Daniel Konstantinovic

The Daily: Disney+ loses users, what's next for writers strike negotiations, and The Roku Channel establishes itself

Audio

On today's podcast episode, we discuss why Disney+ is losing users, what a Disney+ password-sharing crackdown would look like, and the impact of ESPN Bet. "In Other News," we talk about what the Alliance of Motion Picture and TV Producers is offering at the latest writers strike negotiations and why The Roku Channel has become a legitimate player in the streaming wars. Tune in to the discussion with our analyst Daniel Konstantinovic.

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Episode Transcript:

Marcus Johnson:

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Daniel Konstantinovic:

Streaming came on the market years ago and was like, "We are the cheaper alternative to cable." And now, in one year, that relationship has changed so quickly. It's gone from, "We are the cheap alternative," to, "We are raising prices across the board," sometimes significantly.

Marcus Johnson:

Hey, gang. It's Monday, August 22nd. Is that right?

Daniel Konstantinovic:

No.

Marcus Johnson:

[inaudible] that.

Victoria:

Hold on, I'm doing math.

Marcus Johnson:

Scratch that. It's Tuesday. Danny, Victoria, who you just heard from, and listeners, welcome to the Behind the Numbers daily, an eMarketer podcast made possible by Awin. I'm Marcus, and today I'm joined by Victoria, who edits the show, and also helps me with the date. But also Daniel Konstantinovic, who's one of our analysts on the marketing and advertising briefing based in New York. Hello, sir.

Daniel Konstantinovic:

Hello. It's always good to be here.

Marcus Johnson:

Hello, hello. Today's fact. So, I tried to find out the most popular casino game in America. It was very hard. I think it was somewhere between blackjack and slots. But I feel like when you go into a casino, most people are playing slots, so conventional wisdom suggests that it would be that one. I couldn't figure it out. But I did find something from casinos.com, which looked at what's the most popular game by state. And when you count up the states, Texas hold'em takes the crown. 14 states listed that as their favorite. Second place was slot machines, 13 states. Followed by bingo, further behind, then five-card draw, and then craps. So, when you count states, they're the ones that won. But I also was looking at which casino games have the lowest house advantage. So, the highest individual person advantage, which ones are you most likely to win on? Blackjack, bingo, craps all came up towards the top.

Daniel Konstantinovic:

I feel like everyone thinks that they have a secret edge in blackjack or poker. They're like, "Oh, I know the trick. I know the secret to making money."

Marcus Johnson:

You don't. I don't.

Daniel Konstantinovic:

I certainly don't.

Marcus Johnson:

I think that you should be able to play regular household games at the casino. If I could hit the table and play Game of Life-

Daniel Konstantinovic:

Oh, that'd be great.

Marcus Johnson:

... how fun would that be?

Daniel Konstantinovic:

Yeah.

Marcus Johnson:

Thank you, exactly. Casino with household... get a round of UNO, a little Monopoly. That could be too long.

Daniel Konstantinovic:

Yeah, with some money on the... Yeah, Monopoly, that's a little too real for the casino. They can't bring that home.

Marcus Johnson:

That's true. Actually, well, here's a fact, considering none of the stuff I said was actual facts. The fact is, in the US there are about 1000 casinos operating, according to the American Gaming Association, as of 2021. Today's real topic, what Disney is focusing on.

In today's episode, first [inaudible], we'll cover what Disney is focusing on. Then for In Other News, we'll check in on how the writers' strike negotiations are going and why The Roku Channel is a true streaming player. But we start with the lead. Danny, we're talking Disney. It's a topic that you had put on my radar, because you were saying, "There's a lot going on. Let's discuss." And so we're going to go through how many people use Disney's services, Disney+, Hulu, things like that. How much are they making? What's going on with some of their initiatives? And then we'll end with betting. ESPN, which Disney owns, getting into betting.

But we'll start, Daniel, with Disney+, so Disney's streaming arm. Despite having so many users, Disney+ subscribers are falling and streaming is losing money. We'll start with the users. Disney+ lost roughly 12 million subscribers worldwide in Q2, landing at 146 million. This seems like a big deal, Daniel. We're used to numbers obviously going up, and up, and up in terms of subscribers, particularly with streaming. Or at the very least being flat. 12 million down for Disney+. What's going on? What happened?

