Streaming Services

GTSF Investments Committee | November 29, 2022

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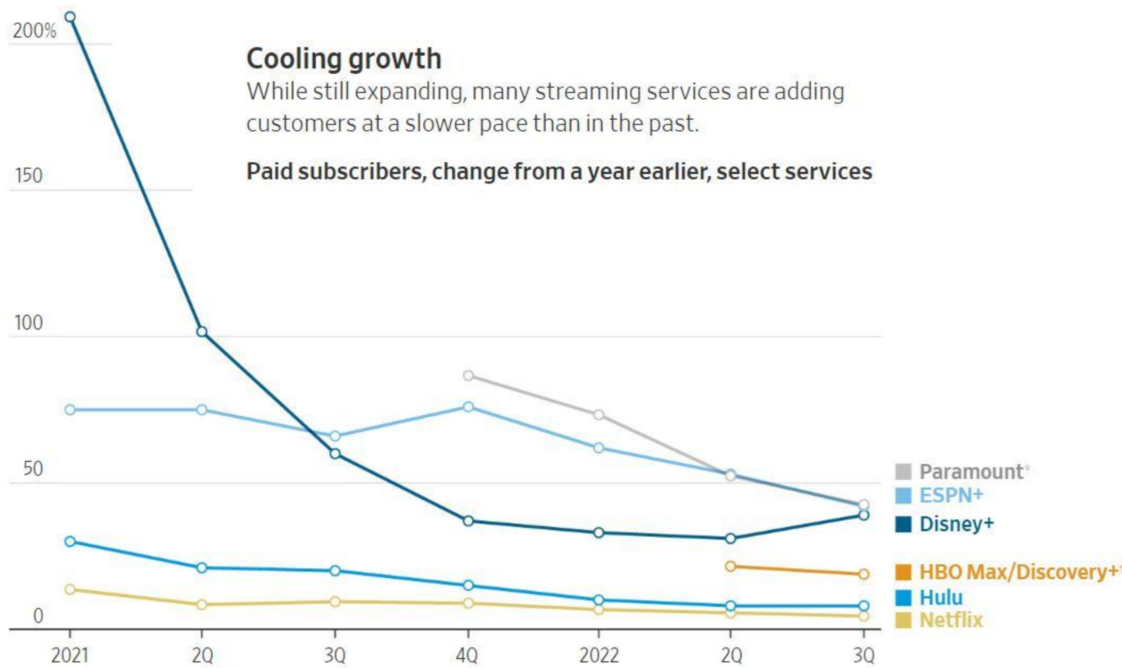
Slowing Subscriber Growth

Inflation is high and the market is competitive so creating quality content is increasingly expensive, and consumers are more willing to jump from service to service in search of a hot new show or movie. Streaming services are experiencing slowing subscriber growth and increasing subscription cancellations. Many premium streaming services, including Netflix, Hulu, and Showtime, have seen flatter subscriber growth for the past three quarters. The large variety of streaming services means consumers have more choices and will cancel subscriptions if their service doesn't offer new content regularly. Roughly 20% of subscribers to premium streaming services canceled three or more services in the past two years. As a result of growth trends, companies and investors are focusing less on user counts and more on overall profits. Streaming services are having a harder and harder time paying the bills and many have announced increases in subscription costs by the end of the year. The big players all earn revenues globally meaning that currency headwinds are eating into profits by foreign exchange rates.



*Total for Paramount properties, including Paramount+ and Showtime. †Includes HBO and reflects figures reported by Warner Bros. Discovery under a subscriber definition first published in the second quarter of 2022.
Note: Not all streaming services publicly report subscriber numbers. Disney controls Hulu and ESPN+. Chart dates are calendar-year quarters for which figures were reported.
Source: the companies

Bundling of Streaming Services

Streaming providers have been taking a page out of cable's playbook by bundling options for multiple services. So far, bundling has only happened with streaming products owned by the same company, but analysts predict that bundling across competitors will happen eventually. One of the benefits of bundling is reducing the number of customers that cancel each month, known as churn. The drawback to bundling is that average revenue per customer decreases.

