Institute for Screen Industries Research	University of Nottingham University Park, Nottingham NG7 2RD, UK

Netflix, Sony, and The Streaming Wars.

Prepared for: Reed Hastings and Ted Sarandos, Joint CEOs of Netflix

Prepared by: Tom Knight

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Picture 1: Content exchanged in the Netflix-Sony streaming deal (Moore, 2021)

Project Summary

Objectives

This industry report holds a fourfold purpose. Firstly, it will attempt to assess the state of the streaming wars as of September 2021. Netflix's biggest competitors, Prime Video, Disney +, HBO Max, Peacock, and Paramount +, will be spotlighted, examining both their strongest and weakest business practices and their particular edges in the SVOD market. For the sake of being succinct, only those streaming services that are partnered with 'The Big 6' Hollywood studios have been considered. As such, Lionsgate's 'Starz' and Apple's 'Apple TV' have been omitted from this industry report. Amazon Prime Video has been taken into account due to their position as the 2nd biggest western SVOD and their recent acquisition of MGM Studios. By analyzing the state of the streaming wars and individual SVODs, this report hopes to develop a better understanding of important trends affecting the streaming market. Secondly, this report will include a deep-dive analysis of Netflix's performance over the last decade, with particular emphasis placed on how the company dealt with Covid-19 since early 2020. By assessing the company's business fundamentals, overall market share, content expenditure, marketing expenditure, international expansion and plans to penetrate the gaming market, this report hopes to firmly pin Netflix's position in the streaming wars. Finally, this report will include an assessment of the deal Netflix struck in April 2020 regarding first window features of Sony content on the streaming platform. By analyzing Sony's position as the main 'content arms dealer' in the Western streaming market, and their efforts to penetrate niche streaming markets such as anime, this report will question the extent to which Sony could potentially stand alone as an SVOD and how Netflix should manage their relationship with the company moving forward.

Activities

- Coverage of trade press articles from *Variety* to *The Hollywood Reporter.*
- Exclusive interviews with CEOs of major media corporations primarily from the trade press.
- In-depth analysis of earnings calls and quarterly financial reports for Disney, Amazon, Netflix, NBCUniversal, ViacomCBS, Sony and AT&T
- Comprehensive research into the streaming wars, including analytical breakdowns by CNBC Tech, Seeking Alpha and The Motley Fool.

Findings

Appendix A – The Streaming Wars

A.2: - Tier 1 Competitors

A.2.1: Amazon: Prime Video

- The most immediate threat to Netflix's streaming crown with 175 million subscribers.
- That said, the exact number Prime 'subscribers' is amorphous. It is unclear how much content each subscriber is watching due to the service being wrapped up in the broader Amazon Prime e-commerce package.
- Prime Video offers a strictly streaming package for $8.99.
- Jeff Bezos announced streaming hours for Prime Video content were up 70% since March 2020.
- Amazon have historically been hesitant to reveal streaming figures but have been offering transparency recently on the back of prestigious content such as *The Marvelous Mrs. Maisel*, *The Boys*, and *One Night in Miama.*

- Streaming revenue comprised only $7.9 billion of the company's $113.1 billion total revenue in Q2 of 2021.
- Recently purchases MGM Studios for $8.45 billion.
- Developing strong franchise content such as *Lord of the Rings*, *The Grand Tour* and *James Bond.*

A.2.2: The Walt Disney Company: Disney +

- Achieved 95 million subscribers in just over a year after launch.
- Subscriber growth rate over twice as fast as Netflix since the start of 2020.
- Disney has doubled their content budget to $15 billion in the hopes of reaching 260 million subscribers by 2024. This comes on the back of successful original content such as The Mandalorian.
- Wall Street analysts expecting Disney + to overtake Netflix by 2025.
- Exponential subscription growth has showed signs of unsustainability, underperforming by 6 million in Q1 of 2021.
- Disney experienced significant stock growth between October 2020 and February 2021, jumping from a price of $121 to $181. This reflects investor confidence in the future of streaming.
- Subscription numbers rebounded in Q2 of 2021, with an added 12.4 million.
- Disney's newly released content platform *Star* will allow the typically family-friendly company to bring more adult content to the platform.
- *Star* also promising in emerging markets, with the *Hotstar* service being immensely popular in South Asian countries (approximately 40% of Disney + total subscribers).

A.3: - Tier 2 Competitors

A3.1: WarnerMedia: HBO Max

- 63.9 million subscribers worldwide.
- Significantly lower content expenditure than Tier 2 SVODs, with WarnerMedia pledging $2 billion for original programming in 2020. Only $1 billion for the years to come.
- Ryan Steelberg of Veritone identifies content expenditure as the primary factor separating major from minor SVODs.
- HBO Max only available in 39 territories across the Americas.
- Has had a fixed subscription price of $14.99 for the last five years.
- A potential intellectual property powerhouse for streaming, hosting Marvel's direct competitor in terms of superhero content: The DC Universe.
- AT&T recently struck a $43 million deal to merge Discovery + content into HBO Max, potentially creating the next Tier 1 streaming service.
- HBO Max and Discovery + have a combined subscriber base of 80 million.
- With the merger comes a pledge to spend $20 billion in future content. Expecting 150 million subscribers by 2025.

A3.2: NBCUniversal: Peacock

- Peacock debuted in July 2020 offering both premium and ad-based subscription plans. 7,500 hours of content available for free.
- Only available in a handful American territories.
- Hosts *The Office*, one of the most valuable pieces of streaming content over the last few years.
- 54 million signups, with significant growth driven by the 2020 Tokyo Olympics.

- Recent $363 million loss relating to production costs for the platform signifies Peacock's unstable monetization model.
- Most of Peacock's 3 million premium subscribers come from third party platforms such as Roku.
- Of Peacock's 54 million users, only 14 million are paying or regularly using the platform.
- Universal film catalogue moving to debut on the Peacock platform but will continue heavily licensing content to rival services.
- Peacock has a notably high subscriber churn of 9.5%.

A3.2: NBCUniversal: Peacock

- ViacomCBS's primary SVOD rebranded from CBS All Access to Paramount + in March 2021. Rebranding came as a result of 2019 Viacom and CBS merger.
- Subscription spike in Q2 of 2021, adding 6 million for a total of 36 million worldwide. Project 64 – 75 million subscribers by 2024.
- Streaming revenue climbed by 65% over Q2 of 2021, primarily driven by Nickelodeon and the NFL partnership.
- ViacomCBS's biggest barrier in the streaming wars is its relatively niche popularity in domestic territories. The renaming of CBS All Access to Paramount + may help give the service more international renown.
- Paramount + has a number of content licensing issues, with major competitors such as Netflix and Prime Video developing original series based on CBS intellectual property. Most notable of these is *Star Trek*.
- ViacomCBS plans to spend $5 billion on original content over the coming years, which is significantly behind that of the frontrunner streaming services
- ViacomCBS has resorted to selling its own stock in order to fund tall production and programming budgets for Paramount +. Sold $3 billion worth in March 2021.

Appendix B – Netflix Deep-Dive

B.1: Fundamentals

- As of Q2 2021, Netflix has 209 million subscribers
- Only slight subscriber growth in Q2 2021, adding 1.5 million. Beat conservative estimates of 1 million
- Conservative estimates come after disappointing Q1 performance, adding only 3.98 million when expecting 6 million
- Low growth blamed on Covid production halts but also the relaxing of worldwide stay-at-home rulings

B.2: Success in 2020

- 2020 was one of Netflix's most successful years, adding 16 million subscribers in Q1 alone. As a result, Netflix outperformed the stock market crash of March 2020.
- Netflix stock continued to outperform expectations throughout 2020, primarily driven by growth in subscribers and general confidence in streaming.
- Netflix passed 200 million subscribers in Q4 2020.

B.3: Market Share

- Netflix has a trailing 12-month P/E of 58.98.
- Netflix lost 29% of global streaming market share between Q1 of 2020 and Q1 of 2021.
- Netflix lost 400,000 subscribers in domestic territories during Q2 of 2021.
- Netflix's share of the market for in-demand original content has shrunk from 64.6% to 50.2% in 2 years.

B.4: Content Spending

- Netflix’s most successful IP series have been *Stranger Things*, *The Witcher*, *The Crown* and *Bridgerton*. That said, Netflix do not necessarily own these properties, and few offer long-term profitability

- Disney’s willingness to show long-term plans for its IP has played exceptionally well with investors, with the announcement of a slate of *Star Wars* content at a recent investors’ day bumping Disney stock by 14%.

- In 2020, Netflix spent a total of $11.8 billion on content, significantly lower than 2019. This was blamed on Covid.

- Low content spending in 2020 has boosted Netflix’s cash flow into positive numbers. This comes after having borrowed $15 billion over the last ten years for content spending.

B.5: Marketing

- Netflix’s spending on marketing dipped significantly from a peak of 900 million in Q4 of 2019 to 500 million in Q1 of 2020.

- Wall Street analysts believe this may play a part in Netflix’s low subscription growth following the initial boom in early 2020.

B.6: Gaming

- Netflix plans to enter the video game market, which currently stands at around $175 billion in yearly global revenue.

- Reed Hastings believes Netflix competes with platforms such as Fortnite for screen time just as much as rival SVODs.

- A majority of *Fortnite’s* $5.1 billion yearly revenue stems from cosmetic purchases. This signifies an immense alternative revenue stream for Netflix outside of subscription plans.

- Gaming could provide a platform for Netflix to test and develop potential IP for their TV and Film divisions. The success of Netflix's TV series *The Witcher* stands as a testament to the success of video game adaptations.

