Daniel Konstantinovic

The Daily: Streaming TV's price ceiling, Roblox's new ad rules, and why Walmart+ resonates with affluent consumers

Audio

On today's episode, we discuss how recent YouTube TV price hikes will affect subscriptions, whether streaming TV actually costs less than cable, and if a sports streaming hub is a viable product. "In Other News," we talk about what Roblox's new ad rules will do to the metaverse and why Walmart+, Walmart's membership program, is resonating with high-income shoppers. Tune in to the discussion with our analyst Daniel Konstantinovic.

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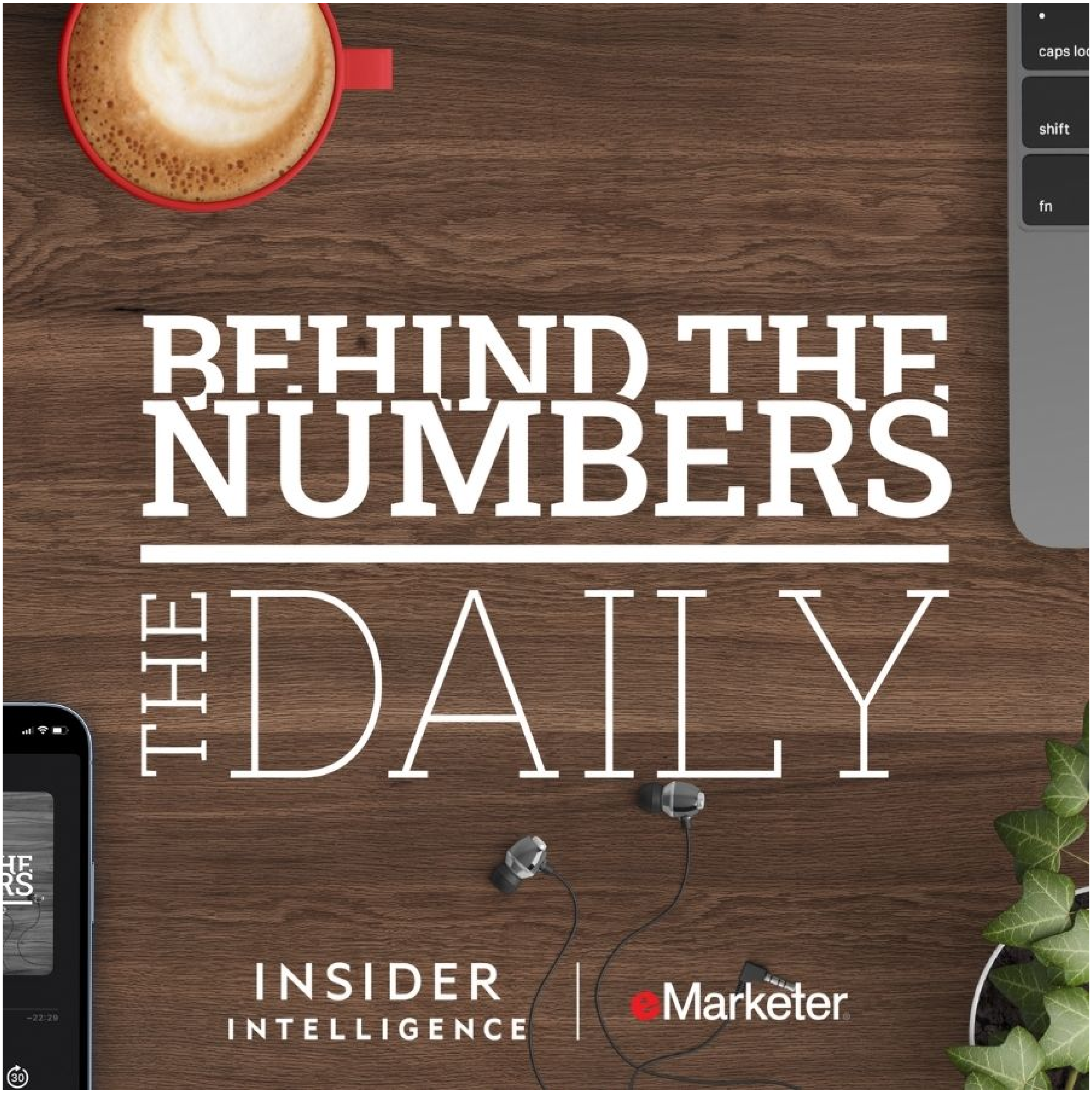

Episode Transcript:

Marcus Johnson:

Hey gang, it's Monday, April 3rd somehow. Daniel and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by Cint. I'm Marcus. Today I'm joined by one of our analysts on the marketing and advertising briefing based out of New York, it's Daniel Konstantinovic.

