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A report from the Deloitte Center for Technology, Media & Telecommunications

2022 Digital media trends, 16th edition

Toward the metaverse

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Introduction

THIS YEAR'S DIGITAL media trends survey revealed that media companies in the United States are now feeling more turbulence from the deeper currents shaping consumer behavior. After 15 years of growth, streaming video on-demand (SVOD) services have successfully unbundled video, lowered costs to consumers, and ignited fierce competition among providers. Top SVOD services are consolidating content and taking the competition for subscribers into global markets. But they face greater pressure to attract and retain subscribers who have grown savvier about their subscriptions and more cost-conscious.

SVOD services should be aware that more audiences are finding entertainment, community, and even meaning, elsewhere.

In that same 15 years, screen-based entertainment has evolved beyond TV and movies. Streamers and studios are challenged to attract and retain younger generations who have grown up with smartphones, social media, and video games, which deliver finely tuned experiences that are social, interactive, and immersive. So, while SVOD providers may have disrupted TV and movies, the medium—and its business models—still looks much the same as it did when they were created 15 years ago.

Since then, social media has expanded and evolved dramatically. Social media services now deliver finely tuned and personalized feeds of images, video, music, news, gaming, and shoppable media to billions of users, all lit up by social networking and provided *for free*. Top services are adding new lines of revenue by becoming retail destinations and leveraging influencers and creator economies to reinforce engagement and purchasing.

Meanwhile, thanks to smartphones, competitive esports, and rich, Hollywood-level experiences that cast the player as the star, gaming has gone global and expanded across generations. Gaming may have started as an individual experience, but it is now highly social. And game companies have evolved to monetize many aspects of gaming, from subscriptions, in-game purchasing, and extensible games that operate more like services, to embracing the social experience of gaming with multiplayer, branded content, and virtual goods.

Although SVOD broke apart the cable bundle, since then, streamers and studios have mostly focused their innovation strategies on content delivery and licensing rights. Social media and gaming companies have been quickly evolving their business models and products, leveraging technology, and capitalizing on behaviors. This doesn't mean all digital media must become social and interactive. But SVOD services should be aware that more audiences are finding entertainment, community, and even meaning, elsewhere.

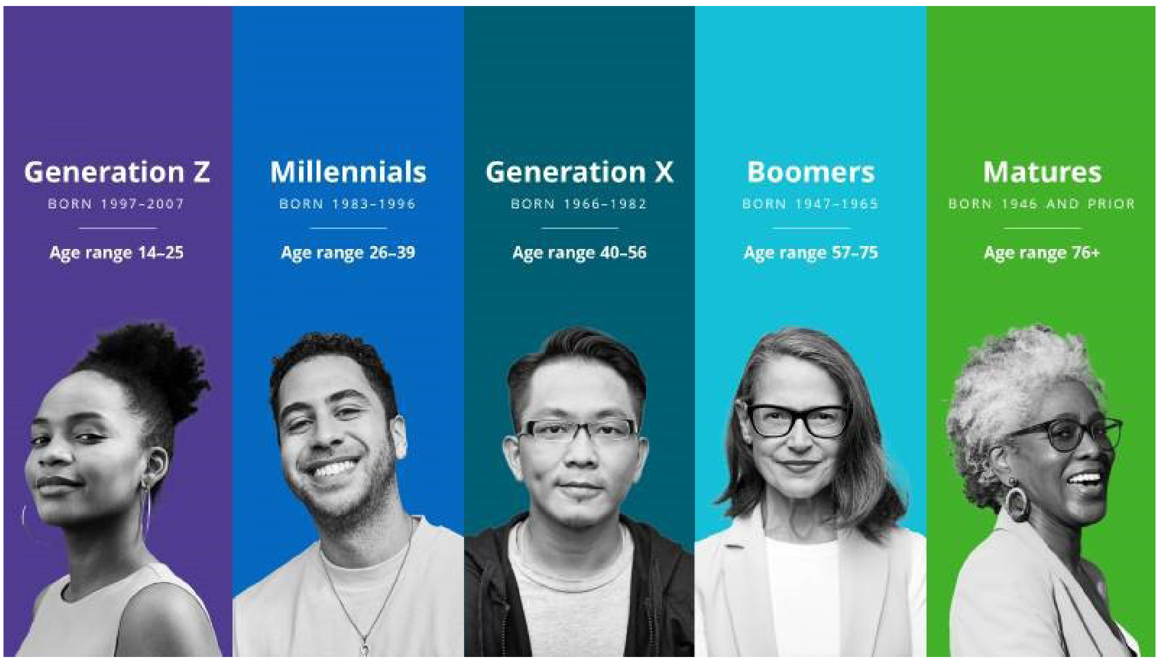
This year's study expanded beyond the United States: We also included the United Kingdom, Germany, Brazil, and Japan—areas where media and entertainment companies are competing for digitally mature audiences. Overall, the trends we're seeing in the United States are echoed in these countries, with the same generational contours. Amidst a global pandemic that has constrained in-person activity, people and companies are being accelerated into digital life, setting the stage for the current excitement about the metaverse—where virtual spaces become common destinations for work and play. But these shifts were already in place before COVID-19. With millions recording themselves doing the latest viral dance moves, influencers driving sudden demand spikes for products, top musicians delivering other-worldly concert experiences to global gaming audiences, and virtual goods becoming valuable and scarce with non-fungible tokens (NFTs) and cryptocurrencies, digital life may be gaining on so-called real life.