B.7: International Efforts

- Added 1 million subscribers in Asia-Pacific regions in Q2 of 2021
- Netflix's international strategy is one of its strongest areas of growth, operating in 190 countries.
- 135 million of Netflix's 209 million subscribers come from non-domestic markets.
- Localized content such as *Money Heist* and *Dark* assist global strategy and strengthen competitive edge in international markets.
- Heavy investing in India, with the country's media market having a projected CAGR of 17%. $400 million spent in the last 2 years
- Reed Hasting predicts Netflix's next 100 million subscribers will come from India.
- Heavy investing in anime. $8 million pledged to original anime content from 2018.
- Planning a future 40 original anime titles following the success of *Castlevania* and *Blood of Zeus.*

Appendix C – Sony and the Future of Streaming

C.1: The Sony Deal

- Netflix struck a deal with Sony for first pay window deal for all new animated and live action films.
- In the midst of the pandemic, first pay window has been brought forward to 90 days after theatrical release.

- Not the first time Netflix and Sony have struck streaming deals. Netflix has maintained an animated content first pay window with Sony since 2014.
- Prior to this deal, the Lionhead owned SVOD Starz has been Sony's primary pay window partner for live action content.
- Netflix will also receive Columbia Pictures catalogue to stream.
- The deal totals a value of roughly $1 billion for Sony over the next 5 years.

C.2: Sony and Streaming

- Sony looking to be the biggest "content arms dealer" instead of a major streaming service to rival Netflix, Disney and Prime.
- That said, Sony recently acquired Crunchyroll from NBCUniversal for $1.175 billion. Demonstrating their interest in penetrating niche streaming markets such as anime.
- Crunchyroll has 70 million free members and 3 million paid subscribers.

C.3: Could Sony stand alone as an SVOD?

- Sony possesses powerful intellectual property to generate box office hits, but not enough to rival the streaming market by themselves
- Sony does, however, possess powerful gaming IP that is yet to be fully tested in Film or TV format.
- While the Sony Corporation turns $81 billion of revenue every year, (not far behind Amazon's $113 billion) they do not have the business model to spend recklessly on new IP content.

Conclusion and Recommendations

From this report's assessment of the streaming wars, it is evident that there is a growing gap in subscription numbers between Tier 1 and Tier 2 services. The primary factor separating the frontrunners from the trailers is yearly spending on content, with streaming behemoths such as Netflix, Disney and Amazon spending close to $20 billion on production and programming in order to stay ahead in the race. The only Tier 2 SVOD in the market with realistic potential for competing with the frontrunners is HBO Max, who after a merger with Discovery + and a boost in content spending could pass the 100 million subscriber mark within the next few years. As subscriber churn becomes a notable challenge in the streaming market, smaller platforms such as Paramount Plus and Peacock will either have to merge with larger players or join Sony in becoming a key content arms dealer.

Netflix's crown as the number one SVOD in both the global and western market is undoubtedly under threat. Stunted subscription growth after a successful year in 2020 has caused volatile relations with investors, and the service continues to lose market share and content demand across the globe as other players enter the streaming space. Netflix also reported a net loss of subscribers in domestic territories in a recent financial report, demonstrating that their content slate is not established enough to maintain firm anchor tenancy. Netflix fundamentally relies on their ability to produce a variety of content in order to identify key intellectual property for future expansion, something legacy media companies such as Disney and WarnerMedia are already capable of delivering. With content and marketing expenditure dipping during 2020 and the start of 2021, Netflix need to quickly return to normal levels if they are to maintain exponential growth and preserve investor relations. Netflix's strongest prospects are in gaming and international markets. Netflix's development of localized content across the globe has put them miles ahead of competitors, but they will need to keep growing in these markets to curb the influence of services such as Disney's *Hotstar*. Gaming also represents an immense opportunity for an alternative revenue stream for Netflix, who currently exclusively rely on revenue from their subscription plan.

Netflix's deal with Sony will undoubtedly strengthen the service's position in the domestic market, adding legacy content from Columbia Pictures, Screen Gems and Tri-Star Studios that will assist in retaining subscribers. The addition of first pay window streaming rights to upcoming blockbuster movies such as *Morbius*, *Jumanji 2* and *Spider-man: Into the Spider-Verse* will also strengthen subscriber retention and growth with domestic audiences. Sony arguably does not have the IP slate or backing capital to develop its own major SVOD in the coming decade, but will certainly begin to make waves in the niche anime market through their acquisition of Crunchyroll. As such, Sony will remain a key content arms dealer in domestic territories, and Netflix should look to renew their streaming contract with the company if they are unable to establish themselves as a key legacy media company.

Appendix A – The Streaming Wars

Figure 1: Overview of the streaming wars in Q4 of 2020 (Wallach, 2021)

A.1: A Note on the Tier System

For the benefit of this Industry Report, it should be noted that the major SVODs covered have been divided into two groups: Tier 1 platforms and Tier 2 platforms. This decision has been made in order to highlight the apparent gap in the Western streaming market, a topic which President of Veritone, Ryan Steelberg has observed over the past few years (A.3.1). Put simply, Tier 1 platforms can be defined as any service that has reached the 100 million subscriber milestone. It should be further noted that this industry report does not assume that Tier 2 platforms will remain as such in the long-term, and indeed uses this system as a way of illustrating the potential for certain platforms to achieve Tier 1 status.

A.2: Tier 1 Competitors

A.2.1: Amazon: Prime Video

Picture 2: Amazon Prime Video Logo (Moore, 2021)

The most immediate threat to Netflix's streaming crown is the Amazon owned Prime Video service. As of Q1 of 2021, Prime Video retains over 175 million subscribers, just roughly 35 million behind Netflix.

Naturally, Prime Video membership differs somewhat from other SVOD service packages in that it is wrapped up in the broader package for Amazon Prime deliveries and services. As such, the actual number of active Prime Video 'subscribers' is somewhat amorphous. Entertainment reporter from Quartz, Adam Epstein, makes two important points about this 175 million subscription figure, arguing that:

> "First, it is unclear how much content each subscriber is watching. They could be obsessive, daily consumers – or they could have accidentally watched just one minute of one movie several months ago, and Amazon counted that as a viewer. Second, we don't know what percentage of those 175 million viewers subscribed to Prime specifically to watch series and movies, and what percentage signed up to get free shipping or enjoy the myriad other benefits of a Prime membership." (Epstein, 2021)

Amazon does offer a subscription exclusively for its SVOD, with a mid-range streaming market price tag of $8.99 per month (Amazon.com, 2021) That said, the popularity of the stand-alone SVOD package is in the minority compared to the broader Amazon Prime deal.

Amazon have historically been hesitant to share statistics about Prime Video viewership as related to its broader Prime package. However, the recent announcement that 175 million Prime members had "streamed shows and movies in the past year" came as the first time Amazon CEO Jeff Bezos had been willing to pull back the curtains on Amazon's SVOD branch (Bezos, 2021). Bezos further revealed that streaming hours for Amazon Prime Video were up by more than 70% since the start of the Covid-19 pandemic. Media Journalist Alex Weprin from The Hollywood Reporter argues that there is no coincidence in Bezos's decision to offer more transparency around Prime Video, particularly with the increasing "critical and award success of Amazon's programming" (Weprin, 2021). Amazon TV and Film originals such as *The Marvelous Mrs. Maisel*, *The Boys*, and *One Night in Miama* have been lauded by critics, fully demonstrating Amazon's ability to deliver quality content on par with the likes of premium services such as HBO Max. In 2020 alone, Amazon Studios productions were nominated for twelve Oscars, with two taking the award home. High profile Prime TV content such as *The Grand Tour* and *Man in the High Castle* have also

proven that Amazon can effectively manage franchises. The current development of an upcoming *Lord of the Rings* series (set for release in late 2022) further affirms that Prime Video is looking to become an aggressive contender in the streaming wars as a podium for valuable intellectual property (Otterson, 2021).

Amazon's efforts to make inroads into both high quality and valuable franchise content puts it in direct competition with all major streaming services, and the company is likely to maintain its growth in the SVOD sector due to the sheer amount of capital it generates overall. Unlike Netflix, Disney and WarnerMedia, Amazon is not strictly a media company, and thus has diverging goals compared to these competitors. Indeed, Bezos in the past has remarked that Amazon is the first company in the world to "use a Golden Globe to sell toilet paper" (Jarvey, 2015). In an exclusive interview with *The Hollywood Reporter* back in 2015, Bezos stipulated that "It's how our whole model works. When people join Prime, they buy more of everything we sell. They buy more shoes, they buy power tools and so on" (Bezos in Jarvey, 2015)

While it is difficult to assess the exact revenue Prime Video generates for Amazon due to its presence in the package Prime deal (along with audiobook, music and e-book services), the company's Q2 2021 earnings report assessed that subscription revenue comprised only $7.9 billion of the company's overall $113.1 billion revenue (Spangler, 2021). From this figure, it can be concluded that Prime Video is in the unique position of having the heavy backing of a range of capital income due to Amazon's other branches of business. Unlike Netflix who typically are pressed to dip into borrowing or selling stock to raise money for production, Amazon is capable of creating content from its own disposable income. The recent purchase of MGM Studios for $8.45 billion demonstrates the extent to which Amazon is capable of growing its media presence with disposable cash generated from its other branches of business (Destiny, 2021). Bezos himself has expressed how important Amazon's diverse revenue streams are to their entertainment division, stating that "how you pay for great content is an important part of making great content available". (Bezos in Jarvery, 2015)

Amazon's strongest element in the streaming wars is evidently the backing of its multiple revenue streams, allowing it to make crucial IP purchases and outlast other streaming services if production costs exceed subscription revenue. With a commitment to producing high quality award-winning content as well as the development of franchise powerhouses such as *Lord of the Rings* and *James Bond*, Amazon will undoubtedly remain a behemoth in the streaming wars, regardless of the amorphous nature of their subscription numbers.

