: Deloitte Digital Consumer Trends, UK, June 2023

SVOD in the UK is still dominated by three major players, each of which enjoys mainstream reach, with between 32 per cent and 55 per cent of respondents having access to these services. Among our respondents, the remaining players are relatively niche, with access to each under one per cent. According to Barb, other SVOD and AVOD (advertising-video-on-demand) players represented just 0.74 per cent of all viewing in the UK in June 2023 and 0.62 per cent in the previous month.⁹ The growth trajectory for these niche SVOD players has been modest over the period 2022-2023. SVOD itself is a niche category among all video content: broadcasters remain the predominant source of programming, with 63 per cent of all viewing according to Barb.¹⁰ SVOD makes up about 15 per cent of all viewing hours in the UK, a proportion that has been relatively stable over the past year. It has a smaller proportion of viewing than video sharing platforms, such as YouTube and TikTok, which represent 21.6 per cent of all viewing hours.

SVOD from public service broadcasters has not made major inroads. These have long offered an ad-funded service, and for their users SVOD may be seen as the same service, but for a fee and no ads.



Subscription sharing is mainstream

Our metric for SVOD has focused on access, as this has been the most neutral term, which reflects that not every legitimate user is the bill payer, and also that not every user may be legitimate. Historically, sharing of user IDs and passwords with other households was not constrained.

That position has now changed in many markets around the world, and some SVOD services now have restrictions on the extent to which each subscription can be shared. The clampdown on sharing outside a physical household may well get tighter, depending on the provider.

Deloitte estimates that at least a third (35 per cent) of people with access to SVOD are sharing it with others outside their physical home or are using another household's subscription. For some services, sharing a subscription with others outside a physical household complies with terms and conditions; for others sharing in another location is not permitted unless an additional charge is paid, for each additional user¹¹.

The incidence of sharing is most widespread among the youngest age groups (see Figure 3). Among 16-24 year-old users, half (51 per cent) are using a subscription that is shared among multiple households. Among 25-34 year-old users, the proportion is lower, but still over two out of five (43 per cent). Sharing subscriptions also appears to have become somewhat formalised in that costs are split between households. A quarter of users (25 per cent) are sharing the cost of an SVOD platform they use. Among 16-24 year-old users, as many as a third (34 per cent) are doing this, and among 25-34 year olds it is 32 per cent.

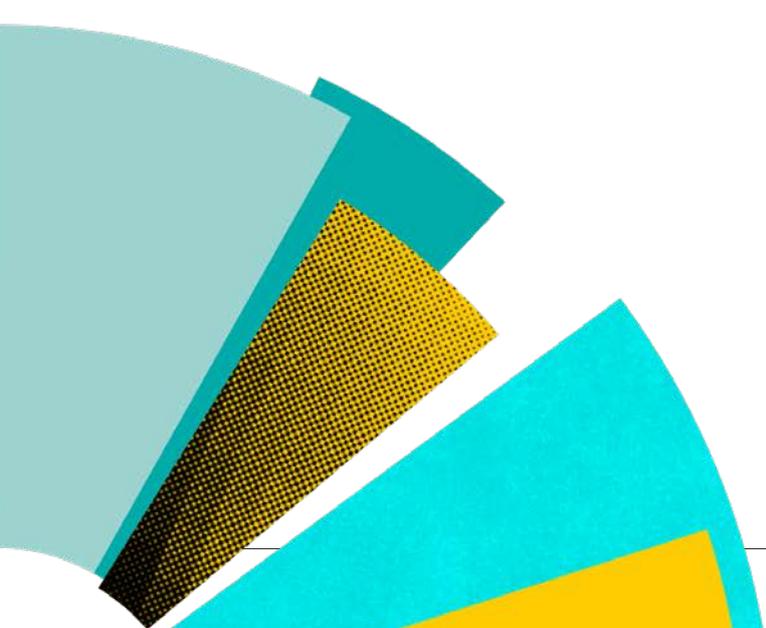
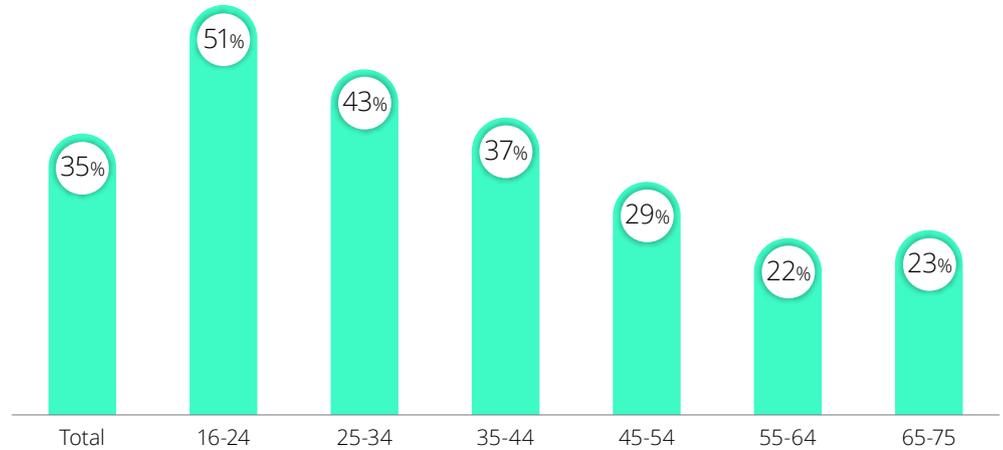


