THE SVOD REPORT

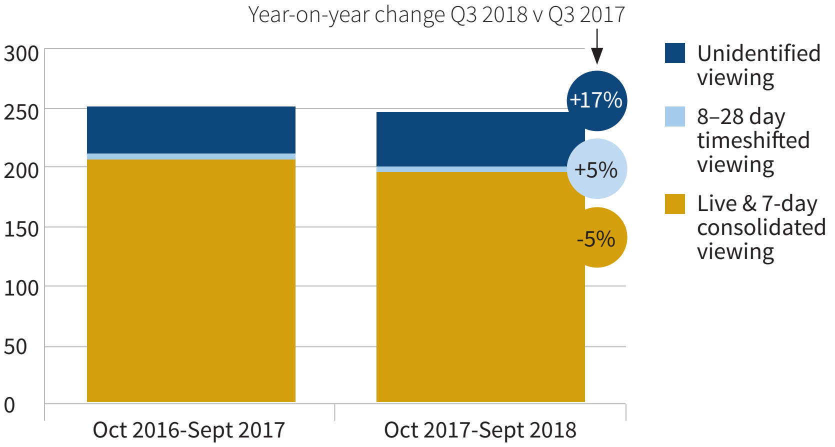
CHARTING THE GROWTH IN SVOD SERVICES ACROSS THE UK

January 2019

A lot can change in a year. In 2018, England had a football team that the public actually enjoyed watching and the Beast from the East was replaced by one of the hottest summers on record. Yet the political landscape remained as frenzied as ever – proving not all things change. All of this combined to maintain the British love affair with television; we still spend an average of over four hours a day watching a TV set. However, change is afoot, as SVOD services continue to cement their place in the television ecosystem.

The fragmentation of the media landscape is far from a new concept, but the growing competition for viewers' time is increasingly evident. In the 12 months to September 2018, time spent on unidentified viewing – where the TV set was being used to do something other than watch a BARB-reported channel or on-demand service – increased to 19% of all TV set activity, up from 16% in the preceding 12 months. In minute terms, that is a rise from 40 to 46 minutes a day on average (chart 1).

1 TOTAL TV: AVERAGE DAILY MINUTES



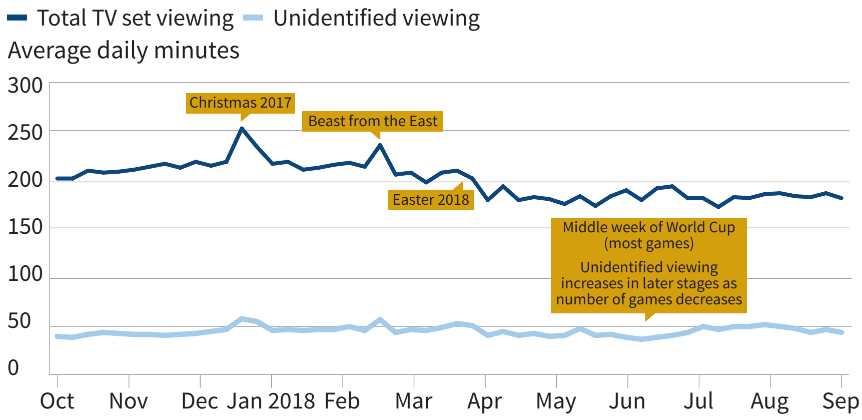
Source: BARB

If we look at viewing across these 12 months on a week-by-week basis (chart 2), we can see that certain events impacted on both the level of total TV set use and the level of unidentified viewing. Christmas, the aforementioned Beast from the East and Easter all produced increases in both types of viewing. It's clear that when viewers have more free time over holidays or during periods of bad weather, they use their televisions more.

Conversely, during the World Cup over the summer, unidentified viewing fell while total TV set viewing increased. Viewers set aside unidentified viewing sources, including SVOD services, in favour of watching the drama of England's run to the semi-finals on BARB-reported channels.

