COVID-19 | Recessionary Impacts and Consumer Behaviour

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The 20,000 Foot View

The spread of COVID-19, and the responses of industry and governments alike, is unprecedented. It is, however, the restrictions on movement of people along with the response of consumers and investors that is causing the biggest disruption and will have the most impact on entertainment businesses. In this report MIDiA explores the potential near- and mid-term impact of COVID-19 on entertainment businesses.

Key Insights

- Due to movement restrictions and working from home, the average working consumer has another 15% of their waking hours addressable by entertainment
- The shifts in consumer behaviour could be long lasting, creating permanent new consumption patterns and potentially acting as a catalyst for shifts from analogue to digital
- COVID-19's impact on leisure and entertainment will follow four key phases: business as usual, leisure collapse, cocooning, and revival, with recurrence a high possibility
- COVID-19 is creating different entertainment responses not just across different countries, but among different segments of consumers within countries
- Coronavirus may actually benefit streaming business models, especially video
- If a recession comes then entertainment spend will be hit, but significantly less so than leisure

15%

Working from home will increase workers' available entertainment time by 15%

Companies and brands mentioned in this report: The Amazing Race, Amazon, Apple, Apple TV, Apple TV+, Boston Marathon, Bundesliga, CBS, Disney, Disney TV, English Premier League, Euro 2020, Eurphoria, Fortnite, Fox, Google, Handmaid's Tale, International Olympic Committee, La Liga, Major League Baseball, Major League Soccer, Marshmello, The Masters, NBCUniversal, National Basketball Association, National Hockey League, Netflix, The Olympics, Peacock, Peaky Blinders, Rugby Union Six Nations, Serie A, Spotify, Star Wars, Stranger Things, Survivor, Television Group, Warner Bros.

About MIDIA Research

MIDiA Research is an analysis and insights provider, which focuses on the intersection of technology and content.

We leverage multi-country consumer data, market forecasts and other proprietary data tools to provide unrivalled insight into the rapidly-changing global digital content markets. Our coverage includes music, video, marketing & media brands, games and sports.

MIDiA Research gives you online access to our research database as well as regular new research reports that give you the critical insight into the issues that will shape your business and give your company the strategic edge over the competition. We provide different levels of access to suit your requirements and budget. Simply choose which coverage areas you want and then which subscription package is right for you.

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Introduction

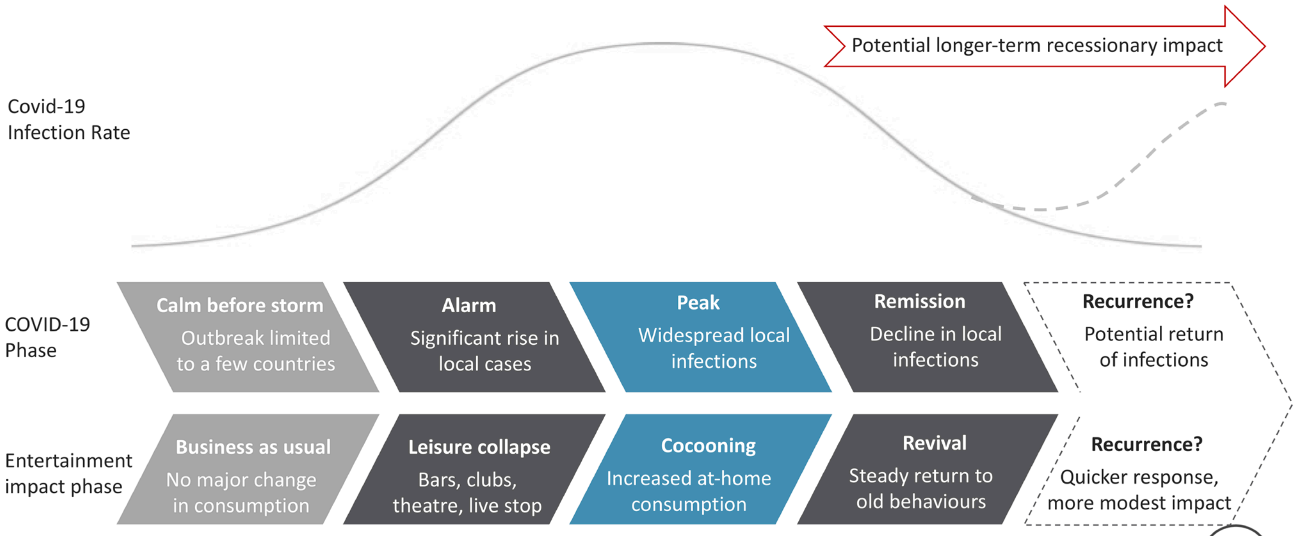
While the leisure industry may be facing a near-term Armageddon, entertainment is set for a boom. During the last recession consumers cocooned, spending more time in with entertainment at home rather than spending to go out. When MIDiA asked consumers in Q4 2019 (i.e. before COVID-19 became a global pandemic) they stated they would do the same in the face of another recession, with 49% saying they would go out less. That will increase with movement restrictions. The additional time will add around another 5% to available time for entertainment, while the removal of the daily commute will add another 10% for workers. So even without considering extra time from potential unemployment and under-employment, the average working consumer has another 15% of their waking hours addressable by entertainment.

