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# TV or not TV?

## Streaming services in Germany

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# Imprint

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# Foreword



## Streaming services in Germany: All goes swimmingly?!

Just a few years ago, paying for music and video content appeared to have become a thing of the past. The internet offered many ways to consume any content, from grey to pitch dark. Damocles' sword was hanging over a whole sector. Today, the page has turned. The internet became a catalyst for Deezer and Spotify just as it did for Amazon and Netflix, and all are built on subscription-based business models.

The fourth research brief on streaming services in Germany in cooperation with Hochschule Fresenius University of Applied Sciences shows that consumers' willingness to pay for premium content has been increasing substantially over recent years. This calls more and more competitors to the market. Which services will find continuous interest from consumers? How much more are consumers willing to pay for additional subscriptions? At least our latest data on usage intensity of streaming services suggests a slowing down in the growth of these services.

With the right strategy further growth is still likely. As our regional analysis indicates, there are many areas where only a few consumers use streaming services at all, especially in eastern Germany and in rural areas. On the one hand, this can be attributed to the aged population in these regions. New marketing strategies will be required on the side of the providers of streaming services in order to target these consumers. On the other hand, insufficient high-speed broadband coverage in rural areas still curbs lucrative business models. This is particularly true for mobile network infrastructure, which becomes more and more important for the sustained success of streaming services as a significant part of the content consumption takes place out of the home on mobile devices.

Dr. Iris Henseler-Unger

## Yesterday's secret sauce

Catch-up, i.e. to watch a missed programme online in or via the integrated rewind function offered by many smart TVs, was and is the main use case for the online libraries of traditional TV channels.

Amazon, Netflix and similar services have established an online-first usage pattern especially with young consumers. Traditional TV channels have yet to take this new ritualisation of usage seriously. Their future viability may be under threat. Soon enough, linear TV programming may no longer trigger demand for specific content with consumers. Instead, individual recommendations intertwined with active choices by consumers make for a convincing consumer experience.

Above all, the smartphone is becoming an increasingly important part of consumers' daily media routine. Completely new formats such as augmented- and virtual reality are just a few product cycles away. No content provider will remain competitive using the same recipes as before; new ingredients are needed to adapt to the changing taste of consumers.



# Introduction

The present research brief, like the preceding ones, aims to shed light on consumers' changing usage patterns of streaming services in Germany. They use traditional media less and less whilst counting on music and video streaming services for their entertainment. But can the success stories of Deezer and Spotify, and Amazon and Netflix continue?

The results presented in this research brief point to a slowdown in the growth of streaming services' usage intensity by German consumers. At the same time, new entrants push into the market, especially for video streaming. Apple and Disney are the most well-known competitors having announced new service offers. They have been lured in by the tremendous success of Amazon, Netflix and others, but will consumers continue to increase their willingness to pay for such offers?

How will competitors fare, when they have to catch the attention of consumers on devices other than the TV or PC screen? These and other questions will be at the centre of the present research brief. To this end, we conducted a representative survey of 3,184 consumers in Germany.

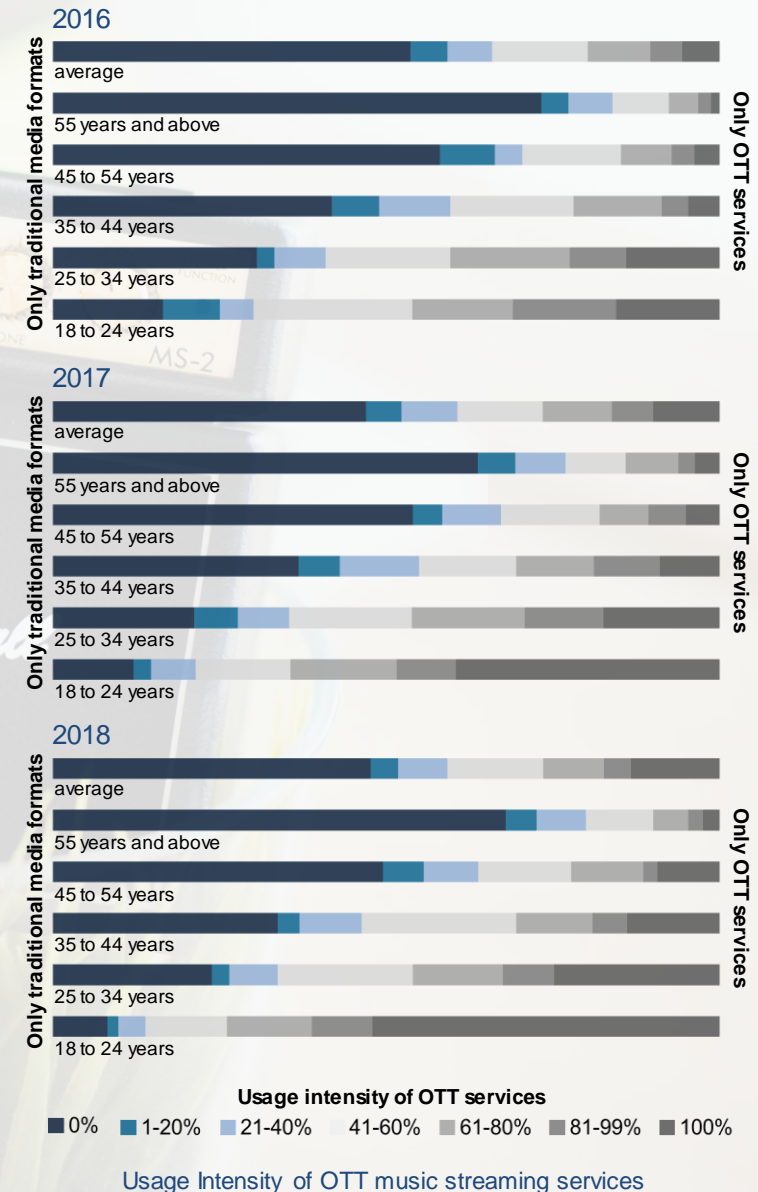


# Only a little amplified

In Germany, a substantial share of consumers (47.5%) continues to choose only traditional formats to listen to music, such as CDs, stored music files or the radio. Since the first survey in 2015, this share has decreased, albeit rather slowly.