BARB

2 WEEKLY TOTAL TV SET AND UNIDENTIFIED VIEWING

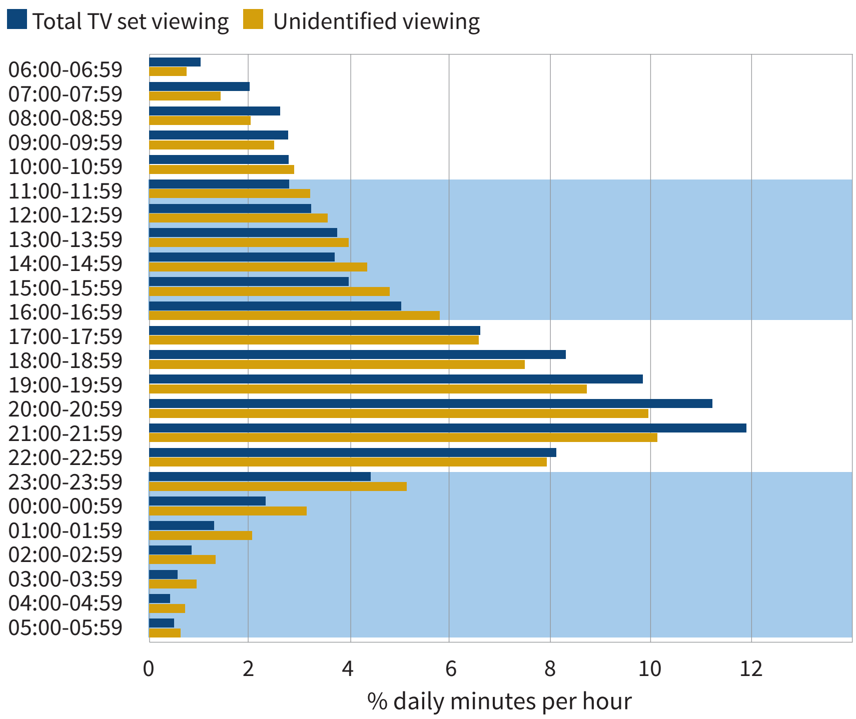


Source: BARB, weeks ending 08/10/17 – 30/09/18

UNIDENTIFIED VIEWING IS MORE EVENLY DISTRIBUTED THROUGHOUT THE DAY, WHILE TOTAL TV SET VIEWING IS MORE CONCENTRATED IN THE PEAK HOURS

Clearly, unidentified viewing resembles total TV set viewing in some respects. Does this translate into other areas? In chart 3, we can see that the daily viewing pattern is the same for both types of viewing, building through the day to an evening peak. However, if we consider the hours either side of the peak (shaded in the chart), we can see that unidentified viewing is more evenly distributed throughout the day, while total TV set viewing is more concentrated in the peak hours. In the shaded hours, 32% of total TV viewing takes place compared to 40% of unidentified viewing, whereas between 5pm and 11pm, 56% of total TV viewing takes place compared to 51% of unidentified viewing.

3 PROPORTION OF DAILY VIEWING PER HOUR



Source: BARB October 2017 – September 2018.
Total TV data are As Broadcast. Unidentified viewing is As Viewed.

