

The Daily: Netflix's new normal, digital giants at the NewFronts, and are instant videos the next leap in AI?

Audio



On today's episode, we discuss what the new normal looks like at Netflix, why its ad-supported tier isn't helping much, and what the first DVD ever mailed by the company was. "In Other News," we talk about Meta, TikTok, and YouTube facing off at this year's NewFronts and whether instant videos could be the next big AI development. Tune in to the discussion with our director of Briefings Jeremy Goldman.

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Episode Transcript:

Marcus Johnson:

Hey, gang. It's Tuesday, May 2nd. Jeremy and listeners, welcome to Behind the Numbers Daily, an eMarketer Podcast made possible by InMobi. I'm Marcus. Today, I'm joined by our Senior

Director of Everything Briefings based out of New York. It's Jeremy Goldman.

Jeremy Goldman:

Happy May. How are you doing?

Marcus Johnson:

Hello, good sir. How are you?

Jeremy Goldman:

Eight out of ten.

Marcus Johnson:

Not bad. I'll take it.

Jeremy Goldman:

That's pretty good, right? That's pretty good. Yeah.

Marcus Johnson:

Any higher, you should be suspicious. Any lower, you should be concerned. Today's facts, only three sports professionals, Jeremy, across the major US sports have had their jersey retired leaguewide, not just for their team. Who are they?

Jeremy Goldman:

Michael Jordan.

Marcus Johnson:

Nope.

Jeremy Goldman:

Ah, what? Wayne Gretzky.

Marcus Johnson:

Yep. Wayne Gretzky's number 99 jersey in hockey.

Jeremy Goldman:

Bill Russell.

Marcus Johnson:

Very nice. Bill Russell passed away last summer at 88, won 11 championships with the Boston Celtics. He had the number six jersey retired across the NBA, which I thought was interesting because I thought, "Well, LeBron James still wears six." I was like, "Why is that the case?" Players who sported the number pre-jersey retirement. So people like the Lakers' LeBron James, the Bulls' Alex Caruso, the Wizards' Kristaps Porzingis, and others, they're allowed to continue wearing it, but no more will be issued.

Jeremy Goldman:

I feel like I know who the last one was.

Marcus Johnson:

Go

Jeremy Goldman:

Lou Gehrig.

Marcus Johnson:

No.

Jeremy Goldman:

What?

Marcus Johnson:

That was apparently the first person in baseball to have their jersey retired.

Jeremy Goldman:

That's why I guess it. Yeah.

Marcus Johnson:

But it's not leaguewide. Last one is Jackie Robinson.

Jeremy Goldman:

Oh, God. Now, I feel bad.

Marcus Johnson:

I know, I know. Because they have the day for it as well. It's like the only one where it's kind of very much kind of present during the season. The others is harder to notice. But yeah, Jackie Robinson. Two out three though. Not bad, not bad at all. Jackie Robinson, Bill Russell, and Wayne Gretzky. The only three folks across the major sports to have their jerseys retired leaguewide. Today's real topic, how Netflix has started the year.

In today's episode, first, we'll look at how Netflix is getting on. Then, for another news we'll discuss Meta, TikTok, and YouTube in the Newfronts, and the promise of instant AI generated videos. Jeremy, we start with the lead. We're talking Netflix. So Netflix added just over two million subscribers, just over two million, 1.75, between January and March of this year. The third consecutive quarter of positive growth after Q1 and Q2 of last year saw their total subscriber numbers fall. Their worldwide total is now 232 million subscribers. But Jeremy, what do you make of the just over two million new subscribers added in Q1?

Jeremy Goldman:

So this is a perfect case of why we are kind of long-term analysts here and looking at the overall health of companies instead of necessarily thinking about this from a financial Wall Street perspective, right? Because Netflix did okay enough, if you're going to just look at the game of low expectations, which is they actually gained some subscribers, but there's actually a lot of signs of weakness in their overall business. There are a few hurdles that they've had to deal with in the last few months, which I'm sure we're going to get into.

Marcus Johnson:

Mm-hmm.

Jeremy Goldman:

And I think overall, one of the key takeaways is that global streaming paid memberships rose 4.9%. That's higher than Q4's growth. But if you look over the next few years, there's going to be a lot of sign-ups overseas and a lot of kind of weakness or stagnation within the important North American market.

Marcus Johnson:

Yeah. Speaking about that stagnation and also your concept of low expectations. There is kind of a new normal now, isn't it with Netflix? We're so used to search meteoric growth that we've forgotten the last couple of years just hasn't been that for Netflix. Start early pandemic, it was. Now, not so much. So worldwide, year-on-year subscriber growth was 5%. And it's been in the single digits every quarter for the last two years. So that is definitely a new normal. And then, you talked about the all important North American market, US and Canada, adding about a hundred thousand new subscribers to reach 74.4 million.

