JUN 01
Jeremy Goldman

The Daily: Netflix (and Max) with ads, has esports momentum ground to a halt, and the best CTV ad formats

Audio

On today's episode, we discuss the significance of Netflix saying it has 5 million monthly active users on its ad tier, the biggest impacts of the new streaming service Max, and how much noise a combined Paramount+ and Showtime offering can make. "In Other News," we talk about the current state of esports and what the best connected TV (CTV) ad formats are. Tune in to the discussion with our director of Briefings Jeremy Goldman.

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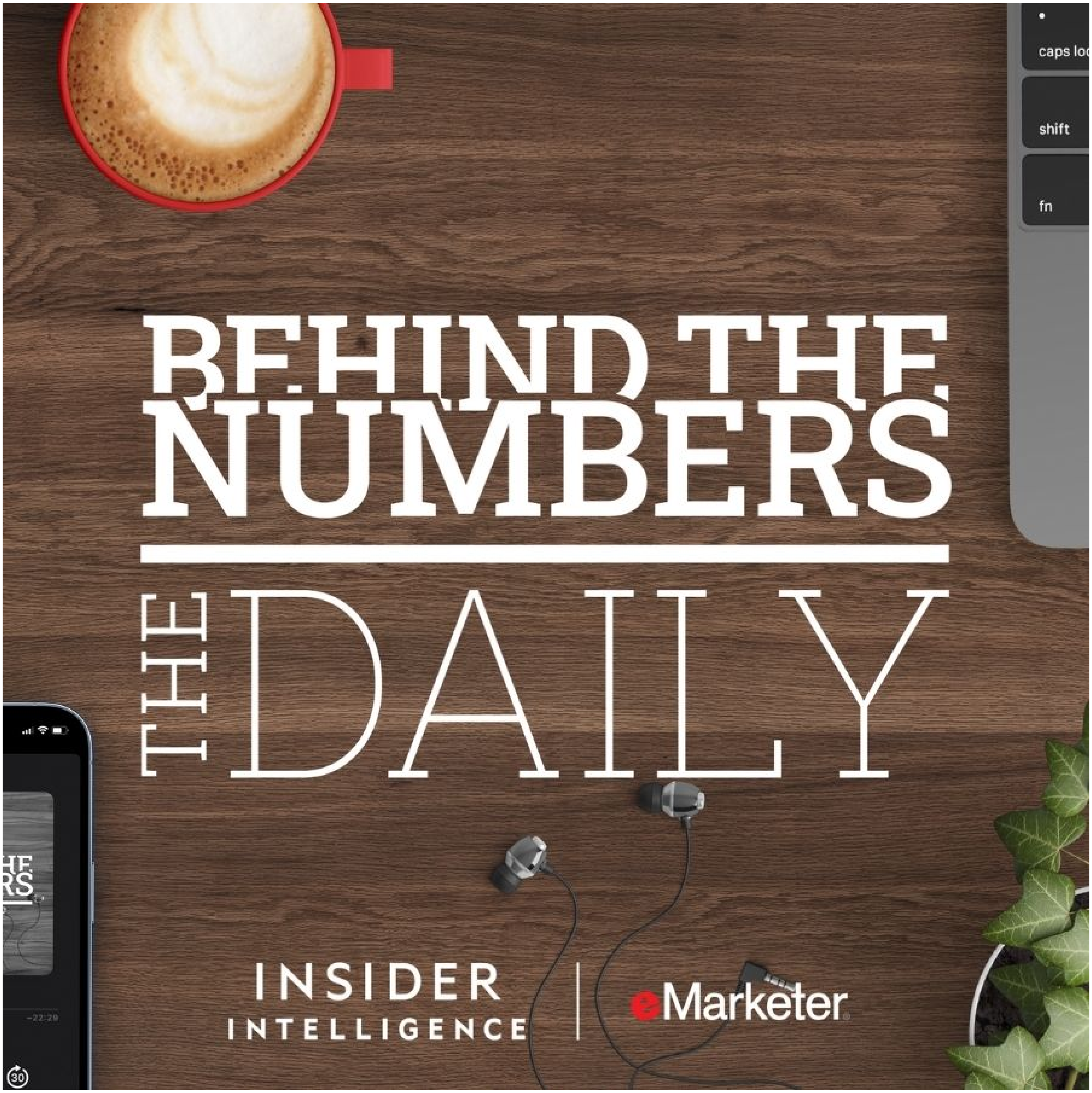

Episode Transcript:

Marcus Johnson:

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Streaming and the New Digital Ad Economy. You'll walk away with tactics to level up your understanding of hot growth areas like retail media and connected TV. We'll also arm you with insights to navigate search and social advertising amid privacy, ChatGPT, and Gen Z shock waves. Visit insiderintelligence.com/events to register.

