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Ross Benes, and Jeremy Goldman

The Daily: Meet the FASTs, what's next for ad spend, and Microsoft's significance

Audio

On today's episode, we introduce you to the FAST (free ad-supported streaming TV) services (e.g., Tubi, The Roku Channel, and Pluto TV), explain how they became so popular, and look ahead to see what their ceiling is. "In Other News," we talk about whether the advertising space is on the mend and how significant of an ad player Microsoft is. Tune in to the discussion with our analyst Ross Benes and director of Briefings Jeremy Goldman.

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Episode Transcript:

Marcus Johnson:

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Jeremy Goldman:

You get into a little bit more confusing territory when you have multiple properties and your end goal is to move stuff in between both of them, or perhaps to eventually move somebody from a free ad supported option to like a Paramount+, but people don't understand that they're connected through a parent.

Marcus Johnson:

Hey gang, it's Thursday, June 8th. Jeremy, Ross and listeners, I sound like I just woke up, but I promise you, I didn't. Welcome to the Behind the Numbers Daily: an eMarketer Podcast. I'm Marcus. Today, I'm joined by one of our senior analysts covering digital advertising and media based, just above New York City, it's Ross Benes.

Ross Benes:

Hey, Marcus.

Marcus Johnson:

Hey, chap. We're also joined by our senior director of briefings based out of New York proper, it's Jeremy Goldman.

Jeremy Goldman:

Hello. And it's 5:54 AM, so that's why you're tired. Thanks for waking us up this early to record this.

Marcus Johnson:

I wish that was a legitimate excuse, but it's middle of the day and this is still how I sound. Today's fact, there are only... Well, guess, how many days of the year of the 365 that feature no professional sports games in the US? We're talking MLB, NBA, NHL and NFL. How many days are there none of those?

Ross Benes:

I assume it's very low.

Marcus Johnson:

It's not high.

Ross Benes:

Like 10.

Marcus Johnson:

Jeremy?

Jeremy Goldman:

Like four.

Marcus Johnson:

Oh, Jeremy's close, two. There are two days out of 365 that feature no professional sports games in the US. So it's the day before and the day after the MLB All-Star break typically. This feels unhealthy. Is it too much?

Ross Benes:

It's probably too much.

Marcus Johnson:

Yeah, we could probably do without hockey. There, I said it. Of the four though, let's be real. It's the least fun. Anyway, today's real topic, time to meet the FASTs, free ad supported streaming TV services. In today's episode, first in the lead, we'll cover the new wave of streaming TV that's already here. Then for another news, we'll discuss what happens next with ad spending and what's driving Microsoft's ad business. So the leads: "Welcome to the FAST, F-A-S-T, the free ad supported streaming TV services," writes Sara Morrison of Vox. We are kind of so used to the streaming TV conversation being about Netflix, Amazon Prime, Hulu, that we haven't noticed a contingent of free and supported players quietly building their viewership numbers to now rival some of these familiar SVOD offerings, subscription video on demand, people like Netflix or Disney+.

Ms. Morrison notes that Tubi, Pluto, Xumo, may not sound familiar, but their respective owners, Fox, Paramount and Comcast should. Ms. Morrison explains that FASTs of hundreds of linear live channels and on demand libraries of thousands of hours of TV shows and movies, the content ranges from old and obscure to recent reruns and castoffs with some unskipable ads sprinkled in. So that's what we're talking about. And some of these FAST services, folks, we have some forecast numbers on these different services. And some of them, namely the Roku Channel, Tubi and Pluto TV have between 60 to 70 million viewers according to our forecast team. That's more viewers than ESPN+ and Apple TV+ and nearly as many as Peacock and Paramount+ as well.

So they're up there. They're not up there in the top 3 or 4, 5 streaming services, but they're definitely playing around the six seven mark in terms of ranking by viewers. There's another one also, Freevee owned by Amazon and Crackle. They've got about 35 million viewers each, which again is not nothing. Ross, I'll start with you. How have these folks, the Roku Channel, Tubi, Pluto TV, etc, becomes so popular so quickly, so quietly?

