Daniel Konstantinovic

The Daily: How Netflix has roared back to life and a milestone for ad-supported video streaming

Audio

On today's podcast episode, we discuss what was behind the streaming giants staggering subscriber growth, how Prime Video's new ad-tier will affect Netflix, and how a deal with the WWE changes its sports strategy. "In Other News," we talk about an important milestone for ad-supported video streaming. Tune in to the discussion with our analyst Daniel Konstantinovic.

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Episode Transcript:

Marcus Johnson:

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Daniel Konstantinovic:

It definitely makes sense for Netflix to try and establish its own branded sporting events. Like if it works, it works, and it could be something that works for Netflix for a long time, but I think you could also look at these things as like a tryout to convince a major sports brand that Netflix is a good partner.

Marcus Johnson:

Hey, gang, it's Thursday, February 1st. How, Daniel? How?

Daniel Konstantinovic:

Yeah.

Marcus Johnson:

Daniel and listeners-

Daniel Konstantinovic:

I don't want to talk about it.

Marcus Johnson:

Me neither. Welcome to the Behind the Numbers, Daily, an eMarketer Podcast made possible by StackAdapt. I'm Marcus. Today I'm joined by one of our analysts on the marketing and advertising briefing based in New York. I don't know why, but I said based, couldn't remember, squinted at the camera as though I'd be able to figure it out from context clues of his background, and got nothing. He's based in New York. It's Daniel Konstantinovic.

Daniel Konstantinovic:

Hello. Thanks for having me.

Marcus Johnson:

Hey, fella. I don't know why I always think there was going to be a Brooklyn Brewery sign in the background or, I don't know, the Grand Canyon-

Daniel Konstantinovic:

Well, there is a brewery across the street from my apartment.

Marcus Johnson:

Oh, maybe that's what I was looking for.

Daniel Konstantinovic:

If I tilt my camera, you'll be able to see the sign on the skyline.

Marcus Johnson:

Yeah, if you wouldn't mind. Apparently I need some help remembering the place that you've been for a very long time. Anyway, today's facts is, Danny, have you ever been to the Southern Hemisphere of earth?

Daniel Konstantinovic:

No, actually.

Marcus Johnson:

Nor another planet, okay. Me neither. I don't want to go anymore. Well, first of all, I didn't want to go because there's lots of things that can kill you.

Daniel Konstantinovic:

That's true.

Marcus Johnson:

Yes, Australia, I'm looking at you, but another reason to not go, the moon looks upside down in the Southern Hemisphere.

Daniel Konstantinovic:

Do you think you'd notice, though?

Marcus Johnson:

Well, so here's the thing. You probably wouldn't but you know you` can see the man on the moon, as they call it, the face on the moon, the man on the moon in the Northern Hemisphere.

So it looks upside down in the Southern Hemisphere. So if you couldn't see the face, if it wasn't clear enough to see the face, no, I don't think you would notice if you weren't paying attention. But now I've looked at images, I think on a clear day I could tell and I don't like it.

Anyway, today's real topic, how Netflix has roared back to life.

In today's episode, first in the lead we'll cover why Netflix is back to being a hot commodity. Then, for other news, we'll discuss the significance of an ad-supported video streaming milestone. We start, Danny, with the lead. We're talking Netflix. We have to. Netflix now has 260 million subscribers around the world. They added 13 million in Q4. So Q1 to Q4 of last year, they added two million, six, nine, and most recently 13 million. So they basically have increased their additions each quarter of last year. What's behind this impressive subscriber growth?

Daniel Konstantinovic:

I think it's a couple of things. I think password sharing crackdowns that they started in the spring have had a longer runway, I guess you could say, than expected. I thought that it would be a pretty quick hit. Maybe they would have a quarter or two where subscriptions would slow down pretty significantly and then they would tick up and there would be a burst of signups. But instead, it's turned out that since the password sharing crackdown started, signups have been really strong and in retrospect maybe that's not so surprising. I mean, Netflix had said that they thought that there were a hundred million households that were sharing Netflix accounts, so getting rid of those-

Marcus Johnson:

It's a lot of potential.

Daniel Konstantinovic:

Yeah, it's a lot of potential. Cutting off access to the service for all those freeloaders, if you will, like myself, I was one of them, puts a lot of people out of the service who want access to streaming, which is pretty much the de facto way of getting entertainment now. So yeah, password sharing has had a huge effect and it's continued to do really well for the company.

