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The Walt Disney Company Streaming Services

The Walt Disney Company's August 10, 2022 announcement of subscriber numbers for its streaming services generated headlines in the media and entertainment world:

> "Disney tops Netflix on streaming subscriptions…" - *Reuters*[1]

> "Disney Overtakes Netflix in Worldwide Subscription Numbers" - *CBR*[2]

Netflix was the historic leader of video streaming services, reaching over 100 million subscribers in 2017 and over 200 million by 2020. However, Disney just barely passed Netflix's 220 million in 2022 with the total from its three streaming services.

Disney's offerings and subscriber counts were:

- ESPN+: 22.8 million
- Hulu: 46.2 million
- Disney+: 152.1 million
- Total: 221.1 million[3]

ESPN+ was Disney's first entry into streaming services, launching in April 2018 at a $4.99 per month subscription fee. It was seen as a complement to Disney's ESPN cable channel which required a separate subscription. ESPN+ provided access to live sports making available some events not found on cable channels, e.g., boxing, European soccer, and cricket. It was also the archive for ESPN documentaries such as the popular "30 for 30." ESPN+ inserted advertisements into programming.

Disney acquired a part of Hulu in 2009 but did not gain a controlling interest until 2019 when it acquired 21st Century Fox and its 30% Hulu stake. Hulu was positioned as the route to "all the TV you love."[4] Hulu offered subscribers an option – an "ad-free" service at $12.99/month or an "ad-supported" service at $6.99 per month. About 70% of subscribers chose the "ad-supported" service.

Disney+ was announced in August 2017 for a 2019 launch. The company's November 12, 2019 launch day release was entitled "Disney+ Launches Today – and a New Era of Disney Entertainment Begins."[5] The release described the service as "showcasing our library of beloved movies, TV series and exclusive original content from Disney, Pixar, Marvel, Star Wars and National Geographic." Unlike

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ESPN+ and Hulu, all Disney+ subscribers would enjoy programming "ad-free" as the release noted "Disney+ has been designed to provide subscribers a best-in-class experience… with high quality and commercial-free viewing... " The service was priced at $6.99/month which the company described as a "compelling entertainment offering and an amazing price-to-value proposition."[6]

Disney announced the price seven months prior to the service's launch at an Investors Day presentation. Many agreed with this characterization of the price, especially for an "ad-free" service. Variety noted that at $6.99, it was "nearly half" the price of Netflix's "ad-free" service.[7] When questioned about the low price, Disney CEO Bob Iger replied: "This is our first serious foray in the space, and we want to reach as many people as possible with it."[8]

In April 2019, the company noted that it "likely" would offer some discounted bundle of its three services at some point but provided no specifics or timeline. The November 12 launch document introduced the "Disney Bundle" program – $12.99/month for all three: Disney+, ESPN+ and the ad-supported version of Hulu.

As shown in **Table 1**, subscriber growth was rapid.

Table 1 Disney Streaming Services Subscriber Count (In Millions)

	July 3, 2022	October 2, 2021	October 3, 2020
Disney+	152.1	118.1	73.7
ESPN+	22.8	17.1	10.3
Hulu	46.2	43.8	36.6

Source: Walt Disney Company Annual Report, for period ending October 2, 2021, p. 40 and Press Release, The Walt Disney Company Reports Third Quarter and Nine Months Earnings for Fiscal 2022.

Table 2 shows the Average Monthly Revenue Per Subscriber Including Advertising Revenue for each service. As shown there, Disney+'s implementation varied by geographic market. In India, Indonesia, Malaysia, and Thailand, the new Disney+ offering was bundled with an existing Disney Hotstar streaming service. These subscribers represented 38% of the Disney+ subscriber based of 152.1 million at July 2, 2022.