Ross Benes:

Well, I'd say their stats are a little bit of a misnomer though because they don't say anything about time spent and that's because they have a ton of people tuning in for a very short amount of time. Maybe you watch a movie or a TV show here and there. I doubt there's a lot of people spending four hours a day with Tubi. So the services you compare them to like Apple TV or Paramount, I would say per viewer, those paid services still have more viewership and time spent terms. But they still have grown quite a bit as far, a lot of these services didn't exist five years ago, or if they did, they were very tiny. And they've become a repository for canceled projects or stuff that the bigger companies don't want to pay for. So like when HBO Max removed Westworld, that shows up on a FAST service. So their content library has improved significantly as the biggest companies have become more judicious about what they'll greenlight and what they'll license, and that's helped them attract a lot more viewers.

Marcus Johnson:

So in terms of time spent, Ross is spot on. Ms. Morrison of Recode was noting some numbers. So Pluto and Tubi, they recently met the viewership minutes threshold to break into Nielsen's, the Gauge ratings report basically to be counted by Nielsen. Then they measure total minutes viewed on TVs. So all the time you spend consuming TV, how much time is spent over here, over there with streaming, with cable, etc, and they're the first services to do so. Pluto, Tubi and Roku combined had nearly 3% of all TV viewing in March of this year. Netflix alone had more than double that at over 7%. It kind of sounds like, are they the library to the SVOD kind of bookstore? If you want the latest things, the shiniest things, you'll go in to buy them at the bookstore. If you want some of the older back catalog stuff and a few new things sprinkled in, you're heading to the library for that material.

Ross Benes:

I think that's a fair analogy. What do you think, Jeremy?

Jeremy Goldman:

Yeah, I think so. I think definitely, I agree entirely with Ross that there is a lot of kind of cast off, for lack of a better term, content that's on those platforms. But what's also interesting is that some of that cast off content is pretty darn great, for lack of a better term. There is some really good stuff there. And going back to that time spent issue, I think that, of course, there's a bit of a psychology at play, which is if you're spending money on something, you then have to justify the money that you're spending. So that's kind of a reinforcing mechanism that causes some people for the VOD platforms to just kind of keep on sinking time into something in order to justify that spend. And with something like a Roku Channel, you don't have that in the same way.

Marcus Johnson:

Yeah, because two things. One, they're easy to just start watching. In most cases you don't have to make an account to start watching, so that lowers the barrier of entry. But two, they're free. And so, folks, especially who are trying to save right now with inflation being two to three times what we're used to it being, even though it's down from last summer, means that people are trying to save some money. So that's another reason they became quite popular. There's a full Deloitte survey saying, "44% of people canceled at least one paid service in the last six months. 60% of people even more happy to watch a few ads an hour for a cheaper or free subscription." It seems guys as though this, I think faster than new cable was the term that I read, Ms. Morrison noting that FAST services look a lot like an updated digital version of an old friend called basic cable. We've come full circle.

Ross Benes:

Well, especially if you have a Samsung or a Vizio, it's on there, when you turn it on. You don't even have to load an app, you just flip through channels like Shout Factory or Vice Media or whatever. But still a little different than cable though because it tends to be... Like cable's still putting their freshest episodes up of new things that they're spending millions of dollars. These services tend to be a little less on budget or they're older as far as the content.

Jeremy Goldman:

I think you're right, Ross, and I think also part of it is that these FASTs, they kind of came up at a time where I think they wanted to appeal to court cutters and then they said, "Well, some of the best ways to do that, our opportunity is not necessarily with the early adopter people who went to VOD, whether or not it was advertising supported VOD or just standard subscription based VPD." They said, "Well, let's try to mimic certain aspects of cable." So it's very different, but yet it has a degree of familiarity for a later adopter that's looking for an interface that feels somewhat comforting and akin to what they're used to.

Marcus Johnson:

So Jeremy mentioned AVOD advertising video on demand. Let's go through some definitions for a second because just to straighten things out. So SVOD subscription video on demand, you pay money, you get to see stuff like Netflix. We're talking about FASTs, which are services that are free, and the only goal of the platform is not to get you to sign up or take money, it's just to show you stuff. Because the longer you're on there, the more as they can sell and the more money they make. So that's players like Tubi, Pluto TV, etc. Ross, where does AVOD come in? Advertising, video and demand? How's that different?

