Daniel Konstantinovic, and Paul Verna

The Daily: The future of streaming

Audio

On today’s podcast episode, we discuss the future of streaming, which streaming service stands out above the rest, how streamers are bringing more sports programming online, and what kind of programming people watch. Listen to the discussion as host Marcus Johnson welcomes analysts Paul Verna and Daniel Konstantinovic to the podcast.

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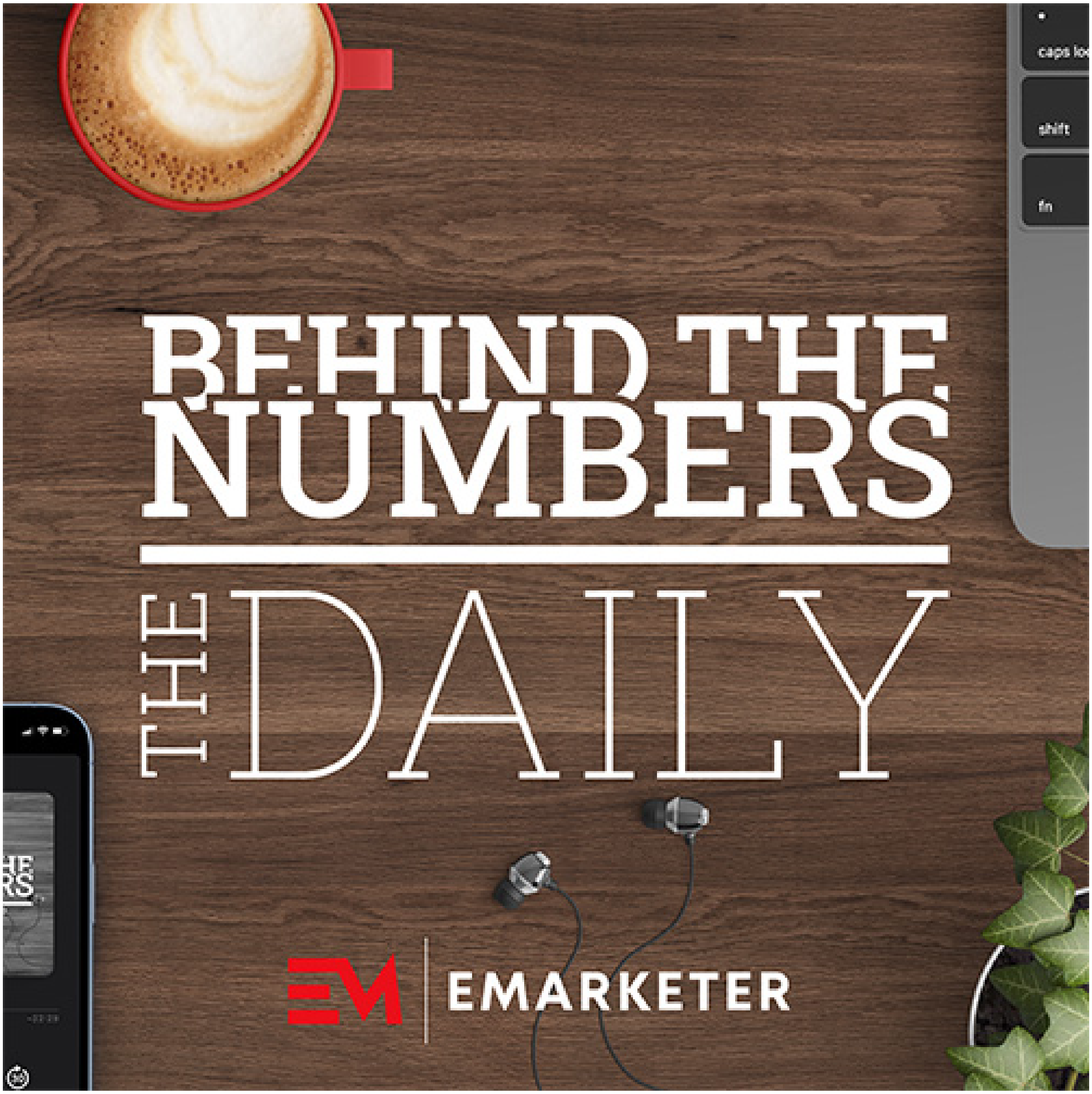

Episode Transcript:

Marcus Johnson (00:00):

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Paul Verna (00:17):

I think we're getting to a tipping point where the attrition and broadcasting cable is probably going to accelerate and streaming is going to benefit from that. So I can see those percentages that you cited going even more in the direction of streaming by this time two years from now.