Social media broke open the TV screen and made fame much more accessible. Gaming enables us to act in the movie. Media and entertainment executives—and especially those in SVOD—should be thinking hard about how people socialize around entertainment and how entertainment itself is becoming more personalized, interactive, and immersive. The business models that have brought them this far, and even the technologies they have relied on, may not carry them through the next wave of change.

Amidst a global pandemic that has constrained in-person activity, people and companies are being accelerated into digital life, setting the stage for the current excitement about the metaverse—where virtual spaces become common destinations for work and play.

ABOUT *DIGITAL MEDIA TRENDS*

The 16th edition of the Digital Media Trends survey was conducted by Deloitte's Technology, Media and Telecommunications (TMT) practice. The US survey was fielded by an independent research firm in December 2021 and employed an online methodology among 2,000 US consumers. All data is weighted back to the most recent Census data to give a representative view of consumer sentiment and behaviors. The survey was also fielded in the UK (n=1,002), Germany (n=1,002), Brazil (n=1,000), and Japan (n=1,000) in December 2021 and January 2022. All data from the global markets is weighted to be nationally representative. For meaningful changes, we look for differences in year-over-year tracking and generations of at least five percentage points. We define the five generations represented in the survey below:



The SVOD conundrum

THE SHIFT TO streaming video has been extremely successful at disrupting television, though potentially far less profitable.[1] Like TV and movies before them, SVOD companies have relied on the innate emotional and intellectual value of their stories to engage audiences and monetize their attention. But will people always value this kind of passive, lean-back-and-watch experience? That's the big question. As more major media providers launch their own streaming video services, competition among them has heated up, just as their value proposition to audiences may be losing some of its luster.

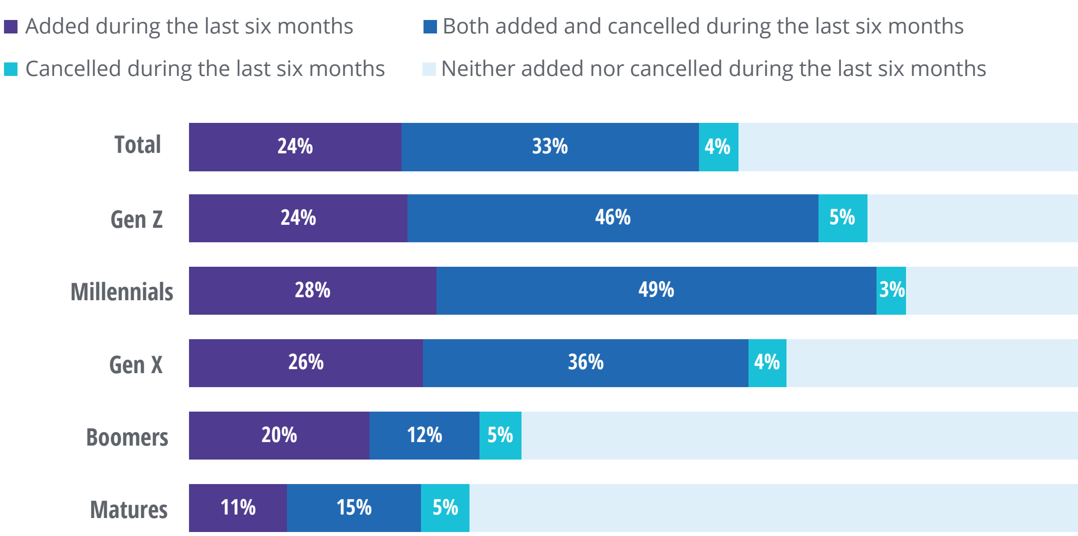
For top SVOD services, growth in North American subscribers has slowed.[2] As they pursue global markets, and as those markets mature, they may be facing the same challenge. For consumers, getting their entertainment through the fragmented SVOD landscape requires more effort and, increasingly, nearly as much money.[3] Over the past two years, US consumers have become increasingly frustrated when they lose content to other services, have to manage multiple subscriptions, and receive poor recommendations.