Daniel Konstantinovic:

Hey, happy to be here.

Marcus Johnson:

Hey, fella. Thank you so much for hanging out today. Today's fact, who invented the dishwasher? What little angel invented the dishwasher? Well, the first dishwasher to be granted a patent was invented in 1850 by Joel Houghton. It was a wooden box with scrubbers that used a hand turned wheel to splash water on dirty dishes.

Josephine Cochran and mechanic, George Butters came along 30 years later and improved on the design, working in Cochran's tool shed in Shelbyville, Illinois, creating a more modern mechanical design. Cochran, a wealthy socialite, apparently came up with her design to protect her China while it was being washed.

Daniel Konstantinovic:

I'll believe that dishwashers exist when I can find a Brooklyn apartment that has one.

Marcus Johnson:

I was going to say, you rent a place and you notice it doesn't have a dishwasher, and you turn to your family and immediately tell them, "We're moving."

Daniel Konstantinovic:

Yeah. I just re-signed at a place that does not have one, so I'm toughing it out.

Marcus Johnson:

Oh, why? Why, Daniel? Why do it to yourself?

Daniel Konstantinovic:

It's just, you got to make some sacrifices. Yeah, but it's a big one. It's a really big one.

Marcus Johnson:

When you live in New York, you really do. Yeah, no places have them, so it's fine. Or washing machines, or driers.

Daniel Konstantinovic:

Oh, yeah. Don't have that either.

Marcus Johnson:

Or kettles, or anything that in most developed countries have.

Daniel Konstantinovic:

Windows.

Marcus Johnson:

Windows?

Daniel Konstantinovic:

No windows.

Marcus Johnson:

Or windows, yeah. A lot of them don't have windows. The things we do to live in New York. Anyway, today's real topic, spending on streaming.

In today's episode first, in the lead, we'll cover whether there is actually a ceiling for how much people are willing to spend on streaming. Then for in other news, we'll discuss Roblox's new advertising rules and how Walmart Plus is getting on. But Danny, YouTube TV is where we'll begin talking about streaming prices and then going up and up and up.

"YouTube TV raises subscription from $65 to $73 a month, inching closer to cable pricing," writes Mitchell Clark of the Verge. Google, YouTube's owner, said the rising cost of content was the main reason for bumping up the price. But Danny, how will this recent price hike affect YouTube TV's subscribers?

Daniel Konstantinovic:

Well, I think the immediate effect might be that you see fewer people jumping onto YouTube TV, but I think the real effect will just be slower growth. I doubt that we're going to see a lot of people starting to unsubscribe in large numbers. Streaming services and streaming TV are pretty sticky, and consumers have shown that they're willing to continue paying for it, even during a recession, even if they're paying for multiple video services. So, I think that it might just cause numbers to go up a little bit more slowly, but I really don't think that people are going to be ditching YouTube TV because of it.

Marcus Johnson:

And because prices are rising in concert, it's ... where you going to go? It seems that almost every streaming service has or has announced plans to increase prices. So, they're going up across the board, and Mr. Clark at the Verge was pointing out YouTube TV's new price means it costs more than Hulu's, $70 a month ad supported live tier. That gives you a Disney plan and ESPN+ as well with ads. And so, they're pretty comparable.

So yeah, you could go from one to the other, but they're still pretty similar in terms of price at this point. The big difference is where they used to be, YouTube TV launched six years ago, 2017, believe or not, costs $35 a month, AKA half the price it currently is. YouTube TV's last price increase was nearly three years ago. The problem is that it's nearly 50% more expensive than it was three years ago. So, the prices seem to have gone up quite drastically when you compare it to inflation, but they were priced low, Danny anyway, so they had runway to increase because they were priced so low because people wanted to get subscribers in the door, and then they knew the prices had to go up, in large part because of that content.

Daniel Konstantinovic:

Exactly yeah, and it is a lot more expensive, but it's still cheaper than cable in a lot of cases. And the number of people who are cutting the cord continues to go up, just as prices are going up. So, they definitely had a long runway. They definitely had low prices early on to get people to jump onboard, and now things are going up, which just might mean that new people are less eager to jump onboard.

But that low cost is ... it's an interesting thing, right? Because we talk about the runway. It was expected that prices would go up over a long period of time, but wasn't the sell for streaming services in the first place that here's a cheaper way to get entertainment. Subscribe to Netflix, and you don't need cable, or it's way cheaper, way cheaper than cable, and it remains cheaper. But Netflix has also gone up dramatically in price over the last couple of years.

