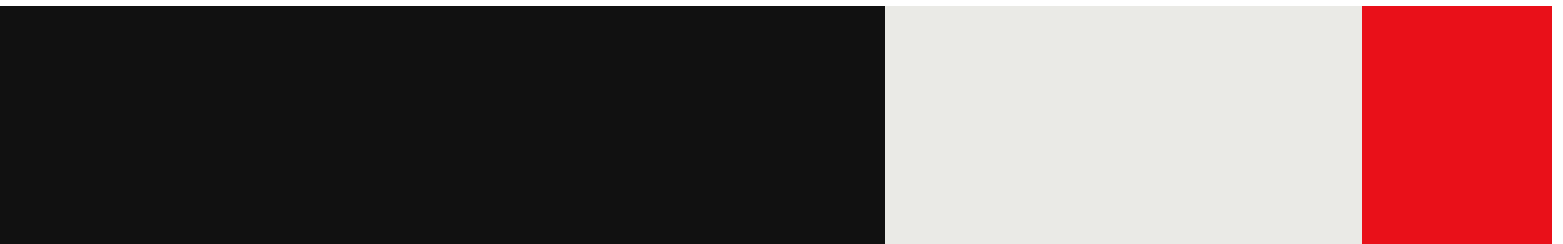


# The Daily: Netflix looks for a boost, fuboTV reaches a milestone, and what are people watching on TV?

Audio



On today's episode, we discuss what's going on with Netflix's ad-supported tier, what its plans to crack down on password sharing could do to viewership, and what Netflix's subscriber growth will look like over the next few years. "In Other News," we talk about fuboTV's current position in the market and what people stream the most on their TVs. Tune in to the discussion with our analyst Paul Verna.

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#### Episode Transcript:

Marcus:

Hey, gang, it's Tuesday, March 21st. Paul and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by Meltwater. I'm Marcus. Today I'm joined by our principal analyst who heads up our digital advertising and media practice. Based out of New York, it's Paul Verna.

Paul Verna:

Great to be here, as always.

Marcus:

Hello, sir. Today's fact is about the national animal of Alaska, which of course, Vee, who edits the show, is what?

Victoria:

Of Alaska?

Marcus:

Yeah, we talked about this on a previous episode. Paul, don't give it away. Put it down.

Victoria:

The moose?

Marcus:

Yeah, the moose. The moose!

Victoria:

The moose.

Marcus:

Of course, Paul, who you folks can't see, the human hands open on top of head, which creates the moose, and was trying to give Vee... But Vee wasn't looking at the camera, so she didn't see the hint.

Victoria:

I don't cheat.

Marcus:

So the reason we bring this up, because Vee the other day correctly guessed, I thought it was going to be national animal of Canada, and she said, "No, I think it's Alaska." But also, get this, the moose is also the official state animal of Maine as well. Yeah.

Paul Verna:

That doesn't surprise me.

Marcus:

Maine designated the moose as official state animal in 1979, 19 years before the moose was made the official Alaska land mammal when the governor signed it into law in 1998. So two states have it. Pick another animal.

Paul Verna:

Anybody know what the national animal of Indonesia is?

Marcus:

Oh.

Victoria:

That big lizard thing with the long tongue.

Paul Verna:

You got it-

Victoria:

Komodo dragon.

Paul Verna:

... Victoria. You got it. You're absolutely right.

Marcus:

Is it really?

Victoria:

I love animal facts, you guys. This is my trivia Olympics.

Marcus:

They're terrifying, though. What James Bond is it where he falls into the pit and there's a Komodo dragon?

Paul Verna:

Oh, I don't remember which one.

Marcus:

It's basically a dinosaur. No, thank you.

Paul Verna:

Yeah.

Victoria:

What about the national animal of Scotland?

Paul Verna:

[inaudible 00:02:46] Is it the dragon?

Marcus:

No, it's the unicorn.

Victoria:

No, unicorn.

Marcus:

That's not an animal that's real.

Paul Verna:

Oh, even better. Even better.

Marcus:

No, it's not. The Scots infuriate me with that. Pick a real animal. Oh, the griffin. That's not a thing.