Regardless of what infection levels COVID-19 may reach across the globe, the pandemic is already having a clear and present impact on the entertainment and leisure industries. This is being driven by investor uncertainty – resulting in plummeting share prices – and restrictions on movement of people, resulting in quickly-transforming consumer behaviour patterns. Depending on the length of time these changes persist, the resulting shifts in consumer behaviour could be long lasting, creating permanent new consumption patterns and potentially acting as a catalyst for shifts from analogue to digital. Regardless of the longer-term possibilities, the short-term effects are already here. The relative impact on different entertainment sectors and companies will be determined by a combination of secular factors and proactive strategic responses.

The MIDiA team has been busy working on recession impact research for six months so we already have a library of data and reports to help our readers plan their way through these unprecedented times. During this period we will be creating regular COVID-19 reports. We have also published a full 5,000 word report on COVID-19's impact on all media industries – COVID-19 | Entertainment and Leisure Industry Impact Assessment – now available to our clients, of which excerpts are featured in this freely distributed report.

Figure 1: COVID-19's Impact on Leisure and Entertainment Will Follow Four Key Phases, but Recurrence Is a Strong Possibility

Conceptual View of the Key Phases of COVID-19 Impact on the Entertainment and Leisure Industries



Source: MIDiA Research

COVID-19's impact on the entertainment industries and their audiences is closely tied to the evolution of the virus' spread. This can be mapped into four key phases with one further potential phase:

1. **Business as usual:** For businesses and consumers alike, their view of COVID-19 in the initial phase was relatively calm, viewing it as a distant problem that was unlikely to affect them.
2. **Leisure collapse:** The most immediate impact on the entertainment industries was restrictions on movement, leading to theatres, cinemas, bars, clubs and live music venues having to either close or face a drastic reduction in patronage. Plays were stopped mid-run, movie screenings halted, and concerts cancelled. Concurrently TV companies began to postpone filming. This is the current phase in Europe and North America. Thus far, panicked consumers and investors have acted as impact accelerants during this phase.
3. **Cocooning:** While the future spread of COVID-19 in the West is still in the realm of scenario forecasting, the consensus is that there will be some form of acceleration of infection rates.

During this period, restrictions of movement will likely remain in place and may become more severe. Constraints on venue-based entertainment and production of recorded and filmed media will at best remain, and at worst intensify. Although audiences will increase time spent with media at home, the disruption to the production component of the supply chain will have mid-term implications for media consumption. Companies with the largest portfolios of content and also stores of yet-to-be-released content will fare best.

4. **Revival:** When infection rates decline, life will steadily return to normal. However, business disruptions caused in phases two and three will contribute to a dislocation effect. Films, concerts, plays and club nights will need promotional cycles to rebuild demand, while government and industry will have to work to reassure audiences that it is safe to return to entertainment venues. Media companies will have to play catch up, ramping up production cycles to fill gaps in the supply chain. The surge in demand for re-hiring of staff, particularly the freelancers which media production relies heavily on, may create a sell-side dynamic with contractors able to command higher fees, playing prospective employers off one another. This will be particularly likely if the workforce does not feel safe enough to return to work en masse.

5. **Recurrence:** Medical opinion is split on whether COVID-19 will return once infection rates diminish. However, the prospect of a return – possibly seasonal recurrences – remains a strong possibility. The combined effects of better organisational preparedness, naturally occurring immunity rates and vaccinations should ensure that recurrences are more modest in reach and impact. Nonetheless, audiences and investors alike may well manifest alarm and concern, albeit at lower rates. Either way, governments, along with entertainment and leisure businesses, will have to plan for dips in demand possibly for years to come.

SECTOR IMPLICATIONS

MUSIC

COVID-19 is creating different entertainment responses not just across different countries, but among different segments of consumers within countries.