Daniel Konstantinovic:

Well, the majority of those losses came from India because Disney... Well, they've been shedding users quarter after quarter ever since they lost the rights to the Indian Premier League, which is a major cricket league. There was a huge bidding war for these rights last summer, that offers were going as high as 7 billion apparently. It ended up going for a little over 6 billion. Disney retained the rights to broadcast it on TV for 3 billion. But a cohort of different media companies that is called Viacom18, which includes some competitors for Disney, I believe Paramount is a member of it, ended up getting the streaming rights for about

3 billion. And immediately there was an impact. Last quarter, they lost 4 million subscribers in India. This quarter, the number went further up. The impact has been so heavy that they have even considered selling off Star India, which was one of the major assets they acquired when they bought 20th Century Fox several years ago. So, just to give you a sense of how important sports is, especially in that market.

But the general losses, like financial losses, Disney's lost, I think, 11 billion since they first launched Disney+ in... Oh, gosh, I can't remember what year it is. I think 2017, 2018?

Marcus Johnson:

'19 I think, yep.

Daniel Konstantinovic:

2019? Okay, yeah. So, even shorter amount of time. And it just shows how expensive it is to run a streaming service. The cost of user acquisition, content production. There have been a lot of inflated salaries for top-level talent, and for actors and directors and things like that. And Disney really only makes money from one source, which is subscriptions. And it's really hard to crank up the revenues that you can get from subscriptions alone. It's why there are such steep price hikes, which we're going to get into. It's why they have launched an ad-supported tier, and why they're trying so hard to funnel users into an ad-supported tier.

And it's not just Disney that is feeling that. It's also Netflix and basically every other subscription video service is really feeling the fact that they need to increase revenues. Just adding new users isn't cutting it anymore. If the news was Disney loses 11 million subscribers in Q2, but average revenues per user are up like 50%, I don't think this would be viewed as bad news, really. It would be more mixed, or maybe even positive. But they're losing subscribers and they're struggling to crank up the number that each subscriber contributes to the overall pile.

Marcus Johnson:

Yeah, when you strip out India, Disney+ actually added 800,000 subscribers. They were mainly still international. But yeah, when you take out India, that was the real issue, as you outlined. Yeah, 11 billion lost in streaming for Disney since 2019. They lost over 500 million in Q2 alone. Funnily enough, 500 million in losses for streaming was 30% better than analysts had expected. Disney said that they will turn a profit, though, on Disney+ by the end of 2024.

Some of that, Danny, I guess they're starting to add more and more to their ad-supported tier. Disney+ now has over 3 million ad-supported folks. They still haven't launched in Canada or Europe. They're doing that this November, so they've got that wave to come as well. So, maybe that will help them. But 2024 seems soon for them to flip a profit.

Daniel Konstantinovic:

Yeah, it does seem really soon. And that's why I think there's some dramatic things happening. Every streaming service, basically, this year has gone through a price hike. Even non-video like Spotify had a price hike recently. But Disney had one of the steepest ones. I think it was a $3 increase for the ad-free version of Disney+ and for Hulu as well.

Marcus Johnson:

It went from 8 to 11, yes, last December. And then will go up again.

Daniel Konstantinovic:

Well, and again now. Yeah, it'll go up again in October, I believe.

Marcus Johnson:

Yes, 11 to 14. And then also Hulu ad-free, which Disney owns, controls, that goes from 15 to 18. However, you were noting the ad-supported options for both Disney+ and Hulu will remain the same. So, they're very clearly saying, "Look, if you want no ads, you're going to have to pay more. But if you are okay with ads, we'll keep the price the same," knowing that they're making more off of those folks. Similar to Netflix, they're making more from folks who will have ads than folks who don't. Even though the price obviously is lower, they're getting the ad dollars. And so overall, that's a more valuable subscriber.

Daniel Konstantinovic:

Yeah. And it's tough, the ad-supported tiers will take a long time to ramp up to meaningfully contribute to these companies' revenues. But it's also a little bit of a tough sell because there are so many free ad-supported streaming services. And those streaming services are popular, and becoming more popular as we'll talk about, like with Roku.

Marcus Johnson:

Yeah, we will.

Daniel Konstantinovic:

So, the sell for Disney and Netflix to pay to still have ads is a tougher pill to swallow, I think, and leading to some slow user adoption. And I think these companies are having to take some dramatic steps to funnel users into those ad-supported tiers. And maybe the continued success of free ad-supported video is going to make it harder for Netflix and Disney to stake a claim.