Jeremy Goldman:

The part of the reason why is that they've actually been caught somewhat surprised at the very beginning that they're making more on a per user basis for these ad supported subscribers.

Marcus Johnson:

Hey, gang. It's Thursday, June 1st. Jeremy and listeners, welcome to Behind the Numbers Daily, an eMarketer podcast. I feel low energy. People listening are like, "Thank God, Marcus. You are insufferable the way you normally sound." I don't know why, but this is the speed we're going to do today's episode. I'm Marcus, a lower energy Marcus. Today, I'm joined by our senior director of briefings based out of New York. It's Jeremy Goldman.

Jeremy Goldman:

Good morning, and I'll bring the extra energy to make up for your lackadaisical attitude.

Marcus Johnson:

Turn it down. Turn it down. Today's facts, I feel like you're the Jalen Brunson to my... What's his name?

Jeremy Goldman:

Julius Randle.

Marcus Johnson:

Julius Randle. Julius Randle always looks like he doesn't want to be there.

Jeremy Goldman:

He's misunderstood, I think.

Marcus Johnson:

Aren't we all? Aren't we all? Today's fact. Jeremy, it could be a question too, there's only one city in America where all its major sports teams in the city share the same color palette.

Jeremy Goldman:

I'm not going to get this. This is hard.

Marcus Johnson:

It is hard, yeah.

Jeremy Goldman:

Oh my God. Am I going to feel stupid?

Marcus Johnson:

No. Maybe.

Jeremy Goldman:

I was going to say Detroit. Is it Detroit?

Marcus Johnson:

Oh no! Pittsburgh.

Jeremy Goldman:

Ah! Yes, I should have gotten that.

Marcus Johnson:

Pittsburgh is the answer. Pittsburgh, the Steelers, football, Pirates, baseball, and Penguins, hockey, all share the same color uniforms. Of course, black and gold.

Jeremy Goldman:

It's a shame none their teams are good. Just kidding, Pittsburgh.

Marcus Johnson:

Anyway, today's real topic, Netflix and new service Max with ads. In today's episode, first in the lead, we'll cover Netflix and Max's ad tiers. Then for another news, we'll discuss where eSports is at and the best CTV ad formats so far. But for the lead, Jeremy, we're talking about Netflix first, and then we'll talk about Max after. Netflix, Jess Weatherbed of the Verge points out that almost five million people globally, five million people around the world, are using Netflix's ad tier that launched about six months ago. But we have to be clear, Netflix are touting five million monthly active users, MAUs, not subscribers.

Monthly active user is someone who is using it, watching it in the month. Subscriber is someone who pays for it. You could have one subscriber and multiple viewers. The streaming giant did say that the number of ad supported subscribers had more than doubled since early this year. That number is also going up. Jeremy, what should we make of this five million MAU number for Netflix's ad tier?

Jeremy Goldman:

I mean, clearly it's showing some progress in that regard, which is very important to note. I think that the more interesting thing, or equally interesting thing, is all of the progress that they've made in terms of their ad innovations and what they're able to offer advertisers. Because it's not just about how many do you have, it's more so about how can you open up more and more inventory to serve ads to these subscribers. At the recent upfront, there were some really interesting presentations showing essentially that Netflix has made a commitment to catching up as essentially an advertising company, as an ad platform.

Before it was more like about a year ago, oh wait, we have to start serving ads, how do we do that quickly, without really much of a plan in place? Now, they have obviously a little bit of an install base. They have a lot of things that show optimism that that five million MAU number is not just something that they're going to plateau early, but that they're going to really build on this early success and going to continue innovating to drive that number upwards.

Marcus Johnson:

Speaking of innovating, its ad tier is developing, as you pointed out, a few ways. One, quality. Better picture quality now being offered for the ad tier and also allowing up to two devices to use an account simultaneously. Two, the content. They're adding new content and getting closer to having the same content on both its ad free and ad supported offerings.

And then three, advertising wise, advertisers in the US soon have more choice in where and when their ads run. For example, they could be offered in the top 10 most watched shows or films during holidays, starts of episodes. And also, Jeremy, I think you were noting that by the end of the year, Netflix will provide Nielsen's Digital Ad Ratings measurement.

