

SPECIAL
REPORT



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SVOD RE-ENERGIZES ENTERTAINMENT LICENSING

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beyond traditional TV and film.

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by STEVEN EKSTRACT

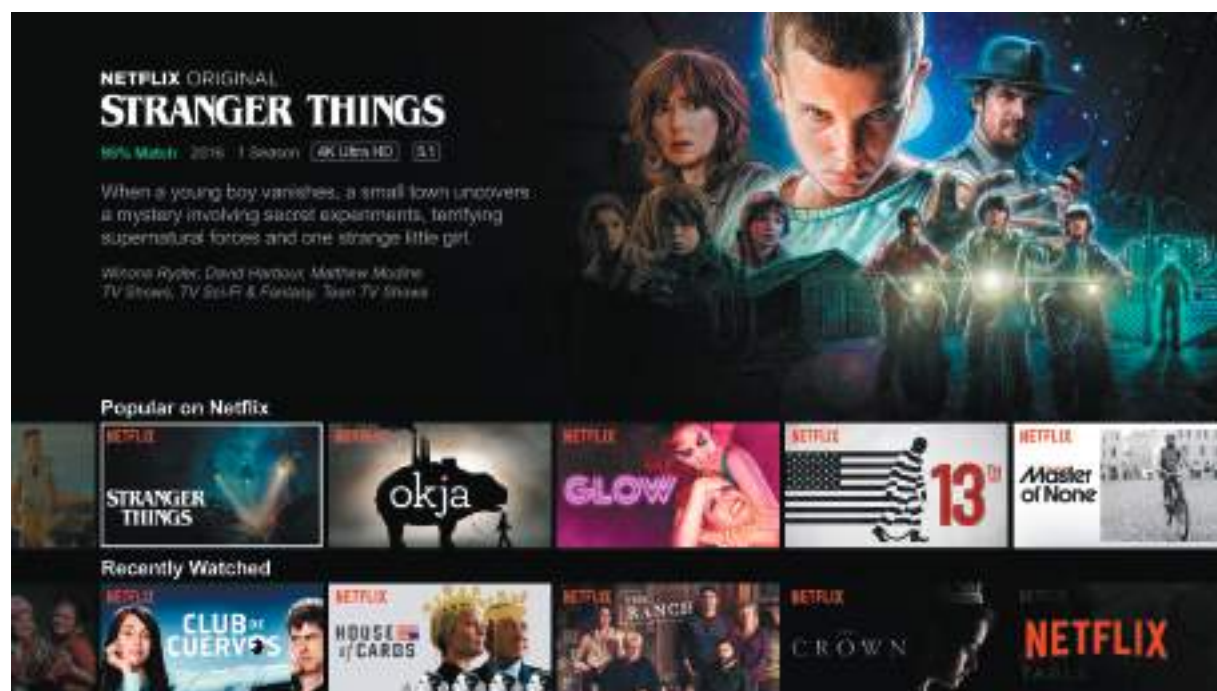
SVOD, or streaming video-on-demand, are Internet-based video providers that are building momentum with consumers and creating a renaissance for video programming and licensed consumer products. Some of the largest SVOD providers today include Netflix, Amazon Prime, BBC iPlayer, HBO, CBS All Access and Hulu, among many others that are emerging and growing in favor with audiences around the world.

SVOD's greatest attractions are three fold: first, subscribers pay a low monthly fee and can watch what they want, when they want; second, the choice of

programming is extremely varied with wide appeal to all ages and demographics; third, SVOD networks are largely commercial-free, enabling viewers to enjoy uninterrupted programming and spend more time enjoying the content. As a consequence of SVOD's increasing popularity, the traditional model of linear TV viewing is changing, and we will likely see Hollywood studios' theatrical distribution model change as well.

By far the largest player in the SVOD market is Netflix, with more than 100 million subscribers worldwide. In the U.S. alone, Netflix has more than 50 million subscribers—more than cable TV. As more and more consumers cut their cable, Netflix and other SVOD providers will continue to grow.





Those on the entertainment side of the licensing industry understand that the secret to success with a movie or TV show is the ability to create a successful consumer products licensing program. It's not for nothing that the majority of Hollywood films released these days are tentpole franchise films with multiple sequel/prequel spin-offs on the schedule. These films are leveraged strategically to build a franchise and exploit opportunities for brand extensions through a variety of lucrative areas such as amusement parks, video games, publishing, toys, apparel, accessories and all areas of fast-moving consumer goods. Emulating a *Star Wars*, *Frozen*, *Wonder Woman*, *Toy Story*, *Cars*, *Harry Potter*, *Despicable Me*, *Avengers*, *Transformers*, *Batman*, *Teenage Mutant Ninja Turtles* or any other mega hit has become the expectation of all Hollywood studios.