Figure 4. Sharing at least one SVOD subscription outside the home, by age group



Weighted base: All respondents aged 16-75 who have access to paid video subscription service, 2023(2,274/1,725/1,313)

Source: Deloitte Digital Consumer Trends, UK, June 2023

* Asked of three major streaming services

As constraints on sharing of subscriptions grow, there are several possible responses from users who are no longer permitted to use a shared subscription.

First, the overall number of people accessing SVOD services may decline. This would not have a revenue impact, but may affect the extent to which programming is consumed, talked about, and hence marketed via word of mouth. A second possible outcome is that the overall number of subscriptions to some services may increase, as a proportion of users who were formerly sharing, decide that the service is worth paying for on a per household basis.

Among our respondents who are currently using a service paid for by someone outside their household, 15 per cent say that they would take out a subscription if sharing was banned. If this group were to follow through this would lead to a notable one-off increase in subscribers. Almost three in five (57 per cent) say that they would stop consuming the service, but this may overstate the actual outcome: it is one thing to forecast a hypothetical response from an online survey, but the reality may be different. When a favourite series returns, some of this 57 per cent may well join the 15 per cent who already say that they would purchase their own subscription, whose monthly cost is, after all, lower than a low-frills high street classic crust pizza for one.¹²

Churn continues to rise

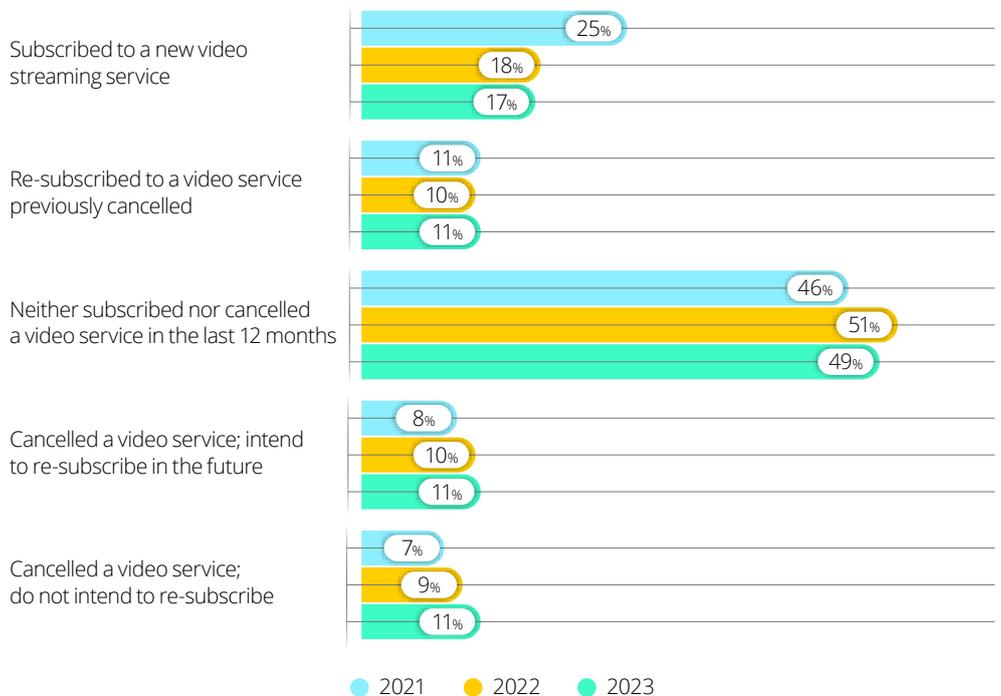
In addition to implementing strategies on sharing, SVOD players also need to manage churn, which has continued to rise: 21 per cent of respondents said that they had cancelled a service over the past year.

We measure two types of churn: a definite cancellation, and a temporary suspension. Among the 21 per cent of respondents who have cancelled, about half plan to resume the service later. What may be a concern for SVOD providers is that the incidence of churn has risen year on year (see Figure 5), for both temporary and permanent cancellations.

Both types of churn are a challenge for the SVOD providers, who need to continue to pay the bills for content creation and distribution, and who need to keep spending on subscriber acquisition costs.