These conditions lead to churn: when people cancel, or both add and cancel, a paid SVOD service. In the United States, the average churn rate has remained consistent since 2020 at about 37% across all paid SVOD services (figure 1).[4] It should be noted, however, that churn for a given service might be significantly lower than the overall average. In the United Kingdom, Germany,

FIGURE 1

Churn for paid streaming video services remains high in the United States—especially among younger generations

Changes to paid streaming video services (percentage US consumers)



Note: N (All US consumers) = 2,000.

Source: Digital media trends, 16th edition (March 2022).

Brazil, and Japan, the overall churn rate is closer to 30%. (This number varies for each country, largely driven by subscription penetration and number of SVOD services.)

People are attracted to SVOD by the content, but they often leave due to cost. Generation Z consumers are especially sensitive to services being too expensive. It costs money to acquire subscribers, so losing them too quickly can hamper providers' ability to recoup their acquisition costs.[5] However, cancelling a service doesn't mean they won't return. One-quarter of US consumers have cancelled a streaming video service in the past 12 months and resubscribed to the same service, with younger generations significantly more likely to return (figure 2). In the United Kingdom, Germany, Brazil, and Japan, around 22% overall have churned and returned. Once again, the behavior is stronger among younger generations.

Why do respondents say they churn and return? Either a new season of their favorite show was released, they got a free or discounted rate, or content they wanted to watch moved to the service. Around a quarter of people across the countries we surveyed admit they routinely cancel and resubscribe to manage costs. In every country we surveyed, consumers—particularly Gen Zs and Millennials—are getting savvier about determining how much money they will spend on what content. As we have stated before, it looks like consumers are winning the streaming wars.

FIGURE 2

Younger generations are also prone to canceling and then resubscribing

Cancels and then renews paid streaming video service within the last 12 months (percentage consumers)

		Generation Z	Millennials	Generation X	Boomers + Matures
US	25%	35	38	28	7
Brazil	33%	42	39	31	21
UK	23%	44	33	23	6
Germany	19%	38	34	16	6
Japan	12%	24	20	11	4

Notes: N (All US consumers) = 2,000; (All Brazil consumers) = 1,000; (All UK consumers) = 1,002; (All Germany consumers) = 1,002; (All Japan consumers) = 1,000.
Source: Digital media trends, 16th edition (March 2022).

How can SVOD providers keep subscribers around?

TO RETAIN MORE subscribers, SVOD providers are exploring ways to shift the value proposition in their favor. Offering flexible pricing options could be the most direct path. Among consumers in all five countries surveyed, options that allowed people to watch ads in exchange for lower costs—or at no cost—are the most popular (figure 3). Ad-supported tiers could attract more cost-conscious subscribers. And even when there are lulls in engaging content, subscribers may not cancel their subscription if the cost is low enough.

Streaming services can also use gated content to offer consumers pricing tiers. Some companies are experimenting with offering premium access to everything at a higher price and cheaper options for less content. Our global study found that many respondents thinking of cancelling a paid SVOD service would likely keep their subscriptions if they could get a discount. Some would be willing to watch more ads, or less content, or wait 45 days to watch a new release (figure 4).

FIGURE 3

Across the countries we surveyed, more than half would favor an ad-supported streaming video service

Consumer preference for a new streaming video service model (percentage consumers)

	US	UK	Germany	Brazil	Japan
12 minutes of ads per hour/no monthly fee	34	44	41	34	55
Six minutes of ads per hour/monthly fee ($6/£5/€6/R$20/¥750)	25	17	21	26	15
No ad/monthly fee ($12/£10/€12/R$40/¥1,500)	41	39	38	40	30

Notes: N (All US consumers) = 2,000; (All UK consumers) = 1,002; (All Germany consumers) = 1,002; (All Brazil consumers) = 1,000; (All Japan consumers) = 1,000.
Source: Digital media trends, 16th edition (March 2022).

FIGURE 4

Annual subscriptions and ad-supported options might convince some global consumers to stay

Reduced cost options that might keep consumers from cancelling streaming video services (percentage of consumers)

	US	UK	Germany	Brazil	Japan
No ads or restrictions on what I can watch but requires an annual 12-month subscription	24	21	22	36	19
12 minutes of ads per hour but no restrictions on what I can watch	18	11	10	16	12
No ads but must wait 45 days after release date to watch premium TV shows and movies	12	14	10	13	13
No ads and no access to live sports, but can watch games and highlights the next day	9	10	10	11	5
None of these options would convince me to keep the subscription	37	44	48	24	51

Notes: N (All US consumers) = 2,000; (All UK consumers) = 1,002; (All Germany consumers) = 1,002; (All Brazil consumers) = 1,000; (All Japan consumers) = 1,000.
Source: Digital media trends, 16th edition (March 2022).

Bundles and perks can also support subscriber retention. If US respondents were thinking about cancelling an SVOD service, 37% said that access to first-run movies would convince them to stay, and 34% would stay if a loyalty program were included. Among Gen Zs and Millennials, about 51% would stay if their subscription included a gaming or music service or another SVOD service.