Marcus Johnson (00:38):

Hey gang, it's Marcus. Hey gang, it's me and it's also Thursday, July 18th. What a weird start. Daniel, Paul, and listeners, welcome to the Behind the Numbers Daily and the Emarketer podcast. Sound like a children's show. What am I doing? You know who I am already because I started that way. Let's see who else we've got for today's episode and hopefully help me get this episode on track. We start with Vice President of content. He covers everything, advertising, media and technology. He's based just north of New York City. It's Paul Verna.

Paul Verna (01:15):

Great to be here, Marcus. Thanks for having me.

Marcus Johnson (01:16):

Hey, fella. Yes indeed, of course. And we're also joined by one of our analysts who writes for a marketing and advertising briefing. He is based in New York City. He is Daniel Konstantinovic.

Daniel Konstantinovic (01:26):

Hello. Happy to be here.

Marcus Johnson (01:27):

Hey, chap. Today's fact, the world's most endangered animal is the-

Paul Verna (01:34):

Oh, sorry, go on.

Daniel Konstantinovic (01:36):

Oh, are we going to guess or [inaudible 00:01:37] reveal?

Marcus Johnson (01:36):

I'll take a quick guess of the type. It's very specific, though.

Daniel Konstantinovic (01:40):

I'm going to guess it's some kind of sea creature, like a fish.

Marcus Johnson (01:44):

No.

Daniel Konstantinovic (01:46):

I did well last time I was on with guessing mosquito.

Marcus Johnson (01:49):

Oh, you did, yeah.

Paul Verna (01:49):

The bee?

Marcus Johnson (01:51):

No, it is the Javan rhino. So there are only 75 of them left in the wild. They can be found in Java in Indonesia. Can you imagine if there are only 75 people left on Earth? Well that actually sounds quite nice, but you get the point, right? It's kind of crazy to think about if your species only had 75 of them left on the whole planet. The second most endangered animal is the Amur, Amur. I don't know. It's a leopard.

Paul Verna (02:18):

It's so endangered, none of us have heard of it and we don't know how to pronounce it. Do we get to pick the 75 people? That's a deal breaker for me. Or just any 75.

Daniel Konstantinovic (02:28):

Yeah, what if you just don't like the other guys?

Marcus Johnson (02:29):

The world's so big you wouldn't even know. You would think you were the last person. But yeah, the leopard also, only 100 of those left. They're in far East Russia and the northeast of

China. 37 species have been declared extinct with a high degree of certainty since 1500, so in the last over 500 years. But scientists suspect more than 100 others have disappeared over the last 30 to 40 years. It's just obviously hard to confirm that because it might be hiding somewhere as according to a 2015 study in the journal of Science Advances. Wouldn't it be cool if the dodo bird was like, "Surprise."?

Daniel Konstantinovic (03:04):

"I've been here the whole time."

Marcus Johnson (03:04):

"Still here."

Paul Verna (03:05):

"You guys are the dodos. We're here."

Marcus Johnson (03:08):

Oh, I see what you've done. I see what you've done. Today's real topic, thank goodness, the future of streaming. In today's episode, we'll cover which streaming players are going to be left by 2026, now in other news today, let's get to it. So champs, James B. Stewart and Benjamin Mullen of the New York Times just wrote an interesting piece about the future of streaming, asking multiple top executives who will survive, who won't, who's going to thrive, how? Really, really great piece. And they talked about everything from basically the perspective of the top executives and how they see the next couple of years playing out in the world of streaming with regards to advertisers, consumers, bundling, the whole nine yards. So Paul, I'll start with you. What interested you the most about this piece?