- **Cultural impact:** The first factor to consider is the work and entertainment culture of a country. For example, Italy is a very formal work culture, which means that listening to music in many workplaces is uncommon. The commute was the primary part of the workday that workers got to stream. The commute has, of course, disappeared with COVID-19. Freed from the constraints of a strict workplace, some work-from-home (WFH) workers might listen to music during the day – but there are other factors at play:

1. Streaming is still relatively nascent in Italy, so behaviour patterns are not well established. It is just not as natural for people to stream at home as it is in markets where people have been streaming for longer. Many still have home stereos they use at home.
2. Italy has a big linear TV culture, so WFH workers are more likely to have the TV on in the background than in many other countries.
3. People want to keep in touch with the latest news developments so are likely to have radio or TV news on in the background.
4. All these factors interplay and affect people differently, but the combined effect in Italy is to have caused a streaming dip. Once crisis-fatigue kicks in people will consume news less and, if the outbreak persists long enough, TV broadcasters will start stuffing the schedules with re-runs because the supply of new shows will dry up due to the disruptions to filming and production. Italy may be down now, but it will pick up – though maybe not fully until everyone is commuting to work again.

- **Passion points:** In other, more established streaming markets, some labels have seen an uplift in streams. Even in these markets, however, the macro picture obscures a much more complex micro picture. The key factor at play is passion points. If a music subscriber who is also a gaming aficionado has new-found commute time, they might be more inclined to spend it on console or PC gaming. This could actually mean a reduction in streaming if they were already listening to music in the workplace.
- **Production:** If the COVID-19 pandemic persists for months, then the other challenge labels will face is gaps in their frontline release schedules due to studios being closed down. It may well pay to shift some of the frontline marketing budget into catalogue marketing – not just for the classic gems, but also to boost still-popular two-to-five year old tracks that may technically be catalogue by industry definitions, but to consumers are just tracks they still like. If COVID-19 causes long-term economic dislocation, streaming services will start having to fight churn rates as consumers trim their spending. Some bold thinking will need to be done around retention tactics, such as a three-month payment holiday for subscribers that try to cancel. Whether labels would be willing to fund such promotions is another issue entirely, but the key question is how much those billing relationships are worth.

VIDEO

In the last economic downturn, consumers cocooned, opting to stay in more in order to save money. The signs are that this pattern will be replicated if another recession comes, particularly so because of public concerns about health risks in public places. When we asked consumers which three types of leisure and entertainment spend they expected to cut back on most, going out and eating out were by the far the two most widely-cited options. The difference between now and the last economic downturn is that digital content services have boomed, so consumers now have much better home entertainment options than they used to. Cocooning is therefore an even more appealing prospect.

- **Cocooning will benefit streaming:** There are already strong signals that this is happening, with TV ratings up, TV news viewing up and Netflix doing so well that it has had to agree to reduce streams in Europe from HD to SD to reduce strain on the broadband networks. Streaming looks to be relatively well placed for the duration of the crisis; just over a fifth of consumers expect to have to cancel a video subscription. Of course, when push comes to shove, consumers may find themselves cutting back more dramatically. Across both music and video, a long-term recession – if it happens – would see a growing role for ad-supported propositions such as NBCUniversal's Peacock.
- **TV and film production – major disruption:** Restrictions and guidelines concerning groups of people and home-based working have already started to hit filming of TV shows and movies. At time of writing, the production of leading scripted dramas such as Peaky Blinders, Euphoria, Stranger Things, and Handmaid's Tale have all stopped filming. Netflix has put all productions on hold, while Apple TV+, NBCU, Warner Bros., Disney TV, Fox and Television Group have all delayed or halted productions.

Even post-production will be affected, due to many processes requiring expensive, specialist equipment located on professional premises. Meanwhile, staples of linear TV such as soap operas (many of which have older, at-risk cast members), quiz shows, game shows and reality TV are all likely candidates to halt filming. CBS has already stopped the filming of future seasons of reality shows The Amazing Race and Survivor – current seasons are already wrapped and scheduled for broadcast. Unlike the mid- to long-term scheduling challenges caused by delayed scripted dramas, the live and near-live nature of many of these productions will create near-term scheduling issues that will inherently weaken linear TV's positioning vis-à-vis on-demand streaming.

In short, whether it be subscriptions or ad-supported, coronavirus may actually benefit streaming business models, especially video. If a recession comes then entertainment spend will be hit, but significantly less so than leisure.

GAMES

Games could be optimally positioned to come out stronger than ever before compared to video, music, and other formats.

