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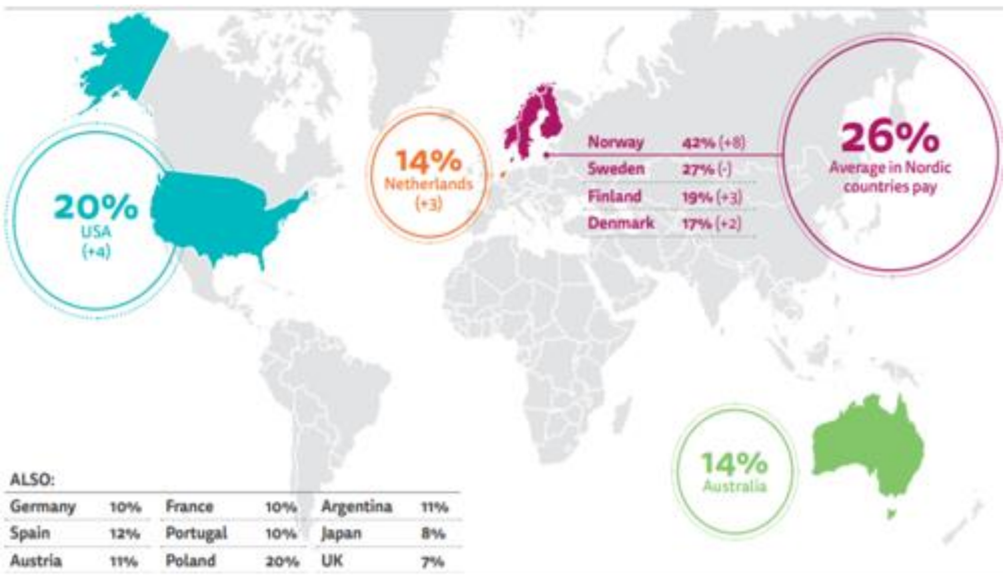
Managing Subscriptions: The Winning Formula for Media Companies

The world was not prepared for Covid-19 and for its far-reaching effects on all aspects of economy, business and personal lives. We are, in many ways, still in the middle of the crisis or, at least, in some transitional phase of coping day-by-day following the initial paralysis and uncertainty.

In the media sector, while advertising revenues have dropped across the board, the effect of the pandemic has been uneven. As consumers across the globe were faced with physical distancing, the demand for on-demand streaming of entertainment has skyrocketed. For some market participants this signals a shift from Pay TV to OTT, similar to the one seen in publishing from print to digital. Newspapers who were in structural decline for decades, have seen print circulation collapse coupled with historic high website traffic volumes, as consumers were avidly and round-the-clock following pandemic related news. Interest and willingness to pay for quality news was evident pre-pandemic already, as evidenced by the Reuters Institute's research. The percentage of consumers paying for online news access is increasing across geographies (highest in Nordics countries at 26% vs 7% in the UK); with most subscribers expecting to continue paying, although a severe downturn may dampen enthusiasm for paid news. This is coupled with a wider industry move away from advertising-driven business models.

"Digital media has been trying to make mass media work through digital advertising, big readership numbers and then you get people to pay on the back of big numbers. It's clear that before coronavirus that wasn't really working for publishers, and so, they are looking for different kinds of models, so we're really in the midst of the switch from advertiser driven media to paid/subscription business models." – Nic Newman, Senior Research Associate at the Reuters Institute for the Study of Journalism, Oxford University

