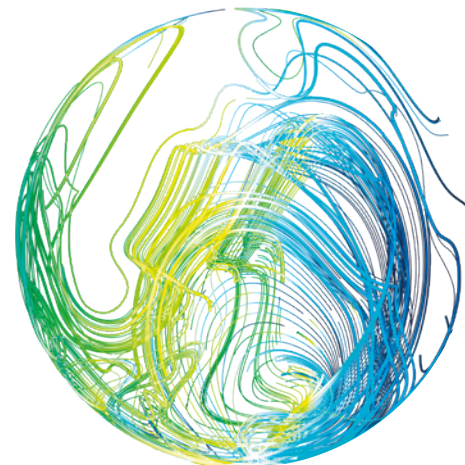


Digital media: the subscription prescription

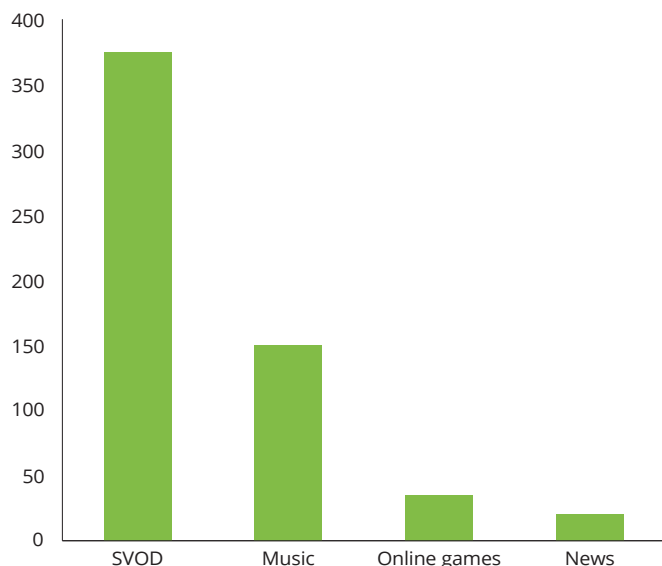


Deloitte Global predicts that by the end of 2018, 50 percent of adults in developed countries will have at least two online-only media subscriptions, and by the end of 2020, that average will have doubled to four. The cost of these subscriptions – spanning principally TV, movies, music, news and magazines – will typically be under \$10 per month each in 2018. In total, we estimate there will be 580 million subscriptions and about 350 million subscribers this year (see Figure 15).

We further predict that a fifth of adults in developed countries will pay for or have access to at least five paid-for online media subscriptions, and by the end of 2020, they will have 10. For these adults, aggregate spend on digital subscriptions they have access to (paid for by themselves or by someone else in the household) is likely to average over \$100 per month by 2020, or over \$1,200 annually.

These subscriptions will be in addition to traditional media subscriptions that include online access, such as a pay TV or newspaper subscription that often includes one or more digital passes.

Figure 15. Global digital media subscriptions (million)



Source: Deloitte Global analysis, 2017

171. In the US, subscription stacking for multiple SVOD services has been a notable feature for several years, but as of 2018, we are seeing acceleration in the trend spanning multiple media.
172. We estimate that about a fifth of US homes in the 1970s would have had 10 or more media subscriptions. Appetite for monthly media remains strong; these media subs have come back, but via a changed delivery mechanism, and we may even be paying about the same; \$1,200 in 2017 is the equivalent of \$284 in 1977, or under \$24 per month.
173. It seems likely that at least a fifth of US homes in the 1970s would have had 10 or more media subscriptions. For that to turn into 10 or more digital media subscriptions shows that while the delivery mechanism may be changing, human appetite for monthly media remains strong.
174. In 1977, the average newspaper cost about \$5 per month delivered, cable TV was \$7.50 and weekly magazines were \$2 to \$3 per month. A two-paper, four-magazine home with cable (not usual) would be spending well over \$25 per month.
175. Select the premium subscription that suits you, Telegraph, as accessed on 3 November 2017: <http://www.telegraph.co.uk/subscriptions/>.
176. Spotify and Hulu unveil first of its kind premium entertainment streaming bundle, Spotify, 7 September 2017: <https://news.spotify.com/us/2017/09/07/spotify-and-hulu-streaming-bundle/>.
177. Number of global mobile subscribers to surpass five billion this year, finds new GSMA study, GSMA, 27 February 2017: <https://www.gsma.com/newsroom/press-release/number-of-global-mobile-subscribers-to-surpass-five-billion-this-year/>.

