International Journal of Advanced Culture Technology Vol.12 No.1 94-99 (2024)
DOI https://doi.org/10.17703/IJACT.2024.12.1.94

IJACT 24-3-12

The Streaming Industry in the U.S.: The Present and Future Prospects

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Abstract

In this paper, we aim to examine the recent state of the streaming industry in the U.S., and its future prospects as the most important force shaping the media landscape across the globe. First, we examine the launch of Disney's streaming services in late 2019 that heralded the start of the so-called streaming war to win subscribers and how the outbreak of COVID-19 in early 2020 helped its rapid growth. Then, we look at the crisis of the streaming industry in 2022, as subscriber growth slowed down for the first time and losses increased, and how this led to the growing emphasis on profitability. We also explore the subsequent attempts by streaming companies to cut costs and create more revenue, with the result that they were retreating from the previous strategy to grow their platforms at all costs. From this, we highlight that, while the future course of the streaming industry is not yet determined, the recent upheavals certainly made it more cost-conscious and conservative and less consumer-friendly.

Keywords: *Streaming Service, Netflix, Disney, Disney+, COVID-19*

1. INTRODUCTION

This paper aims to examine the recent state of the streaming industry in the U.S. that has emerged as the most important force shaping the media industry. In the past decade, the media industry has been undergoing significant changes with the rise of streaming services. Delivering content online, enabled by improved broadband Internet connections, streaming services opened up a new era of television by allowing people to watch shows at any time over any devices. Additionally, its rapid growth has been disrupting broadcast and cable television.

In turn, traditional media conglomerates with cable business launched streaming service, starting with Disney in November 2019, in order to make up for declining cable revenue and to remain relevant amid changes. In doing so, they unleashed the so-called streaming wars to win subscribers and their money. Yet, even before the streaming wars came to an end with a definitive result, the streaming industry hit its first serious crisis in 2022, as subscriber growth slowed down for the first time and profits were difficult to make, provoking fears of its decline.

Accordingly, streaming services not only have brought great changes to the media industry, but themselves are currently in the whirlwind of changes. As the streaming industry is the new and fastest growing media field and American streaming companies operate globally, the developments in the U.S. industry are certain to have impact on the media landscape across borders. In light of this significance, this paper intends to keep track of the state of the streaming industry in the U.S. to figure out how it has been and

Manuscript received: January 7, 2024 / revised: January 29, 2024 / accepted: March 5, 2024
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will be evolving.

In particular, given that Disney was widely expected to become a true rival to Netflix and its entry into streaming services indeed marked the rise of the first serious competition, the paper largely looks at the streaming industry since Disney's launch of its streaming service. By examining this, the paper hopes to bring to light that, while the streaming industry is still in the making, the recent slowdown of the business and emphasis on its profitability are likely to turn it more conservative, making it become more like other media industries.

The paper first examines the launch of Disney's streaming services in late 2019 and its rapid growth that easily outpaced that of Netflix. It then shows the streaming industry thrown in significant upheavals in 2022, as subscriber growth slowed and losses were mounting, and the subsequent changes in the industry as streaming companies tried to cut costs and create more revenue. Finally, the paper explores the prospect for the streaming industry amid these changes, including the likely conclusion of the streaming wars.

2. DISNEY ENTERING INTO STREAMING SERVICES

In late 2017, Disney created a huge fervor, as it announced that it was in negotiation to buy out most of the assets owned by the 21st Century Fox. As they were best-known for their film and television businesses, the first response to the news was how it would further strengthen Disney's power in these fields. Yet, Disney was really making the most expensive acquisition in its history in preparation for the launch of its own streaming service named Disney+, while Netflix was what fueled Disney to make this enormous decision.

Netflix, having been in the business of renting out DVDs by mail, pioneered subscription-based streaming services in 2007, as the improved broadband Internet connections offered a more efficient way to deliver films and TV shows. In doing so, it came to revolutionize television viewing. It not only offered a cheap service at $7.99 per month that made possible by the cost-effectiveness of delivering content online, but greatly enhanced the convenience of subscribers by allowing them to see shows at any time, and anywhere with mobile devices [1].