Marcus Johnson:

Well, over 40% of new subscribers apparently choosing the ad tier. Which is going to help boost Disney+'s average revenue per user. Jeremy Goldman, who is also on the briefings team with you, was saying that they're going to have to strategize how to transition more subscribers to the ad-supported tier because they are making more money from folks over there. We expect Disney+ to make just over a billion dollars in US ad revenues next year. So, it's not the most money in the world, but you've got to start somewhere. And it's going to be a revenue stream that they can obviously continue to increase. We already talked about price hikes. A bundle, Danny, a new ad-free bundle combining Disney+ and Hulu is coming to the US from September 6th for 20 bucks. Your thoughts on this?

Daniel Konstantinovic:

I think it's so interesting. I feel like if you had asked me one or two years ago how big of a deal is a bundle of Disney+ and Hulu, I would've been like, "This is a huge deal. This is going to make adoption of Disney+... Subscribers are going to go way up. People are looking for a bundle, like value deal for streaming. And user acquisition is the most important metric at that time for a streaming service's success." Now, I feel like it's more of a medium deal. I think it's a big deal in the sense that it makes it seem like Disney acquiring the full ownership of Hulu is more likely. And there have been a lot of hints that's going to be very likely. They have to make a decision on that, I think by the end of this year. So, it's coming up fast.

That is the biggest aspect of it. And Hulu is a huge service, has a big ad revenues, so it'll really help Disney's overall picture if they can get all of that. But I think in the context of these price hikes, a bundle is kind of like an olive branch. It's like, "We are raising the prices a lot. Consumers are not going to be happy about that."

Marcus Johnson:

"Here's some extra content," yeah.

Daniel Konstantinovic:

Yeah, and so, "Here, you can get the ad-free versions of both if you pay a little extra." Less than the individuals would cost for ad-free, but I think it's really interesting.

Marcus Johnson:

So Danny, let me ask you this quickly. From next year, Disney+ plans to tackle password sharing, which CEO Bob Iger has described as a priority. We've talked about this a lot recently, obviously with regards to Netflix. What do you expect this upcoming initiative to yield for Disney+?

Daniel Konstantinovic:

I think it's going to yield a lot more subscribers to the ad-supported tier. We saw with Netflix that there was a really quick turnaround. All of these users who were getting a free ride to Netflix were not really willing to give up on access to it. They still wanted cheap access. The cheapest access is the ad-supported tier, [inaudible] that ad-supported tier. Also, each ad-supported user is more valuable to the streaming services than an ad-free user. So, I think it's going to give a big boost to their ad-supported tier. I think what's really interesting about it beyond that, though, is that there is really a degradation in the relationship between streamers and consumers happening. Even though there hasn't really been a mass exodus from streaming services, things like password sharing, even though they're unpopular, have resulted in more signups.

Streaming came on the market years ago and was like, "We are the cheaper alternative to cable." And now, in one year, that relationship has changed so quickly. It's gone from, "We are the cheap alternative," to, "We are raising prices across the board," sometimes significantly. The writers' and actors' strike is really dealing a blow to the perception of streaming, I think among a lot of consumers. And it's just becoming more expensive. There was a report from CivicScience that came out last week that found that streaming fatigue, the number of people who feel that they are subscribed to too many streaming services, is up pretty dramatically from even just last year. I think it was 62%. Well, not 62% higher, but the number of people who expressed streaming fatigue was at 62%. We still haven't seen an effect on subscriptions from that, but the change in perception there, I think, is a noteworthy one.

Marcus Johnson:

Yeah. You mentioned Netflix and how they benefited from this, Antenna reporting that immediately after its crackdown on password sharing, Netflix had the four largest days of US user acquisition since it began tracking subscriber numbers. 3.5 million signups in June alone, I believe the crackdown started end of May time. Morgan Stanley analyst Ben Swinburne thinks Netflix is on track to reach nearly 25 million net new subscribers from the paid sharing program this year alone.

Daniel, let's end the lead by talking about some pretty big news here, with ESPN getting into betting. So, Disney is getting into sports betting. And you were noting that ESPN has signed a 10-year $2 billion agreement with Penn National that will see the casino operator's Barstool Sportsbook rebrand to ESPN BET. So, ESPN BET will be promoted on regular ESPN broadcasts, and could possibly see integration with streaming service ESPN+. What's going on? What's your take?