Ross Benes:

Well, AVOD or AVOD is like the umbrella category and FAST would be a subcategory. So AVOD is just anything that's ad supported streaming. So that would include a paid service. You still pay for Hulu, even if it has ads or Paramount+, but then it would also include the free services like Roku Channel and Tubi. But I believe we just have way too many acronyms and we like to believe that our jargon makes us sound intelligent when it doesn't. I would suggest that we scrap them all together and we just refer to them entirely as ASS, ad supported streaming, whether it's free or paid. Because the advertiser and the user doesn't really care about those distinctions as much as long as they know if they're getting ads or not. It's all ASS, ad supported streaming.

Jeremy Goldman:

You know what? But I think also Ross is right in the sense that I think that the lines are blurring so much so in between these different things. It's like you have these almost templates for how to serve your audience and I think about Peacock. So Peacock, they cut their cheapest offering that was entirely free and just basically more ads. But one of the things that was interesting, so then they essentially were stopping to compete in the lowest tier in the FAST, if you will, space. But what's interesting is that they still have these vestiges of standard traditional TV programming. They have a lot of channels that are basically all NBCU based, that are pre-programmed and you can turn to one of these channels at any time, which is very similar to FAST still, I would argue. So I think that basically these different models are continually taking from one another, stealing some of the best ideas from one another, and the consumer doesn't matter. The consumer just ultimately cares about where is the platform that I'm going to get the best value from.

Marcus Johnson:

So I mean, this brings me onto the question of whether everything's just too complicated. I mean, not just the acronyms. Ross made a good point that in terms of FASTs, AVOD, SVOD, VMVPDs, like no one really cares. Consumers don't really care. They just think about TV. What can I watch on my TV or what can I stream perhaps? And I'm wondering if how big of a deal this is, especially as it comes to these players who own different services and have different ecosystems. So Scott Reich, Senior VP of Programming at Pluto was saying, "Our ecosystems complement each other." While Paramount+ has the new season of RuPaul's Drag Race All Stars, Pluto, which Paramount owns, has previous seasons and the first episode of the new one. So he suggests that we're helping upsell over to Paramount+ to see the new season. You can use Pluto TV as a way to catch up and preview, and then you go behind the paywall on Paramount+ to continue. I don't think most folks know that Paramount owns Pluto or that Comcast, which owns Peacock also owns Xumo. Is there a branding or messaging issue here?

Jeremy Goldman:

I would say yes. I mean, a lot of it depends on what the parent company wants in the end. If you want, and if you're like, let's say Fox and you don't really need to have such a strong association between Fox and Tubi, let's say that that's fine. If you don't have that end objective. I think that when you get into a little bit more confusing territory, when you have multiple properties and your end goal is to move stuff in between both of them, or perhaps to eventually move somebody from a free ad supported option to a Paramount+, but people don't understand that they're connected through a parent. So it does become a little bit more complicated depending on what you're trying to accomplish as the parent company.

Ross Benes:

And those companies didn't attend for that to work out that way. Pluto was acquired and CBS and Viacom were separate. When CBS All Access was a thing before it was Paramount+ and Xumo was something that was acquired and not built up by the same team that built Peacock. So due to some of these things being brought in by outside M&A, that's why their branding is inconsistent with what they built themselves.

Marcus Johnson:

Yeah, that's a good point. You would've thought that they would've benefited from association though, that they would be pushing to say, "Oh, here's to be from Fox provided by Fox." Because people are going to be like, "Oh, Fox, oh, I like their content. I know their content. I'll try this out." As opposed to Xumo, what the hell does that mean? How budget is the content going to be? "Oh, it's owned by Comcast. Oh, actually no, maybe it will be pretty decent." Question here for you. So speaking about these services that offer up tons of content and they trying to get you to watch as much as possible so they can show you ads so that they can make money.

Netflix already discovered it makes more money per user on its ad supported plan. So of the two different options, you can have Netflix without ads, people pay money, no ads. Or you can have a person who has Netflix with ads and you pay less money, but they show you ads and that person, the with ads person is making the company more money. So do you think we're going to see streamers, Disney+, Max, Peacock, Netflix, who offer paid and supported, try to start to maybe more aggressively move folks over to that more lucrative ad tier?