Table 2 Average Monthly Revenue Per Subscriber Including Advertising Revenue

	For Quarter Ended July 2, 2022	Change vs. Year Ago
Disney+ Domestic (U.S. + Canada)	$6.27	-5%
Disney+ Int'l (Excluding Disney+ Hotstar)	$6.31	+14%
Disney+ Hotstar*	$1.20	+54%
ESPN+	$4.55	+2%
Hulu	$12.92	-2%

Source: The Walt Disney Company Press Release, "The Walt Disney Company Reports Third Quarter and Nine Months Earnings for Fiscal 2022," August 10, 2022 at https://thewaltdisneycompany.com/the-walt-disney-company-reports-third-quarter-and-nine-months-earnings-for-fiscal-2022/, accessed September 6, 2022.

Note: *Bundled service implemented in India, Indonesia, Malaysia and Thailand.

As Disney had projected, however, the Direct-to-Consumer (its term for the streaming services operation) subscription business was not yet a "break-even operation." Financial results for the fiscal year ending October 12, 2021 are in Exhibit 1. The operating loss for the year was $1.68 billion. For the nine months, November 2021 to June 2022, the operating loss was $2.54 billion.[9] While the Direct-to-Consumer business represented only about 20% of the company's overall revenue, it was a strategic priority for the company.

By August 2022, a series of pricing and packaging decisions had evolved to the domestic offering being:

- Disney+: only "ad-free" at $7.99/month
- ESPN+: only "ad-supported" at $6.99/month
- Hulu: "ad-free" at $12.99/month; "ad-supported" at $6.99/month
- Disney Bundle two options: (a) Disney+, ESPN+, and ad-supported version of Hulu at $13.99/month; (b) Disney+, ESPN+, and ad-free version of Hulu at $19.99/month

At the November 2019 launch, the company associated Disney+'s being "best-in-class" with being commercial free. However, it had since indicated the possibility that it would expand the Disney+ offerings to include an ad-supported tier, similar to Hulu. Was this the time to make such a product line architecture change? If so, how should the options be priced and positioned? What role should the Disney Bundle play going forward? Was it too good a deal at $19.99/month? What else might Disney do to push the Direct-to-Consumer business to the profitability it had promised analysts it would achieve by 2024?

Competitive Landscape

There were over 200 streaming services available globally. Some, e.g. NBCUniversal's Peacock, offered a free tier with access to only a subset of content made available to paid subscribers. But, market leaders generally relied on plans with some subscriber fee, even for "ad-supported" plans. Many offered a lower priced ad-supported tier along with an "ad-free" option. In 2021, the global Streaming Video on Demand (SVOD) market generated $105 billion in revenue – $72 billion from subscriber fees and $33 billion from advertising revenue. The Advertising Video on Demand (AVOD) segment was growing faster, however, than the market overall. Hulu was the leading revenue generator in the AVOD space with $2.1 billion in revenue in the year from October 2020 to September 2021.[10]

Share of subscribers for premium "Streaming Video on Demand" services, as estimated by the Android Authority in Q3 of 2021 are shown in **Table 3**. The table also indicates whether the service offered an ad-supported tier.

Table 3 Premium Streaming Video on Demand (United States) Share of Subscriptions - Q3– 2021

Service	Share of Subscriptions	Ad-Supported Tier Offered in Q3, 2021?
Netflix	30%	No
Hulu	18%	Yes
Disney+	14%	No
Paramount+	9%	Yes
HBO Max	7%	Yes
Apple TV+	5%	No
Other	17%	–

- Does not include free tier users

Source: John Callaham and Adamya Sharma, "Apple TV: Plus: What Is It? Should You Get It? Everything You Need To Know," Android Authority, July 24, 2022, at www.androidauthority.com/apple-tv-plus-969001.

The statistics in Table 3 do not include Amazon Prime Video or YouTube. Most users of Amazon's video service users gained access through their Amazon Prime membership which bundled in a vast array of other services, including free Amazon shipping on many items. YouTube offered free "with ad" access and a paid "ad-free" option. But it had a fundamentally different business model and approach to content development.

A J.D. Power survey of December 2020 measured the extent of each service's United States household penetration via asking the question "Which streaming services do you subscribe to or have access to?" Results are in **Table 4**. Profiles of leading Disney competitors follow.