All of these pathways could reinforce the value of SVOD, help with retention, and even support greater profitability, but they can also put different pressures on revenues. However, SVOD itself may be facing a greater challenger in the evolving preferences of younger generations: Gen Z and Millennial consumers who have grown up with social and interactive media.

The shifting sands of media and entertainment

OVERALL, OUR SURVEY showed watching TV and movies at home remains the favorite entertainment activity, but this trend skews significantly toward older generations. Across all five countries surveyed—the United States, the United Kingdom, Germany, Brazil, and Japan—Gen Z respondents cited *playing video games* as their favorite entertainment activity. More generations may catch up. For UK Millennials, gaming is a close second to watching TV and movies at home, and Japanese Millennials rank playing video games as second to browsing the internet. Similarly, use of social media is high and skews toward younger generations. Social has become a gateway for video, music, news, gaming, and the communities and content creators that keep it all moving.

Social media and gaming further challenge retention for SVOD services. Every time a streaming show ends, a recommendation fails to engage, when subscription costs mount, or even when attention strays—these are moments when people may turn to social media and gaming. Yet, larger generational changes are likely underway, shifting the sands of the media and entertainment landscape.

People are finding more relevant, engaging, and shared entertainment on social media

SOCIAL MEDIA SERVICES have become increasingly dynamic spaces. For many consumers, these services have offered essential ways to connect, gather information, and stay entertained. They provide both passive and active experiences and offer up near-infinite streams of personalized content—all lit up with swarming behaviors around trending content. And it's all free and available anywhere, anytime.

In contrast to SVOD services, social is full of content that is bite sized, snackable, and highly personalized. People log onto these platforms regularly and they can be entertained for a minute or an hour. In the United States, some 80% of social media users say they use social media services at least daily and 59% use these services *several times a day*. Across the United States, the United Kingdom, Germany, Brazil, and Japan, Gen Z, Millennial,

FIGURE 5

Across the countries we surveyed, people engage with social media for many kinds of activities

Top three most frequent activities on social media platforms (percentage consumers)

	US	UK	Germany	Brazil	Japan
Read or watch news	27	26	41	44	52
Listen to music	28	28	26	41	29
Watch TV shows and movies	23	20	16	36	30
Shop	17	16	15	32	39
Play video games	22	19	16	25	15
Watch sports	13	12	8	15	11

Notes: Respondents were shown more response options that are not listed here.
N (All US consumers) = 2,000; (All UK consumers) = 1,002; (All Germany consumers) = 1,002; (All Brazil consumers) = 1,000; (All Japan consumers) = 1,000.
Source: Digital media trends, 16th edition (March 2022).

and Gen X consumers are consistently more likely to use these services.

Another differentiator from SVOD: Social is largely free. And the library of content is massive and seemingly never-ending. Users are listening to music, reading and watching news, watching TV shows and movies, and playing games, all in one place. Their newsfeeds are personalized by algorithms that serve up exactly what they want. No chasing content, and no subscription needed (figure 5).

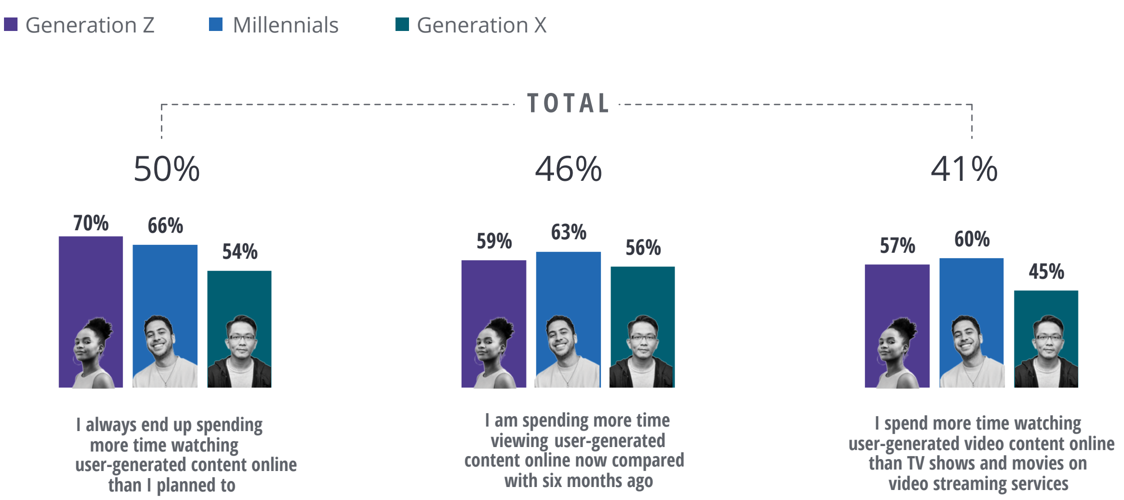
User-generated content—which is usually short-form and easily consumable—has been bolstered by the rise and reach of video-centric, algorithmically fueled social media services.[6] And it's often highly engaging. About half of US respondents say they watch more user-generated content than they did six months ago, and half say they *always* end up spending *more* time watching user-generated content than they had planned (a number that jumps to 70% among Gen Zs) (figure 6).