Ross Benes:

If they're following what Hulu has done, then yes, that's mostly done through promotions. If you're given Netflix away very cheaply for a set amount of months, or you're linking it up with your telecom provider or something like that and giving them a discount that way, those discounts always... Well, not always, but they tend to be for the ad plan. You get the ad supported product for a dollar a month, but the ad free price doesn't budge much. But that strategy only really works as long as the CTV ad prices remain very high. And they probably will for at least the next year or so. But if the supply of inventory, if everyone did this and all the people on subscription plans were moved to ad supported plans, there would be such a increase in ad supply that I think the prices of ad inventory would drop. And then your ARPU-

Marcus Johnson:

Good point.

Ross Benes:

... would reduce too, because the advertising wouldn't be quite as lucrative. This is all very hypothetical.

Jeremy Goldman:

No, but ultimately, I mean, Netflix went in, for instance, very cautiously with a lot of upfront deals, essentially at very high CPMs. So that's the kind of thing that yes, as your added inventory scales, then naturally it's just a little bit harder to keep that ARPU up as high. So I think it's great in theory, but ultimately most of these companies are focused on acquiring new users who want that type of experience rather than taking completely happy customers who've been sticking around for a while and moving them over. Because I mean, that's a dicey proposition from a customer experience standpoint. And if you're just happy that you're not churning them. Basically, if you're a company like Netflix that a year ago or so was losing subscribers for the first time and that's what kind of caused them to move to the advertising route, I think your focus is much more on acquisition for new users as opposed to moving people over to the slightly more lucrative tier.

Marcus Johnson:

So final question, gents, has to do with growth of these FAST services. So what does growth looked like? So from 2018 to today, to be the Roku channel and Pluto TV each went from about 10 million viewers a piece to closer to 60 million viewers a piece. Our forecasting team estimates though that the explosive growth in FAST will slow right down from today onwards. By 2027, Tubi, the Roku Channel and Pluto TV will each add around 10 million viewers each. So they each got about 50 in the last couple of years, but going forward, they're probably only going to get about 10 in the next couple of years. Why are we expecting much slower growth?

Ross Benes:

Just a lot of large numbers, it's a lot easier to add 10,000 people from nothing than it is to add another 10,000 people on top of a service as a 100 000 viewers or whatever the example is. That's why YouTube has been flat. That's why Netflix hasn't been able to add subscribers because they've reached a pretty massive base already. So these services, they're not tapped out, but it's a lot harder to duplicate what you've already built because you'll start running out of people who are interested into that product.

Jeremy Goldman:

Right, you're going to see a lot more international growth, which we already started to see in part because the US is so far ahead of a number of other key markets from a FAST TV consumption standpoint. But I'd just add, Marcus, in addition to our numbers. Some Hub research data that I found says that, "US TV viewers who watch FAST platforms, it was 58% last year, 58% had watched some free ad supported streaming TV in the last month." And it is actually down one point to 57% in 2023 according to their data, which I think is interesting just because it's been going up so incredibly dramatically for quite a number of years now. And at some point, you can't continue sustain that when you have not just... I mean, yes, there's inflationary concerns, but there's also a lot of competitors. There's a lot of niche platforms that are popping up, even though we're seeing consolidation with things like Max, there's just so many different places to spend your time. So how can FAST really inherit every single minute of your day? It's impossible.

Marcus Johnson:

Right, yeah. So I mean, those folks, Pluto TV, Tubi, the Roku Channel, they're going to be in the kind of 70 to 80 million viewers range by the end of our forecast 2027. That would be half of what Netflix and Prime Video have today. So yeah, not really threatening those folks too much. If you look at total FAST services, so zooming out, looking at all those players together, how many folks watched those in 2018? 30 million Americans did. Today, a 100 million do, so close to a third of folks. But as these gents were saying, it's starting to slow down. That's what we've got time for the lead, time for the halftime report. Gents, one thing that's worth repeating from the first half from you each, we'll start with Ross.

Ross Benes:

With the so-called FAST services, their viewership numbers are much higher than their time spent figures and look more impressive than they do when you look at the Nielsen Gauge.

Marcus Johnson:

Jeremy.

