WINNING THE THIRD ERA OF THE STREAMING WARS

Well-established media companies have strategic advantages but need to leverage data and analytics to succeed

There's a streaming war underway in the media and entertainment sector – and it's looking increasingly likely the ultimate winners will be the companies that the upstart competitors had sought to replace.

That's one of the many surprises to emerge in recent years as this heated competition enters a new, third era.

THE THREE ERAS OF STREAMING

In the first era, technology companies led by Netflix launched streaming services that gained traction with younger, tech-savvy viewers. At the time, streaming was often dismissed as a niche opportunity. But that quickly changed. As the Capgemini Research Institute noted in **OTT Streaming Wars: Raise or Fold**, the flexibility of on-demand viewing powered impressive subscriber numbers and turned streaming services into the leading method by which people consumed content. The social-distancing requirements in the early months of the COVID-19 pandemic further boosted both subscriber growth and hours watched.

Consumers valued being able to watch what they wanted, when they wanted. Meanwhile, companies recognized that by cutting out intermediaries such as cable operators, they would generate revenue directly from the customer. Even better, the companies could personalize the relationship with each subscriber, offering content recommendations based on a customer's historic viewing habits. This built brand loyalty and created opportunities for cross-selling and up-selling.

The success of early streaming services led to the second era – one defined by growth, consolidation, and diversity. Sensing opportunity, a broad range of companies launched their own over-the-top (OTT) services. The landscape – once the sole territory of technology companies offering services to a global market – now includes well-established media production and broadcast enterprises, rights holders, local players, and content aggregators that look very much like a traditional cable or satellite TV network. As the diversity of services grew, so too did the variety of choices they offered – as gaming, podcasts, live and on-demand sports, concerts, theater productions, and other content vied to capture consumers and their entertainment budgets.

That same diversity of services and content is now driving the current, third era of the streaming wars. This era is disruptive and has already resulted in some surprises – including significant subscriber loses at Netflix, the market's cool reaction to subscriber numbers at Disney+ due to that service's weak Average Revenue Per User (ARPU), and announcements from a number of players that they will be launching advertising-supported services that will look a lot like the broadcasting model of yesteryear. In addition, this third era will be characterized by aggregation and consolidation as the sector rationalizes.

THE RISE OF AVOD

Many current streaming services are based on the subscription-based video on demand (SVOD) model. It's now become clear that the subscription model, on its own, is not going to survive. The third era of the streaming wars will be dominated by the rise of advertising-based video on demand (AVOD) offerings, which is a powerful strategy for a couple of reasons.

First, it's cheaper for consumers, which is placing downward pricing pressure on SVOD services. While some consumers will continue to pay a premium for an advertising-free SVOD service, others will be happy to cut their streaming bills in half – or more – for essentially the same programming via an AVOD channel.

And second and even more compelling for streaming companies, the AVOD model unlocks a lucrative revenue stream from advertisers. That same personalized relationship that streaming services are able to foster with their customers can also generate insights into each customer – which can be leveraged to command premium rates from advertisers. Over the past several decades of traditional television broadcasting, media companies have made billions of dollars in revenue through advertising sales. The opportunity to reclaim that with streaming audiences is too compelling to pass up. In addition, since advertising can be better targeted through VOD than it can through traditional channels, viewers are likely to be more receptive to the ads presented.

It's no surprise that even Netflix and other companies with strong SVOD offers have introduced AVOD alternatives – or plan to in the near future.

AGGREGATION AND CONSOLIDATION

For consumers, one downside of the current, fragmented landscape is it requires people to hunt for the content they want – then subscribe to, pay for, and manage multiple accounts to access it. In addition, consumers may only wish to sign up to a given service for a small portion of its available content, which can leave the subscriber feeling that they're receiving poor overall value for their money.

This makes a compelling argument for aggregation: bringing together multiple streaming services and presenting them to the consumer in one place, with a single bill – much like a traditional cable or satellite TV company. This could work with a mix of SVOD and AVOD, providing the aggregator shares subscriber's viewing habits with its AVOD content partners so those companies can command premium prices from advertisers.

While there's definitely merit in aggregation as a short-term business model, it's not clear whether this is a long-term solution for the industry. More likely, the consolidation that has already begun will continue.

SUCCESS STRATEGIES

In this environment, streaming companies must be effective in four areas to succeed:

Content is king. This is obvious but bears repeating. It's the reason people subscribe to a service.

Brand is also important. In the current landscape, consumers are overwhelmed by choice and are likely to rely upon a few, well-established brands they feel they can trust.

The user experience must be engaging and frictionless because, if consumers become frustrated by complex interfaces or a poor overall experience, they will seek content elsewhere.

Data and analytics are a strategic asset and need to be robust. They provide vital intelligence that can be used to differentiate content, branding, and the user experience. They also drive new use cases to maximize customer loyalty and boost ARPU and profitability.

The good news for traditional media and entertainment enterprises is they are well positioned to achieve these four imperatives. Most already have well-established brands that are household names. They also have libraries of compelling programming that stretch back decades – plus the breadth and depth of experience and industry connections required to produce more.

By contrast, it's impossible for new entrants to quickly produce or acquire several decades' worth of content in order to compete. And make no mistake: whether driven by nostalgia, a desire to share favorite programs with younger generations, or the fact that many older programs do an excellent job of telling timeless stories, there is strong demand for these classics. These libraries alone position the established media companies to win the third era of the streaming wars, even as they expand their content with new productions.

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THE RIGHT TECHNOLOGY PARTNER IS KEY

New entrants may have technology advantages – reflected in their superior user experiences or their ability to leverage data. But compared to the content challenge they face, it's relatively easy for established companies to address technology issues by forging an alliance with the right strategic partner.

With its blend of technology and business-transformation expertise, Capgemini is ideally positioned to help media and entertainment companies launch and improve their streaming services. Capgemini's media and entertainment industry experts work with enterprises to define their corporate vision and goals for their streaming services – then identify, develop, and execute new use cases to achieve them. Capgemini then leverages technology – including the power of advanced analytics – to enhance the user interface, personalize the user experience, and boost audience engagement. It also helps companies measure and optimize advertising performance across all platforms to deliver a better return on investment.

To learn more about the experience and capabilities Capgemini brings to the media and entertainment sector:

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