But all told, the US and Canada subscriber number has been stuck at 74 million. That 74 million since the end of 2020. So those haven't gone anywhere in a while, at least not the US and Canada. We expect, Jeremy, Netflix to lose about a million viewers, not subscribers. Viewers, how many people are watching Netflix, not subscribed to it, this year. We expect them to lose about one million this year, but then add three million next year. And one of the explanations I saw you writing about for this was that you think the decline is attributed to the rollout of paid account sharing. Tell me about that.

Jeremy Goldman:

Yeah. I think paid account sharing is really interesting because you basically say, "Okay, we know that people are sharing their passwords." Netflix essentially came out with that about a year ago, and said, "We've got a plan." They started rolling that out overseas. And ultimately, yes, you can be an add-on to an account. You can have a shared account, but you've got to pay more for that. If you're a casual viewer, you're going to say, "No, thanks. I'm good. I've got enough content to binge between every other service." You know?

Marcus Johnson:

Mm-hmm.

Jeremy Goldman:

So that's going to cause a number of people to downgrade or cancel their plans. And I think it's also interesting to say that Netflix has been pretty positive about the idea of this paid sharing. And they're saying that that's going to improve their average revenue per member. So maybe that improves its overall financial health. But the company said that in Canada, its paid membership rose with the launch of paid sharing.

Marcus Johnson:

Right.

Jeremy Goldman:

But they declined to put an exact number on when paid sharing's going to launch in the US. So that kind of, to me, that looks like we've still got a few things to iron out if you're in Netflix.

Marcus Johnson:

Yeah. So just under two million new subscribers added in Q1. Worth noting, this is Netflix's first quarter with Ted Sarandos and Greg Peters serving as the Co-CEOs. Co-founder and previous Co-CEO Reed Hastings is now the Executive Chairman, moved to that position in January. Let's move to the ad-supported tier, Jeremy. It was much anticipated. Netflix, obviously, the short history being said, "We'll never do ads." And then, last year said, "Actually, no, we will." And then, kind of rushed to get them set up for the end of the year, a similar time to Disney Plus. But they've not got off to the best of starts. Why isn't the ad-supported tier helping much?

Jeremy Goldman:

Oh, I mean, there's a few different reasons. I mean, first off, we can be fair to it and say that it's relatively new, right? So I think that-

Marcus Johnson:

Absolutely.

Jeremy Goldman:

That's definitely one factor. I think another key thing is, as you pointed out, Netflix really kind of got caught, one might argue, flatfooted last year when they said, "Okay, we're going to launch ads because..." Then the question is, if you have not built your company in the direction of ever serving an ad to anybody, you've got to leverage partners, right? So then, they built this partnership with Microsoft, which seems to have gone, I guess okay, given the fact that they launched it so incredibly quickly.

Marcus Johnson:

Mm-hmm.

Jeremy Goldman:

But then, now reportedly they're looking to see, they're not going to maybe renew this contract.

Marcus Johnson:

Right.

Jeremy Goldman:

They're going to build out their own capabilities. And part of it is that advertisers have complained about their ad targeting capabilities to start off, right? So you're not getting that much ad revenue if people are paying a lot on a basically CPM basis to reach their audiences. But if some advertisers say, "I'm going to wait until you build out your tech stack a little bit further." Obviously, that's going to be one issue.

Marcus Johnson:

Yeah. Well, something they're working on, right? So Daniel Konstantinovic, who works on the briefings with you, noting Netflix is teasing new ad capabilities. The ability to target ads to users based on content they're watching, so anime, comedy, things like that. And then, Netflix soon letting advertisers buy inventory per its top 10 list. And so far, as you know, because they rushed to get this done, Netflix only offering basic targeting, age, gender, location.

Jeremy Goldman:

So the other thing I would add, we just talked about the ad targeting capabilities. But the other key thing is the user experience. So 49% of Netflix's basic with ad subscribers describe the services ad load as heavy. And 17% deem it excessive according to Aluma Research. I just think things like that are very important to pay attention to, because ultimately, if you have people who are promoters of that particular experience, then you're probably going to be able to pick up new subscribers-

Marcus Johnson:

Right.

Jeremy Goldman:

... to the ad tier. And if people say, "I don't know." Maybe you want to sign on to Peacock because they've got a better ad load and they've got decent content. This is the kind of thing

that people do actually care about. So it makes it a little bit harder to build an ad business when you're charging a lot for it. And then, people say they're seeing too many ads. Yeah.