Paul Verna (03:59):

There were a lot of fascinating things about this article, starting with the fact that the executives that the New York Times interviewed are not often... It's hard to get them on record, much less all talking around the same physical or virtual table. Brian Roberts, John Malone, Barry Diller, as well as Ted Sarandos from Netflix. So a lot of legacy media and digital media leaders. So that was fascinating. But I think the part that I keep coming back to, which jumped out at me when I first read it, is this whole idea that 200,000,000 is the new 100,000,000.

(04:35):

Meaning that, and I know we talked about this in a previous episode, but it was assumed that for a streaming service to work as a standalone business, you needed at least 100,000,000 subscribers. And now the thought from these market leaders is that you really need more like 200,000,000. So to me, that was a really interesting indicator. For us, we are very data-driven. We do a lot of forecasting of viewers on different platforms. So the idea that that threshold has increased so much implies that services are not going to stick around unless they combine. So it's just a very simple math problem at that point. So that's what I... I mean, again, so many things that were really interesting, but I think that data point keeps sticking in my mind.

Marcus Johnson (05:28):

Is that 200,000,000 in the US or just worldwide?

Paul Verna (05:28):

Worldwide.

Daniel Konstantinovic (05:32):

Worldwide, I believe.

Paul Verna (05:33):

In total.

Marcus Johnson (05:33):

Okay, okay. And so how many streaming services are at that level at this point? Netflix, Prime.

Daniel Konstantinovic (05:42):

Netflix, Prime, I believe Disney, Hulu.

Paul Verna (05:46):

Yeah, Disney when you combine the different brands in the portfolio.

Daniel Konstantinovic (05:51):

Yeah.

Marcus Johnson (05:52):

Got it. Okay, okay. All right, so there are a handful there, but if the others want a chance holding on in this space, they're going to have to get to that magic 200 number.

Paul Verna (06:01):

Otherwise, they're going to go the way of the dodo bird.

Marcus Johnson (06:06):

Who might still around.

Daniel Konstantinovic (06:06):

Hey, but they're still around.

Marcus Johnson (06:07):

Yeah.

Paul Verna (06:09):

That's true. That's true.

Marcus Johnson (06:10):

Have we looked everywhere? But also, they need to get to that number, but they don't have an infinite amount of time to get to that number. One thing that jumped out to me was the reminder that most of your streaming services are still losing money and so how long can you go losing money and losing money until shareholders get fed up or until you just have to pull the plug because you need to make sure that you're floating as a business and staying afloat as a business and concentrating on other areas? Paramount lost 1.6,000,000,000 on streaming last year. They say Comcast lost 3,000,000,000 on Peacock, the streaming service. Disney also lost about 3,000,000,000 on its portfolio that Paul just mentioned. Warner Bros. Max streaming service only just made a profit. Netflix seems to be the only one who's doing pretty decently in terms of profitability, so they're kind of running out of time to a certain extent in terms of trying to get to that magic 200,000,000 in terms of subscribers. Danny, what about for you? What jumped out to you?

Daniel Konstantinovic (07:03):

Yeah, I mean, for me it was also that 200,000,000 figure for a couple of reasons. I mean, all the reasons Paul said are absolutely true. I mean, the margin for success has grown significantly, but something that I was thinking about when I saw them claiming this 200,000,000 figure is what you really need to compete is that the streaming market is so saturated that these services that are not already there are going to have an incredibly difficult time climbing up to that number. If you look at the subscribers that services like Paramount Plus or Peacock or Apple TV have, it is nowhere near even 100,000,000 or it's quite a bit shy of 100,000,000. So the question is, what do these streaming services do? Like Paul said, I think consolidation is definitely one answer and it's something we're already starting to see.

(07:59):

I mean, recent news is that the Paramount merger is finally going through? I'm reserving a complete confirmation of that because it's been such a crazy back and forth story.

Marcus Johnson (08:14):

There's Paramount and Skydance.