Rich troves of user data power algorithms that continuously refine themselves to get the most compelling and engaging content, ads, and recommended user accounts in front of the right audiences. In essence, the content discovers you. And it's competitive with the TV experience. Around four in 10 US respondents say they spend more time watching user-generated video content than they do TV shows and movies on video streaming services—a sentiment that increases to around 60% for Gen Zs and Millennials.

FIGURE 6

In the US, younger generations spend more time than they intended engaging with user-generated content—even more so than with SVOD

Percentage of US consumers who agree with the following statements



Note: N (All US consumers) = 2,000.

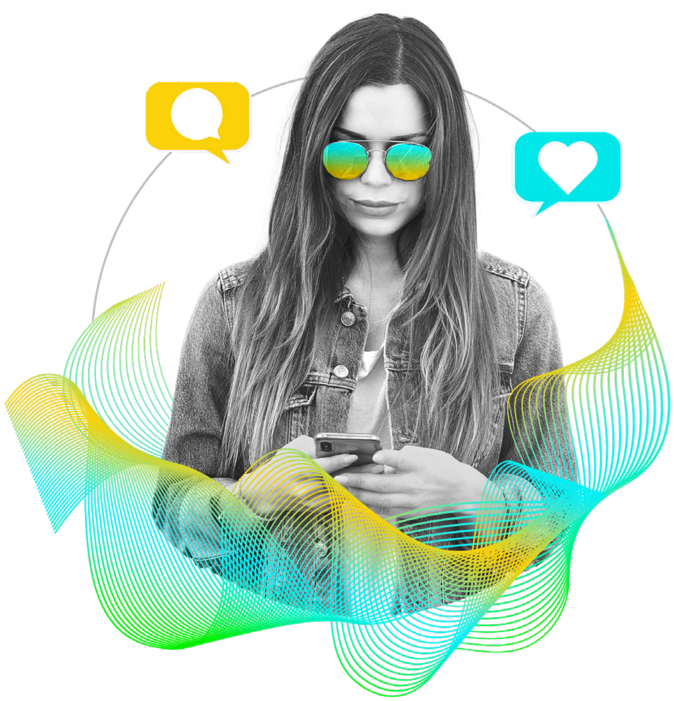
Source: Digital media trends, 16th edition (March 2022).

Much of this user-generated content is fueled by the creator economy and so-called influencers—users whose large followings enable them to monetize their content through brand partnerships on these platforms.[7] Following influencers helps users connect with communities of like-minded people—an affordance not easily replicated on SVOD services. Seventy percent of US respondents say they follow an influencer, and one-third say these online personalities influence their buying decisions—a figure that increases to more than half for US Gen Zs and Millennials.

The appeal of influencers is a global trend: 88% of survey respondents from Brazil follow an influencer, as do 79% of respondents from Japan. People worldwide, especially younger ones, are drawn to influencers—from the content they post, to the lifestyles they promote, to the communities they create—and often relate to them on a personal level.

With such large global audiences, social media services are becoming shoppable retail destinations, enabling businesses big and small to reach new audiences and potential customers.[8] Leveraging the same data and algorithms, these services can deliver ads and product placements that are highly targeted and personalized. More than half of US respondents and around 40% or more in the United Kingdom, Germany, and Japan say they see ads on social media for products or services they have been looking for—a number that increases to 72% in Brazil. These sales are highly profitable for social media services: In addition to making money on the ads they sell, they can also take a percentage of the sale price when a product is purchased, expanding their revenues beyond advertising.

With hundreds of millions—even billions—of users, social media services and the brands they support can capitalize on fast-moving trends. Indeed, some reports show sudden spikes in demand for products that have gone viral on top social media services.[9] So, while the audience for SVOD is larger than ever, experiences that are social, interactive, and shoppable are competing for more of our time, attention, and money.



Gaming draws younger generations more accustomed to connected life

JUST AS SOCIAL media has enabled communities to create and interact around content, and even reach the kind of stardom once reserved for major celebrities, gaming has opened doors further, empowering people to step directly into once impossible worlds.