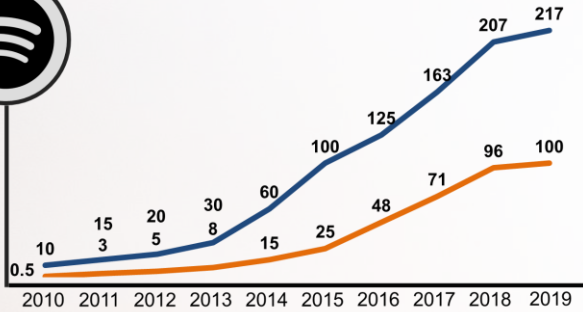
A much clearer picture emerges when zooming in on the 18 to 24 years age bracket. Since 2016, the share of these consumers using only traditional music formats has shrunk substantially. While in 2016, there were 16.5% using only traditional formats in the age bracket, by 2018 their share had practically halved to 8.2%. At the same time, the share of those who rely solely on internet-based service to enjoy their music has almost tripled: from 15.5% in 2016 to 52.1% in 2018.

If Spotify, Amazon Music, Tidal, Apple Music and others want to grow further, they will have to focus much more than before on consumers 45 years and older. Only one in every two of these consumers uses internet-based services at all. If a service provider comes up with the right ideas for offers fitting the profile of this group, the share of traditionalists will perhaps decrease much more rapidly than could be expected from the current trend.

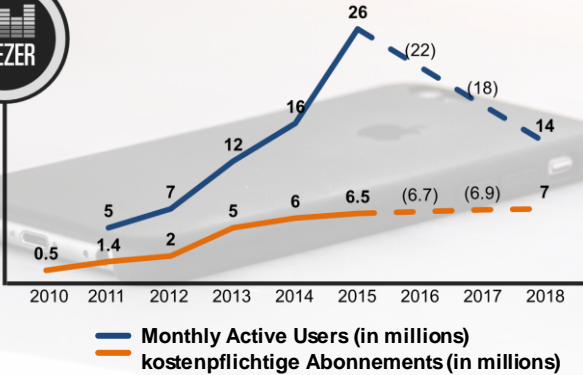


Source: Surveys; n=3.184 (2018); n=2.036 (2017); n=1.003 (2016).

## Spotify



## Deezer



Monthly Active Users (MAUs) worldwide<sup>1</sup>

Spotify	2015: 7.5 m – 2018: 11.7 m
Deezer	2015: 2.3 m – 2018: 2.0 m
Tidal	2015: 0.12 m – 2018: 0.39 m
Apple Music	2015: 2.0 m – 2018: 3.3 m
Amazon Prime Music	2015: 7.1 m – 2018: 9.8 m
YouTube	nur 2018: 25.5 m

Monthly Active Users (MAUs) in Germany 2015 / 2018<sup>2</sup>

# Let's talk about the future of music streaming

Music streaming is one of the few areas where European apps can compete globally. Spotify from Sweden and Deezer from France are well-known examples of popular streaming apps worldwide, with 217 million people using Spotify. Among them, around 100 million have subscribed to the premium version of the service. While Spotify is still growing in 2019, Deezer has only managed to keep its subscriber number constant. The total number of users of the service has decreased drastically though.

In Germany, just like in various other markets, Amazon, Apple and Google are gaining new users with their music streaming services. YouTube in particular is used by 25.5 million consumers in Germany as a music streaming service. Originally meant for watching videos, the service is in fact used for music streaming by twice as many consumers as Spotify. A specific music variant of the service has recently been added by Google to foster this usage pattern even further. YouTube's main advantage over the other competitors is by far its superior catalogue size as it also features independent and niche artists or covers.



The increasing adoption of voice assistants like Alexa or Siri can have a marked impact on the competition around music streaming. As our recent research brief on voice assistants showed, music playback is one of the most popular functions for which consumers rely on voice assistants. Providers offering both the voice assistant and the music streaming service may benefit from consumers' preference for convenience. It might simply be easier to opt for the default service rather than an external option. In the future, it might not only be relevant how Spotify and similar apps are able to position themselves in the respective app stores, but also how seamlessly they can integrate with voice assistants.

Sources: 1 Press releases, journal articles etc.  
2 Surveys; n=1027 (2015), n=3184 (2018).

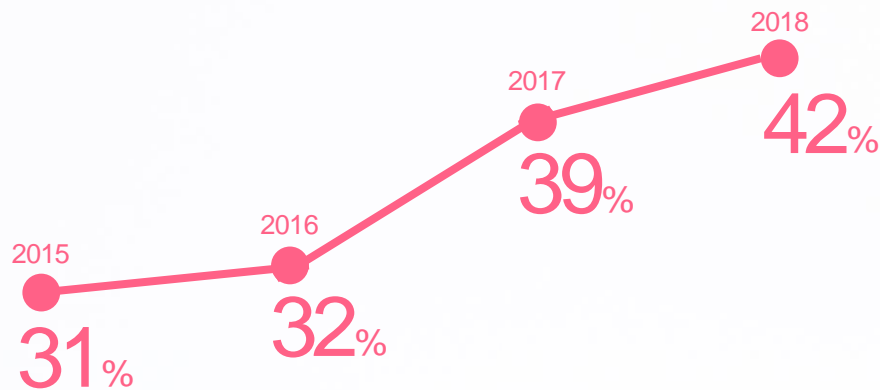


# Willingness to pay for streaming services

The majority of video on demand (VoD) services rely on subscription models to generate revenues. The monthly fees vary only marginally.