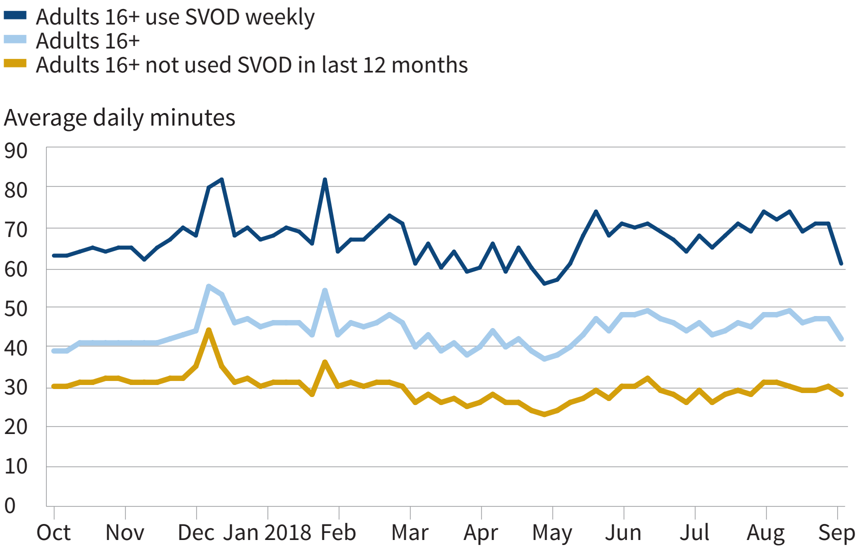
SVOD SERVICES REPRESENT A LARGE PROPORTION OF UNIDENTIFIED VIEWING

Like total TV set viewing, unidentified viewing also increases at the weekend, but to a greater degree. Compared to the daily average, unidentified viewing is 21% higher on a Saturday and 23% higher on a Sunday, suggesting the audiences are waiting for the weekend to binge-watch an SVOD box-set – or it could be to do some gaming. The corresponding figures for total TV set viewing are 5% and 12%. So, while the nation's unidentified viewing does follow the same patterns as total TV set viewing, there are differences in the times at which we consume it, indicating a symbiotic rather than parasitic relationship.

So, what is driving the growth in unidentified viewing? As the name suggests, we can't be certain, but we do have a growing body of evidence that points to SVOD services being a primary catalyst.

One angle of investigation is to analyse the level of adults' unidentified viewing by the answer to a particular question in our Lifestyle Insights questionnaire (chart 4). This question asks panellists how often they use paid-for video services such as Netflix, Amazon or Now TV. Taking those who said they have not used such a service in the last year, we see that their average level of unidentified viewing is around 40% lower than that of all adults. For those that said they had used an SVOD service in the past week, their average level of unidentified viewing is around 50% higher than that of all adults. While we cannot conclude that SVOD services solely account for this correlation, it's clear that they do represent a large, if currently undefined, proportion of unidentified viewing.

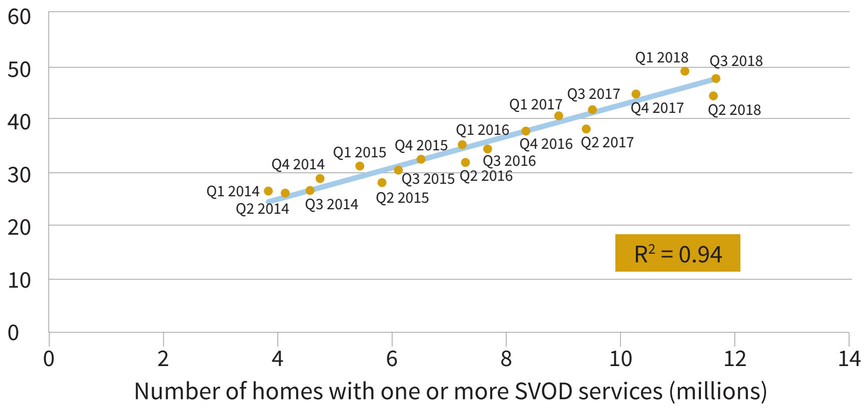
4 CLAIMED SVOD USE: IMPACT ON UNIDENTIFIED VIEWING*



*All adults vs SVOD use/non-use adults
Source: BARB, weeks ending 08/10/17–30/09/18. Additional panel classification question: How often do you use the internet for each of the following? Answers: Use paid-for video services such as Netflix, Amazon Prime, Now TV, etc (not in past year). Use paid-for video services such as Netflix, Amazon Prime, Now TV, etc (daily or weekly).

Comparing unidentified viewing with SVOD penetration figures from our Establishment Survey also points to increased unidentified viewing as a strong predictor of increased SVOD penetration. BARB has been asking respondents about their SVOD subscriptions in the Establishment Survey since 2014. By plotting the number of SVOD homes against the average quarterly levels of unidentified viewing, we can see that the two are strongly correlated: an R^2 of 0.94 (chart 5).