A.2.2: The Walt Disney Company: Disney +

Picture 3: Disney + Logo (DMED Media, 2021)

Launched in November 2019, Disney + marked the Walt Disney Company's resolute entrance into the streaming wars as the gatekeeper of valuable and highly expandable intellectual property. Within just over a year, Disney plus achieved an impressive 95 million subscribers, quickly becoming one of Netflix's primary competitors alongside Amazon Prime Video. (Jarvey, 2021)

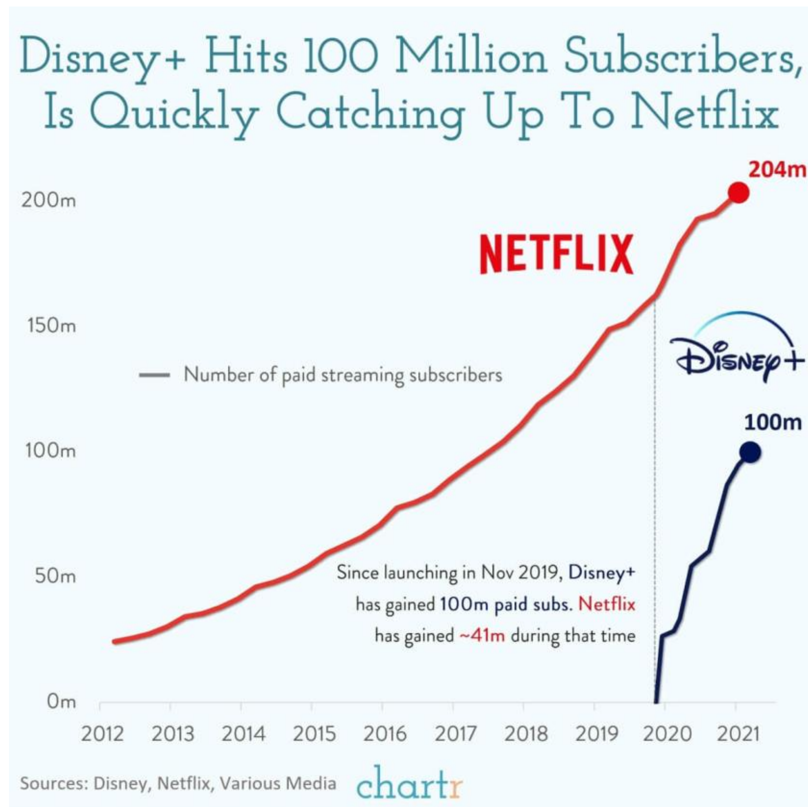

Figure 2: Disney+ versus Netflix subscriber growth (Chartr, 2021)

Figure 2 shows that by March 2021 Disney + had rapidly gained nearly half of Netflix's total subscriber base. Figure 2 also demonstrates that Netflix's subscriptions have been growing at less than half the pace of Disney + since the start of 2020, adding only 41 million users compared to Disney's 100 million (Chartr: Data Storytelling, 2021). Disney management had originally estimated they would reach 90 million by 2024, but after the success of original streaming exclusives such as *The Mandalorian* and *Soul*, Disney decided to double their content budget to $15 billion in the hopes of reaching 260 million subscribers by 2024 (Jarvey, 2021). This prioritization of spending and production on Disney + content prompted news outlets such as The Guardian to speculate that Netflix was soon to lose its streaming crown to Disney +. Richard Broughton from Ampere Analysis shared similar speculations in early 2021, stating that

Disney's ability to reach 100 million subscribers in an "unprecedented timescale" demonstrates its ability to become a serious market share competitor over the next 5 years (Sweney, 2021).

Disney's ability to reach the 100 million subscriber milestones - which comparatively took Netflix almost a decade to achieve - stands as a testament to the mainstream popularity of content streaming during Covid-19 but arguably more-so the strength of Disney's franchises. Offering just over 4,500 hours of content compared to Netflix's 40,000 hours, flagship franchises such as *Star Wars*, *Marvel*, *The Simpsons* and *National Geographic* evidently play a key role in retaining and growing subscription numbers. Broughton has corroborated this notion, arguing that Disney + "Is about quality of over quantity… The others have volume, Disney relies on the quality of its brands. It has shows and film that people, fans, feel they must watch". (Sweney, 2021).

Exponential subscription growth has, however, begun to show signs of unsustainability since Q4 of 2020. In an early-May Q1 earnings report, the company announced that Disney + had only managed to reach 103.6 million members as of April 3rd, significantly underperforming the target of 109 million analysts had projected by that date (Bursztynsky and Whitten, 2021). Following this announcement, Disney's stock slumped by 4% in after-hours trading and has since failed to meet its all-time high price of $197 per share in mid-March earlier this year (Ashcroft, 2021). The volatility of Disney stock following disappointing quarterly subscriber growth need not be an immediate worry for the company, particularly with their Theme Parks and Products division smashing sales expectations as park attendance capacities rise.

Figure 3: The Walt Disney Company's stock growth since 2016 (Ballard, 2021)

As Figure 3 shows, Disney also experienced a period of significant stock price growth between October 2020 and January 2021, jumping from $121 to $181 in the space of those three months. This growth can be attributed to the success of Disney +'s subscriber growth and the announcement of a slate of *Star Wars* content over the holiday season but is perhaps more aptly observed as a reflection of staunch investor confidence in the future of Disney + (Hayes, 2020). Indeed, despite theme park closures, which typically comprise over a third of the Walt Disney Company's pre-pandemic revenue, Disney + has managed to preserve bullish sentiments around Disney stock since the market crash of March 2020.

Disney +'s outlook in the streaming wars is a promising one following an all-round successful Q2 2021 earnings report, as subscription numbers rebounded with an extra 12.4 million subscribers to beat analyst expectations (Lang, 2021). Only time will tell if Disney + will be able to continue topping growth expectations, and a key component of that growth will pivot on the company's ability to deliver content that viewers feel they can't miss out on. Franchises such as *Star Wars* and *Marvel* will be at the forefront

of this effort, but Disney will also have to explore and develop new entertainment frontiers if they want to compete with Netflix. Earlier in 2021, Disney announced a new content hub on the Disney + titled *Star* (not to be confused with Lionhead's Starz), which stands alongside franchise portals such as *Marvel*, *Pixar, National Geographic,* and *Star Wars* when observing the main interface of the platform. The *Star* hub was developed as a basis for introducing more mature content onto the Disney + platform, in turn attracting more adult audiences to their subscription plan. Disney's decision to stream Chloe Zhao's Oscar-Winning *Nomadland* on *Star* in the UK laid the groundwork for the mature tone of the new content hub (Grater, 2021). It was also a forward-thinking effort to merge the prestige of 21st Century Fox and its subsidiaries into the Disney brand, redefining the historically family-friendly reputation Disney has maintained.

The launch of Disney +'s *Star* also creates immense opportunities for growth in emerging media markets. In a recent *Hollywood Reporter* article, the chairman of CreaTV Media Peter Csathy described the launch of *Star* as "the latest shot across the bow by Disney to Netflix, Amazon and other in the great international streaming wars" (Jarvey and Roxborough, 2021). Csathy further affirmed that "The availability of *Star* content not only will further accelerate Disney +'s roll-out internationally, it will cannibalize subscribers of other international streaming services since consumers' wallets are limited" (Jarvey and Roxborough, 2021). Nowhere is Csathy's theory more apparent for Disney + than in its *Hotstar* package (primarily available across India, Indonesia, Malaysia and Thailand) which currently comprises near to 40% of the streaming service's 116 million total subscribers (Spangler, 2021). As Disney looks to expand its flagship streaming service into Eastern Europe in Summer 2022 and other untapped markets, the flexibility of content hubs such *Star* to explore new and non-traditional content frontiers for Disney will undoubtedly prove essential for their positioning in the streaming wars. If Disney can strike a harmonious balance between quality and quantity of content, their standing as number three in the SVOD streaming wars may only be temporary.

A.3: Tier 2 Competitors

A.3.1: WarnerMedia: HBO Max

Picture 4: HBO Max logo (Hopewell, 2021)

Rebranded from HBO Now in May 2020 to HBO Max, AT&T's SVOD service comes in at fourth place in the streaming wars. As of April, subsidiary WarnerMedia reported 63.9 million worldwide subscribers for HBO Max, a significantly lower figure than their top three competitors. In 2020 alone, WarnerMedia committed approximately $2 billion to original programs, with only $1 billion pledged for the following years depending on content reception (VideoWeek, 2021). President of Veritone, Ryan Steelberg, observes production expenditure to be an increasingly vital factor in the success of SVODs regarding subscriber growth and retention. With a growing subscription gap in the streaming wars, Steelberg highlights that the front-runners (Netflix, Disney+ and Prime Video) spend "more than $10 billion every year on content… I think we already know who the winners are – and I think the gap between the winners and losers is significantly greater than most people realize" (Steelberg in Sherman, 2021)

So far, HBO Max has been made available in only 39 territories, primarily in Latin America, the Caribbean and, of course, North America. The limited availability of HBO Max may be one of its largest barriers to competing with the likes of Netflix, Amazon and Disney + (Cowton, 2021). Furthermore, with a fixed subscription price tag of $14.99 over the last six year, HBO Max is without question one of the more expensive SVOD services. This steep subscription cost is justified by the platform's offering of blockbuster favorites from the Turner Classic and Criterion Collection, as well as popular modern TV content from HBO's cable channel such as *Game of Thrones*, *The Wire,* and *The Sopranos*. HBO Max also hosts a range of powerful franchises which have been essential to retaining subscribers. Marvel's most direct superhero rival franchise, the DC Universe, is hosted on HBO Max. In Mid-May of 2021, just a week after HBO Max debuted, subscribers were given access to the full original cut of Zack Snyder's *Justice League*. While WarnerMedia has been hesitant to release exactly how the release of the 'Snyder Cut' influenced HBO Max signups, journalist Josef Adalian from Vulture noted that it was a worthwhile investment for the platform's longevity and prestige in the streaming wars (Adalian, 2021). Adalian argues that the exclusive release has "done its job", signaling to the world that "HBO Max is serious about all things DC" (Adalian, 2021).