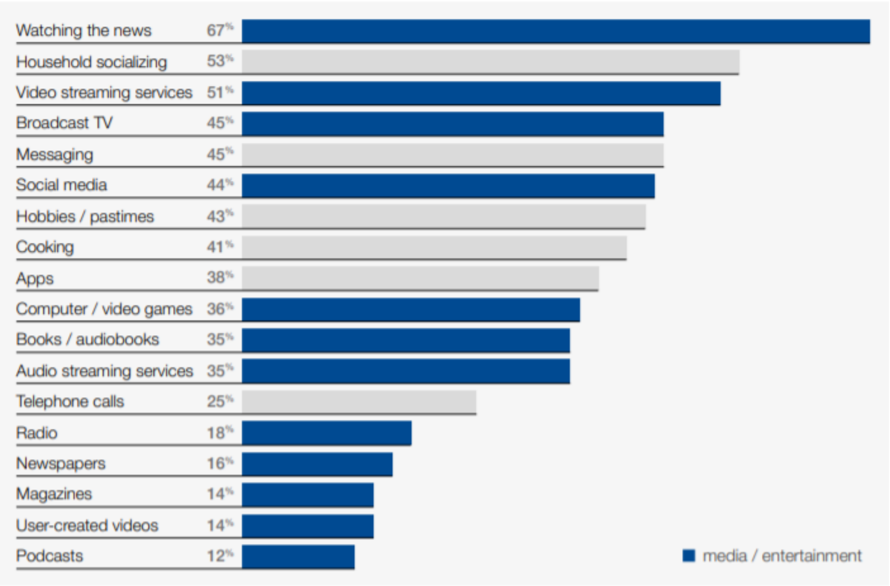
Percentage of consumers that paid for online news in the last year, 2019-2020



Source: Reuters Institute: Digital news Report 2020

A World Economic Forum survey found that since the start of the outbreak, two thirds of consumers worldwide are watching more news coverage and half are watching more video content on streaming services.

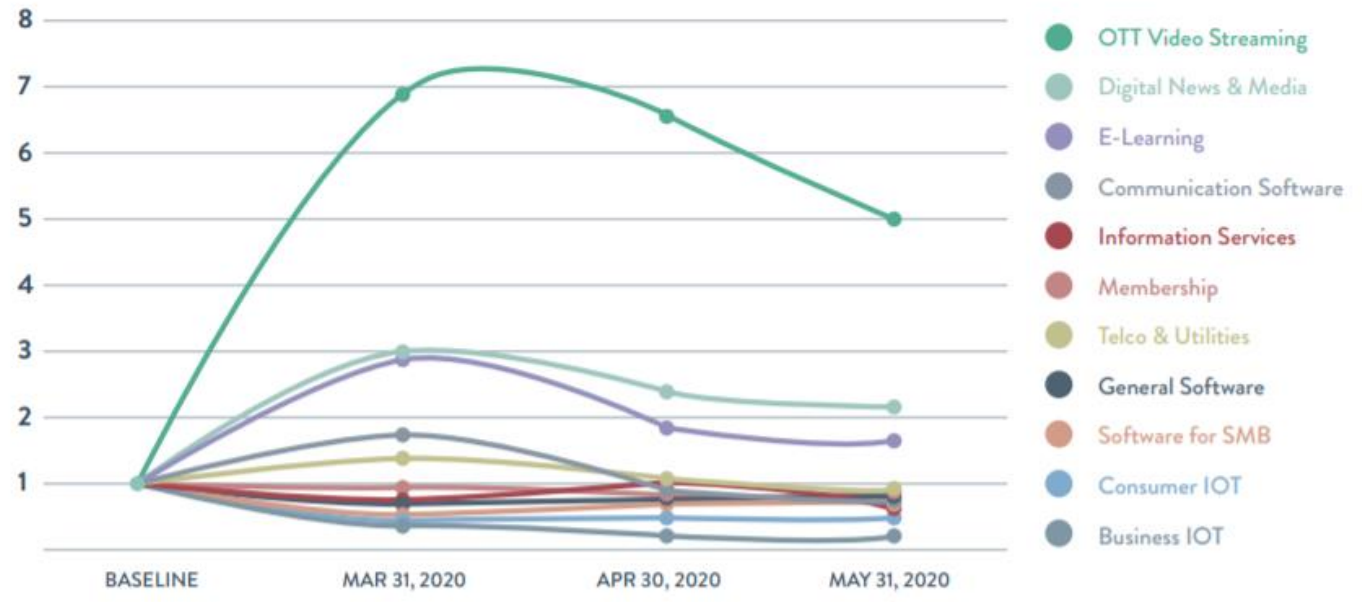
% consumers who say they've spent more time on certain activities since the outbreak of Covid-19