Disney and other traditional media conglomerates at first regarded Netflix as a means to make easy money by licensing out their shows to Netflix. Yet, they soon came to see the damage to their cable television division, the backbone of their media business accounting for nearly a half of their revenue. As Netflix offered shows far cheaper than cable, the growing number of American households cancelled the cable subscription to switch to Netflix, leading to the decline in cable revenue. ESPN, the most popular sports cable channel Disney owned, was no exception.

In addition, streaming services were expected to generate greater profit by delivering content directly to consumers without middlemen. It was in this context that Disney decided to enter into streaming business to redress the declining cable revenue and profit from the expanding field. Others including Warner Bros., Universal and Apple also hurriedly came up with the plan to start their own streaming service, reflecting both the growing significance of streaming services and their desire not to be left out of this important field.

As Disney and others started streaming services, Netflix that had had the field almost to itself thus far was faced with the first meaningful competition, heralding the start of the streaming wars to win subscribers and their money. In particular, Disney, having a huge library of popular films and TV shows and acquiring Fox to bolster that, was predicted to become Netflix's rival from the beginning. Besides, as Netflix disrupted Disney's profitable cable business, whether Disney can disrupt Netflix in the latter's own game was of a great interest [2].

Yet, Netflix was not easy to beat. It had well over 167 million subscribers worldwide by late 2019 and boasted a vast volume of content that had something for almost everyone. Disney, unable to match that volume despite its acquisition of Fox, priced Disney+ at $6.99 per month, nearly half Netflix's standard plan at that time. At the same time, it complemented family-oriented (thus rather limited) Disney+ by introducing ESPN+ and Hulu, streaming services each for sports and general entertainment, offering the three in a bundle at $12.99 per month [3].

As the outbreak of COVID-19 in early 2020 accelerated the expansion of the streaming market by forcing people to stay home, Disney's combined streaming services grew fast. They passed over 100 million

subscriptions by March 2021, less than a year and a half after the launch of Disney+, and 200 million by mid-2022. It took about a decade for Netflix to reach 100 million subscriptions and 4 years to reach its second hundred million [4]. Accordingly, Disney not only grew much faster than Netflix, but took up the larger share of the market growth.

Moreover, as Table 1 shows, Netflix lost 200,000 subscribers in the first quarter of 2022, instead of adding 2.5 million as expected [5].

Table 1. Netflix vs. Disney: subscribers (in million) [5]

	Netflix	Disney
Q4 2021	221.84	196.4
Q1 2022	221.64	205.6
Q2 2022	220.67	221.1
Q3 2022	223.09	235.7
Year End	230.75	234.7

As this was Netflix's first loss since its start in 2007, this caused a sharp decline of its stock price and made Wall Street investors and industry watchers question whether the streaming market had become saturated. Yet, Disney+ added 7.9 million new subscriptions during the same period, well above the projected 5 million increase [6]. Thus, Netflix's loss seemed to be a problem specific to the company, not an industry-wide one.

3. THE STREAMING INDUSTRY IN UPHEAVALS

In the second quarter of 2022, Netflix again lost about a million subscribers. By then, Disney's combined paid subscriptions surpassed that of Netflix. Given Disney's late entry, this was undoubtedly a remarkable feat, which even beat industry analysts' predictions for the reversal to happen in 2024 [6]. Yet, Disney's continued growth was not enough to dispel the nagging doubt over the streaming market saturation that Netflix's loss of subscribers first raised.

As it turned out, Disney+ also lost 2.4 million subscriptions in the final quarter of 2022. It was caused by a 3.8 million decline of Disney+ Hotstar, the version of its service offered in India and parts of Southeast Asia following its loss of the streaming rights to Indian Premier League cricket matches, even while Disney+ gained 1.4 million subscriptions elsewhere. Disney+ regained a million subscriptions by year's end, but Disney lost its lead as its combined streaming subscriptions again fell to 231.3 million by May 2023, while Netflix grew to 232.50 million subscribers [7].

Moreover, given its low subscription price, Disney+ was making less money per subscriber than Netflix. In the U.S., Disney+ generated $6.27 from each user per month during the second quarter of 2022, or 38% of what Netflix made, $15.95 per month. Disney+ also made less than Netflix internationally, but things were especially worse in Asia. Disney+ Hotstar, representing 38% of the overall Disney+ customers, generated $1.20 per user per month during the same period. In contrast, Netflix earned $8.83 per month in the Asia Pacific region [8].

