Paul Verna

The Daily: Is co-viewing ruining the promise of CTV, a road map for Netflix games, and a Netflix Basic with Ads milestone

Audio

On today's episode, we discuss whether watching TV with other people ruins the potential of targeted connected TV (CTV) ads, who's winning the CTV advertising race, and how CTV stacks up against traditional TV ad spending. "In Other News," we talk about Netflix's road map for video games and what to make of its 1 million user milestone for its ad tier. Tune in to the discussion with our analyst Paul Verna.

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Episode Transcript:

Marcus Johnson:

Hey, gang. It's Monday, April 10th. Paul and listeners, welcome to the Behind the Numbers Daily, an eMarket podcast made Possible by Cint. 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 is Paul Verna.

Paul Verna:

Thanks for having me. Great to be here.

Marcus Johnson:

Hey, fella. Today's fact, this is cool. So Lester Patrick, at the time NHL coach of the Rangers, once came off the bench to play for his team in the Stanley Cup finals. Did you know this Paul, the coach came off the bench?

Paul Verna:

I did not.

Marcus Johnson:

So here's the story.

Paul Verna:

That's legendary.

Marcus Johnson:

It's amazing. April 7th, 1928, and Lester Patrick is 44 years old, for context. The Rangers were playing the Montreal Maroons, horrible name, that night in the final round of the Stanley Cup playoffs. Second period, and the puck hits Ranger goalie, Lonnie Chabot in the left eye. He's done. In such an emergency, it was then customary for the other team to permit the use of any available goal tender, goalie. But the two they picked were former goalies, and the other team vetoed them and said, "No, no, no, you can't have them. They're too good."

So the coach went in. Period ends, so the coach is in, playing the second period, and the period ends, 0-0. Rangers then scored at the start of the third. The coach goalie that lets one go through his legs to tie the game, 1-1. The game went into sudden death overtime as a result. At the seven-minute mark, the Rangers scored and rushed the ice towards their coach goalie. That win tied the series up, 1-1, they were able to sub in another goalie for the remaining games, the coach didn't have to keep playing the rest of the series, and the Rangers went on to win the Stanley Cup.

Paul Verna:

Wow.

Marcus Johnson:

Cheaters. I'm kidding.

Paul Verna:

An eye for an eye, and a coach for the win.

Marcus Johnson:

That's amazing. Now, he had been an outstanding defensive player for 20 years on various teams in Canada, so it's not like he didn't know how to skate or was brand new to the game, but still, he'd never played goalie and helped them win the Stanley Cup Finals.

Paul Verna:

Amazing.

Marcus Johnson:

Probably not called the Stanley Cup Finals, the Stanley Cup, the NHL Finals. Was it the NHL then?

Paul Verna:

I don't remember quite as far back as 1928, I have to say.

Marcus Johnson:

Come on, Paul. Get it together. Today's real topic, Is Co-Viewing Ruining the Promise of CTV?

So in today's episode we're talking CTV. We'll talk a little bit of co-viewing frequency, and see how the different players are getting on in the space. We then move to In Other News, and we're talking all about Netflix, continuing to push into the gaming world, and the same company crossing the 1 million active users mark for its ad-supported tier. We start, Paul, with the lead, and we're talking CTV. So we'll start with co-viewing. A recent article by David Bloom of NextTV noted that co-viewing is as old as TV itself, people watching TV with other people, and new research from former Behind the Numbers guest, Laura Martin, here on the show, of

Needham Company, says that 80%, eight-zero-percent, of CTV is watched by two or more viewers in a household at the same time, which majorly undermines CTV's tightly targeted value proposition, Mr. Bloom of NextTV writes. Paul does co-viewing ruin CTV's value proposition?

Paul Verna:

I have to disagree with David Bloom on this one. I don't think it ruins anything at all. In fact, it may even enhance it.

Marcus Johnson:

Oh, interesting.

Paul Verna:

Here's the thing. Everybody who advertises on CTV is smart enough to know that it's not a one-to-one personal device like a cell phone. Yes, there's a lot of targeted ads on CTV, and the targetability is one of the things that makes it, in some ways, better or more precise than traditional TV. At the same time, this is a medium that mirrors traditional TV in many ways, and co-viewing is one of them. So I don't think anybody ever assumed that just because an advertiser can target more precisely on CTV that only one person was watching at any given time, and it just doesn't lend itself to the way households are organized.