Table 4 J.D. Power Survey, "Which Streaming Service Do You Subscribe To or Have Access To?" - December 2020

Service	Percent of Household Subscribe/Have Access
Netflix	81%
Amazon Prime Video	65%
Hulu	56%
Disney+	47%
HBO/HBO Max	22%
Apple TV+	14%
ESPN+	13%

Source: Ian Greenblatt, "New Streaming Services Cut Into Netflix's Market Share, While "The Mandalorian" Drives Disney+ Viewership," J.D. Power, TMT Insight, January 2021 at https://discover.jdpa.com/hubfs/Files/Industry%20Campaigns/TMT/New%20Streaming%20Services%20Cut%20into%20Netflixs%20Market%20Share%20While%20The%20Mandalor..._.pdf, accessed August 8, 2022.

Netflix

Netflix was the historic leader in streaming services. When Disney+ launched in late 2019, Netflix had over 150 million subscribers. For calendar year 2021, revenues were $29.7 billion leading to net income of $5.2 billion.[11]

Netflix had tiered pricing, but all tiers were advertising free. In August 2022, Netflix's three tiers and U.S. pricing were as shown in **Table 5**. In April 2019 as Disney+ pricing at $6.99 per month was announced, Netflix's standard plan was priced at $12.99/month.

Table 5 Netflix Plans and Pricing

	Basic	Standard	Premium
Monthly Price	$8.99	$15.49	$19.99
Video Quality	Good	Better	Best
Resolution	480p	1080p	4K+HDR
# Devices Supported at a Given Time	1	2	4

Source: Netflix website at https://www.netflix.com/signup/platform, accessed August 1, 2022.

Plans offered access to the same content but a differing level of video quality and the number of devices which could be "on Netflix" at a given time. A subscription covered "only people who live with you" though account sharing beyond a household was known to be widespread. Users could access Netflix on TV, computer, mobile phone or tablet.

On April 19, 2022, Netflix reported Q1, 2022 results. Its Letter to Shareholders opened with "Our revenue growth has slowed considerably…" The company reported that its subscriber count had decreased by 200,00 worldwide in the quarter as loss of 640,000 subscribers in the U.S. and Canada was offset by growth in Asia Pacific.[12]

Netflix had always stated being "ad-free" was a key part of its value proposition. However, with a declining subscriber base, CEO Reed Hastings indicated that it was now "quite open" to a lower priced, ad-supported product and that Netflix would "figure it out over the next year or 2."[13]

Paramount+

Paramount+'s tagline was "A Mountain of Entertainment." Its portfolio of brands included CBS, Showtime, Nickelodeon, MTV, Comedy Central and BET. Its first video-on-demand service was CBS All Access. But that was phased out and replaced by Paramount+ as the company changed its name from CBS Viacom to Paramount Global.

It offered ad-free at $9.99 per month and ad-supported access at $4.99 per month. It was one of the fastest growing services. In March 2022, its subscriber count reached 43.3 million, a 102% increase over the prior year.[14] Based on the strength of its content, the company set a goal of more than 100 million Paramount+ subscribers by 2024.[15]

HBO Max

HBO launched in 1972 as a subscription television service offered through cable television systems. HBO Max, the streaming service, was launched in May 2020 by Warner Brothers Entertainment. It offered two tiers – an ad-free one at $14.99/month and an ad-supported one at $9.99. Its ad-supported service had a "light level" of ads at 4 -5 minutes per hour of programming. It offered a wide selection of content in 10 "hubs" including:

- HBO
- Max Originals
- Sesame Street

- Cartoon Network
- Looney Tunes

As of March 2021, HBO (the cable offering) and HBO Max (the streaming service) had 77 million global subscribers.[16]

Apple TV+

Apple TV+, launched in 2019, offered only an ad-free service at $4.99/month. Apple's content was relatively limited but featured well-known, highly nominated shows, such as Ted Lasso and Severance, as it focused on original content. Still, one observer commented that compared to "other top streaming services like Netflix and Disney+, the difference in the amount of content is staggering. Although both services cost more than Apple TV+, their catalogs are significantly larger and constantly growing."[17]