Victoria:

Non-believers never experience the magic, so keep non-believing, Marcus. It's fine. Leave the magic for the rest of us unicorn believers.

Marcus:

Anyway, I've got some moose facts real quick. Moose, in case you're wondering, moose can reach speeds of up to 35 miles per hour, so don't antagonize one. They are friendly, but they will chase you down. At a trot they can cover 20 miles in an hour, so don't think that you can run away from it over a sustained period of time because it will catch you. They can swim for several miles, so don't think that you can outswim them. They can also totally submerge themselves underwater for about 30 seconds, so you won't be able to hide from them underwater. And the global moose population is estimated to be over two million, with the largest population being found where? Canada. The hell are we doing?

Victoria:

[inaudible 00:03:41].

Marcus:

The beaver's the... I can't. Anyway, today's real topic, Netflix is pulling on all the levers.

In today's episodes we'll first cover Netflix in the lead. Then for in other news we'll discuss FuboTV's milestone and what people are watching on TV. But we start, Paul, with Netflix for the leads. Lots of different things to talk about here in terms of pricing, in terms of Netflix with ads, in terms of password sharing and what they're doing there. So let's start with quite surprising news. Netflix cuts subscription prices. That's right. Netflix cuts subscription prices in over 30 countries, reports Sarah Krouse of The Wall Street Journal. It lowered prices in Middle Eastern countries like Yemen and Iran, Sub-Saharan African markets like Kenya, and European territories such as Croatia and Bulgaria, and obviously more. Ms. Krouse notes that the cuts apply to certain tiers of Netflix in those markets, in some cases halving the cost of a subscription. Just last month, Netflix executives discussed raising, not lowering, prices, much like Disney, Paramount+, Apple TV+ and others who have raised prices or announced hikes. Paul, what'd you make of this recent international pricing move from Netflix?

Paul Verna:

Well, call me cynical, but I think it's just a way to goose the subscriber numbers, and frankly the markets where they're doing this. They're not doing it in North America; they're not doing it in the countries of Latin America where they have a lot of usage and a lot of growth; they're not doing it in Western Europe. So it is what it is. It's not going to move the needle in terms of generating new... I don't know that it's going to generate any new revenue, but it is going to increase some of those subscriber totals so that when they report that, it's going to be a higher number.

Marcus:

What's surprising, though, is they were doing pretty well on subscribers. It wasn't like subscriptions weren't going up. For reference, Netflix added eight million new subscribers in Q4 2022. Most of those were outside the US, to reach 230 million worldwide. And aside from Q4 2021 poll, eight million is the most they've added in any quarter in the last eight quarters. So they were doing pretty well in terms of subscribers, so it didn't seem like they needed to pull this lever at this moment.

Paul Verna:

Well, they may have been doing well, they had a good quarter, but I think they probably see the writing on the wall. Also, some of those markets where they're raising prices are getting more competitive because some of the other big services are starting to expand internationally. So I think they probably did some projections and they saw what's coming in the rest of this year and they figured they have not much to lose because they're not getting tons of revenue in those countries anyway. But it's just probably a way to just get those numbers up. I think they also... I know we're going to talk about this a little later, but I think they have not seen the kind of take-up that they wanted in the ad tier. So, again, it's not generating as much new subscriptions as they had thought, so they're maybe trying to make up for that.

Marcus:

Mm-hmm. Yeah, we're going to come to that one actually next, but two quick points on this. So Netflix has lowered the price of its services in the past. It cut the price of subscriptions in India in 2021 after initially targeting more affluent folks with pricier plans, so they have made price reductions in the past. And then also, yeah, they are trying to get well ahead of the curve in terms of the competition catching up with them. A Visual Capitalist article notes that Netflix has the highest number of subscribers in 78 countries. Netflix is number one in 78 countries. Canal+ is a far-off distant second and leads in 17 markets, and that's second place. Netflix has close to 80 countries where it is first.