You could even argue that if an advertiser is targeting something at myself, and my wife is watching with me, we're different genders, but we're in the same demographic. At this point, we've actually started to look like each other, so that's how long we've been together. We have similar tastes, we share a budget. So you could argue that the ad that's being targeted to me is actually getting beneficial views by my wife. Or even if my daughter is watching with me, I've tried to indoctrinate her as a Mets fan, as an Argentina fan, which won the World Cup by the way.

Marcus Johnson:

Great. Thank you.

Paul Verna:

So she also, despite being of a different generation, I think an ad that's targeted to me that's hitting her is probably having some value. So I don't buy this idea that it's wasted in the sense that you're targeting an ad at one person and these other people are watching, who have nothing to do with anything because, I think there's a kind of sympathetic viewing going on there.

Marcus Johnson:

And maybe someone in your household could buy you a gift of the thing being advertised to you.

Paul Verna:

My birthday is coming up, everyone.

Marcus Johnson:

Okay. No need to take down the date, folks. You can skip right past it like you have every other year. Let's move to frequency, Paul. Karlene Lukovitz of MediaPost writes that most CTV ads miss the frequency sweet spot, according to a recent analysis of a Yahoo and publicist media study that used facial recognition and ACR data and a consumer survey. It found that attention peaks at 6 to 10 ad exposures with 12 to 24 hours between exposures. However, 85% of impressions never hit this peak, only reaching between one to five exposures. Paul, what'd you make of this research, and what's your take on the frequency sweet spot, so to speak?

Paul Verna:

That sweet spot to me seemed a little high, especially when you consider another aspect of this data, which is that people get really annoyed at repetitive ads, when the same ad is served twice during the same pod or twice during the same program, and that happens a lot. In fact, that is one of the biggest sore points with CTV in particular. I think something like two-thirds of viewers in the survey specifically said that was annoying to them. So to me, 6 to 12 exposures or 6 to 10 exposures in a 12 or 24 hour period seems like a lot to me. I know just from personal viewing, if I've seen the same ad, certainly twice within a few minutes, drives me up a wall. But even if I see it twice or 3 or 4, 5, 6 times in the space of 12 hours, to me, that just seems like a lot. So I just-

Marcus Johnson:

Well, I think it's supposed to be so tension at peaks 6 to 10 with 12 to 24 hours between them. So I think it wants to hit you, gap, hit you, gap.

Paul Verna:

Okay, right. So it's not within that ... I see.

Marcus Johnson:

No, but still it does seem like it's a very small sweet spot, if you can call it that. You've got one to five, that's not enough, but as soon as you go over that 10, people start to hate you. So it does seem like it's a very small window that you have to actually get this right.

Paul Verna:

Yeah, and it basically means that you would be seeing the same ad every day or twice a day for several days. And to me, that still seems like ... By the time you've seen it maybe three or four times, unless it's a really brilliant ad, you're going to start tuning it out, I think. The data obviously says something different, so that may say more about my threshold than anyone else, but it still seems to me like I wouldn't call that a sweet spot. I'd say it's a little sweet and sour.

Marcus Johnson:

So one more question on this research. So there was a point made, streaming viewers are generally accepting of ads, but just a third of CTV ads draw two or more seconds of active eyes on the screen attention, just about a third of CTV ads draw two or more seconds of active eyes on the screen attention. Paul, it seems like with CTV, we've forgotten about the problem that existed with TV before, which we talked a lot about ad-blocking a handful of years ago or whatever, and people forgot that you can ad-block on other advertising mediums, not just digital. You add block with TV by muting the thing during the break, getting up and walking away, maybe fast forwarding through the commercials. And so CTV does still suffer from that same problem in that it doesn't mean just because you're targeting a person, it doesn't mean they sit there and stare at the commercial the entire time.