- **Gaming can engage for super-long sessions to help pass time:** 52% of console gamers, 44% of PC gamers and 38% of mobile gamers play for six-plus hours every week, compared to just 24% of the consumer average. Particularly PC and console gaming can provide longer sessions than traditional long-form video to pass the time, which will be increasingly sought-after in times of self-isolation.
- **Gaming can tap into the underserved need for socialising:** Similarly, due to the self-isolation, the need to socialise digitally will increase. Gaming sessions are well positioned to become socialising destinations for a part of the population. Not all digital socialising takes place on social media, and games have an opportunity to pick more of this up.
- **Demand for digital entertainment events will pick up:** As social gatherings are unadvised or prohibited around the world, many conferences, concerts and other live events are moving online. Games worlds are perfectly positioned to become the newly-forming 'live online worlds.' Their knowledge of digital socialising from years of multiplayer games helps. Marshmello and Star Wars in Fortnite were just the start. As tech majors, media majors and telcos start bundling entertainment propositions, pure-play companies like Spotify or Netflix are going to be increasingly forced to form cross-entertainment partnerships to keep a seat at the negotiating table. Games have the infrastructure to host all other forms of entertainment and become a prominent facilitator of cross-entertainment partnerships during this new era.

- **Production doesn't have to be 'on hold' for games:** TV companies and subscription video on demand (SVOD) services have put lots of productions on hold, and music concerts and festivals are being cancelled, but games might not be as affected because the lion's share of development can be done remotely with the right hardware adjustments. TV might need more than 10 people physically gathering to make it work; games do not necessarily.
- **New market entrants mean higher demand for content in the short term:** Amid all this, we are in the middle of a barrage of market entrants in both gaming and video. All of these services are going to need exclusive content. If video productions are on hold, there may be all the more space for games developers to fill. On the one side there will be increased demand for exclusive games content; and on the other, games studios may be hired to create human-less TV productions as TV companies might need to prioritise content that doesn't need human interaction to be produced.
- **Distribution is easier than ever before:** Due to online distribution, self-isolation does not pose a problem for games distribution like it would have 20 years ago. The only part to be heavily impacted is of course the long-struggling high street (coronavirus is likely the last nail in retail's coffin, but that's a different blogpost entirely).
- **PC and console might catch up with mobile:** With social isolation, mobile gaming loses a significant engagement contributor – the commute. At home, there is always the imminent threat of a PC or console, both of which could gain engagement market share under the newly emerging social dynamics. The mobile gaming opportunity will be in casual gaming and close to social media and messaging platforms, which is where consumers will be spending a significant amount of time during any crisis to stay in touch.
- **The era of out-bundling competition:** With film and TV production largely on hold, the differentiation race stops.

Further differentiation can thus be created by more aggressive bundles, which are going to be doubly attractive as consumers are forced to make tighter financial considerations due to the recession. Tech majors such as Apple, Google and Amazon (as and when it brings a gaming proposition to market) will be well positioned to gain consumers' 'entertainment life market share, particularly against pure-play companies.

SPORTS

The impact of COVID-19 on TV advertising could be particularly pronounced because broadcasters will have to increase the number of reruns in their schedules due to the halting of production of popular shows and sports – the cancellation of the Olympics alone would cost billions of dollars in lost ad revenue. TV sports rights deals face the risk of re-evaluation if shut-downs persist.

- **Live sports – nowhere to run:** Professional sports were the first to take action, initially playing games behind closed doors (Serie A in Italy) and eventually moving to full postponements of leagues (the English Premier League (EPL), La Liga (Spain), Major League Soccer (MLS), the National Hockey League (NHL), Major League Baseball (MLB), National Basketball Association (NBA)) and of tournaments (the Rugby Union Six Nations, Euro 2020 (football), the Boston Marathon, the Masters (golf)). The big remaining sporting event question is whether the International Olympic Committee (IOC) will postpone or even cancel this summer's Olympic Games in Tokyo. Sports may depend heavily on TV/video rights income, but behind closed doors games simply do not provide for a high-quality viewing experience. They also have the negative consequence of encouraging locked-out fans to congregate in bars or at one another's homes to watch the televised games, creating high risk infection environments. In Germany, there has been the added complication of 'ultras' turning up in their thousands outside behind closed-doors Bundesliga stadiums, expecting to be able to able to be let in to celebrate with fans. Top league clubs may be able to weather indefinite postponement, but many lower-tier clubs may face bankruptcy. TV rights deals face the risk of re-evaluation if the shutdowns persist.

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