Ross Benes

The Daily: Ad-supported vs. ad-free viewers, how streamers are driving revenue, and how TV consumption looks in a few years

Audio

On today's podcast episode, we discuss who's leading the ad-supported vs. ad-free video streaming race, how much money is coming from both avenues, and how streaming will differ from (and look the same as) cable in a few years. Tune in to the discussion with our analyst Ross Benes.

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Episode Transcript:

Marcus Johnson (00:00):

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Ross Benes (00:27):

There's less room to add people now than there was when streaming was new. You're competing for fine entertainment dollars and there's not a ton of people adopting streaming services who already don't have 'em. You have to convince people who already stream to pay for your service.

Marcus Johnson (00:50):

Hey gang, it's Monday, June 10th, Ross and listeners. Welcome to the Behind Numbers Daily and eMarketer podcast. Made possible by Round Roundel. I'm Marcus. I'm joined by the Chap lives just north of New York City where it's a little quieter. He is one of our senior analysts covering everything, digital advertising and media. It's Ross Benes.

Ross Benes (01:08):

Hey Marcus. It's nice to talk to you from such a quiet room.

Marcus Johnson (01:13):

I bet. Today we're talking about streaming with and without ads, but we start with today's fact. Ross trivia for you who has the long, I wasn't going to do this with college football because it's a bit close to home. I was going to do bold routes. Oh

Ross Benes (01:27):

Yeah. Well that one's easy. It's Nebraska.

Marcus Johnson (01:31):

Ross. Ross. Ross went to Nebraska, so I thought I was too close to home, although I have brought it up on the show already. So instead I went, who has the longest championship drought across the four major North American sports? If you can name one of the top five because the top five does include three of, yeah, includes three of the

Ross Benes (01:50):

Four major. Well in New York it has got to be top five you would've

Marcus Johnson (01:52):

Thought, wouldn't you? Yeah, you're thinking the

Ross Benes (01:54):

Knicks. Are you saying for a city across anything? They haven't won anything in a long time.

Marcus Johnson (01:59):

Oh, I'm just talking about specific team across any of the sports. So I'll give you

Ross Benes (02:04):

Team wise. Gotcha. Yeah.

Marcus Johnson (02:06):

The

Ross Benes (02:07):

Cleveland Guardians used to be the Indians. I think they've gone like a hundred years since the World Series.

Marcus Johnson (02:13):

That's the second longest championship drought. Yeah. Nearly, I think 76 years. Second longest championship drought. Cleveland Guardians.

Ross Benes (02:20):

I don't know what number one is that would've

Marcus Johnson (02:21):

Been by one year. It's the Arizona Cardinals. They last won a title in 1947. I

Ross Benes (02:28):

Bet they weren't even in Arizona though.

Marcus Johnson (02:30):

Nope. No they weren't. So yeah, NFLs, Arizona Cardinals. That's the longest seven to seven years. Cleveland guardians and baseball. 76 baseball's, Sacramento Kings 71 years back to football. Detroit Lion 66 and rounding out the top five is basketballs Atlanta Hawks with Scotland. They, they've gone 65 years since winning a chip. It's 77 years there. It's a long time to go. The Lakers haven't won it in four years and I'm furious. Yeah. I dunno how some cities do

Ross Benes (02:58):

It. What year did you say the 19 what? 40? Yeah. They would've been the Chicago Cardinals it looks like.

Marcus Johnson (03:03):

Yes.

Ross Benes (03:04):

They were all over the place. Chicago, Pittsburgh, St. Louis.

Marcus Johnson (03:07):

Yeah. Anyway, today's real topic to ads or not to ads. That is the streaming question. Clever Shakespeare references

Marcus Johnson (03:23):

In today's episode, in my lead, we will cover ad-free versus ad-supported streaming. No other news today has too much to cover. So let's get started with the lead. So Ross, there was a New York Times call from John Coblin asking what happens to our ad free tv. He writes that streaming TV came with a promise sign up and commercials will be a thing of the past. Netflix rose to dominance off the back of that ad free Promise followed by others, but it didn't last long. He writes as almost all the streamers now offer an ad supported cheaper tier Apple TV plus. Is that the only holdout

Ross Benes (03:58):

Among the largest streaming services? Yeah,

Marcus Johnson (04:01):

Right. There's

Ross Benes (04:01):

Hundreds of streaming services. So there is stuff there, yeah, right

Marcus Johnson (04:04):

Across the major ones. But Ross, let's start with this. I mean we have seen it pivot from ad free paying for it, paying more for it to and supported paying less for it or free. How many unsupported viewers are there total today?