However, competition is becoming fiercer. Apple, Disney, HBO and others have either already launched their own services or have announced them. Even though consumers' willingness to pay for video streaming is on the rise in general, it might be elastic enough to subscribe to all services in parallel.

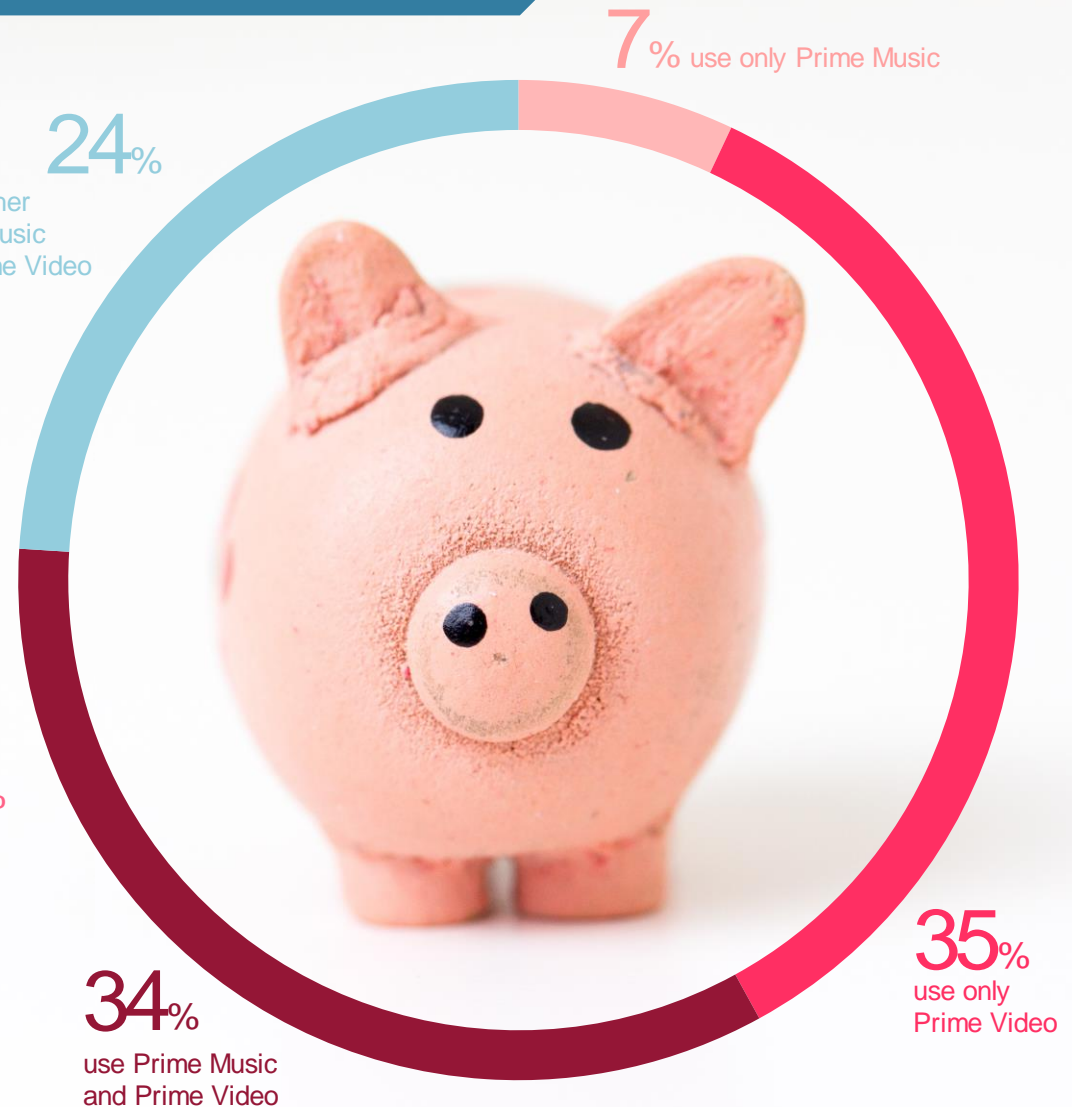
Thus, new business models will be necessary. Amazon is an interesting example of this evolution. They offer their (baseline) video streaming service as part of their Prime bundle. Around three out of four Prime subscribers use at least one streaming service included in the offer. Netflix recently started to lure in new subscribers by offering the first episode of some series free of charge.



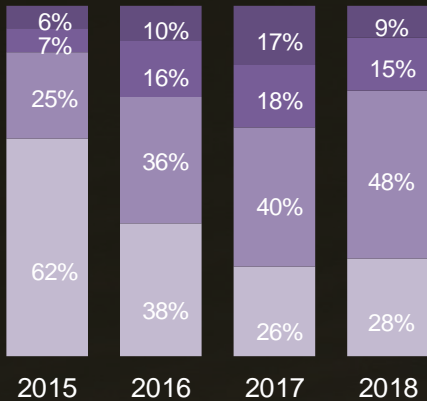
Share of consumers willing to pay for video streaming in Germany

Sources: Surveys; n=1027 (2015), n=1003 (2016), n=2036 (2017), n=3.184 (2018).