In mid-May of this year, AT&T announced a $43 million deal to merge WarnerMedia with Discovery in an effort to forge the next big streaming giant to rival the likes of Netflix, Disney + and Prime Video (Kovach and Meredith, 2021). The merger fulfills Discovery CEO David Zaslav's late-2020 vision of building a service that "complements" another player in the streaming wars (Sherman, 2020). According to Zaslav, the only way for smaller SVOD platforms to survive is to have a "clear and distinct" streaming product (Zaslav in Sherman, 2020). For Zaslav, the goal of Discovery + was to brand itself as the home of unscripted television, with networks such as HGTV, Food Network, Cooking Channel and TLC carrying the service to popularity for a niche but committed viewership. Media Journalist Aric Jenkins argues that the combination of WarnerMedia and Discovery will offer a variety of content unrivalled by any other major streaming service:

> "No other company can package this much content. Netflix has made strides in reality television but lacks sports. Disney covers kids with animation – and even has Hulu and ESPN+ is its empire – but is short on reality series. Amazon is establishing itself as a respectable film and television distributor but doesn't do the news."

Zaslav has also pledged to invest over $20 billion in future content for the merger, bringing HBO Max's production expenditure closer to those on the other side of the streaming subscription rift. Zaslav, who will head the Discovery-HBO merger from 2022, anticipates the platform to attract 150 million subscribers by 2025 once the service has been rolled out worldwide (Szalai, 2021). This is not an impossible goal for two platforms that when combined total roughly 80 million subscribers (64 million for HBO Max, 15 million for Discovery), but there is no telling how many of those viewers overlap or are simply subscribed to HBO's standard cable package which already includes the streaming service (Kovach and Meredith, 2021). Indeed, subscriptions for HBO Max in the U.S. are primarily stem from the wholesale HBO cable deal. As noted by entertainment tech journalist Sarah Whitten:

> "Of the 37.7 million HBO Max-eligible subscribers, around 30 million come from wholesalers and 6.8 million were through retail channels. Retail subscribers are those who purchase the streaming service directly, not through a cable subscription or other streaming subscription" (Whitten, 2021).

While it is difficult to assess exactly how the merger of Discovery and WarnerMedia will proceed in 2022, indeed if the two respective SVOD's will combine entirely or be offered as separate platforms under a package deal, the breadth of content available to viewers will undoubtedly create a stir in the streaming wars. Furthermore, if Zaslav's aim to commit over $20 billion to production comes to fruition, we could observe how effectively smaller SVOD's can catch up with the front runners through content spending alone.

A.3.2: NBCUniversal: Peacock

Picture 5: Peacock Logo (Cowton, 2020)

Comcast's NBCUniversal launched its flagship SVOD, Peacock, in July 2020, being the first major service since Hulu to offer audiences almost unlimited access to their film and TV catalogue for free under an advertisement subscription plan. Peacock offers a further two paid membership plans, Peacock Premium for $5 per month which offers less adverts, and Peacock Premium Plus for $10 per month with no commercials and unlimited catalogue access (Blanchet and Webb, 2021). Offering 7,500 hours for free and 15,000 hours with paid subscription plans, Peacock firmly established itself as service with potential for anchor tenancy in the domestic and international markets, however the platform has only been rolled out in the U.S. and various American territories. TV series such as *The Office*, which figure 4 demonstrates has historically been fought over by SVODs as one of the most valuable pieces of acquired streaming content should, in theory, give Peacock a strong holding in domestic territories.

Rank	Program Name	SVOD Provider(s)	# of Episodes	Minutes Streamed (Nearest Million)
1	THE OFFICE	Netflix	192	57,127
2	GREY'S ANATOMY	Netflix	366	39,405

Rank	Program Name	SVOD Provider(s)	# of Episodes	Minutes Streamed (Nearest Million)
3	CRIMINAL MINDS	Netflix	277	35,414
4	NCIS	Netflix	353	28,134
5	SCHITT'S CREEK	Netflix	70	23,785
6	SUPERNATURAL	Netflix	318	20,336
7	SHAMELESS	Netflix	122	18,218
8	NEW GIRL	Netflix	146	14,545
9	THE BLACKLIST	Netflix	152	14,480
10	VAMPIRE DIARIES	Netflix	171	14,091

Figure 4: Top Streaming Content of 2020 – Acquired Series (Spangler, 2021)

The addition of the entire Universal Pictures film catalogue also gives Peacock an edge in the market, with franchises such as *Fast and Furious, Jurassic Park* and the licensing of *Harry Potter* playing a crucial role in subscriber retention (Reiff, 2019). Peacock also offers exclusive live streaming of the WWE Network and prestigious late-night content such as *The Tonight Show* and *Saturday Night Live*.

In their most recent Q3 earnings report, NBCUniversal announced that Peacock had reached 54 million sign ups in the U.S. market, primarily driven by exclusive streaming of the 2020 Tokyo Olympics (Vlessing and Szalai, 2021). Comcast's CEO Brian Roberts reported positively on earnings while also expressing hesitations for the future, stating "the third quarter thus far has been a particularly strong period and we will work hard to manage retention and grow from here, recognizing we are unlikely to replicate such tremendous performance, but we remain optimistic with a lot of programming strength ahead of us" (Roberts in Vlessing and Szalai, 2021). Robert's concerns come shortly after a $363 million loss relating to production costs for the platform, demonstrating uncertainty in Peacock's ability to secure significant revenue-per-user with the option of an ad-based monetization model. Media journalist Ben Munson from FierceVideo corroborates this point, citing a Moffett Nathanson study that estimated Peacock has only 3 million domestic premium subscribers, a third of which originate from Apple and Roku (Munson, 2021).

While Peacock maintains a higher RPU ($7.05) than some of its biggest rivals, it is insignificant when "you have fewer than half the domestic paid subscribers as your next nearest competitor" (Munson, 2021). Munson further argues that the posted 54 million sign ups figure is deceptive, noting that when broken down into Monthly Active Accounts (MAA), "only 14 million accounts are either using Peacock regularly or paying for it" (Munson, 2021). Fundamentally, Michael Nathanson from Moffett Nathanson believes that non-advert-based models will be the most successful in the streaming wars, stating: "big picture, the platform services that can rely on their own direct-to-consumer marketing for the bulk of their customers have the greatest ability to generate a ratio of higher effective RPU." (Nathanson in Munson, 2021).

With a low estimate of Peacock users signing up for paid plans to the platform, key franchises such as *The Office* are arguably not being utilized to their full potential. In this case, it may be in NBCUniversal's best interest to maintain licensing relations with rival streaming platforms for guaranteed revenue. Indeed, this seems to be NBCUniversal's plan for the coming years. While the company recently announced a "reimagined dynamic pay window", with Universal movies now debuting on Peacock in the first pay window, the platform does not plan to keep such content exclusive in the long-term (Vlessing and Szalai, 2021). CEO Brian Roberts believes that:

> "By showcasing content across multiple platforms, Universal films will constantly refresh across the streaming ecosystem, audiences will have multiple access points with which to consume our content, and we will generate more third-party revenue, while retaining the most valuable window for Peacock" (Roberts in Vlessing and Szalai, 2021)

Peacock's ad-based monetization model has also not protected it against subscriber churn, something that Wall Street analysts predict will be the downfall of smaller services in the coming years due to the crowded nature of the SVOD market. Kevin Westcott, vice chairman of Deloitte, describes the problem as a notable challenge in acquiring and then retaining subscribers, stating that "services are spending on customer acquisition and new content, but it's easy for people to sign up and watch what they want, then

cancel their subscription and move on to the next hit" (Westcott in Hayden, 2021). Michael Nathanson from MoffettNathanson argues that all SVODs have content consumers want, but with so many platforms occupying the space, audiences will eventually settle on those that continuously deliver the most valuable original content (Nathanson in Hayden, 2021). Disney's former head of streaming, Kevin Mayer, agrees with this sentiment, arguing that audience willingness to jump from one platform to another means "there will be winners and losers that evolve over the next several years" (Mayer, 2021). Peacock is most directly in danger of being passed on by consumers with a churn rate of 9.5%, the second highest in the SVOD marketplace (Hayden, 2021). Becoming "indispensable", data analyst Colin Dixon from nScreenMedia argues, is the key to surviving the streaming wars (Dixon, 2021). While Peacock holds a number of important IP properties, consumers are simply not signing up to their premium package at the same rate as their biggest rivals, making them vulnerable to the inevitable churn and consolidation of the market.

A.3.3: ViacomCBS: Paramount +

Picture 6: Paramount Plus Logo (Piper, 2021)

Previously known as CBS All Access since October 2014, ViacomCBS's chief SVOD was relaunched under the name Paramount Plus in March 2021, adding a slate of 100 Paramount Pictures titles

to the platform. The rebranding of CBS All Access came as a direct result of a 2019 merger between CBS and Viacom. Facing pressure from heavy spending media competitors such as Netflix and Amazon, the proposal to combine CBS and Viacom assets was forged in order to solidify the largest market share of TV audiences. Senior contributor at Forbes, Jonathan Berr, observed that after the merger “the companies’ holdings include a library with 3,600 film titles and 140,000 TV episodes along with Paramount Pictures studio, the CBS broadcast network, cable network brands such as MTV, BET, Nickelodeon, and Comedy Central as well as such streaming services including CBS All Access” (Berr, 2019).