Paul, let's talk about Netflix with ads and how that's going. At the start of February, Netflix told media agencies it had 600,000 MAUs, monthly active users, for its three-month-old ad tier. That's three times the level it launched with in November, according to executives contacted by Television News Daily, notes Wayne Friedman of MediaPost. He explains that this follows a report from the information that Netflix doubled the number of subscribers for its ad option. Basic with ads is what it's called, and it costs \$7 a month. Paul, how many subscribers does Netflix's ad tier need to have for people to take Netflix with ads seriously? Because up until this point... It's very new, but people have kind of said that the rollout has been a bit shaky and they're not hanging any kind of serious hopes that it can help really boost the company's revenue or subscribers. Where does it need to get to before people start to take this bit more seriously?

Paul Verna:

Well, I'm sure that Netflix has a number and I'm sure that the advertisers who are supporting or plan to support Netflix with ads have their own number. I don't know what that number is, but a recent report in MediaPost since the article that you referenced, Marcus, cited Moffett Nathanson data that said that they now expect about 10 million ad-supported global subscribers by the end of this year. And that's actually down from 24 million that they previously had expected, Moffett Nathanson-

Marcus:

Yeah, serious down-revision.

Paul Verna:

That's a big down-revision. And I'm guessing whatever that number is, that it's closer to that original 24 million and that now that number being at 10 million is definitely not great news. You have to figure that that's a global number, and we just talked about all those countries where Netflix is number one. But if you look at just the US market, say that if it's 10 million throughout the world, say that in the US it's maybe, I don't know, three, four million, that does not seem like a very high number when you think about the kind of scale that advertisers want. So if an advertiser is told suddenly that they're only going to reach three or four million people instead of 10 to 12 or 15 or whatever that number was for the US, it's a very different proposition, and I'm sure Netflix is going to be having to do some damage control for this.

Marcus:

Yeah, Netflix had told advertisers it expected 1.7 million subscribers for their ads tier by the end of Q1, which is like a week or two away. So I don't know how close to that they are. But, Paul, it shouldn't be too surprising because in November an estimated 9% of new US Netflix signups went to its basic with ads option, which made it the least popular Netflix plan in the month, according to analytics company Antenna.

But like I said, this can't be too surprising because back in October, before the ads tier was launched, research company Attest asked folks how much they would pay for Netflix with ads before it came out. How much would you pay when it comes out? Most people who were subscribers wanted it for free, 20%, 17% said they wouldn't switch, and of the people willing to pay for a discounted plan, most said they would only fork out five to six bucks a month, 16% of people. Only 24% of people said they'd pay over seven, and it is seven. And that's people saying they're going to pay, not necessarily doing it. So it's not surprising when you



read the tea leaves in terms of the consumer adoption or in terms of anticipated consumer adoption according to some of these surveys. But yeah, consumers and advertisers also not really taking to it as much as Netflix would've hoped. Senior director of briefings, Jeremy Goldman, saying advertisers have had a mixed response to Netflix's ad offering, finding it expensive with limited and targeting and missing some viewership guarantees by a lot.

Paul, let's talk about their partnership that they got into to help with the launch of this ads tier. Insider Intelligence briefings analyst, Daniel Konstantinovic, noting that according to Digiday, Netflix is already looking into building or buying its own advertising technology once its two-year contract with current ad tech partner Microsoft ends in 2024, this just six months after the partnership began and the ad tier was launched. So Netflix partnered with Microsoft for this ads tier, and already, six months in, it's saying that once the contract finishes in two years, we're out, possibly at least. Paul, thoughts on Netflix's possible split with ad tech partner Microsoft after 2024?

Paul Verna:

It was surprising to a lot of people when Netflix announced that Microsoft was a partner, but that doesn't mean that Microsoft does not have the capabilities to support this partnership. So what I wonder is if what's happening here is more of a case of shooting the messenger where Netflix overestimated itself and overestimated how much it could charge for its ad tier, and now the sort of stink of that is on Microsoft. There's no way we're going to know about what's what's going on internally, but it's definitely not surprising to hear that they're kind of revisiting it. You could make a strong argument for if Netflix is really serious about this, they're probably better off building their own than partnering with someone. But to me, it's just another indication that this ad plan is not going as Netflix had hoped in the early days.