Marcus Johnson:

It was definitely the sell in the beginning and it got people in the door, but two things. One, there are still benefits, even if it is ... and we'll talk about the price comparisons with cable in a second, but even if it is for with cable, you still have the benefit of stopping and starting whenever you want and hopping and paying for the content that you want, not paying for 200 channels and only watching five of them. Being able to just watch basketball when the season is and not paying for that package when the season isn't.

So, there still are benefits, being able to stop, pause, record certain things, watch things on your laptop or smartphone or on your connected TV. So there are still other benefits, and I think they're moving more to those benefits and focusing on those benefits as prices start to be quite comparable.

Also, the second point here is the competition. You need good content to get people hooked and get people to stay. And streaming platforms don't seem to have a choice. Content is expensive. And J. Clara Chan and Georg Georg Szalai of the Hollywood Reporter were noting that prestige, tent pole productions that streamers use to attract and retain customers cost a lot. Netflix's, fourth season of Stranger Things cost over 30, three zero million dollars an episode. Amazon's Lord Of The Rings, The Rings Of Power ... which wasn't as great as I was hoping it would be. Did you see it, Danny?

Daniel Konstantinovic:

I didn't see it, no.

Marcus Johnson:

Oh, don't bother, cost ... No, people probably loved it, but that cost nearly $60 million an episode, which makes it the most expensive show per episode in history. And so, the prices had to go up. Content's just too expensive.

Daniel Konstantinovic:

Yeah, I mean, the inflation of content cost is so crazy. You see it also in actor pay. I think the Hollywood Reporter also recently had a breakdown of big hit TV series actor pay by episode, and something like Pedro Pascal in the Last Of Us got 600K per episode, which is on the lower end. And I mean, that is an enormous, multimillion dollar cost, aside from all the complications of production. I think the fact that Stranger Things cost 30 million per episode is ... I cannot believe that they were spending that much on it.

Marcus Johnson:

There's bananas. They lost me after season one.

Daniel Konstantinovic:

Me too.

Marcus Johnson:

But another point here quickly before we move to the comparisons between cable and streaming TV in terms of price, there's a Disney+ case study. Disney Plus+'s price jumped, is one of the services I mentioned earlier that jumped, nearly 40% in December from $8 to $11, how many left because of the price hike? About 94% of subscribers stayed. 94% of subscribers to the old ad-free Disney+ service stayed with a product at a higher price point and swallowed the $3 a month price increase. This was according to new data from subscription analytics firm Antenna, Robbie Whelan of the Wall Street Journal was noting that.

So prices go up, some people might leave, most won't, but you're still going to get new subscribers in the door. And people are focusing a lot more now on profitability, less on subscriber growth, which we've seen. As a consolation, YouTube said it's cutting the price, its 4K add-on from 20 a month to 10. But yeah, price is still going up. So, what's going on with the cost of streaming versus cable? Danny, what did you find? What have we got here in terms of the comps between whether it's cheaper to have one or the other?

Daniel Konstantinovic:

I think it's still, almost across the board, cheaper to have streaming over cable, but where it starts to get complicated is if you're talking about streaming TV, like a Hulu TV or YouTube TV, that's intended to be a full on replacement for cable. Or if you're talking about just a collection of individual streaming services, like someone who's subscribed to just Netflix and HBO and Hulu, but they don't have a ... I want to say a cable service, or a comparable service.

Marcus Johnson:

Yeah, yeah, I agree with you. I did some digging to try to see what the prices might look like. It's hard because everyone's cable package is different. You can pay for basic or premium, you can add stuff on. You can have been a subscriber for a long time and been getting discounts for a while. But what I found was, according to cabletv.com, the average TV plus internet package was 143 a month. According to price comparison site AllConnect in a recent U.S. News article, the average monthly cable package was closer to 218 a month. And then some numbers from CNET, they did an analysis March, 2023, so just last month, looking at cable costs across six different cities and live TV streaming costs over five different services. They found, yeah, basic cable TV and internet 128, if you go premium, it's closer to $200. And live TV streaming with the internet was still cheaper.

I did a quick calculation. So, Nerd Wallet says the average cost for just the internet in 2022, because if you do cut the cable, you still need the internet to stream stuff. So, you've got to definitely have the internet to start with. The internet's about $36 to $58, so about $40 to $60 a month depending on the speed you throw on YouTube TV, that's $72. And then you throw on Netflix because everyone has it. Netflix Basic for 10 bucks, you've got $40 for the internet, $72 for YouTube TV, and $10 for Netflix Basic, you're already at $122. So it is creeping closer and closer to what cable costs.