Jeremy Goldman:

That's right. One thing in addition to actually having the ad innovation, of course, if you're an advertiser, then you want at the very least parity with what you're getting elsewhere in terms of who you're reaching. You want to make sure that you don't have one random person in Pittsburgh who is getting served the same ad 500 times. You want to make sure that you're actually hitting people at the right cadence and just basically having better information about how your ads are performing. That's another thing that they're performing really well at.

I think another thing you might even mention, if I'm preempting you, apologies, but part of the reason why is that they've actually been caught somewhat surprised at the very beginning that they're making more on a per user basis for these ad supported subscribers, which basically is like, that's why they're doing all these things about making the ad tier better than it was at launch because they realized, hey, let's not worry about the fact that... Let's give them multiple streams. Because if we give them that and we get more subscribers, then our overall revenue per user as an entire company is going to go up.

Marcus Johnson:

They're going to definitely trying to push more and more of its users to its ad tier, because as you mentioned, it's average revenue per user that it makes from its ad tier is higher than the $15.50 for its standard plan. Although similar to Disney+, only a fraction of its users are ad tier people. It's got a lot of room there to make some of those regular users who pay for no ads to move them over to the ad tier where, as Jeremy pointed out, is making more money per user.

Similar share in terms of just a fraction of its users being ad tier people for Netflix, and for Disney, about 20% of HBO Max subscribers, the service, which was before Max, we'll talk about Max in a second, about 20% of those people were ad tier folks. Half of Paramount Plus and Discovery Plus folks are ad tier people and most of Hulu and Peacocks users are ad tier people. Just varying degrees or shares of ad tier people, depending on which service you're looking at.

They've got a long way though, Jeremy, if you look at the total number of folks, they've got a long way to go to catch rivals. As of March, Disney-controlled Hulu had 20 million US ad tier subscribers. Peacock had over 15. Disney+ nearly 11. HBO Max, nearly four million ad tier people according to Antenna. Netflix is trying to catch up with those folks, but it's got a growing share of new signups who are opting for the ad tier. Netflix's co-CEO Greg Peters recently said that over 25% of new signups select the ad supported tier.

Jeremy Goldman:

Yeah, no, and it's one of those things where why did they not have more people in the ad supported tier? It's just simply because it's newer. You are going to get more people who are going to opt in. There are people who just have the inertia of they've had a Netflix subscription for a long time, so as a result, they're just not going to make that movement towards another tier, towards the ad tier, even if they don't use it that much and they would benefit from such a move.

There are a lot of people who just don't make a move. What we've seen from consumers is that it's a little... You introduce a slight bit of friction such as like just click this button and you're going to be saving a few dollars per month, and there are a lot of people who won't actually do it just because people are busy.

Marcus Johnson:

Something might force their hands. Suzanne Vranica and Sarah Krouse of The Wall Street Journal suggesting the ad tier could get a boost in the coming weeks as Netflix extends its password sharing crackdown in the US and other countries. What's going on there is if you have a subscription to Netflix, you're paying $15.50 for the standard plan, you can share within your household, within your physical location, within that building.

But if you want to have someone outside of your household use your account, you have to pay $8 per person. Different accounts allow you to add multiple people, but you still have to pay $8 per additional person outside of your house who is sharing your password. Jeremy, a lot of people might say, "I'm not going to do that. I'll just drop down to the ad supported tier."

Jeremy Goldman:

A very interesting fun fact is that two-thirds of Netflix password shares say that they'll pay you for their own accounts. It's something that we covered for subscribers recently from research from Samba TV and HarrisX. It's very interesting. The subscribers go check out that article. One of the things that also struck me is that 37% also of current Netflix subscribers said that they would actually cancel their accounts if they couldn't share their password. But as we know from past research, there's a major difference between what people say they're going to do and what they're actually going to do.

Marcus Johnson:

Absolutely. The case studies here suggest that what Ms. Vranica and Ms. Krouse of The Wall Street Journal are suggesting could play out, because in Canada and Spain where this password cracked down or sharing scheme has already been rolled out, they have noticed people who are not password sharing anymore move over to the ad supported tier. They're assuming that's also going to be the case in the US. One final thing here, Jeremy, that's interesting, ad supported viewers not necessarily more passive viewers either, which is a good sign for Netflix.

Viewer engagement on ad supported tier mirrors the engagement level seen across the ad-free Netflix accounts as well. Let's talk about a new service, Jeremy. This came out May 23rd. You've written a little bit about this as of late. Warner Bros. Discovery has merged HBO Max and Discovery Plus, which it owns both of those two, into a new service called Max. Flavor one is $10 a month with ads. Flavor two is 16 bucks a month, no ads, or Flavor three is $20 a month for the Ultimate, which has more features.