Marcus:

Let's check in on their password sharing strategy because we're still not 100% sure on what Netflix plans to do, but Jeremy was noting Netflix did recently attempt, at least, to explain how its new plan to prevent password sharing was going to work. So they say when someone logs into a non-primary account on a new device, a non-primary account on a new device, that's not associated with their household, the primary account holder will get a four-digit verification code that must be entered within 15 minutes. Netflix will track IP addresses, device IDs, and account activity to figure out which devices are part of the same household. If someone's caught password sharing, they won't be charged automatically... It's not yet clear

how users who share passwords will be billed... but in the past, Paul, Netflix has charged up to \$3 a month in Peru, Costa Rica, and Chile for adding subscriber accounts for users who don't reside in the account holder's home. What do you make of this, Paul? What effect do you think this new password sharing crackdown strategy could have on viewers?

Paul Verna:

Well, it seems very convoluted. I don't think it's going to go over well. I also think the Latin America experiment did not go well either, and I think they pulled the plug on at least parts of it. I think one of the things Netflix needs to figure out for the US market, at least, is how to accommodate college kids, because we're talking about the 18 to 24 group being a very core demographic here for Netflix. It seems that this system does not allow for the fact that the household really becomes the college dorm if that kid is still in the family. So the idea that if my daughter who's in college logs in, I'm going to get a verification code, right off the bat that just makes it really convoluted and hard to navigate. It would just make a lot more sense if a college student were able to say, "Okay, for these seven, eight months of the year I reside in this other place. Yes, it's going to have a different IP address," whatever, however they need to verify that, but they should still be part of your household while they're in that age group and in college. I think they need to make some kind of allowance for that.

Marcus:

Mm-hmm. Finally, Paul, let's talk about Netflix subscribers overall because we've talked about prices, we've talked about Netflix with ads, that tier, we've talked about password sharing. What do we expect to happen to Netflix overall subscriber numbers this year?

Paul Verna:

Well, our forecast is of viewers, not subscribers, although the viewer forecast is predicated on subscribers and it uses a multiplier. But we are expecting a slight decline, which would actually be the second consecutive year of a decline. So these are uncharted waters for Netflix. These are uncharted waters for Netflix. It's not surprising given all of the issues we talked about, the slow take-up of the ad plan, the password sharing, which is definitely going to depress some of those subscriber numbers, and just competition and saturation overall. These are not easy times to try to grow a subscription business, so I think what our numbers show is just the harsh realities of being in that business.

Marcus:

Yeah. To reiterate what Paul said, because it is quite shocking when you think about it, we're estimating Netflix will lose US users for the second consecutive year, this year, 2023, despite offering this lower-priced ad tier. So what that means is in 2021, we think there were 173 million Netflix viewers, and we think that in 2024 they will also have 173 million Netflix viewers, same number as 2021 as 2024 because there's a dip in 2022 and 2023, but kind of coming down and then a little bit back up again. Young adult viewership, Paul, was expected to fall the fastest. That's one of the reasons for this dip. An estimated 4% drop according to our forecast team, 4% drop in US viewers 18 to 24, and a 2% percentage drop for those 25 to 34 due to account sharing common across those demographics.

Paul Verna:

All the more reason to figure out that college thing.

Marcus:

Absolutely, yep. Jeremy Goldman was noting that if more of those Gen-Z users become accustomed to going to YouTube and TikTok for their entertainment, that could have long-term implications for time spent with media going forward. It already is, Paul. We're going to talk about this in a second, but according to Nielsen, people now spend more time watching YouTube on TV than Netflix. Last year, Netflix was streaming's number one destination. However, we do think Netflix viewers will go up from 2024 onwards. We're expecting 182 million Netflix viewers by 2027, up from 170 million this year. That's it for the lead. Time, Paul, for the halftime report. Paul, your takeaway from the first half?

Paul Verna:

My takeaway is that these are self-inflicted wounds by Netflix. Yes, it's a tough business, but they've had years to figure out the ad thing, which they just put their head in the sand about. And they've had years to figure out the password sharing thing, which we have talked about on this show going back I don't know how long. So the fact that they are struggling and fumbling, to me, is just an indication that they didn't get ahead of the curve as they had so many times in their history with innovating and being market leaders as opposed to following the market.