While the accumulation of online, digital-only subscriptions across multiple media is relatively new,¹⁷¹ multiple media subscriptions are not.¹⁷² Online media subscriptions are the digital update and upgrade to behaviors exhibited a generation back, when households would subscribe to multiple media, including newspapers (morning and evening), magazines and books (adults and kids, from fiction to reference), analog cable TV, music, and more recently, DVDs.^{173, 174}

Why did people stop subscribing? A major trigger was the online revolution in the mid-1990s and the accompanying belief that online ad-funded content, shown to hundreds of millions and ultimately billions of eyeballs, would be more lucrative than digital subscriptions. As so much content – particularly news – became free, media companies and their investors started to measure success by metrics such as global monthly web browsers (the number of individual web browsers that hit a site), expecting that revenues would follow the eyeballs.

As of 2018, it is possible for a media site to reach hundreds of millions of different web browsers per month, a phenomenal total for a news publisher whose reach would formerly have been restricted to its local market.

But as reach has grown, revenue per viewer, visit, impression, web browser or click has steadily fallen. For some publishers, generating sufficient revenue from online advertising alone has felt like a Sisyphean task.

As traffic volumes have increased, revenue per impression has fallen and the number of intermediaries extracting a commission has risen. To compensate for this, web pages have become ever more cluttered with banner and video ads. In response to the proliferation of advertising, hundreds of millions of online consumers have deployed ad blockers, which in turn has provoked the channeling of ever more advertisements per page to those not blocking ads.

In response, content creators have increasingly started to focus on growing their online digital subscription revenue and on formulating ever more varied and appealing digital subscription packages. As this has happened, consumers have become increasingly willing to pay for digital content – even when the same content might be available for free via another source, legal or not.

Looking across all forms of online media, we find the principal drivers of the rise in online media subscriptions are likely to include:

- Supply side: Steady growth in the number of companies offering online media subscriptions, and fragmentation of content libraries. For example, rights to watch a specific sports team may be split across two or more providers, requiring more than one subscription, or drama fans may need to purchase two or more subscriptions to be able to access all the programs they want to watch. There has also been growth in subscription bundling. Amazon Prime is the best known, and it bundles a range of add-ons to delivery, including video. *The Telegraph* (a newspaper in the UK) has offered Amazon Prime for free with its online subscription,¹⁷⁵ and in the US market, students were offered Spotify Premium with a subscription to Hulu.¹⁷⁶
- Demand side: Increased willingness among consumers to pay for content online rather than consume ad-funded content. This is partly driven – especially for news – by rising awareness of the variations in caliber of news outputs. Furthermore, the attractiveness of the online model is, for some genres, becoming more compelling than pre-existing traditional alternatives. Music subscriptions offer access to tens of millions of tracks and hundreds of thousands of playlists, some of which are customized to the subscriber, and all are available on demand. For many, this is superior to owning a digital or physical music library. In some markets, consumers are “cord cutting” and “cord shaving” their traditional pay TV bundles – that is, cancelling their pay TV subscriptions outright or else downscaling their package to reduce cost. In some cases, these consumers are replacing all or some of their TV content with SVOD.

178. For example, Spotify can be quickly accessed from a wide range of connected speakers and other devices, ranging from smart watches to connected lights. For more information, see Spotify Gear, as accessed on 3 November 2017: <https://www.spotifygear.com/>.