Daniel Konstantinovic (08:16):

Yeah, Paramount and Skydance. An interesting thing about the 200,000,000 figure is that they're saying this is what you need to compete at all and if you are a streaming service who wants to grow in the future, a lot of these leaders say you already need to be at that 200,000,000 figure. One big sector for growth is going to be sports, I think, and we've seen over the last two years, streaming services spend billions on sports rights and the services that have scooped up the most valuable ones are those with an already large subscription base. Because if you're a sports league, you want to reach as many consumers as possible. So it is more in your interest to strike a deal with a Netflix or a Disney than it is with maybe Peacock or something like that.

Marcus Johnson (09:07):

Is it fair to say it's giving me a direct correlation between which streaming has more sports rights to which streaming services doing the best? I mean, is that the future we're heading towards with folks buying these rights up?

Daniel Konstantinovic (09:18):

I think to some degree, yes. The reason I say it with that kind of inflection is because it's really expensive. I mean, streaming services are paying billions for the rights to different sports leagues and it's difficult to offset those costs. Streaming margins are rather thin for a lot of these companies or not even there at all since a lot of-

Paul Verna (09:42):

Nonexistent.

Daniel Konstantinovic (09:43):

Yeah, since a lot of companies are losing money. And if you look at a company like Warner Bros. Discovery, not even necessarily with the sports rights that they have, but with the merger that they went through, they're still struggling to pay off that debt load. So if you're a company that is struggling to eke out a profit, sure, getting sports rights will help churn. It will help attract more viewers, attract more subscribers, but it also is a really big dent in your wallet. It's a long road to turning that around.

Marcus Johnson (10:16):

I mean, the sports thing is interesting because if you're able to secure those rights, you're locked in for a very long time, so you get that built-in advantage for quite a while. A lot of these contracts going with the NBA, the NFL going [inaudible 00:10:27] season in the future. Daniel, you mentioned churn. One of the other things that jumped out to me from this piece was I thought churn rates were a lot higher for streaming. So cable, they said in cable's heyday it was about 1.5 to 2% of subscribers churned being left the service each month.

(10:41):

The average churn across all streaming services is double that, but double is 4% according to analytics company, Antenna. It varies by service. Smaller players like Paramount Plus, it's 7%. Netflix, it's the only streaming service below 4%. But that jumped out to me as we talk about people moving from this service to that service. But by and large, this data from Antenna suggests that that's not the case. There is some resemblance to cable in relatively low churn rates and we're probably going to see even lower churn rates in the future as maybe some services disappear or particularly as bundles become more and more of a factor.

Paul Verna (11:18):

One caveat to the churn data is that, I don't know this for a fact, but I would be willing to bet that in the heyday of cable where there was a one and a half to 2% churn rate, which is obviously low, I would think that that churn rate was probably relatively uniform across different providers because they were all essentially created equal. But now the article even indicates that for Paramount Plus, it may be as high as 7%. For Netflix, it may be below 4%. So there's more of a disparity, understandably, because now churn just simply depends on the content. Before, it was based on the fact that you didn't really have anywhere to go to churn to other than a competitor where you then had to package up your cable box, have it picked up, have a new one delivered, have it set up. It was a real production to do that.

Marcus Johnson (12:12):

Mm-hmm. That's a fair point.

Paul Verna (12:13):

Yeah, but it's true that streaming services are doing everything they can to reduce churn and they're doing it by... They're using a lot of techniques to do it. One of them is just simply spacing out, particularly their entertainment content across seasons, but even when they license sports, they try to do it in a way where there's going to be some continuity and it's not just going to be the football season, which has gaps of several months during the year. But back to the point about the scale, in order to cut those kinds of licensing deals and to have a content slate that is that long and deep, you obviously need a very large subscription business.

(12:55):

You need that income, you need to have that critical mass, which really very few of these services have. So yes, I think the idea that a Paramount Plus, or let's take Warner Bros. Discovery, which Danny brought up, that is a service that because it's so saddled with debt, it had to basically... It wasn't able to bid for the NBA rights, for example. I mean, they're saying that they're still in play, but I don't believe that Warner Bros. Discovery is going to come to the table with a winning bid for NBA rights because they just simply cannot afford it. Whereas these big tech competitors like Amazon have stepped right in because they can afford it.