Ross Benes (04:19):

Well, in the US population that's about half the population. So yeah.

Marcus Johnson (04:24):

Okay. And is that growing rapidly still? Is it leveled

Ross Benes (04:27):

Off? I want to say it's growing rapidly. Where the growth comes from is growth and time spent. So there's not a whole lot of new people coming into streaming. If you use the internet, you're already probably streaming something, but people are increasingly going from spending 10 minutes a day to 20 minutes or a half hour day to 45 minutes. Light users are becoming moderate users.

Marcus Johnson (04:52):

And you mentioned just over half of folks now and supported viewers. That was a quarter of people in 2019 before the pandemic. So that's incredible growth to go from a quarter to half and now naturally it's going to slow down as we keep going. It does seem as though Ross more and more new folks are choosing cheaper alternatives when they're looking to sign up to streaming services In q1, 56% of new subscribers to streaming services chose the lower priced ad tier according to antenna. That's up from 39% a year ago. So more of those folks opting for that option when they join. What interests you the most about the battle going on here between the different players? When we zoom in a bit on these unsupported offerings,

Ross Benes (05:34):

We see a wide range at how dependent a given streaming service is on advertising. So Netflix advertising isn't really material to them yet. Less than a billion dollars a year in the US this year is what we're forecasting their subscription business much larger, probably about 15 times the size. So you have someone like them on the extreme end of fewer than 10% of viewers are ad supported today. They're growing from zero though not too long ago. And then you got

Amazon, very ad dependent service, very ad dependent company at this point. They flip the switch made ads the default for Prime video. Now 80% of Prime video users are ad supported. So streaming services all offer a hybrid at this point for the paid streaming services do except for Apple TV plus. But the degree to which they really seek out and rely on ad supported customers varies widely like Netflix and Max are on the low end and then Prime Video and Peacock would be on the high end.

Marcus Johnson (06:38):

Yeah, it's interesting because as you mentioned, you've got Netflix who are very small share ad supported Max, a small shared Disney plus a small share as well more than Netflix.

Ross Benes (06:48):

And those are all the services that are relatively new to advertising.

Marcus Johnson (06:50):

Yes. Yep. True. On the higher end, like you mentioned Amazon Prime Video, 80% of their viewers are ad supported. Peacock close to 80% Paramount plus over 70%. Hulu also close to that number. So on the other end, so my question Ross, is what's the right balance here? Does it really just depend by company or are you going to see these companies all start to drift towards a 50 50 kind of model?

Ross Benes (07:13):

I think it definitely depends on the company. What works for one service doesn't have to be the model for another company. I think Netflix is going to lean more on subscription revenues for a long time than most of these streaming services have because it's been very good for them. They've gotten people to pay 15 plus bucks a month and they like their service without ads. They don't want to make those customers hostile or upset or anything. They're getting a lot of the ad viewers from new signups. That's where they're more likely to get it. But that huge customer base that they already brought in, a lot of those people are willing to pay more to stay ad free and I don't think that's a bad thing. So it really depends on how much subscription revenue services can drive and what the ultimate goal of the parent company is for using that service.

Marcus Johnson (08:03):

Right, but they pull in more typically from an ad supported viewer than from an ad free

Ross Benes (08:11):

Typically. Yeah, that's the case across streaming services.

Marcus Johnson (08:15):

Average revenue per user. Yeah. Okay. But you don't think Netflix will continue to tip the scales in that direction because of that?

Ross Benes (08:23):

They're going to try tip the scales a little bit in that direction. They have these bundles, they have the one that they're doing with Comcast. Almost all the bundles that are being offered now heavily discount the ad supported version and they're adding the live sports, which will have ads in it. So they are doing things to grow the ad revenue, but maintaining the subscription revenue is a bigger deal. It's a lot bigger pot of money for them.