But it's not just that. It's they've done this password sharing crackdown while also launching really cheap ad-supported options. So if you are one of these people like myself who is no longer able to watch Netflix because of the changes, you can now sign up for Netflix cheaper than ever really through its ad-supported tier, which generates a lot of revenue for the company. So they have done a lot other than just pricing to get people to sign up for these ad-supported tiers. There have been bundles that they've launched through Verizon, a bundle with Max. That's a really big one that will reduce churn since people are not very likely to cancel their phone plan out of the blue, and they have a partnership with a French retailer named Carrefour and Black Friday deals also are probably responsible for some of the strong growth in this last quarter.

Marcus Johnson:

It is really impressive. I mean one concern is it may not last, this growth. Dan Gallagher of The Journal is pointing out that, "Netflix is also likely reaching the tail end of its subscriber boost that was being generated by the crackdown on password sharing." You mentioned that there are cheaper options now like the ad-supported tier, but they also just increased the price for its ad-free tiers as recently as October. So it is interesting that for some folks the price did go up and they were able to hold onto those subscribers because net is obviously that people left and people joined, but they managed to keep people around whilst adding folks as well. So that's impressive.

The other thing here as well is that they've added this many subscribers at a time when new content is pretty scarce, right, following the labor strikes in Hollywood. It feels like ages ago but it was a couple of months ago when they ended. Basically, it lasted about half of last year and you were pointing out actually, in a recent piece, that Netflix produced over a hundred fewer original shows and movies last year compared to 2022. According to a fan site, What's On Netflix, a 16% drop in originals. So they had about 700 total. So impressive that they put out less content, they bumped prices, but they managed to add subscribers.

Daniel Konstantinovic:

Yeah. I think it's definitely interesting that this happened during the strike when there was a big content drought. I think it shows the power of Netflix's big catalog that, even without new content, there's so much there in that library that they can surface old things to viewers as if it was new or there's just a lot of stuff for viewers to watch, even if there's not new content coming out which was one of the big weapons, I guess you could say, in the streaming services' pockets during the strike was that they felt they could wait out the strike because they have these giant backlogs of content and it turns out that is true, but I think it also shows that people just aren't really willing to lose out on access to entertainment even during hard times.

We have a lot of data and we've written a lot about signups during periods of high inflation for streaming services, that a lot of people did not really cancel during the tougher times of the last few years and instead signed up more. So I think this is just something that people are-

Marcus Johnson:

Particularly Netflix.

Daniel Konstantinovic:

Yeah, particularly Netflix.

Marcus Johnson:

It's become a staple.

Daniel Konstantinovic:

I think it's just something that people, they budget in entertainment.

Marcus Johnson:

Yeah, exactly. How good are these numbers? Well, a few points of emphasis for this. Thirteen million new subscribers in Q4, which I mentioned, was 50% more than Wall Street expected. Second point here, they've not added more than 10 million in a single quarter since the start of the pandemic which was, believe it or not, now close to four years ago. That's shocking. As recently as a year and a half ago, Danny, they were losing subscribers, so this is somewhat of a turnaround. The US and Canada, a now very mature market, added nearly three million subscribers in Q4, same number as they got during the tailwinds from the pandemic in Q2 2020 and overall a good year. If you don't look at Q4 but zoom out and look at the full year, they added 30 million new subscribers in 2023 versus less than 10 million additions the year before that.

Danny, let's talk about one of their competitors because Amazon is launching its ad-supported tier of its Prime Video streaming service a year after Netflix did the same. We're going to talk a bit about the Prime Video streaming ad tier in tomorrow's episode in the story of the week for the weekly listen, but I wanted to look at the Netflix angle in this episode. How much does this new ad-supported tier from Prime Video affect Netflix?

Daniel Konstantinovic:

It's a good question. I think, with this earnings report, Netflix showed that it's still one of, if not the, top dog in streaming and even in ad-supported streaming. Something we didn't mention in the previous section is that earlier in January, Netflix reported 23 million ad-supported subscribers, which was up from I think 15 million in October. So they've been seeing some pretty strong growth for the ad-supported tier, but the advantage that Amazon has over Netflix is that Netflix made a big brand out of being ad free for a decade and now they have to get consumers used to the idea of ads on Netflix and ads in streaming.