At the same time, Disney+, while making little, was losing money big because of higher programing and production, marketing, and technology costs. As Table 2 shows, the loss of Disney's combined streaming services piled up. It was $887 million in the second quarter of 2022, three times more than what it lost during the same period in 2021. In the following quarter, the loss grew to over $1 billion, while subscriber growth slowed. In the final quarter, this became $1.5 billion, which caused Disney's stock to tumble and bringing the year's total loss to a staggering $4 billion [9].

By this time, the slowdown of subscriber growth was seen as an industry-wide problem. Moreover, the staggering loss of Disney+, despite the highest number of subscribers, made it seem no longer enough to

simply amass subscribers, the major measurement of success thus far. Instead, Wall Street investors who had been satisfied with the rising market share by the number of subscribers came to demand streaming companies to actually make money and be profitable, heralding the change in the rules of the game.

Given this, in an effort to create more revenue amid the subscriber slowdown, both Netflix and Disney+ decided to institute price increases as well as a cheaper ad-supported version which could not only bring in advertising dollars, but limit the subscriber churn after the price increase. Netflix also announced the plan to crack down on the practice of sharing a user's password with others, hoping this would lead to new subscribers from those no longer able to access its content. Other streamers would be only too eager to follow this new revenue stream.

At the same time, in order to cut costs, they implemented large-scale layoffs and scaled back their content spending which had been ballooning as they lavished money on original content creation to attract subscribers. Disney slashed $1 billion from its planned $33 billion content budget for 2022, although this was still a huge sum, while Netflix's content spending was cut from $17.5 billion to $16.7 billion in 2022. HBO Max (owned by Warner Bros. Discovery) also canceled, removed, or decided not to renew a number of shows for its platform in December 2022 [10].

As another instance of new economic soberness, streamers were backing away from releasing an entire season of a show simultaneously, instead releasing some episodes at a time. It is because, under the simultaneous release, subscribers can binge-watch—i.e., seeing the show(s) all at once—and unsubscribe (or streamers have to create new shows almost endlessly to stop that), but they are likely to stay longer under the periodic release model (or if some, not all, content is available at any given time), as this makes it difficult to binge-watch [11].

4. THE FUTURE PROSPECTS

As it turned out, 2022 proved to be a turning point for the streaming industry, as the subscriber growth hit a downturn, while investors came to demand better margins amid the disappointing figures on subscribers and profitability. In response, streaming companies have been trying every means to turn the tide, but the changes seen above could possibly provoke the ire of subscribers by increasing costs and inconvenience on their part and lead to their departure. Yet, taking that risk only highlights the extraordinary difficulties streaming companies faced.

In 2023, streaming companies continued to try, including another price increase, but there has been no clear sign of upturn. Meanwhile, the current state of the streaming industry also raises questions over its future prospects. Foremost, given the changes seen above, many industry experts believe that the "golden age" of streaming services, in which consumers enjoy an almost endless flow of diverse, ad-free content offered all at once at relatively low price, was coming to an end [12]. Likewise, the days of unbridled subscriber growth are likely to be over.

Yet, this does not mean the end of streaming services. Rather, as the streaming industry matures, the slowdown of subscriber growth and the demand for better profit are likely to occur regardless. Besides, as millions of people across the world have gotten used to the convenience of watching content online, streaming would remain as the most likely choice to watch television. Disney also reaffirms that Disney+ would turn a profit in 2024 as it previously forecasted by adjusting the costs and realizing the benefits of price increases and an ad-supported tier [13].

Given this, Robert Iger, CEO of Walt Disney Co., still thinks that streaming is the future regardless of the recent problems and the priority for the company. Nonetheless, as the growth slows and profits are hard to come by, there has been readjustment of the strategy. David Zaslav, CEO of Warner, best represents the new wisdom on streaming, saying that the strategy to "spend money with abandon, while making a fraction in return, all in the service of growing sub numbers, has ultimately proven...to be deeply flawed" [14]

Reflecting this, Warner again licensed out its content for additional revenue, thus reversing the previous move to retrieve all its content to place it on its own streaming platform, while Disney is also considering doing that. In a more telling instance of the retreat from the previous strategy of almost every major media company to rush into and foster streaming service at all costs, CNN announced in December 2022 to scrap

CNN Plus, the cable channel's streaming service, three weeks after its launch and having spent $300 million on the service [15].