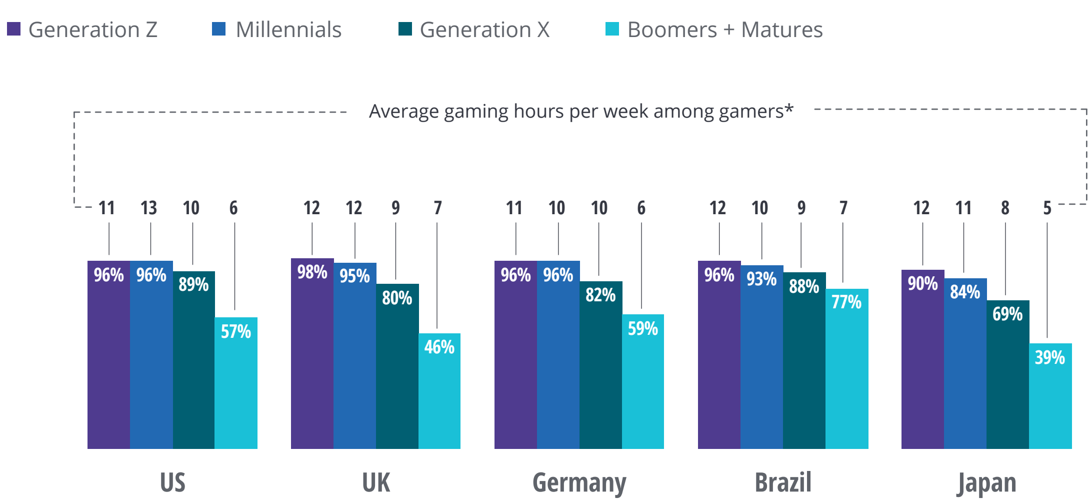
In the United States, a vast majority of respondents are playing video games. Thanks to a range of devices and content, more than 80% of both men and women say they play, with half of smartphone owners saying they play on a smartphone *daily*. As we might expect, Gen Z and Millennial gamers play the most, logging an average of 11 and 13 hours per week, respectively. Gen X gamers follow closely behind with around 10 hours of gameplay every week (figure 7).

The popularity of gaming is another global trend: Most respondents in the United Kingdom (75%),

FIGURE 7

In the countries we surveyed, nearly all in the younger generations are gamers

Consumers who play video games (percentage consumers)



Notes: N (All US consumers) = 2,000; (All UK consumers) = 1,002; (All Germany consumers) = 1,002; (All Brazil consumers) = 1,000; (All Japan consumers) = 1,000. *Among only those who are occasional or frequent "gamers": those who play more than "never" across multiple devices.
Source: Digital media trends, 16th edition (March 2022).

Germany (78%), Brazil (89%), and Japan (63%) play video games regularly. In all of these countries, younger generations are also more likely to be gamers, with Gen Z and Millennial gamers spending an average of 11 hours per week playing.

Whether they are simple, time-filling mobile games or rich, immersive, and social games drawing in tens of millions of players, gaming competes for screen time. Streaming video providers should note that about half of all US gamers say that playing video games has taken time away from other entertainment activities; unsurprisingly, these percentages increase for younger gamers. Other markets appear similar: Just over half of gamers in the United Kingdom, and just under half of gamers in both Brazil and Japan are also sacrificing other entertainment activities to play video games.

This stickiness may be due, in part, to the network effects enjoyed by social games. People play with friends, against strangers, and in front of audiences on social streaming services, reinforcing engagement while also satisfying more emotional needs. About half of US gamer respondents say that playing video games helps them stay connected to other people, and a similar share say making connections is important to them while gaming—sentiments that emerge at a higher level for men. Overall, more than three-quarters of US gamers surveyed also say that gaming helps them relax, while nearly 60% report that gaming helped them through a difficult time. And these games are supporting identity: 61% of US gamers say that personalizing their game character or avatar helps them express themselves. Many of these sentiments, like the importance of making connections with

FIGURE 8

Gaming supports social and emotional needs and takes time away from other entertainment

Gamers who agree with the following statements (percentage gamers)

	US	UK	Germany	Brazil	Japan
Playing video games helps me relax	78	74	69	84	53
Personalizing my game character or avatar helps me express myself	61	54	43	69	39
Video games have helped me get through a difficult time	59	57	40	73	33
Playing video games help me stay connected to other people	53	52	38	69	35
I often discover new music while I'm playing video games	51	50	35	71	41
Making connections with others while playing video games is important to me	48	50	39	61	31
Video games have taken time away from my other entertainment activities	49	55	35	45	44

Notes: N (US gamers) = 1,624; (UK gamers) = 749; (Germany gamers) = 783; (Brazil gamers) = 884; (Japan gamers) = 627.
Source: Digital media trends, 16th edition (March 2022).

other players, personalizing their game character or avatar, and finding relaxation through gaming, also emerge globally (figure 8).