The gamble that faces licensing partners that look to movies has always been the short theatrical release window. To a lesser degree, the gamble with linear TV licensing is the ratings. These days, networks need ratings, and they cannot afford the luxury of a slow build over a couple of seasons before the show is a hit.

SVOD solves the problem of short theatrical windows and ratings stress, as programming runs long enough on SVOD providers to build a fan base. The fact that it is Internet-based allows users to share their favorite movies and shows with friends and family, as well as increases access and convenience,

building a much more viral "word of mouth."

Take Netflix's original series "Stranger Things," for example. A science-fiction/horror production that became a major hit for Netflix, "Stranger Things" had no consumer products plan until pop culture retailer Hot Topic pursued Netflix to create an exclusive program. Hot Topic credits the program to customer demand.

To address the business segment, Netflix has recently hired two licensing veterans, Tara Sinclair and Jess Richardson, to run the newly formed licensing, merchandising and promotions division.

The digital revolution we are collectively experiencing has created a renaissance of sorts for consumers who engage with entertainment. Until about a decade ago, viewing choices were limited and relatively one dimensional. Audiences could go to a theater, rent a DVD, watch linear TV/cable channels, read a physical publication or play a video game on a console. High-speed Internet and video compression technology have combined to allow SVOD providers to stream video seamlessly without lags or glitches.

All it takes is a cursory glance at the Top 150 Global Licensors report published annually by *License Global* to see just how much licensing impacts the entertainment industry. Despite the current challenges brick-and-mortar retail faces, it's important for the industry to remember that content will always be king. To take that a step further, product based on said content is merely

an extension of the king, and thus products will create more royalty revenue. The next step with SVOD and consumer products licensing will be the integration of online retail stores into SVOD network apps. Crunchyroll, a special interest SVOD app for Japanese anime, already has an online retail store component where it sells licensed consumer products from the shows it streams.

Things in the SVOD world have begun to move very rapidly, some recent examples:

- In August, Disney announced that it will phase out its distribution deal with Netflix. At the same time it acquired BAMTech, a video streaming service formerly owned by Major League Baseball. The new Disney-owned service will become the exclusive home in the U.S. for its live-action and animated content beginning in 2019.
- CBS expanded the availability of its streaming platform, CBS All Access, to global markets. The service will launch first in Canada early next year, with other markets to follow. The broadcaster has significant confidence in its platform, so much so that its newest series in the “Star Trek” franchise, “Star Trek: Discovery,” is available exclusively on the platform. Clearly, CBS sees the future of its business in CBS All Access.
- The U.K.-based BBC iPlayer received 274 million program requests in April, a 23 percent increase over April 2016. In the country, Ofcom reports in its Communications Market Report 2017 that eight in 10 adults (79 percent or 40 million people) use BBC iPlayer or similar SVOD services to binge watch episodic content regularly. The report also states that 76 percent of people ages 16 to 24 use an SVOD service, compared to 19 percent of those over age 65.
- Social platform Facebook launched Watch, a space for original, episodic series. Watch will tap into Facebook’s ability to customize or personalize a user’s viewing based on what those in his/her community or friend group are watching. The service, which Facebook clearly sees as critical to maintaining engagement with its user base, is available now in the U.S.



- Apple budgeted \$1 billion for original content acquisitions. An early adopter with services such as Apple TV and iTunes, expect to see Apple pursue a strategy that enables it to have major access to top content. Apple is sitting on a war chest of \$261 billion in cash that offers it the ability buy anything it needs, including a major Hollywood studio. This writer speculates a Disney deal could be in the offing.



- In other Netflix news, it entered the M&A market with its acquisition of Millarworld, a comic book publisher, and has lured writer and producer Shonda Rhimes and her Shondaland productions into the Netflix portfolio and away from the ABC network.
- Discovery Communications bought Scripps Networks Interactive for \$14.6 billion in July. The purchase includes lucrative franchises like Food Network and HGTV, which are proven licensing juggernauts.
- iflix, an SVOD service for emerging markets in Asia, closed a \$133 million funding round for growth, led by Hearst, this summer. Since going live in May 2015, iflix has established itself in 19 international markets across Asia, the Middle East and Africa, as well as built integrated distribution partnerships with 27 telecommunications operators to bundle iflix with mobile and data subscriptions. The latest round of funding brings iflix’s pot to \$220 million.
- Telefonica, a Spain-based telecom company with operations throughout Europe and Central and South America, announced its plan to launch international OTT TV service in Europe with a library that includes original content.
- Turner has purchased key rights to UEFA European football league games, and is planning to launch a standalone OTT service in the U.S. beginning with the 2018-19 season.

Most of this activity took place just this summer... can you imagine what is next? It’s clear that the sky is the limit, then, for SVOD and the licensing business. ©