In May 2021 ViacomCBS released their Q2 earnings report, noting a staggering quarterly increase of 6 million streaming subscriptions for Paramount Plus, totaling roughly 36 million members worldwide. With a planned 65 – 75 million subscribers by 2024, Paramount Plus is nearly halfway towards its four-year membership goal. According to the same report, streaming revenue had climbed by 65% over the quarter, primarily driven by a handful of key entertainment hubs on the Paramount Plus platform (Hayes, 2021). Viacom’s children’s channel Nickelodeon was noted to be a primary factor in Paramount Plus’ quarterly success, with franchises such as *SpongeBob SquarePants* and the rebooted *iCarly* series driving engagement and platform signups. Another significant driver of streaming revenue for Paramount Plus stemmed from their AFC (American Football Conference) partnership with the NFL. Streaming of the 2021 SuperBowl on Paramount Plus propelled ViacomCBS TV Entertainment advertising revenue to $1.8 billion, an increase of 40% over the previous quarter. Business Editor, Dade Hayes, from Deadline Hollywood noted that cable advertising revenue was comparatively inferior to that of streaming in the first quarter of Paramount Plus’ debut:

> “Advertising revenue, excluding streaming revenue, decreased 7% year-over-year, reflecting a decline in domestic advertising. As they shift more of their focus, cable programmers like ViacomCBS are managing through a period of secular decline in linear networks as cord-cutting continues.” (Hayes, 2021)

While Paramount Plus has performed well in its initial months of launch, the platform faces a number of hurdles if it expects to compete with Tier 1 streaming services. Dixon argues that Paramount Plus's biggest hindrance to growth is the fact that "outside the U.S., the CBS name does not carry the cache it does" domestically (Dixon, 2021). Unlike world-renowned names such as Disney and Netflix, international audiences are less "predisposed to adopt the service immediately as their own" (Dixon, 2021). The decision by ViacomCBS' to change the name of its flagship SVOD from CBS All Access to Paramount Plus may be able to counteract this problem of international renown to some degree. Figure 5 supports this notion, illustrating a survey conducted in the U.S. shortly prior to the debut of Paramount Plus confirming that audiences feel Paramount Pictures content is the most important reason to subscribe to the service. While it is difficult to measure international sentiments for the service, it can be assumed that the studio legacy name of Paramount is the best name to help penetrate markets overseas.

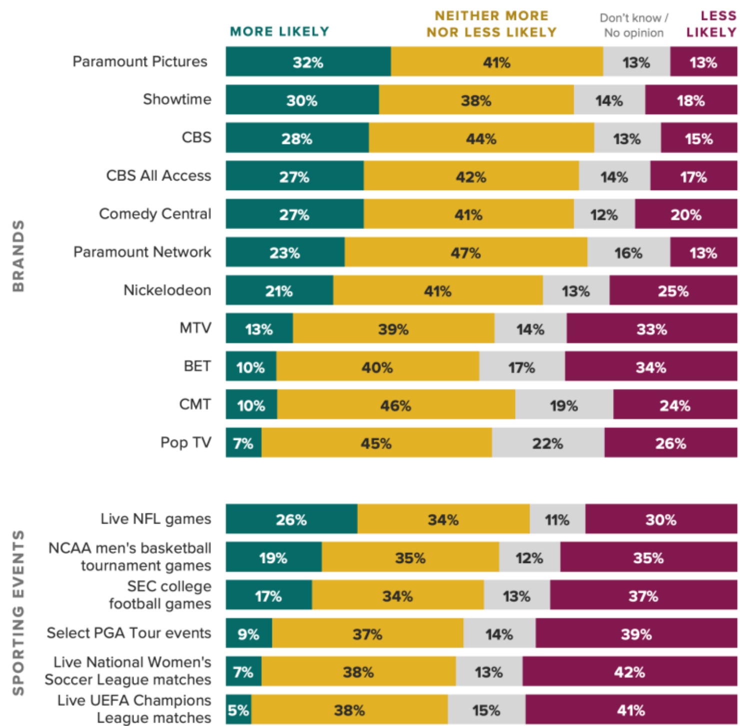

Figure 5: Audience reasoning for subscribing to Paramount+ (Shevenock, 2021)

Even with the pool of worldwide SVOD audiences growing internationally in the coming years, Paramount Plus faces a number of issues regarding some of its most crucial intellectual property. Firstly, one of ViacomCBS's primary IP franchises, Star Trek, is tangled in licenses to competitors and various regional providers. For example, the TV series *Star Trek: Discovery*, while available on Paramount Plus in domestic territories, can only be accessed through Netflix in the U.K. Furthermore, recent spinoffs such as *Star Trek: Picard* and *Star Trek: Below Decks* are considered original content by Amazon, and therefore can only be accessed through the Prime Video SVOD platform. Other key TV content developed under ViacomCBS such as *South Park* and *Yellowstone* have also been licensed to rival SVODs at Peacock and HBO Max (Goldsmith and Hayes, 2020). Frontrunners such as Disney have been unwavering in their mission to reclaim valuable streaming IP, and if Paramount Plus is to become a Tier 1 streaming service on the market, they will need to mirror the actions of their competitors. While ViacomCBS have not made moves to claw back their IP as of yet, the company's CEO Bob Bakish has expressed the need to, stating that "content licensing is an important business but… our strategy is clearly evolving, particularly with Paramount +" (Bakish in Goldsmith and Hayes, 2020). ViacomCBS's CFO, Naveen Chopra, supported Bakish's goals regarding future streaming content, asserting that IP such as *South Park* is "a powerful audience magnet… Going forward, we do not expect to replicate a [licensing] deal of this size and nature" (Chopra in Goldsmith and Hayes, 2020).

Before Paramount Plus can embark on extending its reach outside the U.S., Dixon believes it still needs to establish anchor tenancy in the domestic market. Paramount Plus is undoubtedly a late comer to the streaming wars, entering at a time when the SVOD market is at its most overcrowded. Media Journalist Julia Alexander from The Verge argued earlier this year that the debut of Paramount Plus signaled the "peak" of streaming, confirming sentiments that audiences will gradually begin to move away from service swapping by settling on platforms that have proven to offer consistent entertainment value (Alexander, 2021) (A.3.2). With ViacomCBS recently doubling its pledge to spend $5 billion on streaming content each year until 2024, Paramount Plus is still significantly behind Tier 1 streaming services with regards to

production expenditure (Littleton, 2021). ViacomCBS has also resorted to fueling its production budgets by selling their own stock, a tactic frequently used by Netflix due to low disposable revenue. In March 2021, ViacomCBS sold $3 billion worth of stock to inject into its yearly production budget for Paramount Plus, resulting in a 4% drop in stock price (Spangler, 2021). CFO Chopra stated that the move would augment the company's "ability to invest more aggressively" in "originals" for the Paramount Plus platform (Chopra in Lafayette, 2021).

With content expenditure being one of the most important factors separating Tier 1 and Tier 2 SVODs, ViacomCBS will have to increase their budget fourfold if they are to pass 100 million subscribers before the frontrunners dominate and consolidate the market (A.3.1). Furthermore, if ViacomCBS is unable to reclaim its intellectual property from the web of licensing deals with other streaming services, Paramount Plus may not be able to stand on its own feet. In this case, ViacomCBS may have to explore the option of merging with another streaming service, similar to the deal Discovery struck with HBO Max.

Appendix B – Netflix Deep-Dive

Picture 7: Netflix Logo (Commerce, 2021)

B.1: Fundamentals

As of the end of Q2 of 2021, Netflix has reported a total of 209 million subscribers worldwide, adding 1.5 million for the quarter which beat conservative estimates of 1 million (Weprin, 2021). Slight growth in subscription numbers for Q2 of 2021 came after a disappointing underperformance in Q1, reporting a gain of 3.98 million members instead of an expected 6 million (Spangler, 2021) This low customer growth caused Netflix stock to tumble on the stock market, dipping by 10% in after-hours trading. The company marked low growth up to the Covid-19 pandemic, with production being halted for the year and countries beginning to lift stay-at-home rules due to dwindling cases. While 2020 undoubtedly posed its challenges for the film and television industry, it was also one of Netflix's most successful years with regards to subscriber growth and investor relations.

B.2: Success in 2020

Figure 6: Netflix stock growth over the last 5 years (Finance.yahoo, 2021)

In the first quarter of 2020, Netflix added close to 16 million subscribers, more than double analyst expectations of 7 million signups (Spangler, 2020). This announcement caused Netflix stock to bounce 10% in after-hours trading, a significant boost in the midst of the March stock market crash which saw most major index funds drop by 33% on average over the course of a month (Feiner, 2020). Naturally, this boom in investor confidence and membership can be attributed to current and potential audiences being placed under strict stay-at-home orders across the globe. As Figure 6 demonstrates, Netflix stock continued to outperform expectations throughout the year, even though their customer base only proceeded to grow by 8.4% between Q2 of 2020 and Q2 of 2021 (Adgate, 2021). Figure 6 also exhibits the fact that Netflix (while increasing their stock price from a low of $332 in March to a high of $540 in late December) was extremely volatile compared to previous years. As Figure 7 demonstrates, Netflix surpassed 200 million in Q4 of 2020, spurring this end of year stock growth.