Share of Amazon Prime subscribers using streaming services as part of their Prime bundle







VoD usage via smartphones<sup>1</sup>

- < 1 hour
- 1 to 10 hours
- 11 to 20 hours
- 21+ hours

## Streaming vertically

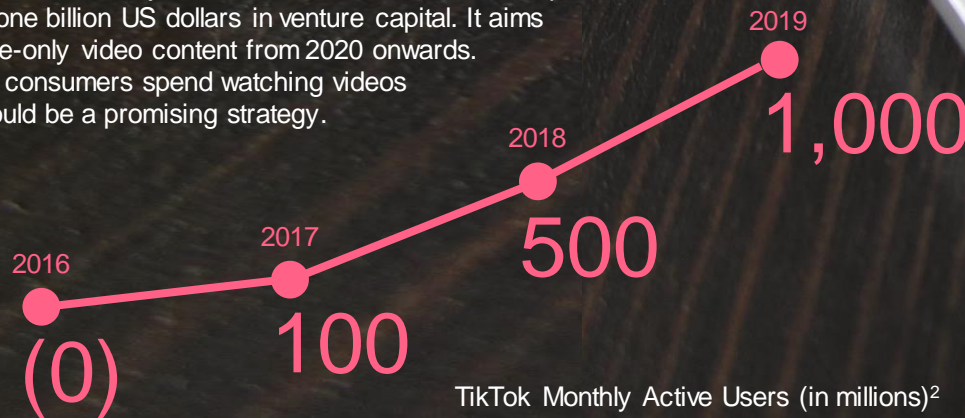
More and more affordable mobile data plans enable consumers to watch videos online even if no Wi-fi is available. For instance, when commuting by bus or train, an increasing number of consumers enjoy being entertained by the latest series or shows instead of reading the paper. YouTube's app broke the ice for mobile video streaming for many consumers. Even today though, the vast majority of videos on the service are still confined to the landscape format typical for TV and PC screens.

This does not make for a great user experience when watching on a smartphone. Other services such as TikTok or IGTV do a better job of focussing on the needs of mobile-centric consumers. The

videos on these apps usually come in the vertical (portrait) format native to the end-user's device. The clips are short and require little to no contextual information.

The success of TikTok speaks for itself. Within the last three years, the service has flown past the one billion users mark. IGTV is developing positively as well. Some managers at Twitter are asking themselves why exactly they dropped Vine a few years ago.

Success for the next contestant, Quibi, is just around the corner. The start-up has already collected more than one billion US dollars in venture capital. It aims to produce high-quality mobile-only video content from 2020 onwards. With the increasing time that consumers spend watching videos on their smartphones, this could be a promising strategy.



TikTok Monthly Active Users (in millions)<sup>2</sup>



Sources: 1 Surveys; n=1027 (2015), n=1003 (2016), n=2036 (2017), n=3.184 (2018).  
 2 Press releases, journal articles etc.