We also had a story on the M&A briefing recently that cited a survey which found that tolerance of ads and streaming services had improved a lot over the last two years. In 2022, I think it was 36% of consumers did not approve of streaming ads and that number dropped to 13% last year. The data is from a company called DISCO. So people are getting more used to it. But to get back to Amazon, their benefit is that rather than having to convince ad free viewers to sign up for an ad-supported tier, they're just flipping the switch and everyone who's been watching Prime Video is now an ad-supported viewer. There's no choice. Well, I mean there is a choice. You can pay I think $3 a month more to-

Marcus Johnson:

So they're moving everyone over to that plan-

Daniel Konstantinovic:

Exactly.

Marcus Johnson:

... without their consent. They're just going to say, "Okay, now you're all going to become ad-supported video viewers and if you want to go back to what you had before, you pay additional three bucks a month."

Daniel Konstantinovic:

Exactly, yeah. So they don't have to go through this difficult transition period where they try and convince people that the ad-supported tier is better because of cheaper pricing or whatever.

Marcus Johnson:

It seems like they think it's going to be worth it, that most people won't be too bothered and they can go back because Morgan Stanley predicting the move will land Amazon about 70 million US-based advertising viewers right out of the gate. As you mentioned, Netflix now has 23 million. That's about 10% of its subscribers.

The point you made about people getting more and more used to ads, certainly true according to some research from Antenna. They're saying in the US, Netflix is standard with ads tier, so they've got a couple of different tiers, they're standard with ads tier. The newish one just became the second most popular option for new signups, ahead of premium but still a ways behind standard without ads. But that's incredible growth for a plan that launched just a year ago in terms of people getting used to signing up to plans with ads. Netflix said the ad tier accounting for 40% of all signups in markets where the plan is available, ideal because they make more money from ad-supported folks than ad-free people. The numbers I cited before that were just in the US with the ad tier becoming the second most popular option.

Daniel Konstantinovic:

One other thing I'll quickly mention is that Amazon coming into the market will force Netflix to charge less for ads. Amazon is coming in with CPMs in the $30 range. Netflix kind of infamously came onto the scene with 50, around $50 CPMs, which was very high and they've had to tone it down several times and Amazon coming in, this major player that's about to have an enormous ad-supported audience right out of the gate, is coming in with a much lower price. So they're driving the price down for competitors as well so they can't charge as much.

Marcus Johnson:

Yep. Final question here, Danny. I wanted to talk a bit about Netflix and sports. So Netflix just inked a five billion ten-year deal with the WWE, the wrestling people, to bring popular wrestling shows like Raw to Netflix in the US and certain other markets from next January 2025 as when it would start. What do you make of Netflix's sport strategy?

Daniel Konstantinovic:

I think it's really interesting. I mean Netflix kind of missed out on the initial wave of sports rights frenzy, I guess you could say, because it kind of kicked off right as they had this big crisis in 2022 with their first ever loss in subscribers. So they tapped out and they missed out on things like the MLS, on football deals, on all these things that I'm sure that they otherwise would've had some interest in. So now they're trying to look at what's left and I think the WWE makes a lot of sense. It performs really well with young demographics. Audience is growing and I think some kind of rights deal with the WWE was in the books because a couple of months ago it merged with Endeavor Group kind of specifically for the purpose of leveraging a better sports rights streaming deal. I was surprised to see Netflix willing to pay so much for it. I mean, they're certainly paying less than the one billion a year for 10 years that YouTube and Amazon are paying for their football deals, but it's still a lot of money.

Marcus Johnson:

Yeah, you had written a piece about this and what you pointed out was a bit of a milestone moment for Netflix and for Raw. One, because it's their first major entry into sports streaming for Netflix. And Mark Shapiro, President and COO of WWE parent, TKO, saying, "Bringing weekly live [inaudible 00:13:45] viewing to Netflix is what's happening," and that's a few million folks who tune into Raw each week. So that's a decent recurring audience that Netflix could bring in. And then on the wrestling sites, the first time in a 30-year history, you write that Raw will not air on network TV. So a bit of a milestone moment for both. Netflix Co-Chief Executive, Ted Sarandos, saying the deal was in line with the company's focus on sports entertainment and it didn't signal a change in strategy of largely avoiding high profile costly sports rights packages.

As you said, they paid more than you might have expected, but also their sports strategy to me feels just disjointed. The streaming giant is organizing a tennis event from March 3rd in Vegas called the Netflix Slam, which features veteran tennis player, Rafael Nadal, and Carlos Alcaraz who's number two in the world. They have the Netflix Cup golfing event that they live streamed at the end of last year. It does seem a little bit all over the place and I know they're experimenting, but it seems like they've not quite figured out what they want to be when it comes to sports.