Marcus Johnson (08:52):

So if you're looking at top five and supported, so if you break it down by millions of people this year, Amazon Prime video as Ross mentioned, they flip the switch. So now those folks are ad supported by default and you can pay if you want to get rid of them. But that's 130 million people in second place. Way behind close to half as many. It's Hulu 84 and Roku channel 83 over top three. In terms over the next four years though we expect Disney plus to add the most in terms of millions, add the most ad supported viewers, 24 million, Netflix and Hulu to add 21 million I over four years though Ross, that seems slow to me to add 5 million each year. I thought they would've been adding more, but to your point, they're quite content with the ad free people and how much they're paying for the service

Ross Benes (09:38):

And there's less room to add people now than there was when streaming was new. You're competing for fine entertainment dollars and there's not a ton of people adopting streaming services who already don't have them. You have to convince people who already stream to pay for your service while there's six other options they could be paying for.

Marcus Johnson (10:02):

So the promise of ads on streaming was that they would be better that they have data about you and they don't have to share the same generic ad with everyone, that they can be more targeted based on the data that they have about the individual user president of ad sales at Disney. Rita Pharaoh was saying that there was always this notion that people don't like ads. I don't think that's true. She says people don't like bad advertising or a bad ad experience. She says that in a data rich streaming world, the ad experience is better informed than it was on traditional tv and the company knows what a person's viewing preferences are and what products are relevant to you in your opinion. How much better are streaming ads?

Ross Benes (10:45):

They're not better at all. There's just less of them. So that's better if you have four minutes of ads prior versus 15 for linear, that's a better user experience. But you see ad repetitiveness all the time still. I think Frequency Cappings probably gotten a little better than it was a few years ago, but still a major issue still. Sometimes you'll see a show where everything is a house ad, it's almost as if nothing got sold, even though there's all this advertising demand. So there's some weird things going on with yield management still that make the ad experience a lot like traditional TV. And certainly I don't think it'd be viewed superior if you talked to people who aren't in the ad industry.

Marcus Johnson (11:31):

Yeah. In terms of less ads, John Colan of the New York Times noting just a few years ago, an episode of a prestige basic cable drama like Ryan Murphy's American crime story was interrupted by 21 minutes of ads. Whereas on Disney plus the average amount of time for commercials is four minutes per hour. And on Hulu it's just over six minutes.

Ross Benes (11:53):

Yeah, I mean if you ever watch one of those new Godzilla movies on TNT, that's half your day because you take all the ads. But if you go and watch it on Max, it's a better experience not because each individual ad hits me so much harder. There's just fewer of them.

Marcus Johnson (12:10):

Yeah, yeah. So we mentioned the Amazon Prime video currently on top in terms of total ad supported viewers, A1 30 million, and then Hulu and the Roku channel in a distant second, but we turn to the ad free side of things. Ross, who's top of the charts there?

Ross Benes (12:27):

Well Netflix is still there. Yeah, they're the biggest ad-free service by far on a percentage basis. Max has a lot, most of its users on ad-free has a higher share. They don't have as many viewers total as someone like Hulu or Disney Plus does, but they lean heavily toward ad-free.

Marcus Johnson (12:48):

Okay. So Netflix the highest, wonder what you think about this. So Brian Weer analyst and founder of the consulting firm, Madison and War says he expected that even with ads on streaming services overall ad dollars would continue to fall for media companies. He estimates that the amount of time spent watching ads on tv, both streaming and cable will fall by 24% from last year 2023 to 2027. And so what does that look like, Ross, as the streaming platforms start to add advertising, are media companies still going to be losing money in the longterm as they pivot to streaming? Well

Ross Benes (13:27):

Losing money just on the ad side you're saying? Right?

Marcus Johnson (13:29):

Well on the ad side, yeah, that's one part of it. And then zooming out for overall, in terms of putting the two pieces together, subscriptions and advertising,

Ross Benes (13:39):

It does seem like streaming will probably be a little less profitable than linear was for most of these services. For the ad time, I think Brian is onto something there now. He is making projections based off of current data. It's very possible four years from now, the ad load on streaming could be significantly higher than it is right now. I don't think it's ever going to reach linear though. So you still are going to see erosion of inventory as he forecasted it just might be a little bit less than 24%, but the prices will rise because there'll be scarce or relatively scarce to what they are now and more measurable and targeted in theory. So there will be less ad slots to fill, but I don't know if that has to equate to a total decline in revenue if you can charge more per unit. And I think that's what they'll be looking to do is well, streaming ad prices in general, it costs more than linear. So as the total amount of inventory becomes less linear centric, it'll become more expensive per ad.

