Executive Insights

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Subscription Aggregation — The Rx for OTT Fatigue?

Subscription over-the-top TV (OTT) services have become ubiquitous. In the U.S., more than 50 million viewers currently subscribe to Netflix's streaming service, Amazon Prime is reported to have over 60 million subscribers (albeit both free shipping and Prime Video users), while Hulu counts an estimated 12 million subscribers. In addition to the "Big 3," in recent years, various sports, special interest and other OTT services have been launched and subsequently grown, as have nonvideo subscription platforms (among them Spotify, Pandora Plus/Premium and Apple Music).

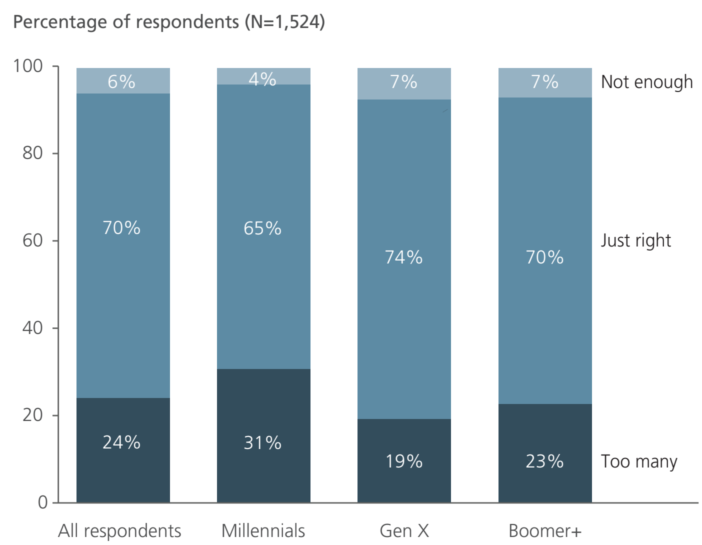
The rapid ascent of the subscription entertainment industry raises several key questions, including:

- How many different services can consumers have before "subscription fatigue" sets in?
- In what ways can service providers help consumers manage their subscriptions?
- Who will consumers ultimately turn to for guidance?

Too much OTT?

L.E.K. Consulting's recent Media & Entertainment survey offered some insight into the growing subscription fatigue in the U.S. While 70% of consumers across different age groups believe they currently have the right number of entertainment-based subscriptions, a net of 18% felt they had too many (i.e., 24% indicate too many and 6% indicate not enough; see Figure 1).

Figure 1
Sufficiency of current number of entertainment-based subscriptions



Q77: Earlier, you indicated you had at least X entertainment-based subscriptions. Do you feel that many is too many, not enough, or just right?
Source: 2017 L.E.K. Media & Entertainment Survey

Subscription Aggregation — The Rx for OTT Fatigue? was written by **Alex Evans**, Managing Director, and **Michael Kaufman**, Senior Manager, at L.E.K. Consulting. Alex and Michael are based in Los Angeles.

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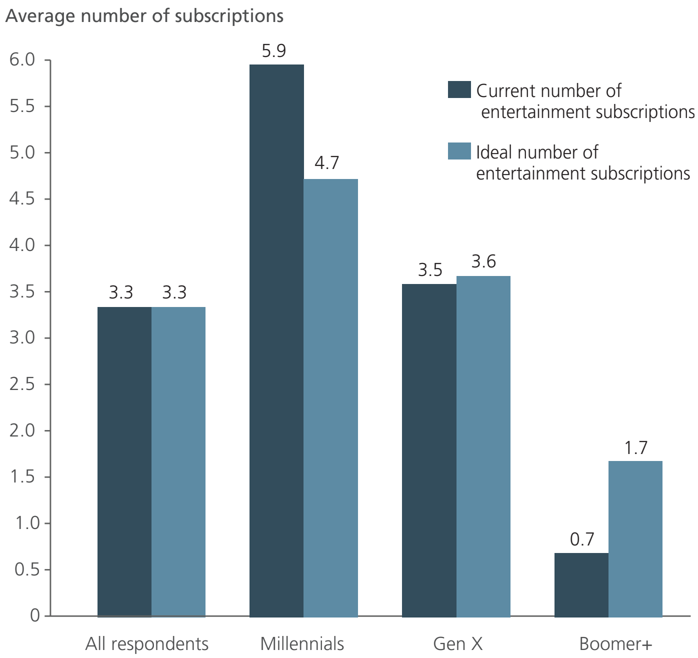
Figure 2

Average current and ideal number of entertainment subscriptions, by age cohort



Q18: For each of the digital service products listed below, please indicate your level of awareness and whether you have ever subscribed to the particular service.
Q78: In an ideal world, how many different subscriptions would you like to have at any given time for your entertainment-based needs?
Source: 2017 L.E.K. Media & Entertainment Survey

When asked how many subscriptions are adequate, the aggregate response among consumer groups is 3.3 services (see Figure 2). Ironically, Millennials, despite being more receptive to OTT in general (and targeted accordingly by the industry), nonetheless have roughly 1.2 more services than they actually want, according to the survey. By contrast, the Boomer+ generation appears undersubscribed by 1.0 services. The takeaway: New service launches may have a greater chance of succeeding by refocusing on older viewers.

All together now

As the number of OTT offerings continues to climb, the opportunity to consolidate the management of these services on behalf of consumers is likely to accelerate as well. So-called OTT aggregators directly address the issue of subscription fatigue by allowing users to group multiple subscriptions under a single umbrella with one account, login, payment preference, and so forth. L.E.K.'s survey revealed strong interest in OTT aggregation: On a scale of 10, more than half of consumers rated such a service 7 or higher (see Figure 3).