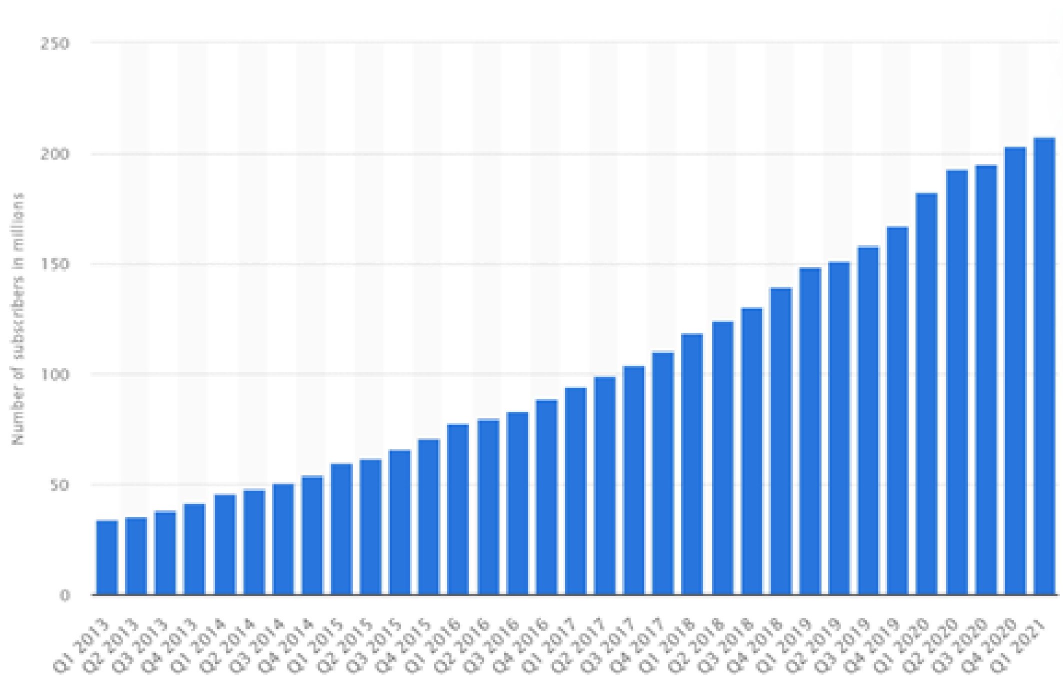

Figure 7: Netflix's total subscription growth since Q1 2013 (Statista, 2021)

B.3: Market Share

For the most part, Netflix's success on the stock market over the course of Covid has been driven by confidence in streaming generally rather than booming business fundamentals. With SVODs becoming an essential entertainment outlet during global lockdowns, and several major media companies entering the streaming space, Netflix's crown as the biggest platform in the world has single-handedly propelled its investor relations. In reality, Netflix is struggling to maintain its frontrunner position. Firstly, Netflix stock has a trailing 12-month price-to-earnings ratio of 58.98, meaning new investors are paying $58 for every $1 Netflix makes from subscription revenue. While it is not unusual for growth stocks to have high P/E ratios due to their forward-looking nature, Netflix cannot clearly demonstrate strong growth potential in an ever-crowded market. According to Ampere Analysis, Netflix lost 29% of global streaming market share between Q1 of 2020 and Q1 of 2021 (Burch, 2021). While analyst James Brumley from The Motley Fool argues that this figure is not concerning for the company considering the number of SVODs that have en-

tered the market since the start of Covid, The Hollywood Reporter revealed that Netflix had actually lost 400,000 subscribers in domestic territories in their most recent quarterly report (Brumley, 2021) (Weprin, 2021). Research outfit Kantar dived deeper into the exact market share loss of Netflix prior to this announced subscriber loss, arguing that in Q1 of 2021:

> "HBO Max picked up more of last quarter's new U.S. streaming business than any other platform: 14.4% of new customers. Prime, from Amazon, won second place in terms of streaming subscriber additions. ViacomCBS's Paramount + (formerly known as CBS All-Access) came in third with its 11.8% share last quarter, followed by Disney's Disney +… Netflix was sixth-best in terms of new U.S. customer growth, winning only 8.5% of the nation's new on-demand business." (Brumley, 2021).

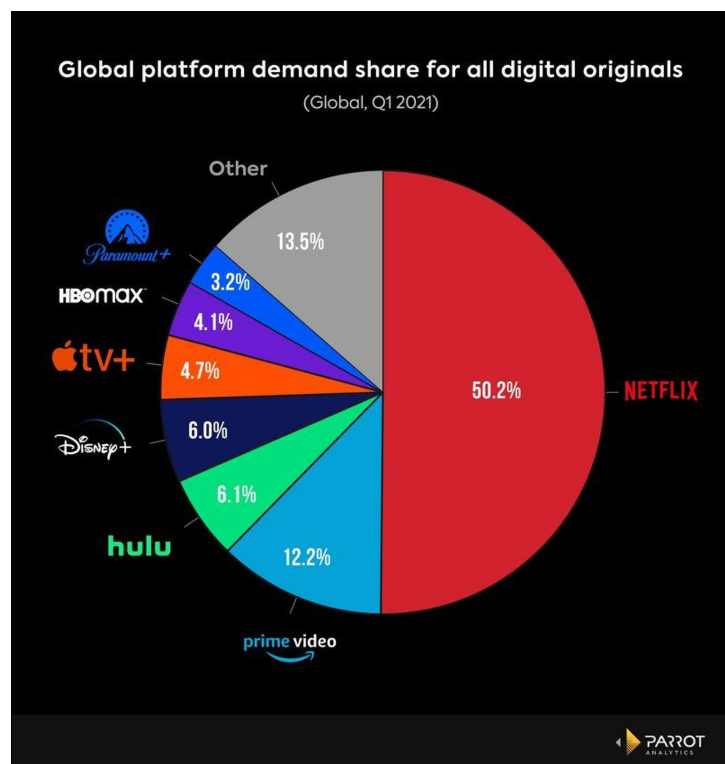

Figure 8: Global platform demand share for all digital originals in Q1 2020 (Prange, 2021)

According to Parrot Analytics, Netflix's share of the market for in-demand original content is also shrinking. As figure 8 shows, in Q1 of 2021 Netflix held 50.2% of the global platform demand for original streaming content, down from 64.6% two years prior (Shaw, 2021). This figure was down even more severely in domestic territories, with Netflix only accounting for 48.1% of demanded content.

B.4: Content Spending

As a new media company, Netflix's ability to survive against IP behemoths such as Disney and Warner is entirely determined by their ability to create franchise content that audiences feel they can't afford to unsubscribe from their service for. As a result, heavy expenditure on programming and production is key to both acquiring crucial intellectual property and testing new content for franchise expansion. So far, Netflix has been successful with franchises such as *Stranger Things*, *The Witcher*, *The Crown* and *Bridgerton*. That said, Netflix does not necessarily own each of these IP's, with franchise deals such as *The Witcher* being reviewed on a yearly basis due to author proprietorship. Furthermore, it is not yet clear how many of these franchises will be utilized in the long-term. Media companies such as Disney have been forthcoming with their plans to expand the franchise universes of key IP such as *Marvel* and *Star Wars*, which has played extraordinarily well with investors by assuring future growth (Goodman, 2020). For example, following Disney's announcement of a slate of Star Wars films at their December 2020 investors day, Disney stock jumped 14% in after-hours trading (Hayes, 2020). If Netflix is to maintain their crown in the streaming wars, they will have to continue spending aggressively on a broad range of content in order to discover key content franchise potential. Companies such as Disney and Warner are naturally in an advantageous position, owning IP that can be expanded over the decades to come. While a handful of Netflix's limited series' such as *The Crown*, *The Queen's Gambit*, *Ozark* and *House of Cards* have unquestionably boosted Netflix's prestige and profitability, they will not be able to support subscriber growth and retention in the same way *Star Wars* or *Marvel* will for Disney +.

As mentioned, Netflix has struggled to meet certain subscriber growth targets, which directly affects the volatility of its stock price. With such a high P/E ratio, Netflix cannot afford to compromise its relationship with investors by not meeting goals or securing expandable intellectual property. If Netflix fail to achieve both of these, investors may begin to move their money elsewhere if the broader market begins to falter or the realization that Netflix stock is overpriced comes to light. Netflix also cannot afford to compromise investor relations due to such high production and programming costs. In 2020, Netflix spent a

total of $11.8 billion on content, significantly lower than 2019 (Low, 2021). The company explained the drastic decrease in spending on Covid, stating that:

> "The production delays from Covid-19 in 2020 will lead to a 2021 slate that is more heavily second half weighted with a large number of returning franchises… And while the rollout of vaccines is very uneven across the world, we are back up and producing safely in every major market with the exception of Brazil and India. Assuming this continues, we'll spend over $17 billion in cash on content this year and we'll continue to deliver an amazing range of titles for our members with more originals this year than last." (Low, 2021)

One benefit from low production and programming costs in 2021 has been the fact that for the first time in the company's history, Netflix has a positive cash flow. Over the last decade, Netflix has borrowed a total of $15 billion for production and licensing costs (Sherman, 2021). With a positive cashflow of 1.9 billion for 2020, Netflix can now consider themselves a self-sustaining company in the eyes of investors. In 2019, Netflix hit a rock-bottom cash flow loss of $3.3 billion (Szalai, 2020). In Q2 of 2020, Netflix announced their first profitable quarter, with a positive cash flow of $889 million (Feiner, 2020) A year later, Netflix revealed a decreased positive cash flow of $175 million. While positive cashflow after a decade of borrowing may give investors confidence, it is clearly unsustainable as production and programming costs return to normal levels. Positive cashflow in the first half of 2021 can also be explained by another decrease in content spending in Q1 of 2021, with the company only dedicating $3.9 billion to programming, approximately 7% more than that of Q1 2020.

B.5: Marketing

Netflix has also significantly curbed marketing expenditure since the start of the Covid-19 pandemic, offering another explanation for deceptively high cashflow. While this move has undoubtedly

helped Netflix minimize the negative impact of tight production budgets, it may also offer an explanation for stunted subscriber growth.