Paul Verna:

Absolutely, and this is one of the many ways in which CTV is really TV. It just happens to be delivered over the Internet instead of over cable or satellite. Because if you are annoyed by ads, and there's no reason why you would be less annoyed by ads just because you're watching CTV, then you're going to do what you've always done, which is basically tune them out, walk away, mute as you said. So I don't see that changing. In fact, with this frequency issue with ads being served repeatedly, that's only going to make the problem worse. So if anything, I think with CTV, yes, on the one hand you're presumably serving a more relevant ad, so that would argue for more people tuning in or tuning in for longer. But you've got all these other problems that are basically putting you back in the same place where you were as an advertiser with traditional TV.

Marcus Johnson:

Interesting to note, viewers tend to pay more attention to ads on paid subscription-based apps. So think YouTube TV, Fubo, and Sling TV, and more attention on ad-free and ad-supported tiers of hybrids, like Hulu, HBO Max, Paramount+. They pay more attention to ads on those platforms than to ads on free ad-supported streamers or FAST or smart TV channels on FAST, so things like Roku Channel or Tubi. I thought it was interesting to note. Paul, how much do advertisers spend on CTV, according to our forecasts in the US?

Paul Verna:

According to our forecasts, connected TV ad spending in the US this year will be just over $25 billion, and by 2027, it will go up just over $40 billion, so a lot. However, I will say that after many iterations of our forecast where we continued to increase the connected TV part of it compared to the previous one, this time we actually lowered our forecast. We just published an update in March of this year, and it is lower compared to the one we had published in October of 2022.

Marcus Johnson:

By a little bit, or by a lot?

Paul Verna:

I would say by a moderate amount. Now having said that, if you backtrack to previous forecasts, we had raised it again and again and again, so we're still in a pretty good place, if you kind of take that long view, but if you're just comparing the current forecast with the one we issued back in the fall, there has been a pretty significant cut.

Marcus Johnson:

So we talked about the total number, that $25 billion. Which companies, Paul, are making the most from CTV, who's winning the current CTV ad battle when it comes to spending?

Paul Verna:

Drum roll, please. Hulu, number one.

Marcus Johnson:

Hulu. Okay. That checks.

Paul Verna:

Hulu is making the most money on CTV advertising this year in the US, $3.6 roughly billion in 2023. The next one after that is going to be YouTube at about $2.9 billion, and then Roku at about $2.1. So those are the companies that are doing the best at monetizing CTV. Obviously, Disney+ and Netflix are new to this game, so they're going to be pretty well short of a billion by our estimates for US advertising this year.

Marcus Johnson:

So you gave totals. With share, it's interesting, because no company has 40%, 50% of the market. There isn't one dominant player. You've got Hulu with, as you said, the leader, the nearly 15% share. You've got YouTube at about 12%, and Roku at about 9%, and then it starts to get down to the 2%, 3%, 4% range with the other companies each, that is. I thought it was quite interesting. Paul, final question here. What does CTV ad spending versus linear TV ad spending look like?

Paul Verna:

Well, we're seeing an extension of a pattern that we've noted for quite a while, which is of course that TV ad spending is on the decline, and CTV ad spending is still the fastest growing medium, even though I refer to a cut in our forecast. So we're seeing divergent lines. TV is still quite a bit bigger. In 2023, it'll be just over $60 billion. But what I will say also is that we made a cut in the TV forecast with the one we just published in March, and we're really looking at a decline that by 2026, it's going to go down below $59 billion. So it's at 61 now. So we're just seeing more attrition. So essentially, CTV, luckily, is making up a lot of this shortfall, and when you look at the two together, it's a pretty healthy growth curve. But obviously that growth is coming all from the CTV side at this point, not the traditional TV side.

Marcus Johnson:

So I looked at a side by size, $25 billion this year for CTV, as you mentioned, $29 next and $33 billion the year after that, so going up, as you mentioned. US linear TV ad spending will be $61 billion this year, $61 next, and, as you mentioned, $58 the year after that, so flat to going down. And if you take the CTV ad dollars as a percentage of the linear TV ad dollars, in the US, CTV would be about 40% of the size of linear this year, 47% next year, and 57% in 2025. That's CTV size versus linear TV size. It would be nearly 60% as big as linear by 2025. Put another way, in America, TV ad spending will make up 14% of the total ad spend pie. CTV will make up 8%. That's by 2025. All right, that's what we've got time for the lead. Time for the halftime report.