Who would be best equipped to act as service aggregator? Likely suspects vary according to consumer segment: While cord-cutters/cord-nevers (who skew younger) named digital platforms such as Netflix and Amazon, by contrast, pay TV subscribers preferred pay TV providers (see Figure 4).

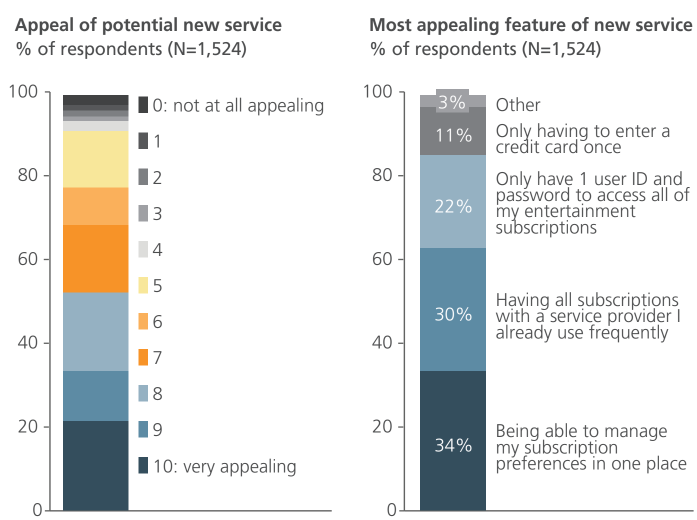
Aggregation implications

We see a number of factors that are likely to support OTT aggregation:

- Going forward, it will become more difficult for providers to successfully launch a subscription video on demand (SVOD) OTT service without an aggregation play, especially when targeting oversubscribed Millennials.
- Though the Millennial OTT market appears saturated, older customer segments (Boomer+) have been underserved to date. Accordingly, developing platforms aimed at the latter group may be a more effective strategy.
- Considering aggregation as part of one's overall distribution strategy will be more challenging for providers outside of the OTT Big 3 (Netflix, Amazon, Hulu), which must reach new consumers while ceding some revenue share as well as customer control.
- While multichannel video distribution providers (MVPDs, or virtual MVPDs) are considered prime candidates for OTT aggregation, they will need to act quickly in order to avoid being edged out by Amazon, which has already positioned its Amazon Channels service as a potential aggregator (the same goes for Netflix, should it decide to enter the aggregation field as well).

Figure 3

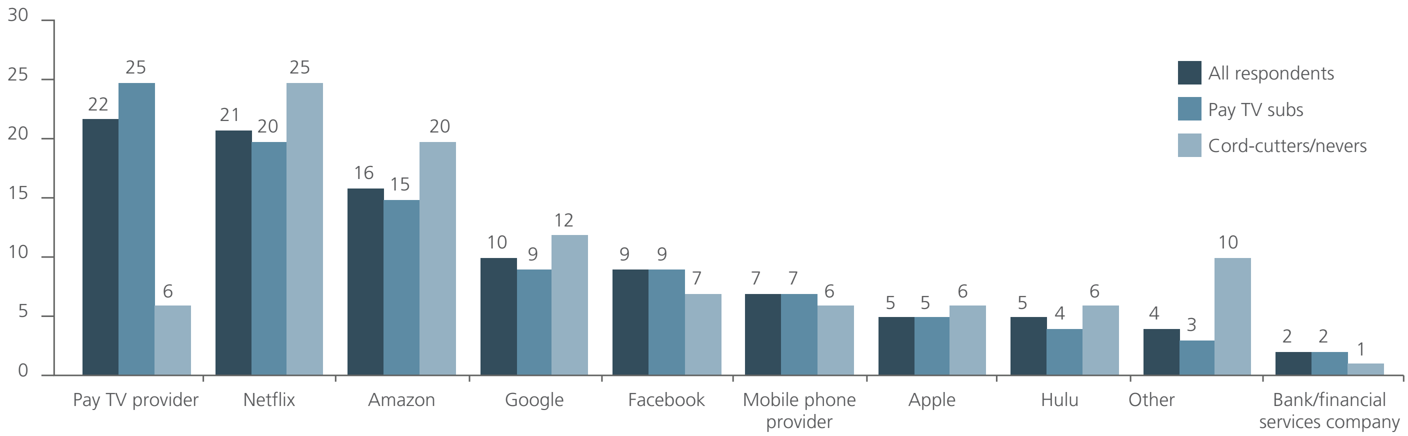
Appeal of a potential consolidated entertainment subscription service



Q79: Overall, how appealing/attractive do you find a potential new service that would consolidate and enable you to manage all your entertainment subscriptions in a single place?
Q80: For a potential service that consolidates all your entertainment subscriptions into a single place, which feature would you find most appealing?
Source: 2017 L.E.K. Media & Entertainment Survey

Figure 4

Ideal company to provide a consolidated entertainment subscription service



Q81: In your opinion, which company would be the ideal company to consolidate and enable you to manage all your entertainment subscriptions in a single place?
Source: 2017 L.E.K. Media & Entertainment Survey

In short, all OTT stakeholders — including IP owners, OTT service operators/service providers and MVPDs — should carefully weigh the above factors and subsequently develop appropriate strategies that may help improve their chances for success in this evolving marketplace.

About the Authors

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