Source: World Economic Forum

Similarly, Zuora reported that during March-May 2020, OTT video streaming followed at a distance by digital news & media have experienced the highest growth in subscription volumes vs. the previous 12 months (400% for OTT and 110% for digital news & media).

Subscription Growth Rates since COVID-19



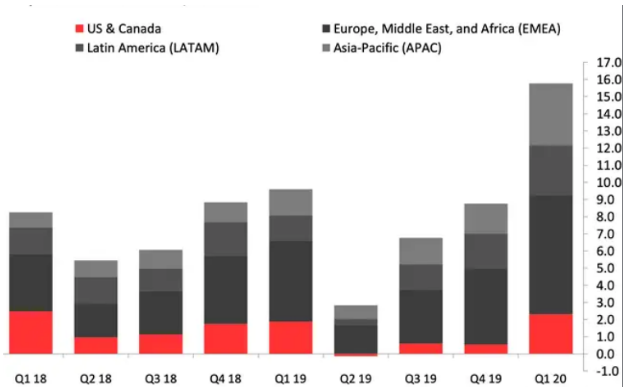
Source: Zuora

The media companies that were best placed to take advantage of the unprecedented demand at the onset of the pandemic, were those that had already implemented subscription and membership programmes supported by single sign-on. As evidenced by research from the Press Gazette, ten of the biggest newspaper groups in the US and UK have collectively gained more than 1m new digital subscriptions vs. last year.

"On average, the New York Times, Wall Street Journal, Times and Sunday Times, LA Times, Daily Mail and Mail on Sunday, Telegraph, Boston Globe and US regional publisher Gannett have increased digital subscription numbers by at least 15-% since the end of 2019. The Guardian and Financial Times have also performed strongly. The former gained 50,000 "recurring supporters" in April and the FT says it has added 50,000 subscribers since the Covid-19 crisis began." – Press Gazette Article June 2020 [Source]

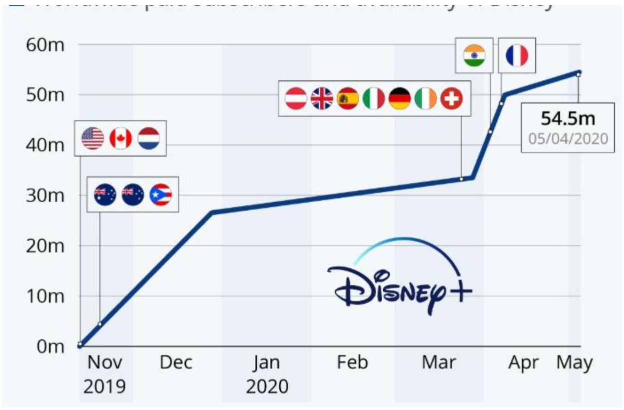
Similarly, large OTT platforms reported significant increase in subscribers. Netflix has increased its subscribers by 15.7m in Q1 2020, many of whom signed up in March after lockdowns began in several countries around the world. In Q2 the company estimated that net subscriber growth will slow down to 7.5 million (vs. 6.8 million in Q2 2019) as it expected Governments to relax lockdown rules and thus consumers to have more opportunities to spend time outside homes.

Netflix subscriber additions (millions)



Source: Company filings

Worldwide paid subscribers and availability of Disney+ by country



Source: Statista based on the Walt Disney Company

The real measure of success for media players though is maintaining the subscriber relationships during and post pandemic, especially if the decline in advertising proves to become a longer-term trend. This means investing in an "audience first" strategy, focused on the delivery of a seamless, personalised user experience that builds consumer loyalty and incentivises consumers to continue paying for subscriptions as well as investing in technology to reduce churn.