Marcus:

Time for the second half of the show today, in other news. FuboTV reaches a milestone, and what are people watching on TV? Story one, FuboTV reaches a milestone. Sports-first streaming TV service FuboTV surpasses \$1 billion in total annual revenues and \$100 million in yearly ad sales for the first time, with year-on-year growth up over 50%, five-zero, notes Insider Intelligence senior director of briefings, Jeremy Goldman. The company ended 2022 with 1.4 million subscribers. Paul, what'd you make of where FuboTV is at to date?

Paul Verna:

Well, it's certainly a milestone for them. They're a small, scrappy company and they've done very well even just to survive in this hyper-competitive landscape. But I don't think at the end of the day that this is going to move the needle in terms of their future. I think they're still looking at a market where it is very hard to make it as an independent company, and I see them as being more of an acquisition target for one of the bigger companies. They're operating in a space that's constrained, so we'll see where it goes. I'm happy for them. I'm rooting for them. I like the company, but I think it's still a rough road ahead for them.

Marcus:

Yeah. Yeah, it certainly is. Jeremy was noting that FuboTV leadership thinks that made the right move by betting on regional sports networks, RSNs, instead of buying expensive rights. It has 35 RSNs, including Bally Sports and Altitude Sports, so it offers at least one of those regional networks to every subscriber in the US. But The Wall Street Journal was just saying, Paul, Diamond Sports Group, which carries the games of over 40 major US sports teams on its Bally Sports brand of networks, is expected to file for bankruptcy quite soon, which is expected to lead to a renegotiation of rights fees. Furthermore, Major League Baseball commissioner, Rob Manfred, recently said pro baseball games aren't accessible to enough viewers under the current regional sports network model. So we'll see where that goes. YouTube TV said they have five million subscribers. They're one of FuboTV's competitors. They have five million. FuboTV has 1.4.

Story two, streaming share of overall TV viewing is up nearly 10% in just one year, notes Daniel Frankel of Next TV. He's citing Nielsen's latest monthly gauge market share tracker the breaks out on which services Americans spend their time watching TV. January 2022 to 2023, the share of time spent streaming became the largest slice going from second to first place, 29% to 38%. Cable viewing went from first to second as its share fell from 36 to 30. So basically streaming and cable swapped places second to first, first to second. Broadcast in third fell

nearly two points to 25%. Within the streaming slice, you can zoom in and see what's going on within streaming. YouTube, as I mentioned earlier, leapfrogged Netflix to take the top spot, Netflix in a close second, Hulu in a distant third, then it goes Prime Video and Disney+ to round out the top five streaming places. But, Paul, what two things jumped out to you the most with Nielsen's latest gauge and why?

Paul Verna:

Well, the percentage jump was significant, and the fact that streaming is now the top category, very significant. I also think it's interesting that these numbers line up with so much of our data, including some of our most recent forecasts on things like time spent with connected TV, on cord cutters, on the crossing lines between the digital video and the traditional TV audience, meaning that video is surpassing traditional TV in terms of time spent. So really everything is pointing in this direction, and this is a very concrete example of that.

Marcus:

Mm-hmm. Yeah. TV, though, does still have a bigger share than streaming when you add up those two pieces, right, Paul? So cable and broadcast together, you get 55%-

Paul Verna:

Yes. That's correct.

Marcus:

... to streaming's 38%. But in one year streaming went from 33 percentage points behind TV, if you add cable plus broadcast, 33 points behind those two combined, and now it's just 17 points behind those two when they're combined.

Paul Verna:

And if you project out a year, if streaming gains another 10% at the expense of broadcast plus cable, then you're looking at streaming becoming bigger than all of TV.

Marcus:

Yeah. A real milestone there. That's all we've got time for for this episode. Thank you so much, Paul, for hanging out.

Paul Verna:

Always a pleasure.

Marcus:

And thank you to Victoria, who edits the show, James, who copyedits it, Stuart, who runs the team, and thanks to everyone listening into the Behind the Numbers Daily, an eMarketer podcast made possible by Meltwater. Tomorrow, tune in to our Reimagined Retail Show hosted by Sara Lebow, where she'll be speaking with analysts Sky Canaves and Carina Perkins about why livestream shopping has caught on in the East, why it hasn't caught on in the West, and which companies have the best livestream shopping experiences.