Jeremy Goldman:

I would say that for FAST to continually grow, I think it's very interesting to look at FASTs and see how much will they attempt to build more of a profile on their users and essentially append data to that user record so that they can deliver better advertising and then charge more for it. In part, because of what Ross said, it's going to be harder and harder to get people to spend a lot of time on these platforms, which then means you're going to have to monetize very intelligently. And the best way to do that is to build and know more about your customers.

Marcus Johnson:

That's it for the first half, time for the second. Today, in other news: After 10 straight months of ad spending declines, what's next and what's driving Microsoft's ad business? Story one, "After 10 straight months of ad spend declines, what's next for the industry?" Asks our briefings analyst, Daniel Konstantinovic. He notes that March marked the ninth straight month ad spending was down, falling over 8% according to a Tinuiti study. The US Standard Media ad index showed the trend continuing into April with a 1.4% year-on-year drop. But Ross, what do you think is next for the US ad space?

Ross Benes:

I think we'll get to a point where it's very slow growth. We had unsustainable growth previously, double digits year over year for a few years. That's not going to happen, but we may be at a point where it at least maintains itself.

Marcus Johnson:

Yeah, we're looking at just under 4% growth for total media ad spend this year, and that is down from 8 last year. We're expecting it to ping back up to 8 next year, and that's because there's a ton of events, elections and football performance.

Ross Benes:

It's a more stable era that we're in now.

Marcus Johnson:

Yep. And that too, exactly. For digital ad spending, we're expecting that figure to be at 8% this year and the climbing to 11% next year for the US. There is a good sign that the April decline was the smallest since September of last year. The article was noting, so maybe a possible rebound. Daniel was saying aided by spending on summer advertising. Story two: Microsoft grew total revenues 7% in Q1. Its cloud business grew nearly 30%, but has been decelerating. Tom Dotan of the Wall Street Journal notes that its, "Office software and Windows OS have been weak as PC sales struggle down 9%. We expect Microsoft's ad business to grow close to 10% this year, approaching $10 billion, and then grow an even better 16% next year and 16 the year after that." Jeremy, what's driving Microsoft's ad business?

Jeremy Goldman:

So there are a number of different things, but one of the top things is that they're making substantial investments in terms of their search interface. They're ahead of Google, at least from a consumer perception standpoint. So they'll be able to monetize their AI chatbot interactions. But I think another key thing that lot of people are not paying attention to is that Microsoft is adding ads in a number of different surfaces that they hadn't previously. In terms of the Microsoft Store, for instance, where people can download Windows Apps, they're actually monetizing that at a greater rate than ever before. Even though people are primarily spending time talking about how Apple is doing the exact same thing. Microsoft's doing that just below the surface, and they're doing that in a number of other places. So ultimately, Microsoft is trying to be an advertising company, even though as you state, it is going to still be known for its enterprise work, its cloud business and a number of other things. But the advertising business is quickly gaining steam behind the scenes.

Marcus Johnson:

Yeah, it's something that isn't really associated with Microsoft advertising, which is interesting because it's larger than most. $10 billion in ad revenues for Microsoft is good enough for a 4% slice of the digital ad pie in America. That doesn't seem like a lot, but it's the fifth-largest piece of the pie. It's more than YouTube. It's nearly double TikTok slice, and it's nearly as big as Twitter, Snapchat, Roku and Apple combined. So people starting to take note of Microsoft and what they're doing with advertising. That's all we've got time for this episode. Thank you so much to my guests. Thank you to Jeremy.

Jeremy Goldman:

Pleasure as always.

Marcus Johnson:

And thank you to Ross.

Ross Benes:

Thanks, Marcus.

Marcus Johnson:

And thanks to Victoria, who edits the show, James, who copy edits it, and Stuart, who runs the team. Thanks to everyone listening in. We'll see you tomorrow hopefully for the Behind Members Weekly Listen: an eMarketer Podcast. Controversial, we've started off spicy today. But if someone's telling you that they can see the puck all the time, they're being a little Pinocchio because you just can't, I'm like trying to figure out what's going on half the game.

Jeremy Goldman:

They need to make it neon.

Marcus Johnson:

They do need to make it neon.

Ross Benes:

That'd be cool.

Marcus Johnson:

I'm writing to the commissioner. Let's get this sorted.