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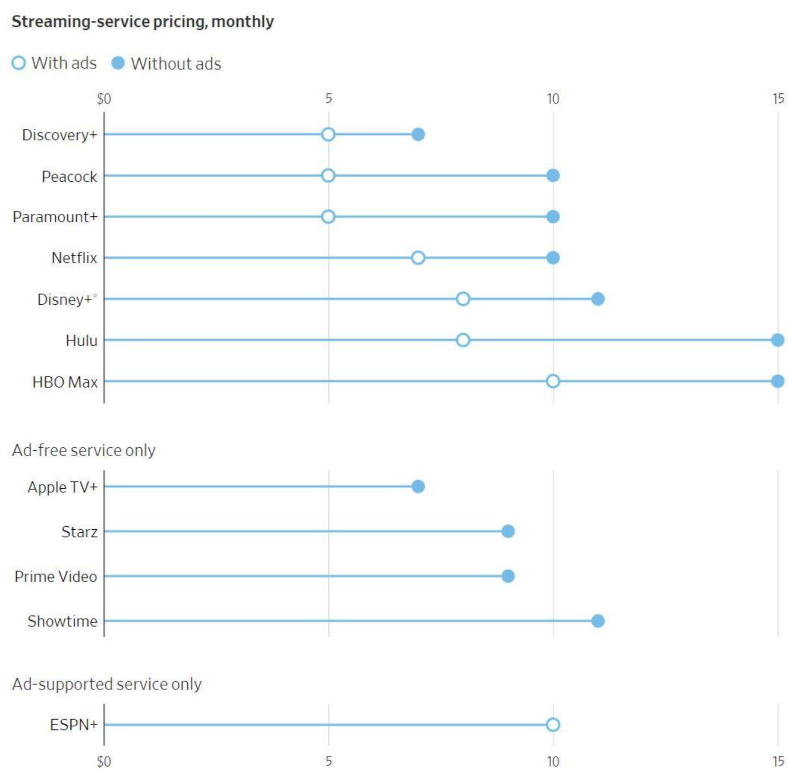
Disney Bringing Back Iger as CEO

This month, Disney's board of directors replaced CEO Bob Chapek with former Chairman and CEO Robert Iger. Under Chapek, Disney increased content spending drastically, to $30 billion in 2022. Simultaneously, Disney charged less for its streaming service than its competitors to "steal" customers. This led to increased growth, but created large losses. Disney reported accelerating losses in its streaming business, Disney+. Disney+ expects to reach profitability during 2024.

Due to increased competition, streaming services are continuously having to search for ways to differentiate themselves. Netflix, for example, is exploring investments in sports leagues and bidding on streaming rights. To expand their reach Disney+ and Netflix are rolling out Hulu-like subscription options which give users the option to pay less to watch the same content but with ads. Netflix is also attempting to reduce password sharing in order to capture more users.



Threats to Streaming & The Battle Between Long & Short

To understand this market, we have to look at the bigger picture; streaming services aren't just competing amongst themselves, they are competing against a much bigger pie that includes social media, YouTube, Spotify, the video game industry, and television.

From the outside, Netflix and TikTok may not look like competitors, but TikTok is becoming more of a threat to Netflix everyday. One is long-form on big screens, and the other is short-form on small screens. One consumes billions of dollars in capital to create content the other gets millions of hours of content for free. One is gated by pay, the other is free for everyone. Gen Z is spending on-average three times as much time consuming short-form video as long-form.

Teens are spending more and more time consuming free content from YouTube, which offers both long and short-form content. Providers of the entertainment industry are faster than users can support, and increasing competition is changing where people spend their time and is increasing uncertainty about the future of the streaming market. Who wins will ultimately be determined by the changing consumer preferences in the current market entertainment.

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