Marcus Johnson (13:35):

Mm-hmm. So let's zoom out and look at the state of two. We talked about a lot of different services and I want to look at Nielsen's Gauge, which measures what people watch on TV. I want to look at where that is today and then where that's going to be in two years time and really check into the future of streaming. So the May gauge 2024 has... So if you look at someone watching TV, what are they watching on television in America? 39% of Americans TV time is spent streaming. That's the largest slice. Cable has 28%, broadcast, 22%, and then 11% for other. And we'll dive into that streaming portion in a second. In the past two years, streaming's gained seven percentage points going from 32 to that 39 I mentioned. Mainly taking share from cable, so cable's gone down. Broadcasters has lost a couple of the points as well.

(14:30):

So that's what has happened in the last couple of years. So I want to extrapolate that forward. Obviously that's not the way that you should normally forecast things. There's a lot more that goes into what is going to happen in the future, but just for the sake of giving us a base of what things could look like under the current trends, that would mean that if you take those same trends, the gains that have been made in the last two years and apply those to the future to the next two years, that would mean that streaming would cross the 46% mark in terms of its share of the overall TV pie. So getting close to half. Broadcast and cable would pretty much be neck and neck at about 20%, cable falling a bit faster than broadcast. And then you have 14% for other. Paul, what do you make of that, those kind of shares if we looked at how people are going to watch TV in 2026?

Paul Verna (15:13):

Yeah, if you factor out the other category, that 11%, because that includes things like audio streaming on a TV set or gaming or watching through a DVD player, then you're looking at a market where right now, I mean, if you convert the math, basically right now streaming has 42-ish percent and broadcasting cable has 56%. So what I envision is pretty much what you described where streaming overtakes the combination of broadcast and cable to become the biggest single unit. It may not be 50% because there is that other share, but if it gets to 46% of the total, that amounts to basically streaming being bigger than TV.

(16:05):

And actually, I think it's likely that the rate of change over the next two years will be faster than the rate of change in the past two years. And this is on the argument that things happen slowly and then they happen all at once. I think we're getting to a tipping point where the attrition and broadcasting cable is probably going to accelerate and streaming is going to benefit from that. So I can see those percentages that you cited going even more in the direction of streaming by this time two years from now.

Marcus Johnson (16:38):

Mm-hmm. Zooming on that streaming piece, so 39% for streaming and then what does that look like by platform? YouTube is the biggest slice, 10%. Netflix, eight. And then Hulu and Prime Video have about 3% each. Disney Plus and Tubi, 2% each. And then the rest of the smaller guys, Roku Channel, Max, Paramount Plus, Peacock, Pluto TV, they have about 1% share each. That's what it looks like pretty much. Hulu hasn't gained any share in the last two years. Netflix has gained a point. YouTube's been the biggest beneficiary in the last couple of years gaining about two or three points of share.

(17:16):

So they were pretty much tied with Netflix a few years ago. Now they're the clear cut number one with that 10% versus Netflix is eight. So extrapolating that forwards, Danny, I mean, YouTube would be somewhere at about 12%, 13. Netflix would be about nine and then you'd have the rest of the players still clawing for the remaining percentage. What do you expect in terms of is it just going to be the case that those bigger players keep getting bigger and everyone else is fighting for the scraps? How do you see the streaming portion when you go by platform in two years?

Daniel Konstantinovic (17:45):

There's a lot of changes happening in the streaming sector that I think will shake up some of the numbers a little bit. I mean, I do think that the players who are at the top will remain at the top and continue to see their share grow, particularly because, like we were just talking about, they have the coffers to scoop up the most valuable sports rights to produce the most content since the amount of content on a streaming service is very important for increasing time spent. I'm very curious to see how Prime Video does. I think that it's likely that their share is going to increase, particularly if they secure a significant portion of NBA rights.