Amazon Prime Video

Amazon Prime Video was bundled into the broader Amazon Prime program, at a cost of $139 per year. A separate option of access to Prime Video only was available at $8.99/month, but the vast majority of Amazon Prime Video watchers had access through participation in the broader Prime program. There were over 200 million Prime subscribers in 2021. Amazon reported that 175 million accounts used the Prime Video service in the past year. All programming was shown advertising free.[18]

YouTube

YouTube had a fundamentally different business model. It was acquired by Google in 2006 and obtained content mostly by offering individuals an opportunity to "broadcast yourself." Initially, YouTube generated most of its revenue through advertising, which it shared with content creators. YouTube Premium was introduced offering music streaming and "ad-free" viewing of YouTube content for $11.99 per month (U.S. price). For 2021, Business of Apps estimated quarterly users of YouTube at 2.4 billion, YouTube Premium subscribers at 50 million, and annual revenue at $29 billion.[19]

Consumer Behavior and Customer Satisfaction

Two major related consumer trends in the streaming video on demand industry were: (i) an increase in the average number of services subscribed to and (ii) increased acceptance of ad-supported services for a lower price. In 2021, 85% of U.S. households subscribed to at least one SVOD service.[20]

According to a Nielsen survey, only 18% of U.S. subscribers had just one paid service in 2022. This contrasted to 35% of subscribers limiting themselves to only one service three years earlier. Survey results are in **Table 6**.

Table 6 Number of Paid Streaming Services Among Paid Video Subscribers (United States)

	2022	2019
One	18%	35%
Two	24%	33%
Three	23%	21%
Four	18%	8%
Five	10%	3%
Six	7%	None

Source: Nielsen, "State of Play" Survey, Online Survey, conducted December 14, 2021 to January 6, 2022; Report - April 2022, Sample Size - 1,394, at www.nielsen.com/insights/2022/state-of-play/, accessed August 10, 2022.

J.D. Power reported the average monthly streaming spend per household to be $47 in December 2020.[21] The increase in number of services subscribed to by a typical household was driven by fragmentation of the market as new services entered the market and consumers added services to gain access to desired shows.

With the desire to gain more access came more acceptance of advertising in shows in return for a lower price. For January 2022, 35% for new streaming subscriptions (in the United States) were for ad-supported tiers as compared to the 31% in 2021, and 19% in 2020.[22] In its annual Digital Media Trends report for 2022, Deloitte assessed the population's desired trade off of advertising minutes and monthly subscription fees. Survey respondents in the U.S. (n=2,000) were asked to indicate preference among:

- 12 minutes of ads per hour/ no fee
- 6 minutes of ads per hour/ $6 monthly fee
- No advertising/ $12 monthly fee

41% preferred freedom from ads at $12 per month while 59% preferred one of the ad-supported options – 25% opting for the 6 minutes ads per hour/ $6 monthly fee plan and 34% for the 12 minutes of ads per hour/ no monthly fee plan. Survey results from the U.K., German, Brazil, and Japan also found a majority preferring one of the ad-supported, lower priced options.[23]

Generally, consumers were satisfied with the streaming service options available. Results of a 2022 Whip Media survey on Overall Satisfaction and Value Satisfaction of 2,460 U.S. streaming subscribers are shown in **Table 7**.

Table 7 (A) Overall Satisfaction: "Top Two Box" of Very Satisfied + Satisfied Ratings on 5-Point Scale from Very Dissatisfied to Very Satisfied

Source	Top Two Box Percent	Change Since 2021 Survey
HBO Max	94%	+2%
Disney+	88%	No change
Hulu	87%	-2%
Netflix	80%	-10%
Paramount+	79%	+4%
Apple TV+	76%	+14%

Table 7 (B) Value Satisfaction - Satisfaction with Quality vs. Price

Service	Top Two Box %
HBO Max	85%
Disney+	83%
Hulu	79%
Paramount+	69%
Amazon	63%
Apple TV+	63%
Netflix	62%

Source: Whip Media, "Streaming Satisfaction Report, Evolving Perceptions of Value: The Shifting Sands of SVOD," US Edition, June 2022, at https://www.whipmedia.com/wp-content/uploads/2022/06/US-Streaming-Satisfaction-Report-2022.pdf.

