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The challenges

Part 2

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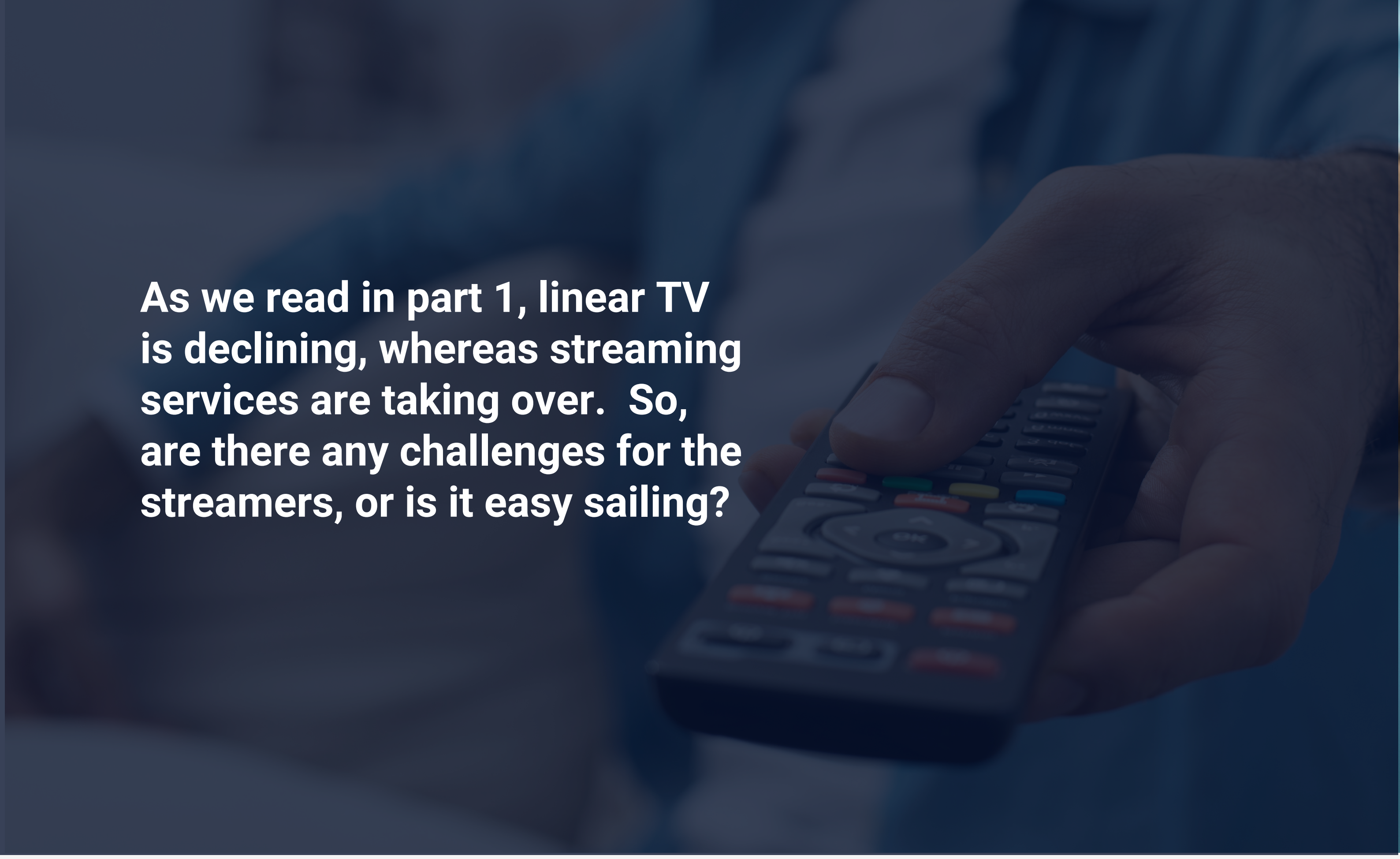

As we read in part 1, linear TV is declining, whereas streaming services are taking over. So, are there any challenges for the streamers, or is it easy sailing?

The age old saying that “Content is King” still very much rings true. Without the right content, the audience will quickly move over to something else. Viewers are not known for their loyalty and patience, and will with the flick of a button move over to the next vendor or change for another content section.

There are obvious infrastructural savings with being a streaming company only, but most highly attractive content is extremely expensive, and this is what the end user is there to see, whether you get the signal through cable or streaming. Producing a high ranking international TV-series costs millions of dollars, sometimes per episode.

The average last season Game Of Thrones episode **cost** approximately 15 million dollars, a growth of 5 million USD per episode compared to season 6. It is challenging to create quality content without a lot of money, so new entrants into the streaming space, at least for international audiences, are normally financially solid companies that have a lot of money to spend. Or at the very least have extremely solid funding before they undertake the startup.

A game of consolidation

We have recently seen that the big just becomes bigger. Disney+ launched in 2019 and has already gained 100 million users as of March 2021. HBO Max is slated to start launching internationally at the end of June 2021 and ViacomCBS has rebranded and expanded into Paramount+. One of the largest mergers ever is yet to come with ATT announcing a deal to merge WarnerMedia and Discovery.

This new giant's hairy goal is to have 400 million streaming subscribers. Netflix leads the way today with approximately 200 million subscribers and Amazon Prime Video follows behind with 150 million subscribers. (Both numbers from Q4 2020).

As the globalisation in video content consumption is accelerating, and the benefit of scale is drawing the attention of the audience towards a handful of global video services, is there still room for others here?

The model

AVOD

TVOD

SVOD

PVOD

There is no doubt it is challenging to become a viable alternative, linear or not. Starting up a global service today seems like a daunting task, but the key to this will be niche content and localisation. Then you need to find the right service model. Is it AVOD, TVOD, SVOD, or PVOD?

For SVOD, you need the balance of the right price of subscription compared to the cost of getting proper content. Netflix is probably the most known SVOD service with their 200 million subscriber base. They have revealed that they are going to spend **17 billion US dollars on content in 2021.**

If your service is to be financed through advertising, you will lay down the AVOD model, allowing for the ads to come as insertions before, in the middle and after the content. If this is going to be successful depends on your content vs audience. There is at least one thing which is common to all advertisers: Advertising needs to hit the right audience.

No advertiser wants to pay for eyeballs that will never spend money on their product. In today's landscape it is a very hard battle to fight for advertising dollars against the likes of Facebook that has billions of users, but if the content is attractive enough, this is a very viable option of service financing. Streaming has a better hit rate for the ads compared to linear TV, as we saw in part 1, but there will still be concerns from advertisers to spend their money where they get the best effect.

So, understanding your audience is key to success and survival. Getting the xVOD choice correct is pivotal as the wrong choice will likely take you quickly towards the cliff.

With easy cancellations and lots of compelling programming on competing services, churn is a major headache for service operators. Having the right content in the right model will reduce the chance of churn.

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Technology makes all the difference

Another crucial element is choosing the right technology. Keep investing in on-premise technology today means missing out on leveraging the power of the cloud. The cloud provides the power to scale quickly and efficiently without having to shell out millions of dollars in on-premises equipment. It also enables much quicker time to market deployments and higher pace of innovation to stay ahead in the fast changing market space. That is why, today, the real alternative is the cloud.

It is definitely a challenging and defining time for the OTT industry. The price for content is increasing and a flurry of large scale market consolidation is happening globally.

Is there a sustainable future for the small to medium providers? If you get the basics right, there is a good chance to do well. We will give you our best suggestions for how to succeed in **part 3.**