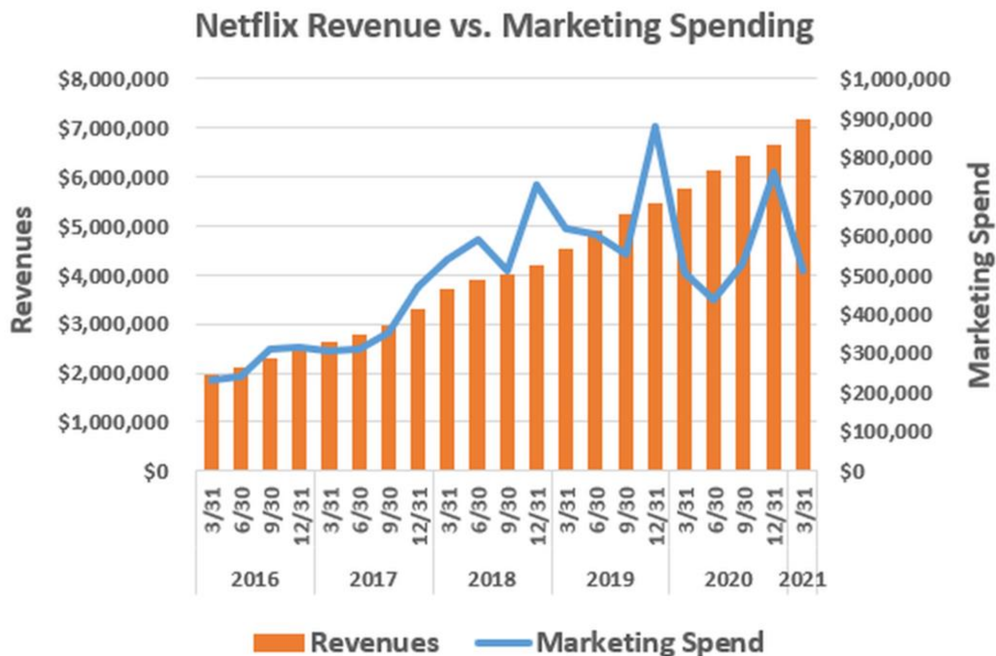

Figure 9: Netflix Revenue vs. Marketing Spend. All dollar figures are in thousands (Brumley, 2021)

As figure 9 shows, Netflix's marketing expenditure severely dipped from a peak of 900 million in Q4 of 2019 to 500 million in Q1 of 2020 (Brumley, 2021). The Covid-19 pandemic no doubt played a role in this decision to lower marketing budgets, with audiences naturally turning to streaming content while confined at home. Netflix's historically low net revenue due to ever increasing costs of revenue may also be a reason for lowering marketing budgets during Covid-19, particularly with rivals such as Disney + making significant gains in the streaming wars. James Brumley from The Motley Fool argues that Netflix's reliance on producing a broad array of content for retaining and growing subscription numbers is ultimately stunting its ability to reach audiences. Brumley stated in Q2 financial report of Netflix that the company has opted to "play more defense against the pandemic than it's played offense against streaming newcomers" (Brumley, 2021). If the company wants to survive in the current streaming climate, Brumley argues that

Netflix will have to “choose strong profits or strong customer growth because it can’t have both” (Brumley, 2021).

B.6: Gaming

With Netflix’s investor relations being directly tied to the performance of their quarterly subscriber growth, the company has expressed intentions to move into the gaming market. While their exact business model has not been made clear, it is likely the company will go in a similar direction to cloud service platforms such as Google Stadia, PlayStation Now and Xbox Game Pass.

Branching into gaming poses an immense opportunity for Netflix, particularly with the global gaming market expected to generate $175.8 billion in 2021, a figure that dwarves both film and television (Wijman, 2021). Netflix’s CEO Reed Hastings has expressed that in the world of entertainment, Netflix competes with games such as *Fortnite* more than it does with rival streaming services such as HBO (Hayes, 2019). Indeed, massively multiplayer online games such as *Fortnite* attract hundreds of millions of players, with a majority of its audience falling in the 18 -24 age bracket. *Fortnite* alone has over 350 million users, 80.4 million active monthly users, and generated $5.1 billion for Epic Games in 2020. Furthermore, the majority of *Fortnite’s* revenue does not stem from the ‘Fortnite Crew’ subscription monetization model, which offers players monthly in-game currency and exclusive cosmetic items for playing the game (Epic Games Fortnite, 2021). Instead, most of Epic Games’ $5.1 billion revenue comes from stand-alone cosmetic purchases not associated with the subscription model. The popularity of such purchasing trends signifies an immense alternative revenue stream for Netflix, as they often suffer on the stock market when they are unable to meet subscription growth targets. Furthermore, by branching into gaming, Netflix has the opportunity to develop and test potential original streaming content and intellectual property for their Film and Television divisions. Netflix is no stranger to adapting streaming content from popular video game titles, releasing their first series of *The Witcher* back in December of 2019. According to Travis Clark from Insider, Season 1 of *The Witcher* was streamed by over 76 million people upon release, and has been Net-

flix's second most powerful franchise behind *Bridgerton* (Clark, 2021). Julia Alexander from The Verge corroborates the notion that gaming can immensely boost Netflix's position in the streaming market, arguing that utilizing established IP such as *The Witcher* made the TV series a "guaranteed success" before it had even premiered (Alexander, 2020). Naturally, Netflix's foray into the world of video games is a long-term investment. Paolo Pescatore, an analyst from PP Foresight, notes that the venture is a "costly and bold move", requiring "significant time and investment with no guarantee of success" (Pescatore in Balu and Rana, 2021). If Netflix can successfully build audiences in the long-term around original IP through gaming products and platforms, the company will undoubtedly affirm and embolden their position in the content streaming market.

B.7: International Efforts

As previously noted, Netflix has been losing ground in domestic territories, announcing a loss of 400,000 subscribers in the U.S. and Canada in Q2 of 2021 (B.3). That said, the company has also gained significant membership numbers abroad, adding 1 million subscribers in Asia-Pacific regions alone (Weprin, 2021). This trend reflects Netflix's aggressive international strategy, which has fueled growth over the last five years. Since 2017, Netflix has operated in 190 countries. Furthermore, since 2018, revenue from international territories has exceeded domestic revenue. In their most recent financial report, Netflix revealed that approximately 135 million of its 209 million subscribers came from outside North America, reflecting the extent to which Netflix has grown in reach over the last two decades. Netflix's international dimension is arguably its strongest feature, with no other western streaming service being able to compete on such a broad spectrum. Entertainment analyst Matthew Ball concurs with the notion of Netflix's international dominance in the streaming wars, particularly in untapped markets, arguing that:

> "In most tier-three markets, [India, Egypt, Vietnam are some examples] Netflix faces no real competition as a digital provider of a high volume of premium television and film… Not only does this mean subscriber adoption is easier and churn is lower, but the quality of the company's offering is stronger

> as it collects most of the best licenses (it also means they don't pay enormous sums for these licenses, either.) (Ball in Alexander, 2020)

Ball raises an important point about Netflix programming concerning localized content. Journalist Oliver Skinner from Voices argues that producing localized content for specific territories feeds into the diversity of Netflix's content and global appeal (Skinner, 2020). Alexander argues this point a step further, noting that diverse and localized content feeds most directly back into primary English-speaking western markets. In the European market, limited series such as *Money Heist* and *Dark* have been the strongest examples of popular localized content feeding back into main domestic territories. The success of such content also reflects the extent to which Netflix has developed deep roots in European countries with specialized programming. Alexander further argues that Netflix's efforts to develop a foothold in Europe over the last decade gives it a natural advantage over newcomer services:

> "Here's where Netflix has [a] big advantage over Disney, which is easily its biggest domestic competitor in the streaming space: the European Parliament instituted a quota in 2018 for international streaming services (like Netflix) that required all streaming services operating in the EU to carry at least 30 percent of content from the region it's in." (Alexander, 2020)

Netflix has also placed a particular focus on the Indian marketing over the last two years. As one of the fastest growing media and entertainment industries in the world with a projected CAGR of 17% and an domestic audience of over 1 billion, India has become a hotspot for major western SVODs to develop original content (Ibef.org, 2021). As mentioned prior, Disney has made significant gains in the Indian market with their Disney + *Hotstar*, service. Netflix is naturally their biggest competitor in the region, with the company spending $400 million in localized Indian content over the past 2 years (Bhushan, 2019). According to CEO Reed Hastings, due to "the fast growth of internet connectivity and usage in the country", Netflix's next 100 million subscribers will be "coming from India" (Hastings in Bhushan, 2019).

Netflix has also made inroads into east-Asian markets. In 2018, Netflix pledged to spend $8 billion on anime film and TV series in order to bring its library up to 50% original content (Statt, 2017). The anime market is undoubtedly heating up globally, especially after *Demon Slayer* turned out as the fourth highest grossing movie of 2020, raking in $500 million as Japan's highest grossing movie of all time. The anime market currently stands at around $23 billion worldwide, and streamers such as Netflix are successfully riding that wave (Levy, 2021). Like European and South Asian localized content, investment in anime inevitably feeds back into Netflix's global strategy. According to Netflix's chief anime producer Taiki Sakurai, since the start of 2021 half of Netflix's 209 million subscribers have watched at least one streamable anime title, demonstrating the wide reach and appeal of such content. Following the success of originals such as *Blood of Zeus* and *Castlevania*, Netflix has recently committed to developing a further 40 original Anime titles from 2021 onwards (The Japan Times, 2021). While anime content won't be winning Netflix academy awards, it undoubtedly increases the service's presence in international markets, which is where Netflix's growth has been most significant.

Appendix C – Sony and the Future of Streaming

Picture 8: *Spiderman: Into the Spider-Verse* (2018) (Abad-Santos, 2018)

C.1: The Sony Deal

In early-April of this year, Netflix revealed a five year first-pay window deal for the U.S. with Sony for all its film content from 2022 onwards. In the past, the first-pay window opened 9 months after a movie's theatrical release. Ever since major Hollywood studios have experienced the uncertainty of theatrical releases during a pandemic, that window has been moved forward drastically to only 90 days.