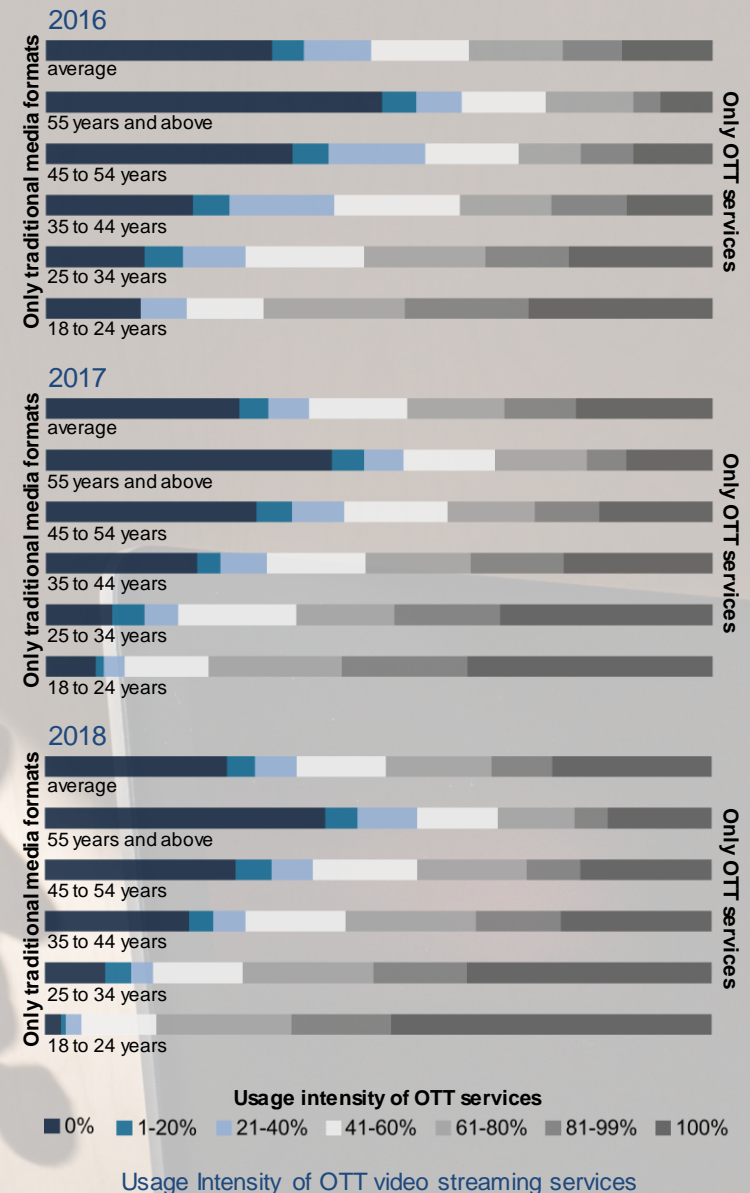
# Video on the internet

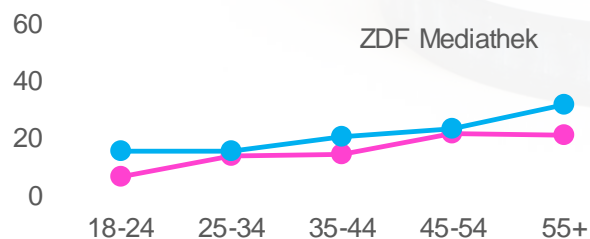
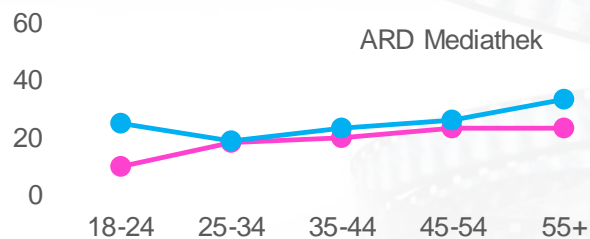
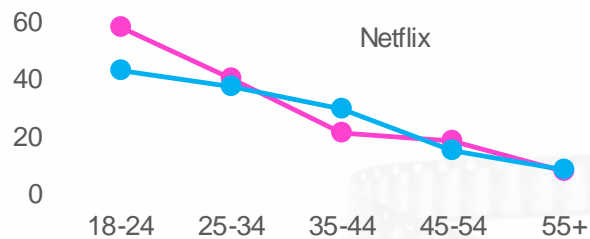
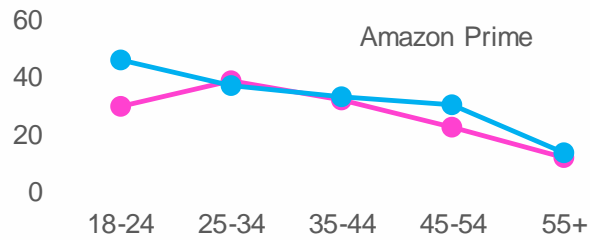
Since the first survey in 2015, the share of consumers in Germany who watch videos solely on the internet has doubled from 12% to around 24% in 2018.

In particular, young consumers are the drivers of this trend. Almost one in every two 18- to 24-year-olds watch videos on internet-based services only. However, also with 25- to 34-year-olds, there has been a step change in video streaming usage from 2017 to 2018.

In 2017, around 32% of consumers in this age bracket relied solely on streaming services. One year later, this figure had increased to 37%. Less than one in ten among these consumers is a traditionalist watching only linear TV.

Premium content and especially series have been instrumental to this development. This might also explain why Disney seems to see an opportunity in establishing its own video streaming service. Many of the most popular titles originally belong to them. Thus, their service may be attractive to consumers.



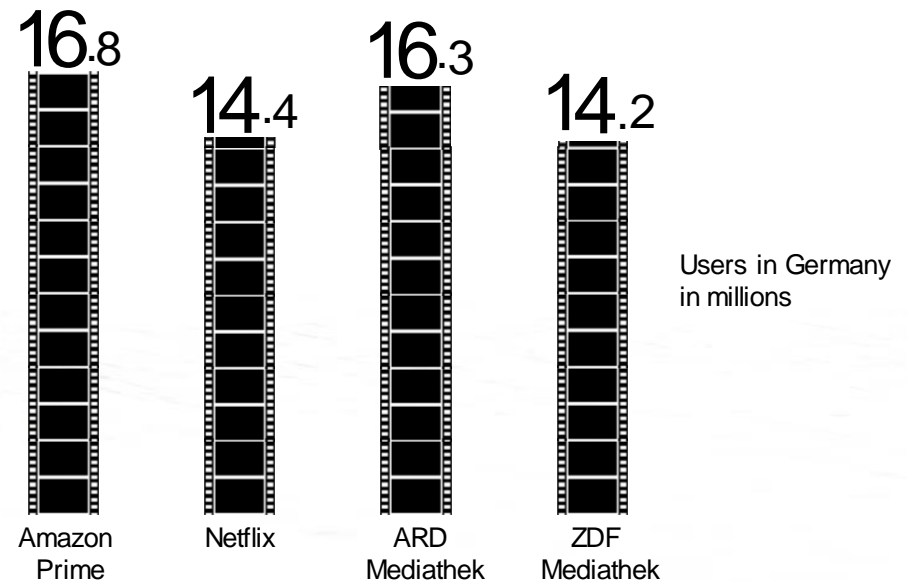


● female ● male

Considering only the aggregated user figures in Germany, one might think that there is a tie between the public broadcasters' online video libraries and the popular video streaming services by Amazon and Netflix. By the end of 2018, the ARD online library had around 16 million users and the competing public broadcasting content collection presented by ZDF had around 14 million users. Amazon Prime and Netflix attracted 17 million and 14 million respectively.

The distribution of users of the four services across age brackets provided on the left illustrates that the American services draw a disproportionate number of young consumers to the screens. Among the 18- to 24-year-olds, around half of consumers already use at least one of the two popular streaming services. Within that, women appear to have a preference for Netflix while men seem more swayed by Amazon's offer.