But my next question to you is, do people care? How much are people looking at it? Because it's a natural comp, isn't it? Because that's what we used to have. Now we have something different. But when people are looking at prices, do you think they're thinking to themselves, "Oh man, this is cheaper than cable. What a bargain?" Or are they thinking, "I want the streaming, I want the TV, the content that I want, I'm going to pay whatever."

Daniel Konstantinovic:

I think people are making the comparison. I think when you really start to look at all the numbers like you've rolled out and you see that it's approaching the cost of just regular cable, I think that could make some people nervous. But when you go to the Hulu TV page, you see the cost of just that service. I think that that has kind of a $1.99 effect making you think the thing cost $1 instead of $2, where you're not really considering the big picture of all the associated costs with only doing streaming TV.

But I still think what I said earlier, I still feel strongly that people are not going to be canceling en masse, but I'm sure that it will have some kind of a negative brand effect. And I think slowly over time, you're starting to see that people are a little less fond of their streaming services as there are so many, as it gets a little harder to figure out where something is available to watch and how to watch it and as costs rack up, because these things ... I mean, the streaming services themselves are comparing themselves to cable. They're saying, "Despite price hikes-"

Marcus Johnson:

That's true.

Daniel Konstantinovic:

" ... we are cheaper. And that was the selling point at the very beginning. So, I think consumers will be maybe disillusioned with it, but they're still paying for it.

Marcus Johnson:

A few other things quickly in terms of how many streaming services people are subscribing to, according to a July, 2022 study from Parks Associates, roughly one quarter of American households subscribe to nine or more streaming services. 50% have at least four. Karlene Lukovitz though of MediaPost was saying, according to an Aluma survey, household spending about $43 a month on SVODs, that's up a lot from 2020. But saying that the share of SVOD buyers who are open to spending more is down. So, we're starting to reach that ceiling in terms of ... at least according to this, in terms of how much people are willing to pay.

I thought it was another interesting note quickly, Danny, Sarah Morrison of Vox was noting the FTC, the Federal Trade Commission announcing it's proposing a click to cancel rule, can't wait for this. If it goes through, if it would force businesses to make it just as easy to sign off as it would to sign up. So, she notes that if the rule gets approved, that means no more in-person visits, handwritten letters, waiting on hold for hours to cancel. No more manipulative designs that trick consumers into paying for services, AKA dark patterns. No more being forced to endure various sales pitches and pleas before you can finally cancel your subscription on membership. The FTC says these are some of the most common complaints it gets in the hopes the click to cancel rule will fix it. So, we could very shortly, if this goes through, live in a world where it's very easy to move back and forth between services.

Daniel Konstantinovic:

And if that goes through, I'm sure it'll have an effect. I think people might toy around with canceling a lot more. They might be a lot more willing to.

Marcus Johnson:

Final question here. So, you mentioned people struggling to find out where certain content is that they want to watch. And you wrote a piece noting that ESPN taking a shot at creating a sports streaming hub. So our streaming hub specifically for sports, CNBC explaining that the platform would direct users to the services where games are being broadcast. And you write that, "One proposed model would grant ESPN a cut of revenue for every user that signs up for a competing service via its hub." In your opinion, is a sport streaming hub, regardless of who puts it together, even viable?

Daniel Konstantinovic:

Viable. I mean, if it existed, I think consumers would use it because it can be very annoying to find out where to watch matches. I mean, if you look at the NFL, those rights are split now across so many-

Marcus Johnson:

It's a nightmare.

Daniel Konstantinovic:

... services, from TV to various streaming services, that it's just a nightmare. If you want to watch multiple matches, you have to be subscribed to a lot of different things and pay a lot of money. That's one issue. And I'm not sure how consumers will react to even further fracturing and greater cost, but I think just the simple existence of something where consumers can go and they can see this is where I can watch X match. I mean, I can't imagine that people wouldn't use that. It just sounds like something that should obviously exist. But it won't exist on its own.

These companies will not create it unless they can benefit or profit off of it in some way. The model that you talked about with ESPN taking a cut of new subscribers that it drives from this hypothetical platform, I suspect that streamers are going to be really not willing to do that, especially because they have paid so much for sports rights and won't see returns for years. So, the idea of, especially right now in a high interest rate environment with revenues tightening, the idea of giving a cut of that to a competitor probably doesn't sound so sweet. But that same really high spending on the content might drive these streamers to make some concessions and form some kind of a hub just to make sure that people can watch it in the first place, you know?

Marcus Johnson:

Yeah, so there's certainly a market out there. We estimate that they're close to a hundred million digital live sports viewers in America. That's about 28% of Americans and growing. That's all we've got time for the lead. Time, of course, for the halftime report.