This is not the first time Netflix and Sony have struck a streaming deal in the past. In 2014, Netflix penned a first pay TV window deal for Sony Pictures Animated feature films, notable titles including *Cloudy with a Chance of Meatballs 2* and *The Smurfs 2*. While Wall Street analyst Tony Wible observed that "The [2014] Sony deal would only add one or two titles per year to [Netflix's] lineup", it was a key contract in solidifying the younger animated content market (Wible in Szalai, 2014). At the time, the only other service offering such content was HBO, who had distribution partnerships with Fox's Blue Sky Studios and Universal's Illumination. Wible further noted that Netflix's "exclusive access to Pixar, Disney Animation,

DreamWorks Animation, and Sony Animation" gave the company a monumental advantage, as "the younger demographic is an important element of Netflix's long-term strategy as they condition future generations to use the platform as they mature" (Wible in Szalai, 2014). With Netflix continuing to be the most subscribed to SVOD in the market, it can be concluded that this strategy has paid off. That said, with a plethora of rival platforms looking reclaim their intellectual property, Netflix will undoubtedly have to pivot their strategy to creating more original family friendly content.

Typically, Sony's primary first pay TV window partner has been the Lionsgate owned platform Starz, specifically for live-action film content. The April deal signifies Sony's desire to pivot towards bigger players in the SVOD industry as the space becomes more saturated with competition. According to The Hollywood Reporter, the first-pay window streaming deal is worth over $1 billion to Sony and will include high-profile releases such as the upcoming *Uncharted* film adaptation, *Morbius*, *Venom: Let There be Carnage*, and the highly anticipated sequel to *Spider-Man: Into the Spider-verse* (Galuppo, 2021). These are no doubt important gems of intellectual property for Netflix to stream in the first pay window, and will encourage domestic audiences to keep their subscription to the service while the streaming wars unfolds. The streaming deal with Sony also includes major franchises such as *Jumanji* and *Bad Boys*. Furthermore, Columbia Pictures' entire century-old catalogue of films will be made available on Netflix, making the service a crucial platform of legacy media. Other studios labels such as Sony Pictures Classics, Screen Gems and Tri-Star will also feature in the deal with Netflix.

Sony film content will undoubtedly be a jewel in Netflix's streaming crown. In an analysis of Sony's live-action streaming deal with Starz, Alexander argues that Sony's content will be better utilized on a larger platform such as Netflix:

> "In 2019, Sony's films generated more than $3.5 billion at the global box office and included franchise blockbusters (*Spider-Man: Far from Home)* and *Jumanii: The Next Level*, as well as Oscar winning films like *Little Women*. Lionsgate's films that same year generated less than half of that figure, coming

> in at just under $1.3 billion. More importantly, the Sony films that are available on Starz generated more than $10 billion at the global box office between 2006 (when Starz and Sony first signed a pay one deal) and 2020.” (Alexander, 2021)

If Alexander’s notion that the streaming wars has hit its “peak”, original Sony content and expandable IP will no doubt become a crucial to retaining and growing subscribers in the SVOD market as churn decreases:

> “If the demand is high enough, having exclusive rights to first run movies could be worth more than just a percentage of the total library – it could ultimately become the difference between a customer signup up or not… If the bets paid off, not only will Netflix command more attention, decrease churn, and potentially increase its overall subscriber numbers, but customers may actually cancel their Hulu or HBO Max subscriptions in the process. Netflix wins two times over.” (Alexander, 2021).

Furthermore, as Netflix loses ground in domestic territories, the merging of content from a legacy studio such as Columbia Pictures will no doubt help recapture U.S. audiences while upholding the service as a hub of prestigious content.

C.2: Sony and Streaming

Sony has made it very clear in the past that they have minimal ambitions to enter the streaming wars, instead aiming to become what journalist R.T. Watson from the Wall Street Journal coined as the “biggest [content] arms dealer” in the business. In early August chairman of Sony Pictures, Tim Rothman, affirmed this position, stating that none of the big streamers “can deal with each other, but all of them can deal with us… It’s certainly been a zigging-where-everyone-zags strategy. It’s proved very lucrative for us.” (Rothman in Kotuby, 2021). The streaming deal has certainly been a big win for Sony, with Netflix allegedly paying $250 million per year for first pay window rights. This figure is notably higher than the

£150 million per year deal Netflix struck with Disney for similar streaming rights only a few years ago, who arguably have a much stronger catalogue of intellectual property (Whitten, 2019)

Despite Rothman's commitment to being the biggest content arms dealer in the market, Sony has made considerable inroads into niche streaming markets. In August of this year, Funimation (a subsidiary of Sony Pictures Entertainment) finalized a deal with AT&T's WarnerMedia to acquire Crunchyroll, an anime streaming service with over 1000 major titles (Lyons, 2021). According to Polygon, Crunchyroll was purchased for $1.175 billion, which is no small price for a company that does not seek to aggressively compete against the major western streaming giants (Moore, 2021). With 70 million free members and 3 million paid subscribers, Crunchyroll is without a doubt a serious competitor in the anime market, particularly against platforms such as Netflix who have invested heavily in such content (Coats, 2020) (Deep dive Net). In early August, CEO of Sony Pictures Entertainment, Tony Vinciquerra described the acquisition of Crunchyroll as an "unprecedented opportunity to serve anime fans like never before… [delivering] the anime experience across any platform they choose from theatrical, events, home entertainment, games, streaming, linear TV – everywhere" (Vinciquerra, 2021). Vinciquerra further added that the goal of the deal "is to create a unified anime subscription experience as soon as possible" (Vinciquerra, 2021). The Crunchyroll deal signifies that Sony may not have their eyes on the domestic streaming audience, but they certainly have ambitious prospects for the international market.

C.3: Could Sony stand alone as an SVOD?

Considering the question of whether Sony has the ability to stand alone as a streamer is an entirely theoretical practice, but should be considered for the benefit of Netflix's future relations with the company and positioning in the streaming wars. Firstly, Sony has given no indication of wanting to compete in the already overcrowded U.S. streaming market but has evidently made efforts to penetrate the anime market globally. This may explain why Sony has been willing to strike first pay window deals for their primary English-speaking content for domestic territories with companies such as Netflix. As Netflix's success over the

last few years has demonstrated, a majority of subscribers come from overseas, and that market will undoubtedly continue to become a frontier of considerable opportunities in the years to come.

From a content standpoint, Sony certainly has the power of intellectual property behind them, but perhaps not enough to launch a stand-alone streaming service. Sony's most notable movie franchises are *Spider-Man*, J*umanji*, and *Ghost Busters*. While being notable box office gems, these franchises alone cannot kick-start a streaming service to rival the likes of Netflix, Disney + and Prime Video. Sony does, however, have a catalogue of valuable intellectual property from its gaming division. While untested in Film or TV format, franchises such as *The Last of Us*, God *of War* and *Uncharted* could put Sony ahead in the gaming adaptation market. Gaming franchises would also add to Sony's arsenal as the front running content arms dealer.

It should be further noted that developing a stand-alone streaming service is no inexpensive venture. Netflix is an excellent example of how production and programming costs can eat into yearly budgets before any net revenue is achieved. From a macro perspective, the Sony Corporation turned $81 billion of revenue in 2021, which isn't far behind the likes of Amazon with $113 billion (Frater, 2021). That said, Sony cannot afford to take risks by pumping cash into original content in the same way Prime Video can, with Amazon's SVOD serving as a compliment to its broader business model of e-commerce.

C.4: Streaming Wars outlook and Netflix's future relations with Sony

As it stands, Netflix's first pay window with Sony is set to expire in 2027. By then, the streaming landscape will no doubt be vastly different from what it is today. From this industry report's analysis of the western streaming wars, it is clear that mergers will inevitably solidify a select few streaming giants. The most likely contenders to survive in name are Netflix, Disney +, Prime Video, and HBO Max following its merger with Discovery. Content from Peacock and Paramount + will undoubtedly be streamable, but the

services themselves will need to make crucial acquisitions or hastily dedicate more cash to production if they want to stay in the market. With Tier 1 services and HBO Max already scooping up much of the streaming market share, it is unlikely Peacock and Paramount + will be able to sustain themselves without considering a merger. Furthermore, as consumers churn through different streaming options, they are likely to commit to platforms that have proven to offer consistent, high-quality entertainment for a reasonable market price tag.

Sony will potentially be in a similar position in 2027 as they are in today unless media outlets such as NBCUniversal and ViacomCBS decide to pull out of the streaming distribution market to become strict licensors of content. Sony's position in the market as the biggest content arms dealer is only a result of every other major western studio diving into streaming. It will no doubt benefit Sony to preserve this position, as they minimize risk with their Film and TV content. As Alexander has stated, "risk almost always falls upon the buyer. The seller ends up with a check regardless of how well those films perform for the streaming service they land on. (Alexander, 2021).

Depending on how Sony content performs through the first pay window over the next five years, Netflix should look to renew its deal with them from 2027 onwards. Sony as a hub of legacy media content will no doubt help Netflix retain subscribers in domestic territories. If possible, Netflix should look to strike more international deals with Sony, especially as they look to grow their anime content offering with Funimation and Crunchyroll. Fundamentally, the trajectory of the streaming wars is global, and Netflix can only benefit from developing positive relations with prospective streamers such as Sony who are looking to penetrate that market.

If a partnership with Sony does not seem likely to continue after 2027, Netflix should focus on developing their own indispensable Film and TV franchise content. Franchise IP purchases such as *Knives Out* and the ongoing deal with Andrzej Sapkowski's *The Witcher* will no doubt spearhead Netflix's exclusive streaming content. Furthermore, high-profile movies such as the upcoming *Don't Look Up* will entice

domestic and international audiences but must be carefully balanced with steep production and programming costs which notoriously eat into Netflix's net revenue.

Sony may have waited too long to develop their own SVOD to rival the Western streaming giants, but their position as the primary content arms dealer means they are in an ideal position to demand top-dollar for their catalogue of Film and TV content. If Netflix can begin to establish itself as a legacy media company on-par with the classic Hollywood studios, they may not need Sony's content slate to survive.

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