Daniel Konstantinovic:

Well, Disney has been looking to get into sports betting for a while. There are reports last fall that they were negotiating with DraftKings or FanDuel to see if there was potential for a deal there. Instead, they have decided to spin out their own competing business. And I think it really has potential to be a dominant player in sports betting. DraftKings and FanDuel have already kind of stirred at the news that ESPN, which is one of the most recognizable brands in sports media, if not the most recognizable one, is getting into betting.

Marcus Johnson:

And you noted that their shares fell 10% after the announcement, FanDuel and DraftKings.

Daniel Konstantinovic:

Yes. So, they fell pretty steeply. And it's probably coincidental timing because these things take a long time to spin up. But DraftKings has just launched a pretty big celebrity-fueled ad campaign just a week or so after this news came out. So, they're really competing for attention. ESPN BET isn't available yet, it'll probably take a while. But I think what's really interesting about this is it's going to give ESPN and Disney a big cash influx right now. They will also have a lot more revenue just over the next several years from proceeds from bets. We have a recent forecast out that shows that sports betting handle in the US is going to reach

230 billion by 2025. That 230 billion isn't revenues, it's handle. It's the amount of bets placed, essentially.

Marcus Johnson:

Right. And there's still lots of money to be made, though. US sports betting will be an $11 billion business this year, according to us, growing to 15 billion next year. That's in sports betting revenues.

Daniel Konstantinovic:

The other side of it is that Disney is this family-friendly company. And they're very protective of their image. And yet, they are getting into gambling in a pretty serious way. It's a big identity shift for them, I think, and one that they're going through in all parts of their business. Considering selling off TV assets, publicly rethinking how much content they're going to put out from Marvel and Star Wars. They are really going through a period of major change and identity change. And gambling is the clearest sign of that.

Marcus Johnson:

I was wondering whether that's going to affect them that much. Because the deal, it lets ESPN make money on gambling without becoming a sportsbook, right?

Daniel Konstantinovic:

Exactly.

Marcus Johnson:

So, Disney won't handle the bets itself. It's leaving the management up to Penn National. And you were noting, and other folks have noted that Disney has to be careful given its family-friendly image. I don't know how many folks actually know that Disney owns ESPN, outside of people who talk about this all the time. So, maybe the general consumer won't be too bothered by it because they'll have no idea. Potentially.

Daniel Konstantinovic:

Yeah, I think you're right. I think what is the average consumer's knowledge of the state of media conglomerates?

Marcus Johnson:

Who owns who, yeah.

Daniel Konstantinovic:

Yeah, it's so complicated that it's probably not that high. But Disney is clearly concerned about it. They're like, "We're going to get into betting, but we don't want to be anywhere near the bets themselves." They're not handling any of the bets. So, I think the concern there is really directed towards advertisers. They're trying to show that they are still a safe place to advertise.

Marcus Johnson:

"We're aware of it."

Daniel Konstantinovic:

Or they're trying to show consumers, "We're a safe place to watch TV," or whatever. And consumers like sports betting, it's very popular. So, I don't think they're that concerned that viewers are going to be like, "Oh, my family-friendly channel. They're gambling. What's happening?" I don't think anyone's going to care.

Marcus Johnson:

Yeah. So, two things for me, quick. Interesting, 2022 Pew Research survey found nearly 20% of Americans had gambled on sports in the previous year. That's a lot of folks, especially considering that the country's most popular states, California, Texas, have not yet made it legal. So, sports betting, definitely a lot of people doing it, more people doing it, and a lot of money to be made as well. Daniel, I thought it was also an interesting thought here from Amanda Mull of The Atlantic talking about conflict of interest. She was saying, quote, "Now ESPN will have its thumb on all three scales in sports. Influencing the leagues," because ESPN owns some or all of the broadcast rights to nearly every major sport in America. Two, "Informing the public," because it covers sports news. And three, "Setting the betting lines," because of ESPN BET. "ESPN says it will maintain a strict demarcation between its journalists and its betting operation," but still.

Daniel Konstantinovic:

Yeah, that's an interesting question.

Marcus Johnson:

Yeah, regulators [inaudible].

Daniel Konstantinovic:

I wonder. I wonder. It definitely opens them up to some thorny possibilities.