Marcus Johnson:

Yeah. Yeah, it might be one of the reasons few subscribers have switched from the ad free to the cheaper ad-supported. Antenna estimating ad-supported tier, which launched in November, accounted for less than 2% of US subscribers in March. That's up from less than 1% in December. Netflix doesn't disclose numbers for its ad-supported service. So relying on other sources for that, folks like Antenna.

But Netflix did say the new ad plan makes more money per user than the 15.50 per month standard plan. So making some good money on this. They just need to get more people over to the ad plan. Jeremy, let's look at the dollars for a second. Quarterly revenue across the eight billion mark for the first time. Q1 up 4% year-on-year. What's your take on the company's financial health?

Jeremy Goldman:

Yeah. I mean, I think that it's obviously it's doing okay in that regard. I think that I don't even necessarily look at that 4%. Sure, that's impressive. That's growth. But I think that another thing that people need to pay attention to here are the content costs. Because the cost of acquisition, the cost of originals, just keeps on going up. There's been a lot of concern around that. You see some other platforms that have had to raise their prices like HBO Max did a month or two ago, specifically because of compounding costs. And then, the other key thing is that it's more expensive to even find these things that you want to acquire if you're Netflix.

They've tapped out a lot of the international stuff that they want to buy. And another interesting thing is that, they're losing a lot of things that kind of essentially syndication or rerun, like hits. Like NCIS, they still have that. But they've lost a lot of other things like that, which then means they have to acquire new content, which is very expensive. So that just really eats into, you can grow all you want, but their costs keep on going up dramatically, then obviously, it becomes a less tenable position to be in as a major streaming company.

Marcus Johnson:

Yeah. Zooming out, revenue growth for 2020 was 6%. That's down from 19 the year before. Netflix saying the benefits from their crackdown on password sharing likely to materialize in

Q3 rather than Q2, so maybe there's a potential boost there. We'll see. Jeremy, another announcement that was made during these earnings was the DVD-by-mail business going away. So Netflix saying that they're going to be winding down its DVD-by-mail business the company started with this September. Most people are probably thinking, "That's still a thing?" Yes. Yes, it is. What are your thoughts on Netflix finally sunseting its physical DVD business?

Jeremy Goldman:

Yeah. I mean, I think it's just an interesting marker in time. Obviously, it represents the fact that the DVDs and the whole entire Netflix model in a lot of ways, it helped send Blockbuster out of business over time. And I think it's a interesting thing to look at, at moments when Netflix basically has built out this streaming model that's really successful. And everybody else said, "Hey, that sounds great. Why don't we just go do that? And then, we don't have to give you our content anymore. And we can just basically make money off of the stuff that we've developed already."

So all these other competitors basically built up Netflix. And now, Netflix is challenged by these upstarts, and has to figure out almost what's the next big thing. And the challenge for them is they've been basically innovating around the margins instead of finding that next big thing. So it's an interesting juxtaposition of that with the DVD moment.

Marcus Johnson:

Yeah. Nicole Sperling of The New York Times noting that at its peak, 2010, roughly 20 million folks subscribed to the DVD service from Netflix. And Sarah Krouse of The Wall Street Journal pointing out that Netflix, you were talking about a moment in time. So Netflix, they said they shipped over 5 billion discs. The first red envelope the company mailed in March 1998 was, did you see this?

Jeremy Goldman:

Oh, my God. I remember it and I forgot. What was it?

Marcus Johnson:

Beetlejuice. And the most popular DVD rented by mail was The Blind Side, 2009 sports drama, Sandra Bullock. Great film. Beetlejuice 2, it doesn't age so well, but it's still good.

Jeremy Goldman:

September 23rd, last day to get a DVD. So I'm going to try to rent like a hundred that day, so I can be the last person in human history to ever get a DVD from Netflix.

Marcus Johnson:

But the other thing I wanted to ask you, Jeremy, quick. Netflix is about livestreaming Netflix's second livestreaming event, the Love is Blind cast reunion didn't go well recently. There was some glitches they had to put out the next day as a recording as opposed to a livestream. The first one, however, the first livestreaming they did this year, Chris Rock stand-up went swimmingly. Will livestreaming catch on on Netflix?

Jeremy Goldman:

The short answer is kind of, but should it? That's the question. And ultimately, this is an area that Netflix is going to go into. They're going to build up some competency in this regard. The problem is, is that this is obviously an area where a lot of other people are just stronger. For instance, you think about live sports. That's one of the number one things that people want to see livestreamed. And that's not an area that Netflix is great at. But at the same time, they can't cede this area to every other player. So they're just going to go into it, they're going to get a little bit better at it, and they're not going to be a leader in this regard. It's not happening anytime soon.