Current HBO Max subscribers should have been moved over automatically to the new Max service. Discovery Plus people got to choose. Jeremy, what to you are the two biggest impacts that you expect this new combined service now called Max to make?

Jeremy Goldman:

In some ways, this is interesting because obviously this is the fruit of Warner Bros. and Discovery coming together. Took about a year to happen. There are probably questions about they could have made this happen a little bit sooner. There were some issues with the rebrand, including people who had their apps not automatically update. A few hiccups there that are probably not going to be memorable in the long run. I think that probably one of the biggest impacts is the question of...

They essentially have this thesis, which is that you have this content that's going to help you not churn, and that's essentially the Discovery Plus content, and then you have the stuff that gets you to sign up in the first place, and that's the HBO content. The question is, are you able to get people to sign up because of HBO content and then stick around forever because of reality TV that is Discovery's bread and butter? What we've seen in the past is that the demographics are actually pretty different from the typical HBO Max subscriber and the typical Discovery Plus subscriber.

Essentially, there's a bit of a thesis here, which is that forget about the fact that they had different demographics. You might sign up for some content and then you are going to stick around for this other stuff, but that's a very big if. Ultimately, it's the kind of thing that the company had to do. I think there's been early positive feedback on the user experience, which has gotten a little bit better. HBO Max had been dinged in a number of different occasions for it was just a little bit hard to find things on its interface. It's overall positive, but with some caveats.

Marcus Johnson:

It feels like HBO Max to a certain extent on purpose. Warner Bros. Discovery largely rebuilt Max focusing on cleaner navigation, personalization, reliable offline downloads as well. They're focused on making it a cleaner navigation experience, but also making it feel familiar to those former HBO Max subscribers. Warner Bros. Discovery, the streaming business turned a profit for the first time in Q1, 50 million bucks. They said they cut back on content spending, so that helped a lot.

But what you expect, Jeremy, this to do to viewership for Max? We forecast that HBO Max, there are going to be 90 million viewers this year, which if they moved all those folks over to Max, then Max would have that many at least. Similar to Peacock and Paramount Plus, they each have about 90 million. Netflix has double that. What does this new combined service do to viewership, do you think? Do you think it gives it a bit of a tailwind or not so much?

Jeremy Goldman:

Yeah, yeah. I mean, first off, we had a HBO Max forecast on our site available for subscribers that basically shows here's what we thought what was going to happen to Max once it was announced. We were assuming that this breadth of content would be overall a net positive for them. Obviously there are a whole number of other factors that are coming into play, which is does Disney+ and Hulu essentially get bundled together a little bit more, which is essentially going to happen.

Marcus Johnson:

Right. They're talking about the one app experience they're going to launch this year, right?

Jeremy Goldman:

Yeah, yeah. The plans are to have that happen later this year. Essentially the streaming is moving so incredibly fast that it's hard to look at it in a vacuum, but ultimately this should be a net positive from for their ability to reduce churn, which is especially in highly inflationary times, there's a lot of data that we've seen that people are going to say, "Okay, listen, I have five, six streaming subscriptions. I love streaming, so I'm going to keep most of them, but what should I cut?"

You just don't want to be the platform that people answer, like say your name when it's time to figure out you want to save 10 or $15 a month. Max is essentially trying to future-proof themselves a little bit in that regard and hope that people are going to cut their Peacock or their Paramount Plus or whatever.

Marcus Johnson:

Well, speaking of Paramount Plus and also combined services, there's a newly combined Paramount Plus and Showtime service, which got announced. That's going to launch in the US June 27th. Paramount Plus and Showtime combined. The monthly ad supported plan goes from five to six bucks. The premium plan will go from 10 to 12. Your thoughts on this tie up?

Jeremy Goldman:

I mean, it's clear that really what they're trying to do with this promotion is just get the numbers high so that they have something great to talk about in the next quarter and really focus a little bit more on... In some ways, it's almost the opposite story of Max, which is really focused on cutting costs and getting those under control and heading towards profitability. I think that Paramount Plus sees itself as the... In that example that I gave about the service that people might find most cuttable, Paramount Plus is in danger of being that type of service for some people.

The bundle with Showtime is smart. I think the branding is a bit awkward, Paramount Plus plus Showtime. It might actually behoove them to try to figure out how do you get Showtime in there and to almost brand that as a more cohesive thing as opposed to a really awkward long bundle name. But ultimately, they are playing the user acquisition game more than Max is right now.