5 UNIDENTIFIED VIEWING VS SVOD PENETRATION

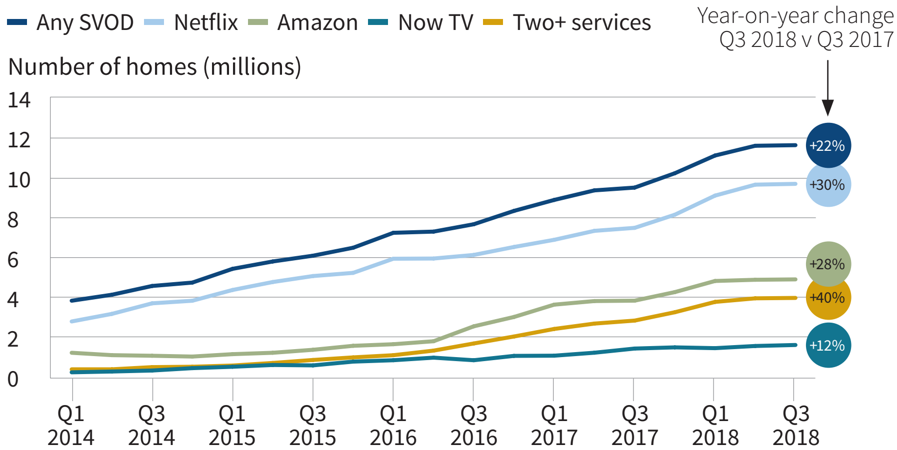


Source: BARB Establishment Survey, average quarterly unidentified viewing for all individuals 4+

11.6M HOMES IN THE UK HAD AT LEAST ONE OF NETFLIX, AMAZON OR NOW TV IN Q3 2018 – A YEAR-ON-YEAR INCREASE OF 22%

Establishment Survey data also tell us that 11.6 million homes in the UK had at least one of Netflix, Amazon Prime Video or Now TV in Q3 2018 – a year-on-year increase of 22% (chart 6). Netflix is the main driver of this increase, having added 2.2 million homes compared to Q3 2017. Amazon too has shown impressive growth, adding more than a million homes, while Now TV has added just under 200,000. We have also seen the number of homes with two or more services rise by 40% from 2.8 million to just under 4 million in the past year.

6 SVOD HOUSEHOLDS



Source: BARB Establishment Survey

INITIAL DATA DEMONSTRATE THAT SINCE NETFLIX HAS BEEN AVAILABLE VIA SKY Q, THERE HAS BEEN MORE UNIDENTIFIED VIEWING ON THE PLATFORM

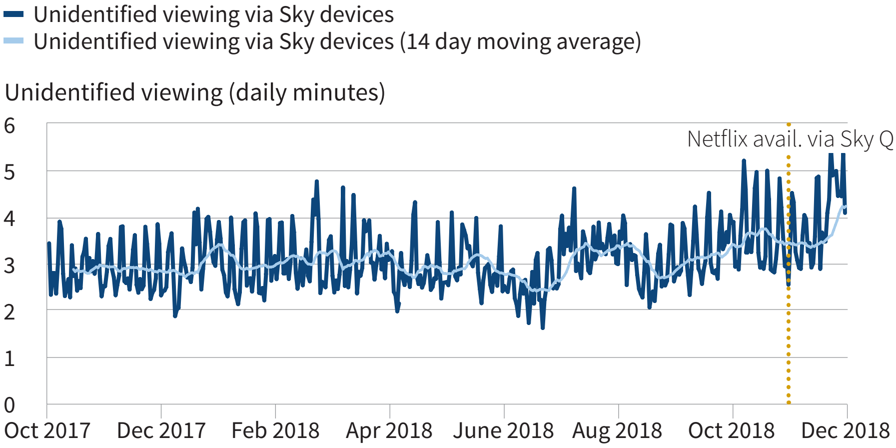
Recently, we have found another clue in BARB data as to the impact of SVOD viewing. On November 1st 2018, Netflix was made available to Sky Q customers through their Sky Q box. Given the correlation between SVOD use and unidentified viewing that we see in charts 4 and 5, we might expect to see a bump in the amount of unidentified viewing in Sky homes from that day onwards.

The initial data do indeed demonstrate that since Netflix has been available via Sky Q, there has been more unidentified viewing on the platform. Daily data, while volatile, show an upward trajectory beginning in September 2018 that continued into November and December (chart 7). Given that the upward movement began before the availability of Netflix on Sky Q, we might conclude that this is coincidence, or the continuation of a trend with a different cause.

However, when ranking the level of unidentified viewing for all of the 457 days being considered, we find that the ten days with the highest levels of unidentified viewing all occurred since November 1st 2018. We cannot definitively say that this was due to Netflix viewing, but there is a strong likelihood that this is the cause.

When the Q4 2018 Establishment Survey data are released in February, we will be able to see whether Netflix has also seen a corresponding increase in subscribers following its availability on Sky Q, or whether this trend is simply down to households that already subscribe to both Netflix and Sky choosing an easier route to access their Netflix accounts.