Figure 5. SVOD additions and cancellations in the prior 12 months, 2021-2023

Question: In the last 12 months, have you or your household subscribed to any paid subscriptions for a video streaming service, or cancelled any existing ones?



Weighted base: All respondents aged 16-75 years, 2021 (4,015), 2022 (4,011), 2023 (4,150)

Source: Deloitte Digital Consumer Trends, UK, 2021-2023

* Respondents who answered Can't Remember (11%) are not shown

Churn levels in the UK are not close to those reported in the US market (where churn has reached 44 per cent over a six-month period);¹³ but if they continue to rise, this will alarm SVOD providers.

The rising cost of living appears to be a major driver of cancellations. Of the top three reasons for cancelling over the previous year, two were definitely cost-related: 'subscription was too expensive' was cited by 27 per cent of respondents, up from 23 per cent in 2022; and 'rising costs in other areas' was mentioned by 24 per cent, up from 21 per cent. The third and number one factor, 'didn't use it enough' may well be a proxy for value for money, equivalent to a cancellation on the basis that a service was no longer essential and so could be discarded.

Bottom line

There are various near-certainties about how the UK television market will evolve. Watching television programming, typically on a large screen, will remain a core behaviour for most people in most households in the long-term. And delivery of video will migrate online – although completion of this transition may still take over a decade.

However, it is not yet certain who will be the winners – of which there may be many – and who will ultimately lose out. The outlook for different categories of viewing, including SVOD – is likely to change with each year. Not that long ago (in 2020) SVOD could seemingly not put a step wrong. Yet in 2022, major questions emerged about the viability of the model, a result of which was the launch of advertising-funded tiers. And it is not yet clear what the impact of this model will be at a time when broadcaster VOD (BVOD) as well as a Free Ad-Supported TV (FAST) are also being promoted.

Core questions for SVOD players over the coming twelve months will include: determining the optimal route to market – possibly re-embracing the wholesale model; how to reduce churn; identifying strategies for (over-) sharers; and for most players achieving profitability in a post ultra-low interest rate era. And of course, creating the most compelling content.