Video games offer people an outlet for self-expression, immersion, connection, and relaxation, and game companies have monetized these qualities quite effectively. Amid lockdowns and social distancing requirements, the pandemic has only underscored the value of socialization in digital worlds. But virtual worlds can bring the downsides of physical life with them: Bullying and harassment have become a larger problem.[10] These negative experiences can tarnish games, provoke regulators, and threaten revenues. Worse, social games can become toxic, with women and minorities often being targeted.[11]

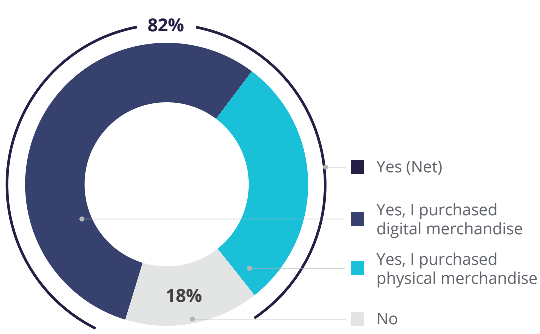
With large, global audiences aggregated and engaged on top gaming platforms, advertisers are working to access and influence them. As game worlds become more dynamic and customizable, in-game advertising and branding opportunities get more creative. Top social games support greater personalization by offering digital clothing, skins, and gestures that increasingly include branded virtual goods.[12] Imagine sprucing up your avatar's appearance with a pair of your favorite brand of sneakers or buying a designer handbag you've always dreamed of.

Gaming and music also appear closely linked: About half of US gamers in our survey say they often discover new music while playing video games. Some of the largest social games are featuring new releases from top artists, debuted on in-game radio stations and paired with branded virtual goods.[13] And some games are offering major musicians their own storylines.[14] Top musicians have delivered larger-than-life experiences in game worlds that let them perform for tens of millions globally.[15] Live in-game events present a unique opportunity for brands, franchises, and performers. About a quarter of US gamers say they have attended an in-game event in the last year, with Millennials and men being the most likely attendees. Remarkably, 82% of those attending live in-game events also made a purchase because of the event: 65% purchased digital goods and 34% purchased physical merchandise, reinforcing the steady blurring between the real and virtual (figure 9).

FIGURE 9

Gamers engaged in live in-game events are spending money for merchandise

Percentage of US gamers making purchases in a live in-game event



TOTAL	Generation Z	Millennials	Generation X
82	64	88	92
65	47	71	76
34	27	39	35
18	36	12	8

Note: N (US gamers who attended a live event inside a video game) = 373.
Source: Digital media trends, 16th edition (March 2022).

Gaming allows people to become part of the story, gives them autonomy and a chance to win, enables them to share rich experiences, and it can support their emotional needs. Games companies capitalized on this with freemium mobile games and gaming subscriptions, in-game purchases of new content, and an economy of virtual goods that has drawn in more brands and franchises. As consolidation heats up in the games industry,[16] streaming video providers may face even greater competition for younger audiences who have grown up with smartphones, social media, and video games. Will Millennial and Gen Z consumers and those that follow move away from entertainment that isn't social or interactive in some way?

Toward the metaverse

GIVEN THE RAPID global adoption of social media and the steady drive toward more complex and social gaming experiences, it's understandable that the metaverse has become such a big priority for leading companies.[17] Technology has advanced to enable greater immersion and interaction across digital systems. Many businesses and economies exist in both real life and online. People have been building their digital lives for a few decades now, with social media and gaming expanding our sense of self into digital representations. And now, two years into a pandemic that has urged us to maintain physical distance, more aspects of our lives have become digitalized and virtualized.

The web and all it may entail is no longer just a destination or a place we sometimes opt into. It's become a routine part of our lives—enough to feel just as real for many people. Our smartphones have become more of an extension of ourselves than an independent tool we use. The metaverse may be riding a hype cycle because we already spend much of our lives there.

Here's just one example of an activity that could happen in a consumer metaverse: Shopping for virtual clothes to wear when we join our friends for a concert in the game world. But for that to happen, deeper questions about ownership, rights, interoperability, monetization pathways, and partnerships would have to be answered. It's further complicated by the ongoing empowerment of users, influencers, and content creators who can aggregate their own loyal audiences, attract advertisers, and wrestle more of the customer relationship away from businesses. What will this look like if we move further into virtual worlds architected to engage, empower, and monetize?

A major shift is underway, one that could radically recompose internets and economies. In the integrated marketplace of the future, streamers, social media, and gaming companies could see their business models further disrupted—not just by younger generations, but also by the emerging infrastructure of Web 3.0. Activity is heating up, with innumerable cryptocurrencies conferring specialized rights to niche communities; NFTs giving weight and scarcity to digital goods; and distributed ledgers such as blockchain working to decentralize assets and distribute trust. Social game worlds built on blockchains and NFTs are attracting users—and celebrities—and monetizing the new digital scarcity.[18] Edge computing and 5G are delivering the next generation of computation and connectivity needed to unleash it all. Billions of dollars are already flowing in to support this shift. And yet, these trends toward decentralization and user empowerment would seem to run counter to the goals of some platform companies racing to own the first billion metaverse users.[19]

For now, streaming video, social media, and gaming are all very successful without full immersion, tokenized economies, and universal interoperability. But the twin engines of capital and human behavior may be moving irrevocably toward that kind of unlimited reality. Media and entertainment companies may need to collaborate more to create a future where they remain at the center.