Nielsen reported an increase in streaming's share of U.S. household's television watching as compared to cable and broadcast television. In July 2022, streaming accounted for 34.8% of television consumption versus 28.3% in July 2021. Over the same period cable's share declined from 23.8% to 21.6%. July 2022 was the first month in which streaming topped both broadcast and cable TV.[24]

In its July 2022 Letter to Shareholders reporting Q2, 2022 results, Netflix cited results from Nielsen tracking for the "2021-22 TV season" in the United States. It reported that U.S. subscribers viewed 1.334 trillion minutes of Netflix during the season, defined as the 240-day period from September 20, 2021 to May 8, 2022.[25] Estimating Netflix's U.S. subscriber count at 70 million at that time yields a consumption rate of 1.32 hours per day per subscriber.

Disney Streaming Services and Product Line Architecture Decisions

Disney featured one focused service (ESPN+ for sports) and two more general services. ESPN+ offered in depth sports programming featuring:

- Live sports streaming of a wide variety of sports from around the world
- The award-winning "30 for 30" library
- Ultimate Fighting Championship (UFC) access including exclusive pay-per-view events
- ESPN+ originals such as "Man in The Arena" with Tom Brady

- ESPN+ Premium Articles from top sportswriters such as Mel Kiper Jr.[26]

Hulu positioned itself as the route to "all the TV you love" where one could "stream full seasons of exclusive series, current-season episodes, hit movies, Hulu originals, kids shows and more."[27]

Hulu typified the popular two-tier model of a high-priced ad-free tier ($12.99 per month) and a lower subscription fee ad-supported tier ($6.99 per month). In 2019, Hulu reported that 70% of its viewers were on the ad-supported plan. Its head of advertising sales, Peter Naylor, attributed this high percentage partly to Hulu's "restraint" in showing ads, noting "You can't just jam ads because you need to make a number. We want to have an experience for viewers that is consistent."[28]

While a typical network television broadcast featured between 15 and 18 minutes of advertising per hour, Hulu showed approximately 8 minutes of ads per hour to the ad-supported tier customers. Hulu ads were capped at 90 seconds. Hulu was the leading advertising revenue generator in the United States among streaming services in the year from October 2020 to September 2021 with $2.1 billion, followed by Paramount+ at $822 million and Peacock at $279 million.[29]

Hulu offered a much richer set of ad options to advertisers than was available on conventional television. See **Exhibit 2** for a list of ad type offerings from Hulu. Audience targeting could be at the individual level defined by:

- Interests and behavior
- Demographics
- Location
- Viewing behavior

Hulu ad pricing varied with demand and ad type but averaged about $30 CPM (cost-per-thousand exposures) for a 30-second ad as compared to $10-$15 CPM for a typical conventional television ad.[30]

As shown in Table 2 above, Hulu had the highest average monthly revenue per subscriber of all the Disney services. Even though its ad-supported tier was priced at only $6.99/month and the majority of subscribers chose it over the $12.99 ad-free service, the ad revenue from ad insertions brought average monthly revenue per subscriber up to $12.92/month.

Disney+

The five top level selectors or "tiles" in the Disney+ interface were Disney, Pixar, Marvel, Star Wars, and National Geographic. At launch, many observers were optimistic about the new service's prospects. While CNN entitled its article as "Disney is staking its future on Disney+," it noted the service offered "… a deep content vault at an irresistible price."[31]

Wired described Disney+ as a "fully formed juggernaut" on day 1 having "all the trappings of a hit: a competitive price, popular franchises stacked to the ceiling" with its content library meaning "Disney+ is bursting into existence fully formed" with "confirmed hits, rather than plodding through years of trial and error to find a show or two that sticks."[32]

By 2021, the service offered 33,000 episodes and 1,850 movies from the company's produced and acquired television and film library, 75 exclusive original series, and 40 exclusive original movies and specials.[33] The November 2019 launch brought the service to five countries and Western European markets opened in Spring 2020.