Paul, quick takeaway from you from the first half, sir?

Paul Verna:

I'm going to go back and harp again on the co-viewing thing and just say that that's just the reality. CTV offers a lot that TV doesn't offer, but it is a very similar experience in many ways. And again, I think advertisers know that, but it's never a bad time or place to just give everyone a little reminder of that.

Marcus Johnson:

You can head to insiderintelligence.com for our Four US-Connected TV Advertising Report. And Paul, you said there's another report coming out soon related to CTV?

Paul Verna:

Yeah, so in May, in about a month, we will be doing our annual report that looks at mostly TV ad spending, but at this point you really can't tease it out completely from CTV. So it essentially is a TV/CTV ad spending forecast and analysis report.

Marcus Johnson:

Okay, terrific. Well, that's what we've got time for the first half. Time for the second today, In Other News. Netflix continues to push into gaming, and how's their ad-supported tier getting on?

Story one, Netflix continues to push into the gaming world. Our briefings analyst, Daniel Konstantinovic, notes that Netflix just laid out a roadmap for its long-in-the-works video game business, saying it will bring 40, four-zero, new games to subscribers in 2023 and 2024, and has 70 games in early development. A partnership with Ubisoft, we'll see it launch three exclusive games this April. Netflix launched its mobile game service late 2021, and recently said it has released 55 games so far. But Paul, what's the likelihood that Netflix subscribers will want to play games on the platform?

Paul Verna:

I think it's all going to come down to the quality of the games and the experience. So far, I think the experience has been lacking. I think users have to download games individually, and there's a lot about the ease of use of the Netflix video experience that doesn't seem to carry over into games. But the aspect that I think is interesting is that Netflix is developing its own games in partnership with Ubisoft. So if any of those games really takes off, I think it could be a "game-changer," pun intended, for Netflix. I can envision something like a game based on Stranger Things or Wednesday, any number of other franchises that they own or exclusively license that lend themselves to that audience and to being transformed into games. So the jury is out. It's early days, and I think there's a lot that Netflix still needs to do, and they're kind of late to this game, so I'm not too optimistic, but I also have learned not to bet against them.

Marcus Johnson:

Yeah. Netflix's gaming offerings, as you mentioned, they've been a bit all over the place. They did say they were interested in a cloud gaming platform to group its catalog under one banner, Daniel was noting. Also, according to a new report from Bloomberg and code shared by Mac Rumors' contributing writer Steve Moser, Netflix is working on the feature that could let you use your iPhone to control games on your TV. So that maybe could be a game-changer. I didn't even mean for that to happen. Too many puns.

Paul Verna:

You'd have to get an iPhone then.

Marcus Johnson:

Absolutely not. Nevermind. Story two, Netflix has reportedly got its first one million active users as of January, all in the US, for the recently launched cheaper and supported tier, notes an Advanced TV article. That's active users, not subscribers, so the figure includes viewers on the same account. Research company Antenna estimates that the Netflix ad tier currently accounts for 20% of new signups. Paul, what's your take on this mini milestone?

Paul Verna:

I think putting it as a mini milestone kind of says it all. I mean it's a tipping point. It's always interesting when you cross that threshold of a million. At the end of the day, it's not that material in the sense that Netflix is still in a very early stage of development with the ad tier, and I think there have also been indications that things are not going so well. I think they had to return a lot of money to advertisers for ads that didn't run, so I they think they oversold it. I think their CPMs are starting to come down. They got very aggressive in asking for a pretty high rate at the beginning, and there are also rumors that they may be reconsidering their partnership with Microsoft for the ad tier. So there are definitely indications that it hasn't been shot out of a rocket for them, but at the same time, a million users is a million users, so we'll give them that.

Marcus Johnson:

We expect Netflix to make around $800 million in ad revenues this year. As Paul mentioned earlier in the show, still under a billion, but next year, we expect them to cross the $1 billion mark in terms of ad revenues.

That's all we've got time for. Thank you so much, Paul, for hanging out today.

Paul Verna:

Always a pleasure.

Marcus Johnson:

And of course, thank you to Victoria, who edits the show, James, who copy edits 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 Scene Marketer podcast made possible by Cint.