179. This process uses name, address and credit card information that is already stored on the phone; entering all this information in a form could take a few hundred keystrokes, putting off most potential subscribers.

180. For more information, see Prints charming: biometric security reaches the billions, Technology, Media and Telecommunications Predictions 2017, Deloitte Touche Tohmatsu Limited, 11 January 2017: www.deloitte.com/tmtpredictions.

181. Doubling up on pay-TV, Deloitte TMT Predictions, Deloitte Global, January 2014: https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Technology-Media-Telecommunications/dttl_TMT_Predictions-2014-1c2.pdf.

182. How Disney wants to take on Netflix with its own streaming services, *The New York Times*, 8 August 2017: <https://www.nytimes.com/2017/08/08/business/media/disney-streaming-service.html>.

183. Sky to launch “Simple and Affordable” OTT service in Spain, *Variety*, 26 July 2017: <http://variety.com/2017/tv/news/sky-launching-ott-spain-1202508252/>.

184. Formula 1 plans to launch in-house streaming service in 2018, *Autosport*, 21 October 2017: <https://www.autosport.com/f1/news/132542/f1-plans-to-launch-live-streaming-service>.

185. Netflix looks beyond US originals, *Broadcast*, 28 September 2017: <https://www.broadcastnow.co.uk/international/netflix-looks-beyond-us-originals/5122736.article>.

186. HBO Nordic moves into originals with comedy drama “Gosta,” *Variety*, 19 September 2017: <http://variety.com/2017/tv/news/hbo-nordic-first-originals-gosta-1202563486/>.

187. HBO Espana orders original series on Basque conflict ‘Patria,’ *Variety*, 21 September 2017: <http://variety.com/2017/tv/global/hbo-espana-alea-media-develop-patria-1202565131/>.

There are also several technological enablers that are making online-only subscriptions more viable and easy to use.

- The steady rise in broadband speeds has facilitated the rise of the online subscriber. A decade ago, relatively few households in developed countries had broadband speeds that could reliably deliver online video to TV sets. As of early 2018, however, hundreds of millions of homes will have this capability, and streaming services are now available in 4K or ultrahigh-definition (UHD) resolution. The growth of 4G networks has made music streaming while connected to a mobile network (say, in a car or on a bus) far more reliable. At the end of 2016, about 60 percent of the world's population was in a market with access to 4G. By 2020, about 40 percent of all mobile connections will be 4G.¹⁷⁷
- There is a growing base of devices that facilitate access to online media subscription services. As of 2018, hundreds of millions of TV sets and set top boxes will have the capability to access SVOD services directly. This contrasts with the early days of SVOD, when consumers would watch on a laptop, which typically meant an inferior video and audio experience relative to that from a TV set. A similar change has happened with music. Premium connected speakers are shipped with fast access to built-in premium subscription services.¹⁷⁸
- A further enabler has been the ease of sign-up. Users can now subscribe to online media with just a couple of clicks from a mobile browser page, followed by a tap of a fingerprint reader to authenticate payment.¹⁷⁹ Deloitte Global estimates that by the start of 2018, a billion smartphones and tablets will have fingerprint readers, and in some markets, over 80 percent of these are used.¹⁸⁰
- Smartphone screens have steadily expanded over the past decade, with the majority of models on sale in 2018 offering a screen that is 5 inches or larger, often combined with pin-sharp resolution. News articles displayed on a smartphone are now very similar in dimension to a newspaper column, with about eight to 10 words per line.

Demand dynamics for each medium are likely to vary considerably in 2018 and in years to come. In the next section, we look at trends in television, music, video games and news.

Online TV and movie services

At the start of 2018, we expect there will be about 375 million SVOD subscriptions worldwide. A growing number of individuals will have access to multiple subscriptions – a trend Deloitte Global wrote about in 2014 and called “cord stacking.”¹⁸¹ According to one study, the majority of subscribers to Hulu and HBO Now also subscribe to Netflix.