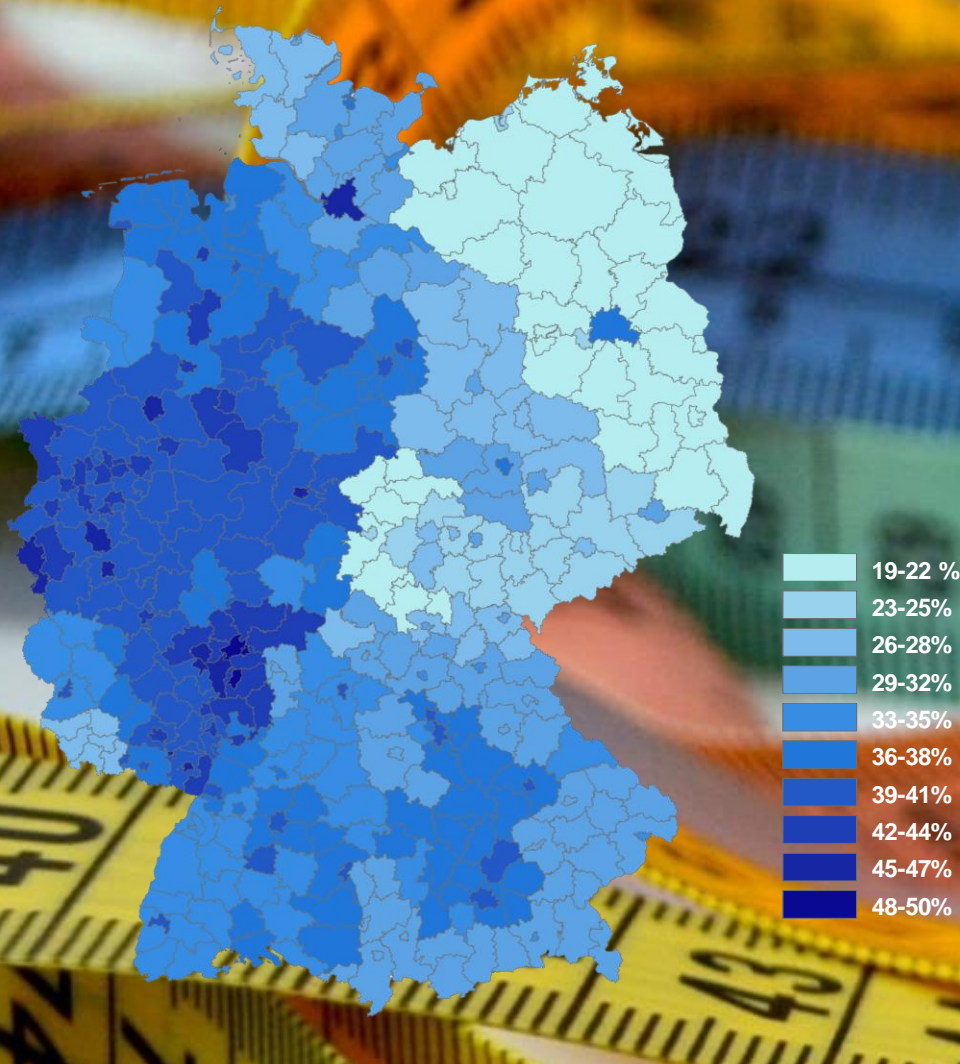
For many consumers in this generation, this translates into a new habituation of viewing patterns which do not rely on linear programming as the benchmark anymore. It is not about catching up with allegedly "missed" content. Streaming video content online is not a kind of second-best campfire for them, but their first choice for entertainment.



Source: Survey; n=3.184 (2018).  
Icon: Yi Chen.



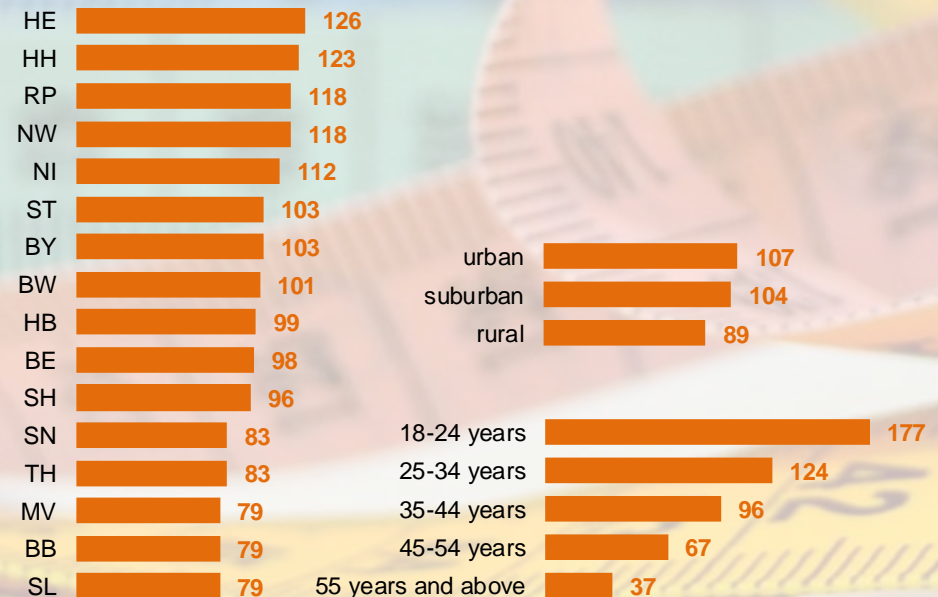
# Measuring streaming



The usage intensity of music and video streaming services differs regionally across Germany. The overall pattern of regional differences is quite similar for music and video streaming. In particular, eastern and rural regions show low usage intensity. The lowest intensity is found in Brandenburg and Mecklenburg-Vorpommern. Metropolitan regions in western Germany on the other hand exhibit the highest usage intensity on average.