"There's a lot of interest in acquisition… the question is how do you get beyond your existing subscriber base, beyond people you know already, how can you track new people, how can you identify people who are likely to be subscribers and how can you show the right message at the right time or the right price with the differential pricing? How to get to those people without knowing who they are because you don't have that current relationship and that's obviously very difficult. There's also how do you stop people churning, how can you use technology more effectively to understand what to do about it. That's obviously a huge area of focus of technology project development now, so that you can appropriately give some recommendations about content to increase their engagement level." – Nic Newman, Senior Research Associate at the Reuters Institute for the Study of Journalism, Oxford University

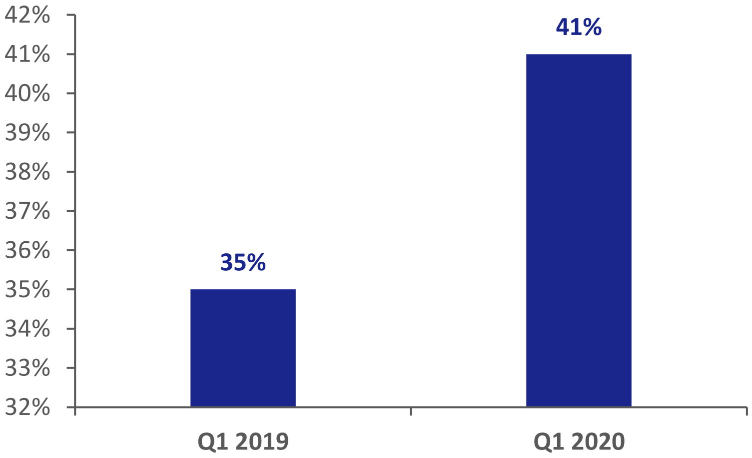
"There's obviously going to be a lot of churn, perhaps in the next six months. It seems to be inevitable -- if you widen the funnel that much and people then start to get more fatigued with the news, and then more distractions once people can leave the house again -- publishing may end up losing some of the subscribers." – Lucinda Southern, UK Media Editor, Digiday

"The churn rate for paid subscription-based OTT services as a whole hit 41% during this year's first quarter — up from 35% in Q1 2019 — driven in part by increased sampling resulting from more choices and more free-trial offers, according to the Parks Associates research firm. …The most cited reason for subscribing to an OTT service (chosen by nearly 30%) is having wanted to watch a specific program or event. But being offered a free trial, and enjoying the service and deciding to keep it, are close behind." – Media Post Article June 2020 [Source]

Q1 2020 has seen a rise in subscriber churn for OTT services, with the churn rate for paid subscription-based OTT services rising from 35% in q1 2019 to 41% in Q1 2020.

The rise in OTT churn is largely attributed to increased subscriber sampling as a result of free-trial offers and a wider selection of OTT services accessible to US subscribers.