The number of SVOD services a household may have access to is likely to increase through the end of the decade as more production houses and content owners launch over-the-top (OTT – content delivered over the internet) services.

For example, Disney is launching two SVOD services in 2018-19, one focused on sports under the ESPN brand and the other on Disney and Pixar movies and Disney TV programs.¹⁸² In 2017, Sky launched an OTT service in Spain, following HBO's launch of an OTT service the prior year.¹⁸³ The owners of Formula 1 have announced plans to launch an OTT service in markets where they currently do not have distribution.¹⁸⁴

By the end of 2020, we expect that in mature SVOD markets such as the US, an individual may subscribe or have access to multiple TV services spanning many genres, including drama, comedy, sports and kids. In the US market, a sports fan may want to subscribe to OTT services for each of the major sports (football, hockey, baseball and basketball).

In the UK market, it is already the case that to be able to follow their team, football (soccer) fans need to subscribe to two services, as games are split between two providers. A person who is also, say, a tennis fan might wish to take up an additional OTT subscription, particularly if there is only scant free-to-air TV coverage. Traditional pay TV providers, which have long broadcast in digital, are likely to offer OTT services increasingly as a complement or an alternative to existing services.

In non-English-speaking markets, we expect more local language content to be created to drive demand for OTT services. Netflix has commissioned local language productions in multiple countries, including Mexico, India, Brazil and Germany.¹⁸⁵ HBO is commissioning local language content, such as the Swedish language comedy *Gosta*¹⁸⁶ and the Spanish language drama *Patria*.¹⁸⁷ As more local language content is developed, SVOD services will broaden their appeal; fluency in English or a willingness to consume dubbed or subtitled content will no longer be necessary.

188. TV series budgets hit the breaking point as costs skyrocket in peak TV era, *Variety*, 26 September 2017: <http://variety.com/2017/tv/news/tv-series-budgets-costs-rising-peak-tv-1202570158/>.
189. Young subscribers flock to old media, *Politico*, 21 October 2017: <http://www.politico.com/story/2017/10/21/millennials-trump-paying-for-news-244001>.
190. Scandinavia emerges as gold standard in digital subscriptions, International News Media Association, 22 October 2017: <https://www.inma.org/blogs/earl/post.cfm/scandinavia-emerges-as-gold-standard-in-digital-subscriptions>.
191. How the Guardian found 800,000 paying readers, *The Drum*, 26 October 2017: <http://www.thedrum.com/opinion/2017/10/26/how-the-guardian-found-800000-paying-readers>.
192. One publisher, Amedia, found that including live streams of lower-league Norwegian football matches was crucial to triggering subscription sales, even if the match was being covered by just one camera. Scandinavia emerges as gold standard in digital subscriptions, INMA, 22 October 2017: <https://www.inma.org/blogs/earl/post.cfm/scandinavia-emerges-as-gold-standard-in-digital-subscriptions>.
193. NYTimes revenues boosted by digital subscriptions, online ads, *Financial Times*, 31 October 2017: <https://www.ft.com/content/015ed88f-d253-343c-a18d-890c3e15ac93>.
194. *Ibid.*
195. Washington Post digital subscriptions soar past 1 million mark, *CNN*, 26 September 2017: <http://money.cnn.com/2017/09/26/media/washington-post-digital-subscriptions/index.html>.
196. How The Washington Post grew digital subscriptions 145 percent, *Digiday*, 12 July 2016: <https://digiday.com/media/washington-post-grew-digital-subscriptions-145-percent/>.
197. FT reports 650,000 digital subscribers with boosts around last year's Brexit vote and US election, *Press Gazette*, 3 April 2017: <http://www.pressgazette.co.uk/ft-reports-650000-digital-subscribers-with-boosts-around-last-years-brexit-vote-and-us-election/>.