7 UNIDENTIFIED VIEWING VIA SKY



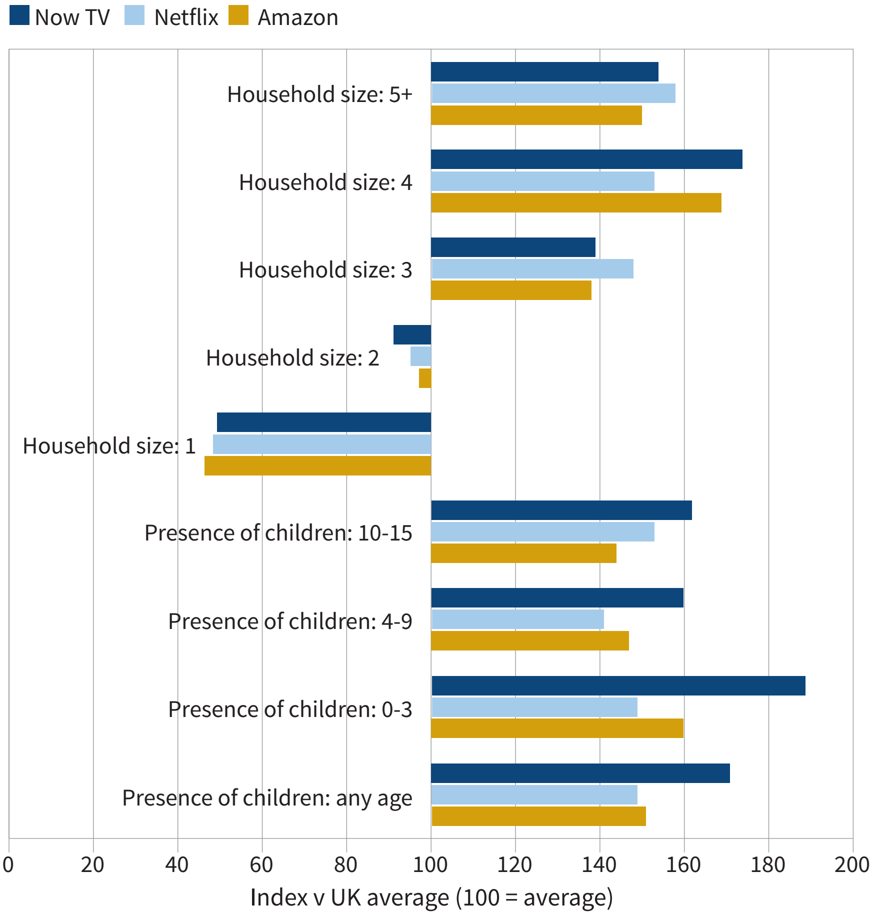
Source: BARB October 1st 2017 – December 31st 2018

Establishment Survey data can tell us more about the kinds of households that are likely to subscribe to an SVOD service. Looking at household size (chart 8), we can see that one or two-person households - 70% of which have adults aged 55+ present – are less likely than the UK average to subscribe to an SVOD service, indicating that these services hold less appeal for this age group.

HOUSEHOLDS WITH THREE OR MORE PEOPLE ARE 49% MORE LIKELY TO SUBSCRIBE TO ONE OF THE THREE MAIN SVOD SERVICES THAN THE UK AVERAGE

By contrast, households with three or more people, which are more than 2.5 times more likely to have children present, are 49% more likely to subscribe to one of the three main SVOD services than the UK average. These multi-person households could also be occupied by young people. We know that 16-24-year-olds are 51% more likely than the UK average to have access to an SVOD service. This age group's daily unidentified viewing in the 12 months to September 2018 was 63 minutes, 17 minutes more than the average for all individuals.