Marcus Johnson:

That's it for the lead. Time now for the halftime report. Jeremy, if you could give me one thing that you think is worth repeating from the first half of the show.

Jeremy Goldman:

I think we said the word consolidation maybe, and we're going to see a lot more consolidation within this space. Warner Bros. Discovery CEO David Zaslav said recently that we're going to expect to see more bundling behavior amongst streaming services. Could you even see two different players that try to bundle their services together even if they're not under the same corporate umbrella? I think that that's the macro thing to take away.

Marcus Johnson:

All right, time for the second half of the show. Today, in other news, how's eSports getting on and what's the most interesting new CTV ad format. Story one. Jeremy, you recently wrote that the eSports industry's high expectations meet hard economic realities. Because in a disappointing term of events for eSports, major investors are exiting the sector due to stagnant growth and poor returns, according to The New York Times.

You go on to explain that several eSports companies like FaZe Clan have suffered sharp declines in stock prices, as eSports teams layoff employees and part ways with high profile players. Viewership numbers for eSports league are also reportedly in declined. But Jeremy, the current state of the eSport space, in your opinion, is what and why?

Jeremy Goldman:

Murky and slightly depressing. Can I say that?

Marcus Johnson:

You can.

Jeremy Goldman:

Part of it is if you're in the eSports industry, you don't have a lot of historical data because this is a relatively early and new thing. I don't want to say it's quite looking like a fad versus a trend, but it's a little bit like that. Because people watching eSports, watching these amazing gamers with tremendous skills, there's a lot of people who are interested in it and you still see growth within this space. But ultimately, part of the problem is that you can watch a lot of on-demand videos on YouTube if you want to watch gaming.

You can watch streamers on Twitch. You can actually play games for yourself. I mean, one of the things that helped eSports during the pandemic years in particular was there was supply chain issues and people actually couldn't get video game systems that they were trying to get. There are all of these things that are going to be challenges to eSports to grow. I think that you might just have to temper your expectations if you're somebody who expected this business to be a lot bigger than it is right now.

Marcus Johnson:

You also note though on the flip side that the underlying potential is still there in some respects because younger audiences, because of in-game merchandise, things like that. We actually estimate that US eSports ad revenues will still grow around 10% each of the next few years. 10% isn't triple digit growth. Your points are well-taken in terms of dampening down some of those expectations that we previously had. And to your point about people being able to watch on-demand gaming content, eSports viewership, we estimate it's about 30 million people in the country.

Not nothing, 3-0 million, but very flat. However, twice as many Americans watch gaming video content separate to watching gaming competitions. There are a lot of folks who are just watching, to your point, on-demand and not necessarily a gaming competition. Story two. As Bill Bradley of Adweek notes, NBCUniversal announced some additional ad formats at this year's Newfronts. One is Spotlight Plus, a full brand takeover that lets brands own the first impression or prime position across NBCU's One Platform.

Another ad format is NBCU's AI powered Must ShopTV that lets viewers buy items they've seen on the screen. But Jeremy, the most interesting new CTV ad format that you've seen so far from any company is what and why?

Jeremy Goldman:

It all depends how new we're talking, but I actually think that the pause ads on Peacock, which they've had for a while, they're looking to evolve them with a power break format, which is going to have data informed pause ads and that dynamically customize a brand's message to resonate with different priority audiences. Basically imagine one ad insertion when you paused your show to go get a snack.

Let's say you got eight different versions of that snack, Doritos, let's say, and each one does better with different demographic groups, well then you can customize it based off of who's seeing that ad, who's most likely to be based off of the account holder and so on. That's really interesting. It's also one of those things which was a no-brainer to have these pause ads when you know that people pause to go to the bathroom, get something to eat.

You know something about the intent of that user based off of the fact that they paused during a show. That alone is just very noteworthy and a very smart innovation that a lot of other players in the industry are trying to copy right now.

Marcus Johnson:

In one of your articles, you pointed out that Max, the service we were talking about earlier, is going to be offering brand blocks that let a single advertiser own all ad moments within a piece of programming. Lots of different flavors of CTV ad formats to choose from. I'm sure more to come. That's all we've got time for for this episode. Thank you, Jeremy, for hanging out today.

Jeremy Goldman:

Pleasure as always.

Marcus Johnson:

Thanks to Scott who's editing today's episode for us, James, who copy/edits it, and Stuart, who runs the team. Thanks to everyone for listening in. We'll hopefully see you tomorrow for the Behind the Numbers Weekly Listen, an eMarketer podcast.