Daniel Konstantinovic:

Yeah, I think those are interesting. Before the deal with the WWE was announced, it looked like what Netflix was trying to do to capitalize on the shift to sports viewership on streaming services was to leverage its own brand to create new marquee sports events like the Netflix Cup or this tennis match, which there are talks that they're going to evolve it into a full tournament or at least several other matches and not just a one-off, which I think was a smart strategy for a company that seemed like it wasn't going to strike a deal of its own. But with the WWE deal, it kind of changes how I look at those things. I think it definitely makes sense for Netflix to try and establish its own branded sporting events. Like if it works, it works and it could be something that works for Netflix for a long time. But I think you could also look at these things as like a tryout to convince a major sports brand that Netflix is a good partner.

Marcus Johnson:

Well, to close out the lead, let's zoom out again and look at their most recent performance. So we talked about the users in terms of money, total Q4 revenue performed very well, grew 12% year on year. They'd not seen double-digit quarterly revenue growth in nearly two years. And Q4 revenue growth grew six times faster than last Q4 did year on year. Netflix, if you zoom out for the whole year, they made $34 billion dollars in 2023, growing 7% year on year. It's a tick above 2022's growth and a billion dollars in profit for Q4.

Two things I think here I thought were interesting, Danny, to hammer home this idea of Netflix being the streaming champion. Dan Gallagher of The Wall Street Journal pointing out that, "If its recent share price gains hold, Netflix will carry a market value of about $233 billion dollars. That would be 13% above a combined value of Disney, Warner and Paramount, all of them put together. And then, secondly, according to our worldwide viewership estimates, not subscribers but viewers, 700 million people will watch Netflix this year. That's nearly 15% of everyone who's on the internet on the planet watching Netflix. All right. That's what we've got time for for the lead.

Time for the second half of the show today in other news. What is the significance of an important milestone for ad-supported video streaming?

Story one, we've reached an important milestone for ad-supported video streaming. Research company Antenna noted that November was the first month they observed the majority of signups for premium SVOD services going to ad-supported plans versus ad-free ones. So the majority of signups going to ad-supported versus ad-free. Over last summer, ad-free signups accounted for close to 70%, but a few months later that's dropped to 49% in November, dipping below 50 for the first time, which means that the ad-supported is now the slight majority. At least it was in November. Antenna measured over 11 million ad-supported sign-ups in November. That's a new high for ad-supported plans. But, Danny, what's the takeaway here?

Daniel Konstantinovic:

I thought that a really interesting takeaway here was that there's a lot of consumer choice now. When password sharing crackdowns were happening and ad-supported tiers were being launched, there was a lot of concern that viewers were going to be really upset with the fact that they are losing cheap access to ad-free entertainment. And that certainly happened at first, but I think what's emerged as all these different plan types launch and all of these bundles and Black Friday deals emerge that prioritize ad-supported tiers, is that consumers have a choice between a cheap access with ads or more expensive access for ad-free services.

And maybe that doesn't necessarily sound like more choice but when you consider that it's multiple streaming services that are following this model, I think it does end up being more choice because consumers can ... something that Antenna points out as well ... is that consumers can prioritize which service they're willing to pay more for to have less ads. Perhaps the one they watch the most. And then they balance that with a couple of other ad-supported subscriptions. So they can still have access to Hulu or Disney Plus or whatever their secondary or tertiary streaming services are on the cheap so they can watch whatever the current flavor of the month is whenever it comes out.

Marcus Johnson:

Yes. Looking at which platform is getting the most ad-supported signups, 51% of all signups is ad-supported. Of that 51, 15 went to Peacock, 14 went to Hulu, seven to Max, six for Paramount Plus and five for Disney Plus. But the article was pointing out, Danny, that the Black Friday promotions were an important driver of this November share shift, especially since ad-free had a 60% share the month before. So we could see the new signup scales tip back in favor of as-free in December and beyond. So this might be an anomaly because of some of those Black Friday promotions but we shall see.

That is all we have time for for this episode. Thank you, of course, to Danny for hanging out today.

Daniel Konstantinovic:

Yeah, thank you. It's always fun.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show, James, Stuart and Sophie who help make the podcast possible. Thank you to them. Thank you to everyone for listening in. We hope to see you tomorrow for the Behind The Numbers, The Weekly Listen, an eMarketer Podcast made possible by StackAdapt.