8 HOUSEHOLD COMPOSITION



Source: BARB Establishment Survey Q3 2018

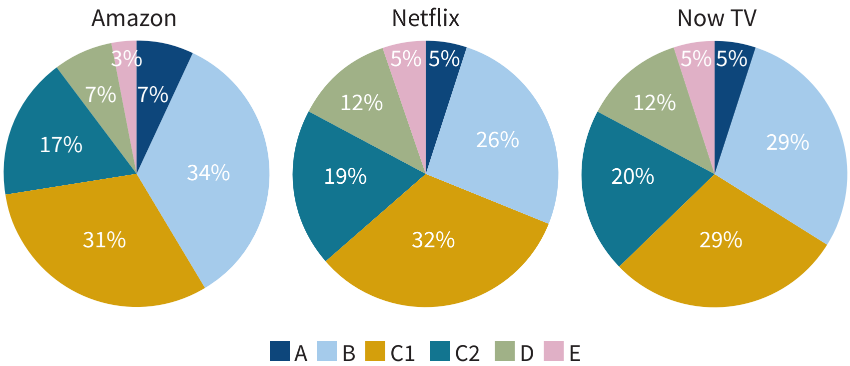
We can also look at the popularity of these services based on the age of the children who live in the household. All three services are popular in homes with children of all ages. Now TV is particularly popular in households with babies and toddlers, while Netflix over-indexes in homes with tweens and younger teens.

64% OF HOUSEHOLDS THAT SUBSCRIBE TO ANY OF THE THREE SVOD SERVICES ARE ABC1

We can also consider the social grade of those who subscribe to SVOD services (chart 9). Possibly unsurprisingly, 64% of households that subscribe to any of the three SVOD services are ABC1, well ahead of the 53% that ABC1s represent in the UK population overall. The biggest player, Netflix, and Now TV are both in line with this average, with 63% ABC1 households. Amazon, however, has an ABC1 profile of 73% - indexing at 38% ahead of the UK average.

Both Netflix and Amazon offer subscribers a similar mix of content. Why then is there a difference in profile between the two? Perhaps turning back to our household composition data can provide a reason. Homes with children aged 0-9 index more highly for subscribing to Amazon than to Netflix. The presence of young children, and the unique pressures that they bring, may be playing a part here. The double carrot of on-demand content and next day delivery of urgently needed household items may be enticing these ABC1 families towards Amazon. That said, the profile of households with all three services is even more heavily ABC1 – with 77% falling into this category. The ability – and willingness – of ABC1 households to pay for three services is clear.

9 HOUSEHOLD SOCIAL GRADE



Source: BARB Establishment survey Q3 2018

It's important to bear in mind that unidentified viewing is still just under a fifth of the time spent with the TV set, and not all unidentified viewing is to SVOD services; it also includes games playing on consoles and watching programming more than 28 days after broadcast. However, it's evident that SVOD services do account for a significant proportion of this viewing.

WE ARE INVESTIGATING THE USE OF METERS ATTACHED TO BROADBAND ROUTERS IN PANEL HOMES AS A POTENTIAL SOLUTION FOR IDENTIFYING SVOD VIEWING

We recognise the industry's desire to unpack unidentified viewing, regardless of whether the service provider wants to be measured by BARB. This is why we are investigating the use of meters attached to broadband routers in panel homes as a potential solution for identifying SVOD viewing. Kantar Media and Nielsen have both started deploying this new type of metering technology in other countries. We are currently testing router meter solutions from both companies, with the aim of providing the best possible view of the television ecosystem in which SVOD services are so very clearly already a part.

BARB ESTABLISHMENT SURVEY QUARTERLY DATA TABLES

Total	Households (000s)				Individuals (000s)			
	Any SVOD	Netflix	Amazon	Now TV	Any SVOD	Netflix	Amazon	Now TV
Q1 2014	3,826	2,791	1,217	239	11,642	8,639	3,585	739
Q2 2014	4,131	3,174	1,102	282	12,229	9,489	3,155	864
Q2 2014	4,566	3,702	1,072	327	13,556	10,991	3,163	978
Q4 2014	4,740	3,831	1,025	446	14,054	11,602	2,948	1,303
Q1 2015	5,429	4,372	1,155	523	15,778	12,880	3,230	1,534
Q2 2015	5,805	4,769	1,225	611	17,069	14,127	3,487	1,759
Q3 2015	6,089	5,066	1,371	590	17,891	15,070	3,986	1,680
Q4 2015	6,486	5,226	1,570	781	18,791	15,339	4,396	2,285
Q1 2016	7,238	5,936	1,651	851	20,833	17,237	4,586	2,457
Q2 2016	7,299	5,953	1,799	977	21,212	17,537	5,242	2,751
Q3 2016	7,673	6,133	2,545	850	22,194	18,063	7,211	2,405
Q4 2016	8,344	6,526	3,018	1,071	24,151	19,054	8,938	3,234
Q1 2017	8,888	6,894	3,640	1,083	25,090	19,704	10,367	3,023
Q2 2017	9,370	7,341	3,820	1,226	26,473	20,856	10,752	3,505
Q3 2017	9,509	7,485	3,842	1,442	26,786	21,235	11,030	4,100
Q4 2017	10,232	8,147	4,266	1,496	28,883	23,263	12,162	4,330
Q1 2018	11,123	9,114	4,831	1,464	31,378	25,841	13,995	4,184
Q2 2018	11,605	9,663	4,894	1,573	32,282	27,073	13,823	4,495
Q3 2018	11,638	9,702	4,906	1,616	32,324	27,110	13,789	4,576