So Danny, this is normally a takeaway part, but I do want a takeaway, but I've got a more pointed question than asking you for a takeaway from the whole lead for today. So, there's an Advanced TV article suggesting the amount US households spend each year on video services will fall 8% over the next couple of years by 2027. This is according to Ampere Analysis. Do you agree? Do you think per household spending on video services is going to go up or down?

Daniel Konstantinovic:

If it goes up, I don't think it's going to go up by much, but falling 8% is interesting. I think if it were to fall 8% by 2027, my guess would be that that's because some of the streaming services consolidate and you no longer have to dish out for Paramount and Disney+ and Peacock, because now Peacock and Paramount, which are in the lower subscription tier among streaming services, you no longer have to pay for those extra things and they're all just part of one thing. So, I suspect that that would be what drives spending to go down.

But prices are also still rising and they will continue to rise. Most streaming services this year, if not this year, then in the next two years, will for sure raise prices to some degree because they're just trying to get more revenues. They're trying to eat up that runway. I think consumers are going to start showing weariness about adding new services.

Marcus Johnson:

And this, Aluma Insights has some research saying that, that that's absolutely the case. Consumers most essential streaming services, when asked, what's your most essential one? Netflix. 66% of folks saying so and close to 50% saying Hulu and Disney+ which were second and third. The least essential, some of those lower tier ones, you mentioned Peacock. 35% of people prioritizing their Apple TV+ with just 28% and Epic's now with seven. That's what we've got time for the lead. Time for the halftime report. Ah, nope, we did that already.

Let's do the second half of the show instead. Today, in other news, Roblox has some new ad rules that could hurt brand interest in the Metaverse and Walmart's membership program is resonating with affluent shoppers.

Story one, Daniel, you wrote a recent called titled Roblox's New Ad Rules Hurt Brand Interest In The Metaverse. You explained that in response to an FTC complaint last summer, Roblox has updated its rule book with big changes to its ad policies, including a ban on advertising to users under the age of 13. Other changes you note include A, marketers can't use links or QR codes to direct users off-platform, and B, advertisers must clearly label advertising content using words like ad or sponsored. But Danny, the most important part of this article is what and why?

Daniel Konstantinovic:

Well, I think the most important part is that this is just a big blow in already rapidly falling interest in the Metaverse. AI has taken its spot as the big it technology, not just in tech, but in advertising as well. And it's significant that Roblox is doing this because Roblox and Fortnite were really the only two proven widely, used Metaverse-esque companies and platforms. And these issues, I'm sure that something like this will come to Fortnite, which is Roblox's biggest competitor. And these barriers, I think are really going to make it hard. They're going to add to the tech problems, the cost problems with advertising in the metaverse. And I think some advertisers will just not bother.

Marcus Johnson:

Yeah. Story two, Walmart's version of Prime called Walmart Plus, offers free shipping, discounted gas prices and more for nearly $100 a month. And apparently, Walmart's membership program is resonating with affluent shoppers, writes Insider intelligence's retail analyst, Rachel Wolff. She notes, "28% of US households making over $150,000 were subscribed to Walmart Plus as of February. That's more than double the 13% who were signed up last year according to Prosper Insights and analytics data reported by Bloomberg." So, it's gone from 13% to 28% in just one year in terms of those affluent folks signing up to Walmart Plus. But Danny, most interesting sentence in this article is what and why?

Daniel Konstantinovic:

The most interesting sentence. Walmart's low prices omitted an attractive destination for groceries among wealthy households. So, groceries are a sector where I think any level of income will be very happy to cut costs, but the fact that it's made such a dent with wealthy consumers or more affluent consumers, is pretty interesting because it's interesting that that is what has attracted this demographic. Because on Amazon, everything there is so integrated and Amazon still has a much, much higher penetration with the same income level.

But it is interesting that groceries are what is allowing Walmart to take a stab at the stickiness of Amazon. That is such an area of American household budgets that is watched so carefully, that consumers will maybe ditch a service that's integrated with every other part of their lives in order to save some money.

Marcus Johnson:

Right. That's all we've got time for this episode. Danny, thank you so much for hanging out, mate.

Daniel Konstantinovic:

No problem. Yeah, thank you for having me. It's always a good time.

Marcus Johnson:

Of course. Yes, sir. And thank you to Victoria who edits the show, James who copyedited it, and Stuart who runs the team. And thanks to everyone listening in. We'll see you tomorrow hopefully for the Behind the Numbers Daily. That's an eMarketer podcast made possible by Cint.