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About the authors

Kevin Westcott | kewestcott@deloitte.com

Kevin Westcott is a principal and leads the US Telecom, Media & Entertainment practice as well as serves as the global Telecommunications, Media and Entertainment (TME) practice leader. He has more than 30 years of experience in strategic and operational planning, as well as implementing global business change and technology projects for major media organizations. His industry experience spans film, TV, home entertainment, broadcasting, publishing, licensing, and games. Westcott is an author of Deloitte's Digital Media Trends Survey and a coauthor of Deloitte's Digital Media Maturity Model.

Jana Arbanas | jarbanas@deloitte.com

Jana Arbanas is vice chair and Deloitte's US Telecom, Media & Entertainment (TM&E) sector leader. She is also a principal in Deloitte and Touche's Risk and Financial Advisory practice. Arbanas has more than 20 years of experience in serving large, multinational technology companies to help them address enterprise risk. She has leveraged her risk advisory capabilities to lead engagements for digital platform companies, helping them navigate evolving regulatory requirements and business transformation.

Jeff Loucks | jloucks@deloitte.com

Jeff Loucks is the executive director of Deloitte's Center for Technology, Media & Telecommunications, Deloitte Services LP. In his role, he conducts research and writes on topics that help companies capitalize on technological change. An award-winning thought leader in digital business model transformation, Loucks is especially interested in the strategies organizations use to adapt to accelerating change. His academic background complements his technology expertise. Loucks has a bachelor of arts in political science from the Ohio State University, and a master of arts and PhD in political science from the University of Toronto.

Kevin Downs | kdowns@deloitte.com

Kevin Downs is a senior manager in Deloitte Services LP and the sector specialist for the US Telecom, Media & Entertainment sector. He has more than 23 years of systems, operations, and management consulting experience implementing business-driven technology transformation and digital modernization programs for clients in TMT and the public sector.

Chris Arkenberg | carkenberg@deloitte.com

Chris Arkenberg is a research manager with Deloitte's Center for Technology, Media & Telecommunications. His focus is on how people and organizations interact with transformational technologies. Arkenberg is also an avid video game enthusiast, stomping the virtual grounds since the days of the 2600.

Brooke Auxier | bauxier@deloitte.com

Brooke Auxier is a research manager with Deloitte's Center for Technology, Media & Telecommunications. Her research focuses on media, entertainment, and consumer technology. She has a PhD in journalism from the University of Maryland.

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Practice leadership

Kevin Westcott
Vice chair | US Technology, Media & Telecommunications leader | Deloitte LLP
+1 213 553 1714 | kewestcott@deloitte.com

Kevin Westcott is a principal and leads the US Telecom, Media & Entertainment practice. He has more than 30 years of experience in strategic and operational planning, as well as implementing global business change and technology projects for major media organizations.

Jana Arbanas
US Telecommunications, Media & Entertainment sector leader | Deloitte & Touche LLP
+1 415 987 0436 | jarbanas@deloitte.com

Jana Arbanas is vice chair and Deloitte's US Telecom, Media & Entertainment (TM&E) sector leader. She is also a principal in Deloitte and Touche's Risk and Financial Advisory practice.

Mic Locker
US Consulting leader, Telecommunications, Media & Entertainment | Deloitte Consulting LLP
+1 203 423 4727 | miclocker@deloitte.com

Michal (Mic) is a principal in Deloitte Consulting LLP and the National Sector leader for the Telecommunications, Media & Entertainment practice for US Consulting.

Janet Moran
US Tax leader, Telecommunications, Media & Entertainment | Deloitte Tax LLP
+1 212 436 7516 | jmoran@deloitte.com

Janet Moran is a principal for Deloitte Tax LLP and leads the US Media and Entertainment Tax practice.

Darren Wilson
US Tax leader, Telecommunications, Media & Entertainment | Deloitte Tax LLP
+1 212 436 2739 | darwilson@deloitte.com

Darren Wilson is an Audit & Assurance partner at Deloitte & Touche LLP and leads the firm's Telecom, Media & Entertainment (TM&E) Audit & Assurance practice.

Deloitte Center for Technology, Media & Telecommunications

Jeff Loucks, PhD
Executive director | Deloitte Center for Technology, Media & Telecommunications |
Deloitte Services LP
+1 614 477 0407 | jloucks@deloitte.com

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Cover artwork: Jaime Austin and Alexis Werbeck

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