Notably, music streaming usage intensity spreads across a greater range than video streaming. While in some German regions already half of all music consumed is streamed on the internet, the lowest intensity sits somewhere around 20% of all music being streamed on average. For video content, the same figures range between 40% and 60%. Overall, video streaming has become a part of the daily routine of many consumers in Germany. Music streaming seems to fight still against established media usage patterns and in particular radio.

Average usage intensity of music streaming (average = 100)



Source: Survey; n=3.184 (2018).

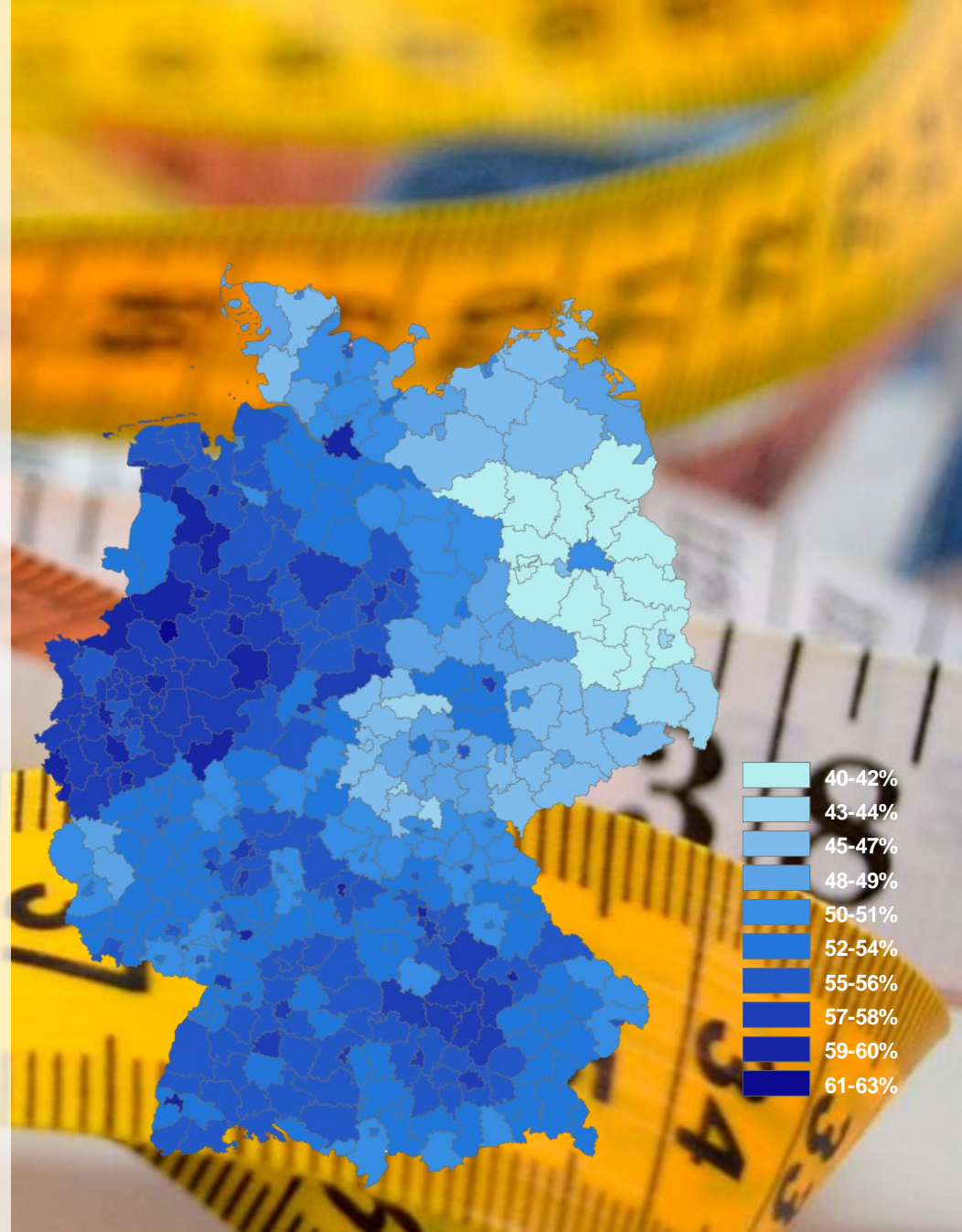
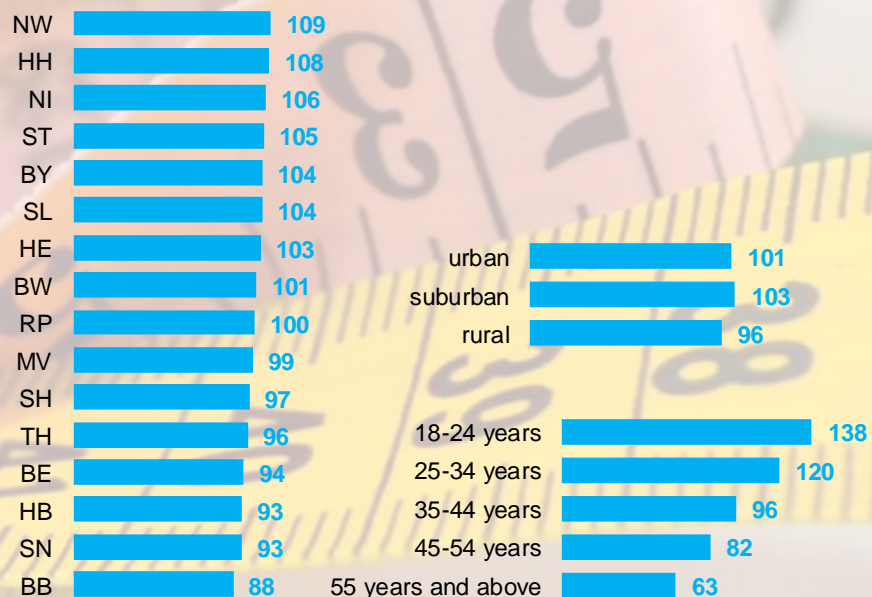


Most notably, differences in video streaming usage intensity between urban, suburban and rural regions have almost evaporated. The highest intensity is found in suburban areas according to our survey. This may simply be due to fewer other opportunities for entertainment there. Furthermore, families living in suburban areas may be more prone to the idea of watching TV together in the evening – even completely digital – than singles living in the city.