Marcus Johnson:

Great points. That's what we got time for, for the lead. Time, of course, for the halftime report. Jeremy, one takeaway from the first half. Please, sir.

Jeremy Goldman:

Netflix is really kind of optimizing right now. This is where they are in their lifecycle as a company as opposed to being the player that has the innovative, super amazing idea that Wall Street is looking at them for.

Marcus Johnson:

Netflix expects to make \$8.2 billion in Q2. That would be 3% year-on-year growth. And for context, we talked about Netflix not doing so well, struggling a bit. But Netflix still the largest video streamer in the country according to our estimates, 171 million US viewers. Prime Video

has 157. So that's 14 million less. Hulu has 128. And everyone else has less than a hundred million viewers to Netflix's 171. Time for the second half of the show.

Today, in other news. Meta, TikTok, and YouTube prepare to face off at the 2023 Newfronts. And could instant videos represent the next leap in artificial intelligence?

Story One. Daniel Konstantinovic, who we referenced earlier, he's on the Briefings Team, recently wrote that Meta, TikTok, and YouTube prepare to face off at the 2023 Newfronts, noting that at the 2023 IAB Newfronts going on right now, digital platforms are trying to woo advertisers who are cutting spending in the face of high interest rates, increased privacy regulation, and attribution issues across media, Daniel was writing. But Jeremy, the most interesting sentence in his article is what and why?

Jeremy Goldman:

The most interesting sentence to me is short form video will likely dominate the Newfronts with TikTok, Meta, and YouTube all set to present. And I'm kind of cheating because like you said, they're going on right now. So I know for a fact that there's a lot of conversation around that. YouTube presented yesterday. And then, we've got later on in the week, there's going to be Meta and TikTok just five hours apart. I'm going to be there. I'm very excited. And there's just really a lot of conversation about placing ads against the type of content that really the mainstream media buying populace wasn't thinking about a few years ago.

Marcus Johnson:

He had a chart in his article I thought was really interesting. So with the possibility of a TikTok ban, advertisers having to consider where they would move their dollars to if it was banned. Where are those short form video dollars currently? In January, Cohen Research saying 75% of ad buyers say their largest clients are on TikTok, 75%. 67% on Instagram Reels. 43% on YouTube Shorts.

Story two. Instant videos could represent the next leap in AI technology rights. Cade Metz of The New York Times, he explains that New York startup Runway AI is amongst a group of companies working on systems that can produce short videos in minutes based on a few words typed into a computer, like a cow at a birthday party.

God knows why that's the video people are after, but it's in the article. Mr. Metz notes the videos are only four seconds long. The video is choppy and blurry, if you look closely. And

sometimes, the images are weird, distorted, and disturbing. Jeremy, the most interesting sentence in this article is what and why?

Jeremy Goldman:

A bit of a cheat. It's kind of like a few short sentences. Will we allow it? Yes, we will. It's a quote. In the old days, to do anything remotely like this, you had to have a camera, you had to have props, you had to have a location, you had to have permission, you had to have money said Susan Bonser, an author and a publisher. Now, you don't have to have any of that. You can just sit down and imagine it. And I think it's really obviously interesting the fact that generative AI is not just about text. Everybody kind of thinks about it that way. It's about AI generating stuff, for lack of a better term. Stop.

Marcus Johnson:

Yeah.

Jeremy Goldman:

I'm being very technical here. But it's ultimately and obviously going to be transformative. These are very early days. But just to get a little bit of a sense of these types of technologies gives you a bit of the idea of where they're going. And that's incredibly helpful for any marketer.

Marcus Johnson:

Yeah. I thought it was interesting, Mr. Metz pointing out the new video generation systems could speed the work of movie makers while becoming a new and quick way to create hard to detect online misinformation, making it even harder to tell what's real on the internet.

Jeremy Goldman:

If this goes well, we might even get the rest of the Avatar movies before we die.

Marcus Johnson:

Perhaps. Well, one a century at the moment. The last one was too long. There, I said it. It just was. Still good. That's all the time for this episode. Thank you so much, Jeremy, for hanging out today.

Jeremy Goldman:

Pleasure as always.

Marcus Johnson:

I didn't see it in 3D, that's why I'm angry.

Jeremy Goldman:

Oh, that's a problem.

Marcus Johnson:

I should've. Yeah, yeah. It's my own fault. Thank you so much to Victoria who edits the show. James, who copyedits it, and Stuart, who runs the team. Thanks to everyone listening in to the Behind the Numbers Daily, an eMarketer Podcast made possible by InMobi. You can tune in tomorrow to hang out with Sarah Lebow, where she'll be speaking with analyst Karina Perkins and Yory Wurmser, all about, you guessed it, generative AI, ChatGPT, and retail.