In August 2022, as it attained subscriber count leadership, Disney faced a number of decisions on its product offerings. First, should it expand the Disney+ product line with a "trade down" option for Disney+, i.e., an "ad-supported" offering at a lower price than the "ad-free" Disney+, currently priced at $7.99. At launch, Disney had referred to Disney+ as a "best-in-class" service given it was commercial free. Should they now move away from offering only "best-in-class"?

Hulu had done well with its two-tiered strategy achieving a strong $30 CPM for ads in its ad-supported tier. Through Hulu's experience, Disney had relationships with advertisers and knowledge of their preferences. Some opined that an ad-supported Disney+ service could obtain an even higher CPM than Hulu. If Disney+ were to introduce an ad-supported tier, how much advertising should it be inserting per hour? Hulu was about at 8 minutes per hour, far lower than conventional broadcast television, but HBO Max ad-supported was at only 4-5 minutes per hour of advertising.

Major service discounts for an ad-supported service tier are shown in **Table 8**:

Table 8 Ad-Supported Tier Pricing Compared to Ad-Free

	Paramount+	**HBO Max**	**Hulu**
Ad-free	$9.99	$14.99	$12.99
Ad-supported	$4.99	$9.99	$6.99
Discount $	$5	$5	$6
Discount %	50%	33%	46%

Source: Casewriter.

If Disney introduced a Disney+ ad-supported tier, what should the prices of the two offerings be? Regardless of whether an ad-supported Disney+ was offered or not, there was the potential to reconfigure the Disney Bundle. Given the niche sports positioning of ESPN+, did it make sense to also offer a Disney+ and Hulu bundle without ESPN+? What strategy was appropriate for any bundled offerings and how should they be priced relative to individual services?

In February 2020, not long after the Disney+ launch, Bob Chapek, a 30-year-old Disney veteran, had replaced Robert Iger as CEO of The Walt Disney Company. In early 2022, Chapek noted that streaming services were a "hungry beast to feed" but that Disney would keep developing the content to feed the audiences. He forecast Disney+ subscribers reaching 230-260 million by 2024.[34] What steps should he take now to advance on those goals and profitability?

Exhibit 1 Financial Results for Direct-to-Consumer Operation ($ in millions)

	Fiscal Year Ending October 2, 2021		% Change from Previous Year
Revenues - Total	$	16,319	55%
(A) Subscription Fees	$	12,020	57%
(B) Advertising	$	3,366	43%
(C) Other*	$	933	70%
Costs - Total	$	17,998	34%
Programming & Production	$	10,716	32%
Other Operations	$	2,518	29%
SGA	$	4,435	42%
Other Operations	$	329	27%
Operating Loss	$	1,679	-42%

*Includes revenue from pay-per-view events such as boxing matches on ESPN+

Source: Walt Disney Company, Annual Report for period ending October 2, 2021, page 37.

Exhibit 2 Examples of Types of Advertising Opportunities Offered by Hulu

1. **Ad Selector** – Users are presented with two or three options for ad type to be shown during a show. For example, an automotive company may present options to see ads for sedan or SUV.
2. **Binge Ad** – Option to advertise to place contextually relevant ad in a show being consumed by an individual in "binge" mode.
3. **Branded Entertainment Selector** – Allows viewer to select either a long-form commercial at outset or view show with standard commercial breaks.
4. **Branded Slate** – A 5 to 10 second display at the beginning of a show with brand logo and the message "Presented by…"
5. **Getaway Go** – Include an "action-oriented" prompt on "living room television" device to take action on mobile phone, e.g. click on "send more information via email".
6. **Marquee Ad** – Shown on Hulu home page rather than within a show.
7. **Pause Ad** – Pops up when a viewer pauses a show.

Source: Disney Ad Sales Website at https://hulu.disneyadsales.com/ad-products/, accessed August 28, 2022.

Endnotes

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