The low usage intensity of music streaming may be due to less availability of fast mobile broadband connections in these areas. Mobile devices play an even more important role for music streaming than for video streaming. One can only hope that the 5G roll-out in Germany will end this issue.

The maps depicting the usage intensity across the regions in Germany were projected based on the data collected for the 16 federal states in Germany, age brackets and type of region (urban, suburban and rural).

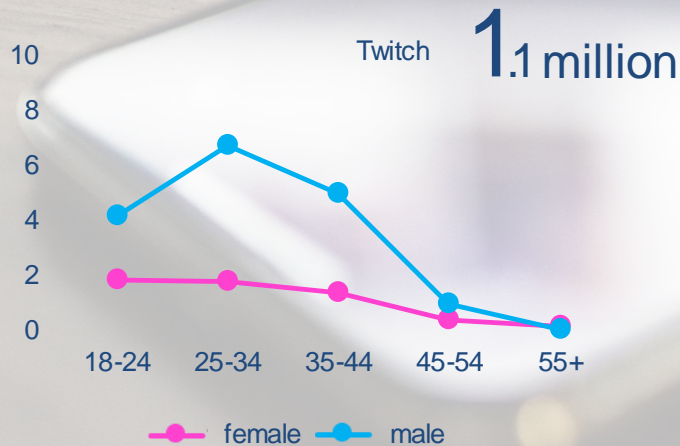
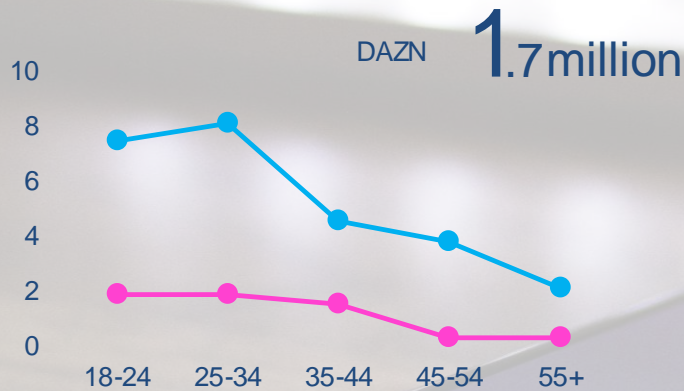
Average usage intensity of video streaming (average = 100)



Source: Survey; n=3.184 (2018).



# The odd kids on the block



Monthly Active Users (MAUs) and shares of users of all consumers in % according to age groups in Germany 2018

Source: Survey; n=3.184 (2018).



The market for streaming services offers an increasing number of niche services. These options increase consumer choice beyond the various services targeting a broad audience.

Although services like Twitch, a streaming service for live gaming, attract only around 140 million users globally, the growth rate of monthly active users is impressive. The number of Twitch users has grown threefold over the last five years.

In the same vein, DAZN is also growing. With its sport-centric offer the service targets mostly young male consumers just like Twitch. Our survey suggests that this approach is working.

Twitch in particular could deliver essential insights into consumer behaviour and preferences with the likely convergence of gaming and video entertainment in an augmented and virtual reality future in mind. Amazon, which bought the service back in 2014, may benefit from these insights in the long term.



## At hand all day long

Our research brief underscores the fact that streaming has long made its way into the daily routine of mainstream consumers. Even niche groups are being targeted by highly specific services. It also transpires that the smartphone is becoming more and more central to video entertainment next to the first – commonly large – screen in the living room at home.

Only a few services seem to cater to this trend. The success of TikTok and IGTV illustrates that there are more and more consumers who like to watch short videos on the go. They seek quick entertainment and do not want to turn their phones into the landscape position. Mobile-first content wins.

Taking this trend seriously could also be to the benefit of traditional TV channels. They should consider producing true mobile-first content to cater to these new usage patterns. Thus, they could close in on Amazon and Netflix in particular with young consumers whose usage pattern is streaming-first anyway. For a mobile-first strategy, the programming of traditional TV channels and even more so that of German public broadcasters may benefit from its local roots, which are difficult to match for foreign services. High-quality content for vertical screens paired with local information matching the current user locations that smartphones can deliver might play into the hands of local competitors.

As a matter of fact, video streaming services not only compete against each other, but also with other services offering entertainment and drawing on consumers' attention. The 24 hours the day offers act as the natural frontier to consumers' attention. It will be interesting to observe how the various actors in this space including social networks and gaming providers will try and target consumers using different strategies.

“ I  
can  
do  
this  
all  
day ... ”  
- CAPTAIN AMERICA



***About this study:***

The online survey for this study was conducted with 3.184 consumers in November 2018 by the international market research institute YouGov. The results were weighted to draw representative conclusions for the German population (age 18+). Additionally, 20 qualitative interviews were conducted in the autumn of 2018. The complete survey results are published in WIK discussion paper No. 440 which can be ordered online at [www.wik.org](http://www.wik.org).

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