Marcus Johnson (14:39):

So this Zoom write out, because you put together some research on this, how much money is coming into streaming from advertisers and then also from people paying for it. So from paid subscriptions.

Ross Benes (14:50):

So it's about two thirds is paid subscriptions. That's the fees that you pay with your credit card when you sign up for Netflix or Hulu or Disney Plus or whatever. And about one third is advertising. And that's all ads coming into streaming, not just the subscription stuff, but also YouTube and Tuby and

Marcus Johnson (15:08):

Roku. Okay. Is that shifting over the next couple of years, that ratio?

Ross Benes (15:12):

It's getting a little bit more ad supported, like the total share of streaming revenue that came from subscriptions used to be even higher, but it's not going to get anywhere close to half for the foreseeable feature. It's still going to be primarily subscriptions. It might go from two thirds to 60% over a five year period or something like that. By the way, that mimics what linear TV is very similar. They've always been since the advent of modern cable, it's been more so subscription fees than ad revenue. People are paying over a hundred bucks for Comcast.

Marcus Johnson (15:51):

Yeah. Well that leads me nicely into my last question, which is in a couple of years time, Ross, I mean, how will the way folks consume TV content pay for TV content differ from how people used to subscribe to Cable, if at all? Is it just going to in a few years time be like, oh, it's just cable delivered via streaming, but the way that people pay for things, to your point, this ratio between subscriptions, pay subscriptions versus advertising, the way things are getting bundled, the way that people are watching similar channels, similar content, what differences, if any, are they going to be in a couple of years when you compare the two?

Ross Benes (16:24):

Well, there's going to be a lot more coming and going. So you used would pay for Dish Network and you'd be locked in. That's not going to happen. You're going to be a la carte and shift your services around as your show or your sport ends. So that's good for consumers that you're not locked into things and you can shift your entertainment budget around as you see fit throughout the year. The downside is it's going to get a lot more confusing, especially for sports fans because there might be four or five different places that will show your team or even a specific game and figuring out what is the cheapest way to access it. And if you already might get that product for free, whether through a bundle or your telecom or a service you forgot that you subscribed to, there's something you'll have to really keep top of mind. It isn't just as simple as like, well I have my cable, I turn it on and I flip the channels, MBAs coming on. Oh, do I still have the Bleacher Report? add-on with Max? Should I give venue? What about upgrading to A-V-M-V-P-D? There's all sorts of options to watch a particular thing.

Marcus Johnson (17:28):

Yeah, I think that you're right there will be more moving around, more bouncing around between services, but I think that's going to slow down and not just a little bit relatively considerably because yearly discounts, I think more streaming services are going to offer yearly packages and people especially now trying to save money, that could be quite appealing. So maybe people locked into longer term deals, consolidation of services, less services to move too. And then also there's content gaps getting filled in. I think you are right. When the NBA season finished, I would be like, okay, do I need a YouTube tv? But now WNBA, I've started watching that and that's there. So I've subscribed to that and so I do need it for the summer. So what do you think of the pace of how often people are going to be moving between services? What's that going to look like?

Ross Benes (18:10):

Well, you make good points about the consolidation and things becoming more centralized, but I feel like over the past year it's gotten more confusing. So we're still a ways away from it getting simplified. The year, the yearly stuff does keep you locked in long. I mean I signed up yearly for Max and I felt like I was probably more committed to it. I mean even if you churn out, you still have the login for however many months are left on it. So there is that, but the bifurcation hasn't stopped. And some of the stuff that used to be exclusive to one service is everyone's licensing now to Netflix again. So you don't need Max to watch Sex in the City or the top Viacom show might be on, or Paramount I should say. It might be on Netflix now. So there isn't the exclusivity stuff that there used to be. So it's figuring out where something is at can change month to month and you have to use real good.com or read something like Decider to just keep track of it. Right.

Marcus Johnson (19:06):

Alright, that's where we have to leave today's episode. Ross, thank you so much for hanging out with me today.

Ross Benes (19:11):

Thanks Marcus.

Marcus Johnson (19:12):

And thank you of course to Victoria who edits the show. Stuart, who runs the team and Sophie does on social media. And thanks to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers Daily. That's an eMarket podcast made possible by Round L.