%	Households (%)				Individuals (%)			
	Any SVOD	Netflix	Amazon	Now TV	Any SVOD	Netflix	Amazon	Now TV
Q1 2014	14.0	10.2	4.5	0.9	18.3	13.6	5.6	1.2
Q2 2014	15.1	11.6	4.0	1.0	19.2	14.9	4.9	1.4
Q2 2014	16.7	13.5	3.9	1.2	21.2	17.2	4.9	1.5
Q4 2014	17.3	14.0	3.7	1.6	21.9	18.1	4.6	2.0
Q1 2015	19.7	15.9	4.2	1.9	24.6	20.1	5.0	2.4
Q2 2015	21.2	17.4	4.5	2.2	26.7	22.1	5.5	2.8
Q3 2015	22.1	18.4	5.0	2.2	27.9	23.5	6.2	2.6
Q4 2015	23.5	19.0	5.7	2.8	29.3	23.9	6.9	3.6
Q1 2016	26.2	21.5	6.0	3.1	32.4	26.8	7.1	3.8
Q2 2016	26.2	21.4	6.5	3.5	32.8	27.1	8.1	4.3
Q3 2016	27.5	22.0	9.1	3.1	34.3	27.9	11.1	3.7
Q4 2016	29.8	23.3	10.8	3.8	37.2	29.4	13.8	5.0
Q1 2017	31.7	24.6	13.0	3.9	38.6	30.3	16.0	4.7
Q2 2017	33.3	26.1	13.6	4.4	40.6	32.0	16.5	5.4
Q3 2017	33.7	26.5	13.6	5.1	41.0	32.5	16.9	6.3
Q4 2017	36.2	28.8	15.1	5.3	44.1	35.6	18.6	6.6
Q1 2018	39.3	32.2	17.1	5.2	47.9	39.4	21.4	6.4
Q2 2018	40.9	34.0	17.2	5.5	49.3	41.3	21.1	6.9
Q3 2018	40.9	34.1	17.2	5.7	49.3	41.3	21.0	7.0

BARB ESTABLISHMENT SURVEY QUARTERLY DATA TABLES

Annual growth (%)	Households				Individuals			
	Any SVOD	Netflix	Amazon	Now TV	Any SVOD	Netflix	Amazon	Now TV
Q1 2015	41.9	56.6	-5.1	118.8	35.5	49.1	-9.9	107.6
Q2 2015	40.5	50.3	11.2	116.7	39.6	48.9	10.5	103.6
Q2 2015	33.4	36.8	27.9	80.4	32.0	37.1	26.0	71.8
Q4 2015	36.8	36.4	53.2	75.1	33.7	32.2	49.1	75.4
Q1 2016	33.3	35.8	42.9	62.7	32.0	33.8	42.0	60.2
Q2 2016	25.7	24.8	46.9	59.9	24.3	24.1	50.3	56.4
Q3 2016	26.0	21.1	85.6	44.1	24.1	19.9	80.9	43.2
Q4 2016	28.6	24.9	92.2	37.1	28.5	24.2	103.3	41.5
Q1 2017	22.8	16.1	120.5	27.3	20.4	14.3	126.1	23.0
Q2 2017	28.4	23.3	112.3	25.5	24.8	18.9	105.1	27.4
Q3 2017	23.9	22.0	51.0	69.6	20.7	17.6	53.0	70.5
Q4 2017	22.6	24.8	41.4	39.7	19.6	22.1	36.1	33.9
Q1 2018	25.1	32.2	32.7	35.2	25.1	31.1	35.0	38.4
Q2 2018	23.9	31.6	28.1	28.3	21.9	29.8	28.6	28.2
Q3 2018	22.4	29.6	27.7	12.1	20.7	27.7	25.0	11.6