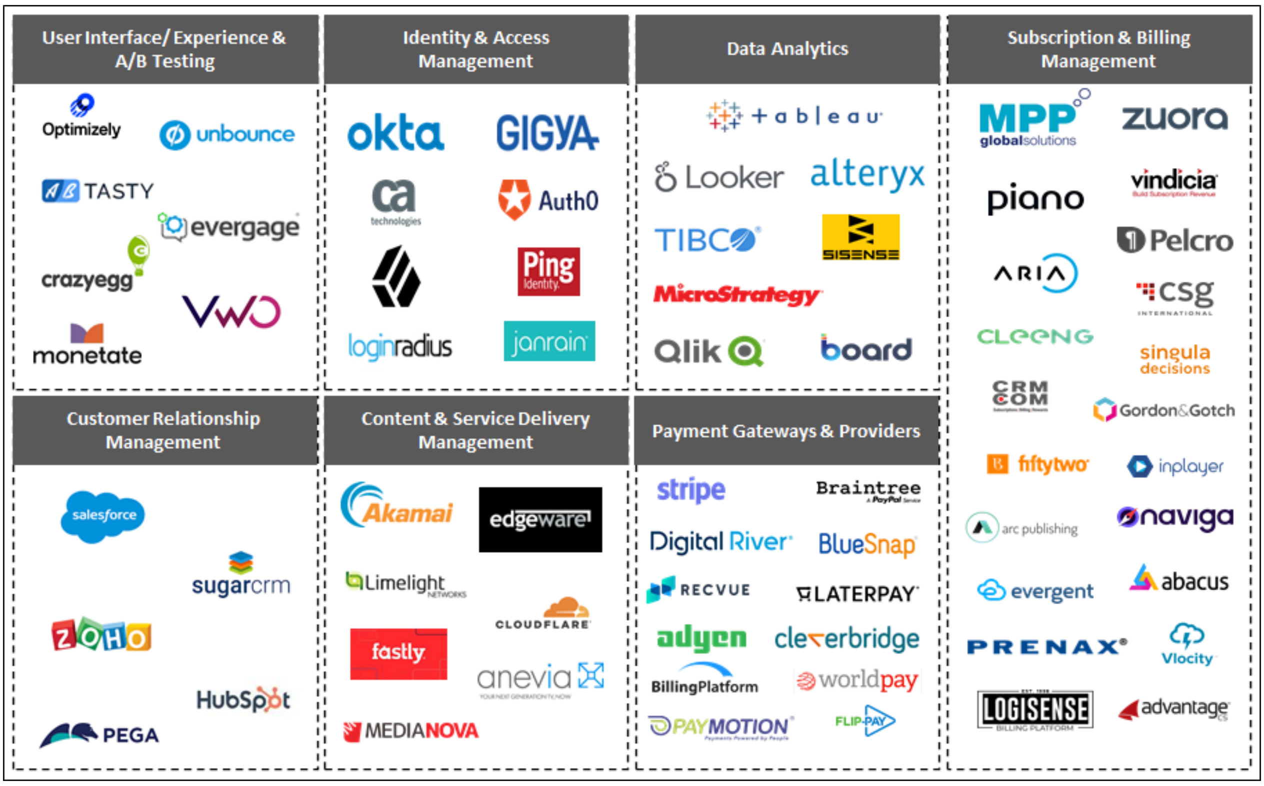
Subscribers cancelling services as a % of US subscriber base



Source: Parks Associates via Media Post [Source]

While content is obviously still key in attracting and engaging consumers, media companies must embrace technology innovations and solutions that help them to target, recruit and monetise the interaction with readers/viewers. A complex and constantly evolving mix of technologies is available to OTTs and publishers to this effect: from A/B testing and user experience to CRMs, identity and data management, content delivery and distribution systems, to data analytics and subscription management. Although all play a role, probably 3 areas are the key ones for media companies to get right: user experience, analytics and subscription management. Subscription management, in particular, is essential for maintaining existing subscribers and here media companies have an array of potential providers to choose from, although from our experience only a handful such as Zuora, MPP Global or Piano appear to have a truly global footprint and brand recognition across multiple elements of the media landscape.

Technology Ecosystem



The scale of the human tragedy is without doubt the most devastating effect of the current coronavirus crisis. Even after the medical aspect is brought under control, the effects of the current pandemic are likely to be long-lasting for the way businesses and individuals consume media and entertainment. Therefore, the real measure of success is how publishers, OTTs and their technology providers can increase subscribers and the share of subscription revenues. The winners are likely to be companies that understand the evolving needs of their customers and lean on technology to deliver a personalised, seamless, and flexible content experience combined with value for money proposition. Those companies that can't deliver this will likely look upon this crisis as a missed opportunity. And the real winners in the long term will be those media companies that are able to retain the customers they gained during this period, as such churn management and analytics will be key to their sustained growth.

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