As the cost of programming rises, with several series now costing over \$10 million per episode (and possibly heading to \$20 million per hour),¹⁸⁸ and with the cost of sports broadcast rights continuing to increase, the number of distinct providers may end up increasing as providers reduce the size of their program portfolios and focus on fewer “tentpole” productions.

Online news

By the end of 2018, we expect there will be about 20 million digital-only news subscriptions worldwide. This is a seemingly modest total relative to SVOD television and movie services. However, online news services tend to be among the most expensive individual services, often costing tens of dollars per month, and there are also many tens of millions more subscribers to printed newspapers and magazines.

We expect news providers to focus increasingly on generating revenue from subscriptions, typically as a complement to advertising, given the challenges they have encountered during years of reliance on ad revenue alone. Whereas certain titles had a 10:90 ratio of subscription to ad revenue in 2012, we predict it may be 50:50 by 2020.

This increased focus on subscriptions has also coincided with a growing awareness among some readers of the variability of the quality of news. In 2017, the market with the biggest surveyed willingness to pay for news was the US. The desire was strongest among 18-to-34-year-old millennials. According to one study, the number of people willing to pay for online news jumped to 16 percent in 2017 from 9 percent in 2009. Multiple US-based news publications, including the *New York Times* and the *Washington Post*, have reported a surge in subscriptions from 18-to-34-year-olds.¹⁸⁹

Publishers have also become more adept at identifying trigger points that can cause readers to become subscribers and at recognizing what type and proportion of content to place behind the paywall. For example, on big news days, paywalls may be lowered to encourage people to access content. Some of those who view the content then become subscribers once the paywall is reinstalled.¹⁹⁰ Periods in which there is major breaking news have been found to be optimal occasions for publications to request contributions.¹⁹¹ In some cases, the offer of live video has helped trigger subscriptions.¹⁹²

As mentioned earlier, the past two years have seen a marked increase in the number of publications earning regular income from subscribers – digital as well as physical.

In the US, the *New York Times* had nearly 2.5 million digital-only subscribers as of the third quarter of 2017.¹⁹³ Digital subscription revenue, including revenue from those subscribing to the crossword and to its cooking app, rose by 46 percent, to \$85.7 million.¹⁹⁴ The *Washington Post* surpassed one million digital subscribers in 2017;¹⁹⁵ as of mid-2016, the newspaper had grown its digital subscriber base by 145 percent year-on-year.¹⁹⁶

The *Financial Times*, which has always had a paywall, ended 2016 with 650,000 digital subscribers, a 14 percent increase over the previous year.¹⁹⁷ As of the end of June 2016, the *Times* and the *Sunday Times* had 413,600 subscribers, of which 182,500 were only digital.¹⁹⁸ The *Guardian* offers subscriptions as well as memberships. In July 2016, there were 50,000 members, each paying between £5 (\$6.5), equivalent to 111 unique web browsers, and £30 (\$39.3), equivalent to 666 unique web browsers per month.¹⁹⁹ As of March 2017, there were 200,000 members²⁰⁰ and a further 185,000 subscribers.²⁰¹ In November 2016, the *Telegraph* replaced a metered paywall with a range of subscriptions, with digital-only service starting at £2 (\$2.60) per week.²⁰²

Publications are diversifying into a range of subscription services on top of online and physical copies. For example, *Business Insider* offers subscriptions to its BI Intelligence service, which is priced at \$2,500 per year and has an estimated 7,500 subscribers. Enterprise-level access costs up to \$150,000. One reason *Business Insider* diversified was its recognition that it could not keep growing solely via unique users, which numbered 54 million in March 2017.²⁰³

CNN will also start offering tiered subscription packages for its digital news business in the first half of 2018. The premium offering will be for topic-specific news, such as CNN Money and CNN Politics.²⁰⁴

198. The *Times* and The *Sunday Times* achieve record subscriptions, News UK, 21 July 2016: <https://www.news.co.uk/2016/07/the-times-and-the-sunday-times-achieve-record-subscriptions-and-outperform-market-in-abc-figures-released-today/>.