Marcus Johnson:

Yep. That's all we've got time for for the lead. We skip the halftime report. We're going to move straight to the second half of the show today, In Other News. What's the latest on writers' strike negotiations? And why The Roku Channel is now a true streaming player.

Story one. Danny, you write that, "The Association of Motion Picture and TV Producers," shortened to AMPTP, "steps up strike negotiations as upfronts and the fall TV season near an end." According to Bloomberg, AMPTP, on one side of the negotiating table, offered higher residual payments and protections against AI to the Writers Guild of America, WGA, on the other side of the table. But Danny, the most important sentence in your piece on the latest with regards to strike negotiations is what? And why?

Daniel Konstantinovic:

"With upfronts and the fall TV season swirling, the WGA is in a strong position to hold its ground and make further demands of the AMPTP." The streaming services are in a little bit of a tough position right now. They just came out of their advertising commitment season upfronts without new content to convince advertisers to spend on. And a window for production for shows that will debut in the winter and spring of next year is closing really quickly. So, the WGA, the unions have a lot of negotiating power right now. Because the streamers need to put an end to this quickly.

And the offers that are reportedly coming from the AMPTP don't fully address the pretty hard demands of the unions. They've said that, "We're not going to replace screenwriters with AI, and we'll make sure they're properly credited." That's nice, and will surely do something. But the unions want a blanket ban on AI. They don't want AI to be used for any step of the creative writing process. So, if they don't have their demands fully met, I think that they're going to continue on. And continue to flex that leverage that I think they definitely have.

Marcus Johnson:

Yeah, we'll see. Story two. "Roku's numbers are up across the board in Q two year over year," notes Insider Intelligence's senior director of briefings, Jeremy Goldman. So, viewership-wise, Roku increased its global active accounts to over 73 million, up 16%. And streaming hours on The Roku Channel were up over 50%, five-zero. Money-wise, total net revenues were close to 850 million, up 11%. It had grown just 1% in Q1. And gross profit was nearly 400 million, up 7. Danny, the most interesting sentence in this article from Jeremy about Roku is what? And why?

Daniel Konstantinovic:

That in the US in 2020, just 40% of viewers watched FAST platforms, that's free ad-supported TV. And just three years later, that figure is 57%. So, I think that speaks to what we were talking about earlier, with these free ad-supported streaming services being such a major competitor to efforts from Netflix and Disney to launch paid ad-supported tiers.

Marcus Johnson:

And we're talking Tubi, Pluto TV, The Roku Channel, people like that?

Daniel Konstantinovic:

Yeah, all of these are seeing some degree of success right now. I think that there's a real demand for free video. YouTube is also a really significant player here that shouldn't really be discounted. A lot of YouTube viewing happens on TVs, and it's growing faster and faster.

Marcus Johnson:

I think it's the number one in terms of streaming, according to Nielsen's Gauge. I think it just overtook Netflix, right? It's something like 9% of all TV time is spent watching YouTube?

Daniel Konstantinovic:

Yeah, I think that's right. In the past it's often been grouped separately, but now I think it's something that really can't be ignored. It's a major, major competitor. And if Roku and companies like it continue to see success, that could make it really hard for these paid subscription companies to break their way into the market in a meaningful way.

Marcus Johnson:

Yeah. That was one of the sentences that jumped out to me as well. But the other one was related to Nielsen's Gauge. The fact that The Roku Channel is now amongst the third tier of streamers. So, Nielsen just reported its gauge, it tracks what people are watching on TV. And The Roku Channel surpassed 1% of total US TV viewing time. Of all the time people spent watching TV, 1% is accredited to The Roku Channel. That's as of May. It's the first time the company's been able to hit the 1%-mark. That put it in streaming's third tier, kind of the same TV time-share as Peacock, and right behind Max as well. As I mentioned, YouTube is at 9%, and Netflix just behind with 8. That's all we've got time for this episode. Thank you so much to my guest. Thank you, Danny.

Daniel Konstantinovic:

Yeah, thanks for having me.

Marcus Johnson:

Yes, sir. Thank you to Victoria, who edits the show, and also fixes my microphone when I'm having issues. Thank you to James, who copyedits it, Stuart, who runs the team. And thanks to everyone for listening in. We'll see you tomorrow hopefully for the Behind the Numbers daily, eMarketer podcast made possible by Awin.