For companies with a studio heritage, a fundamental challenge and opportunity is to identify what the ideal mix of revenue streams should be. For every player, there are multiple routes to revenue, only one of which is direct-to-consumer. Selling wholesale to third party platforms, on multi-year guaranteed revenue contracts, may now in some contexts seem increasingly appealing.¹⁴

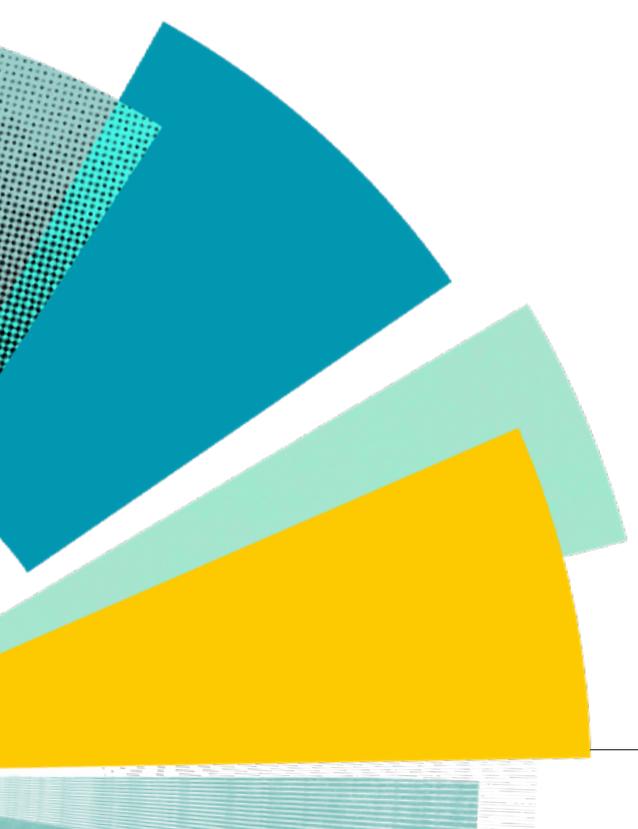
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Endnotes

- 1 See Figure 23: Commercial TV broadcast and online revenue 2017-2022
https://www.ofcom.org.uk/__data/assets/pdf_file/0029/265376/media-nations-report-2023.pdf
- 2 In July 2023, the reach among all SVOD and AVOD players was 74 per cent and was 75 per cent in the previous month. <https://www.barb.co.uk/monthly-viewing-summary/><https://www.barb.co.uk/monthly-viewing-summary/>
- 3 In July 2023, the reach among all broadcasters was 90 per cent and was 91 per cent in the previous month. Share of viewing was 63 per cent in July 2023 and 64 per cent in June 2023. <https://www.barb.co.uk/monthly-viewing-summary/>
<https://www.barb.co.uk/monthly-viewing-summary/>
- 4 As an example, for the week 17 to 23 July, there were no SVOD titles among the 50 most watched programmes. <https://www.barb.co.uk/viewing-data/most-viewed-programmes/>
- 5 <https://www.ft.com/content/a078ecc5-f095-4a58-8764-3801f5976751>
- 6 See section on Television and Audiovisual; 37 minutes refers to SVOD and AVOD. Per Ofcom's categorisation, BVOD (broadcaster VOD) is counted separately from AVOD. <https://www.ofcom.org.uk/research-and-data/multi-sector-research/cmr/2023/interactive>
- 7 For example, see: <https://www.ft.com/content/d9a7cded-d43f-4d89-9271-44bf6516d476>
- 8 For example, see: <https://variety.com/2023/biz/news/2023-will-be-year-of-trial-and-error-for-streaming-companies-1235573590/>
- 9 <https://www.barb.co.uk/monthly-viewing-summary/><https://www.barb.co.uk/monthly-viewing-summary/>
- 10 <https://www.barb.co.uk/monthly-viewing-summary/>
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- 12 <https://www.pizzahut.co.uk/order/pizzas/>
- 13 <https://www2.deloitte.com/us/en/insights/industry/technology/digital-media-trends-consumption-habits-survey.html#read-the-digital-media-trends>
- 14 For example: <https://www.hollywoodreporter.com/business/business-news/sony-cfo-streaming-film-tv-1235342065/>



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