199. Guardian's losses hit £69m but it gains more than 50,000 paying members, The *Guardian*, 27 July 2016: <https://www.theguardian.com/media/2016/jul/27/guardian-losses-members>.

200. The *Guardian's* membership scheme hits the 200,000 members “milestone,” Campaign, 14 March 2017: <http://www.campaignlive.co.uk/article/guardians-membership-scheme-hits-200000-members-milestone/1427235>.

201. Thank you for your support, which is more important now than ever, The *Guardian*, as accessed on 5 June 2017: <https://www.theguardian.com/membership/2017/mar/13/thank-you-for-your-support-which-is-more-important-now-than-ever>.

202. Telegraph axes metered paywall and launches premium subscription service, The *Guardian*, 3 November 2017: <https://www.theguardian.com/media/2016/nov/03/telegraph-paywall-premium-subscriptions>.

203. Business Insider now has a 40-person research group and 7,500 subscribers, *Digiday*, 17 May 2017: <https://digiday.com/media/business-insider-now-40-person-research-group-7500-subscribers/>.

204. CNN Plans to Offer Subscriptions for Digital News Next Year, The *Wall Street Journal*, 3 November 2017: <https://www.wsj.com/articles/cnn-plans-to-offer-subscriptions-for-digital-news-next-year-1509701401>.

205. Conde Nast sees commerce opportunities in branded subscription boxes, *Digiday*, 16 May 2017: <https://digiday.com/media/conde-nast-sees-commerce-opportunities-branded-subscription-boxes/>.

206. Ibid.

207. For more information on gift boxes, see the subscription page of Allure, Allure, as accessed on 5 June 2017: <https://subscribe.allure.com/subscribe/allure/109007>.

Condé Nast has diversified into offering subscriptions to gift boxes with themes of magazine titles, including *GQ*, *Teen Vogue*, *Condé Nast Traveler* and *Brides*.²⁰⁵ These boxes contain a gift, usually with a retail value greater than the monthly price of the magazine; for example, *Teen Vogue* shipped an eyebrow crayon and a vibrating face-washing implement. The logic behind this venture is that it can bolster circulation and drive direct e-commerce revenue.²⁰⁶ There are currently tens of thousands of subscribers. Each subscription costs a few tens of dollars per month (for example, the *Teen Vogue* box costs \$39 per month).²⁰⁷ The publisher has a wholly owned subsidiary that sources, packages and dispatches each box.

Music

By the end of 2018, we expect there will be about 150+ million music subscriptions. We expect that unlike video, music will attract relatively few subscribers to more than one service, as each boasts tens of millions of tracks. However, if some major artists become exclusive to individual platforms, services could become specialized, which may force some fans (perhaps begrudgingly) to pay for multiple subscriptions.

Subscriptions for music services are about \$10 per month in the US, €10 in Europe and £10 in the UK – about the price of a CD. In 2015, the average per-stream rate for online music videos worldwide was \$0.001, half as much as in the previous year. \$10 is equivalent, in revenue terms, to the royalties for 1,000 streams.

The music industry has attained this milestone by creating a product that is built with existing mainstream digital tools: the smartphone, fixed and mobile broadband connectivity, search, hyperlinked messaging, and cloud storage. Subscription blends ease of use, portability, instant access, social features and more, in a way that is superior to the music formats that preceded it.

Growth should continue to increase for years to come – the number of subscribers is still a fraction of the number of ad-funded consumers, and any smartphone can be a repository of or a conduit to music services. However, there may need to be more tiers of service, including cheaper options costing half or less of current prices, to encourage greater adoption.