(18:26):

I think that will be a really big boost to time spent there. And Hulu hasn't moved in a while, but something that I wonder that might change that is there's a lot of bundling happening in streaming. And like we were just talking about, there is an effort to create cheaper access to multiple streaming services, which you're seeing a lot of these competitors cross lines and team up. Disney obviously has such a huge portfolio of streaming assets that it can do it within its own umbrella, but I wonder if cheaper access to these services is going to increase their share of time spent as well.

(19:09):

Something else that's also interesting to watch is that because there are so many subscription video on demand players and the costs of these services keep rising outside of bundle offerings and ad supported tiers, something that is seeing significant growth are free ad supported streaming options. Things like Tubi have been doing very well. Roku has been doing well. Tubi is also launching in the UK and attempting to capitalize on the growing fast market there. So those are still smaller competitors and they may see some gains, but I do think that the YouTubes and Netflixes or maybe just those two are going to continue to remain at the top of the throw.

Marcus Johnson (19:53):

So quickly speaking about those smaller competitors, Paul, I want to throw this at you real quick to close out the episode. In this article, a New York Times article, they point to a Deloitte study, the found American households paid an average of 60, 6-0, dollars a month for four streaming services, and the piece says that suggests the once unthinkable possibility. Many of the executives were saying that there will only be three to four streaming survivors. They say Netflix and Amazon, almost certainly, probably some combination of Disney and Hulu. Obviously they're not including YouTube in this grouping. So Netflix, Amazon, Disney, and Hulu. And then Apple remaining a niche participant but appears to be feeling its way into a long-term, albeit money losing presence, which it can afford to do. They say that leaves big question marks over Peacock, Warner Bros. Discoveries, Max, and Paramount Plus. What happens to those if you had to... Do they hitch their wagons to bundles? Do they get bought? Do they fold? What about those other folks who aren't and they're going to miss out on the top three or four?

Paul Verna (20:52):

Yeah, I mean, this gets back to the point earlier about consolidation. I think it's almost inevitable that of the services you mentioned, they will not all be standalone services in the coming year, two years, that there's going to be some kind of combination, at the very least bundling, but maybe more than bundling, maybe actually mergers among them or spin them off. But yeah, the current market is not sustainable. And to Danny's point about the way the players shares are apportioned right now, I do see Amazon as probably the one that will grow the most in the next couple of years relative to the last two years.

(21:37):

I definitely see YouTube and Netflix retaining their lead, but I think just because of Amazon's investments in sports, they're really ramping it up. So I can see a scenario where they increase, but then I can also see a scenario where you have right now Peacock and Paramount Plus and Max at about 1% each and maybe two or three of those combine and they carve out a slightly larger share by virtue of that combination. But it doesn't alter the math at the top where I think the big will get bigger, particularly Amazon.

Marcus Johnson (22:13):

Right.

Daniel Konstantinovic (22:14):

If there are big mergers to come, I think part of their ability to do that might be determined by politics. I mean, there is an election going on right now and the current administration has been making a big effort to stop or at least slow down or block large mergers. They looked at things like Amazon and MGM and Warner Bros. and Discovery. So if Max, Paramount, and Peacock want to fold into one another, the ability to do that is going to be contingent on what the political and regulatory landscape looks like in the next two years.

Marcus Johnson (22:47):

Yeah. Great points, gents. That's all we have time for for this episode. Thank you so much for hanging out with me today. Thank you to Danny.

Daniel Konstantinovic (22:52):

Yeah, thank you so much. It's always a pleasure.

Marcus Johnson (22:54):

And of course to Paul.

Paul Verna (22:55):

Always a pleasure, Marcus.

Marcus Johnson (22:56):

Yes, indeed. Thanks to John who will be editing this episode, Victoria, who edits the rest of them, Stuart, who runs the team, Sophie who does our social media. And thanks everyone for listening in. We hope to see you tomorrow for the Behind the Numbers weekly listen, an Emarketer video podcast, which will be guest hosted by Bill Fisher. You get a break from me. You're welcome.