In some cases, music subscriptions may be bundled with other services, with one common combination being music included at no cost with mobile data packages.²⁰⁸

Video games

At the start of 2018, we expect there will be about 35 million subscribers to video game networks that enable online play.²⁰⁹ We expect very few people to subscribe to more than one online games network, as most players would have just one brand of console, and the networks are platform specific.

The number of subscribers may appear quite small, but it is worth bearing in mind that the number of latest-generation consoles is likely to remain under 100 million at the end of 2018, so 35 percent penetration is quite respectable. Furthermore, at \$5 per month, 35 million subscribers are worth an additional \$2.1 billion in annual and predictable revenue on top of the money made by selling the games and consoles in the first place.

Growth in the number of online subscriptions is likely to be driven by an increased emphasis on online multiplayer, rather than individual, games. The latest version of the *Gran Turismo* series, which has sold 70 million copies over the past two decades, is optimized for online play, and offline play options are relatively limited.²¹⁰

208. For example, EE in the UK offers six months of Apple Music to new and existing customers; see Free Apple Music, EE, as accessed on 13 November 2017: <http://ee.co.uk/why-ee/apple-music>. Customers on Vodafone UK's Pay Monthly Red Entertainment plan can have Spotify for up to 24 months; see Get up to 24 months of Spotify Premium on us, Vodafone, as accessed on 13 November 2017: <https://www.vodafone.co.uk/explore/music-tv-and-sports/spotify/>. In the US, customers who sign up to two or more lines of T-Mobile ONE have free Netflix; see Netflix on us, T-Mobile, as accessed on 13 November 2017: <https://www.t-mobile.com/offers/ucnext>.

209. As of March/May 2017, there were 26.4 million subscribers to Sony's PlayStation Plus network. Sony IR Day 2017, Sony, 23 May 2017: https://www.sony.net/SonyInfo/IR/calendar/presentation/irday/irday2017/GNS_E.pdf.

210. *Gran Turismo Sport* review: A brilliant, but very new, direction for the series, *Ars Technica*, 23 October 2017: <https://arstechnica.co.uk/gaming/2017/10/gran-turismo-sport-review/>.

211. For more information, see *Blockchain @ Media: A New Game Changer for the Media Industry?*, Monitor Deloitte, 2017: <https://www2.deloitte.com/content/dam/Deloitte/tr/Documents/technology-media-telecommunications/deloitte-PoV-blockchain-media.pdf>.



The bottom line

The total number of online media subscriptions, as well as the average number of subscriptions per individual and household, should grow by at least 20 percent in 2018 and continue to increase in the medium term. This is a positive development for the media industry.

But this estimate must be put in context. Aside from SVOD (TV and movie) and music services, the number of online-only subscribers is modest. There are only tens of millions of news, magazine and video game subscribers.

The revenue is certainly welcome, but it is, for individual media, quite modest still – in the low tens of billions globally. This contrasts with US TV ad revenues alone of over \$70 billion. There is still much more work to do to increase the number and to enable the media industry to exploit digital opportunities fully.

One balance that suppliers should consider is how best to make online-only services tangible. Interestingly, demand for printed books remains far higher than for eBooks, partly because of the signal to those in the vicinity that this conveys. One's character can be signaled by the cover of a book but is invisible with an e-reader. Choice of newspaper has always been an important signal, and news organizations should consider what tangible objects (such as tote bags, pins and notebooks) could be bundled into a digital subscription to signal a reader's preferred news supplier.

It is also the case that the media industry cannot rely on online subscriptions alone, even if for some media companies this option does bring in the majority of their digital revenue. The sector should also remain focused on advertising – but with ad formats and an ad load appropriate to its customer base.

The media industry should also consider how best to sell content on an individual article, track or edition basis. In this regard, blockchain technologies may be an efficient approach to tracking supply and demand.²¹¹

Furthermore, other revenue models, including tips and contributions, should also be considered. As discussed in the 2018 prediction *Live broadcast thrives in an online world*, live-stream tipping revenue is now in the billions of dollars.



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