Industry experts also expect streaming companies to combine their properties into a single service —Warner Bros. Discovery, a company formed by a merger between Warner Bros. and Discovery, Inc. (the owner of Discovery Channel) on April 2022, is preparing to do, while Disney+ and Hulu seek to unite in late 2023—and/or to buy up their competitors to cut costs and cope with slowing growth [16]. As a result, they predict the streaming industry to be dominated by a handful of big players, including Netflix, Disney+, Warner's HBO Max, and Universal's Peacock, offering more limited volume of content released periodically and interrupted by ads.

In addition, the emergence of "super aggregators," platforms that let users access material from several streaming services through one interface, is possible, given the difficulty to know about, locate, and access all the content scattered across different services [16]. In effect, this means the return of middlemen that streaming service eliminated by going directly to customers. Given all these, the new world of streaming may become more like the old world of cable television it has been disrupting for some years.

Meanwhile, the rivalry between Netflix and Disney has been put on a temporary hold amid the slowdown, but is not yet over. Netflix is not likely to lose its prominence any time soon. It not only reclaimed its lead in the number of subscribers, but, being a pioneer, is taken as the synonym of streaming services in many parts of the world, and solid global hits like *Squid Game* have helped strengthen its reputation as the leader of streaming services. Besides, if people have to keep only one service, Netflix with a vast array of content is widely pointed out to be the one.

On the other hand, Disney+, being part of a media conglomerate with multiple divisions, has huge long-term advantages unavailable to Netflix that has only an online platform. For instance, Disney+ can develop its shows by utilizing highly popular intellectual property owned by Disney's other divisions and save the cost of creating content by doing so, a great asset especially since streaming companies now try to create content without spending so much. In addition, the revenue from Disney's other divisions could absorb the loss from Disney+ [17].

At the same time, Disney+ can gain detailed information on the preferences of its consumers by tracing their viewing habits and the personal data they provide, while Disney's other divisions can use that information to create films and shows likely to be popular with people. Accordingly, the synergy across its divisions would make Disney's streaming services a force to reckon with, even if they may not become the most popular or profitable platform on its own. It is just that Disney has to figure out the ways to actually realize this potential.

5. CONCLUSION

Ever since the rise of streaming services, the media industry has been going through almost endless changes. Growing rapidly, streaming services led by Netflix have not only brought radical changes to television viewing, but disrupted cable television. In turn, Netflix's rapid growth led Disney and other media conglomerates to create their own streaming services. This itself is also a huge change since they, having been in the business-to-business industry till then, made their first foray into direct-to-customer business with streaming services.

As Disney and others launched their own streaming services, this heralded the beginning of heated competition to win subscribers, arguably the second phase of streaming business. In 2022, the streaming business entered another transitional phase, as the number of subscribers that had been growing rapidly (especially during the pandemic period) stalled, losses were swelling, and shareholders came to demand better margins. In response, streaming companies, in an effort to cut costs and find more revenue streams, have been instituting changes such as downsizing, an episodic content release and price increase, starting ad-supported version, slashing ballooning content expenses, cracking down on password sharing, and not renewing shows that, in some cases, were already in production on new seasons. In short, streaming companies retreat from the previous strategy to foster their platforms at all costs, while small players are likely to merge to cut costs, leaving a handful of larger players to dominate the field.

As a result of recent changes, the streaming industry seems to have shed off many of the radical, consumer-friendly features Netflix initiated, i.e., ad-free, diverse content offered all at once at a relatively low price. Instead, the industry is now turning far more conservative and cost-conscious like other media businesses and putting shareholders ahead of consumers.

All in all, the streaming industry at the moment is beset with uncertainty with no clear path for breakthrough. Yet, it is certain that the streaming industry is here to stay and how it finds its new normal is the most likely event to shape the media landscape across the world in any foreseeable future. In the meantime, it remains to be seen how streaming companies' competition for position will turn out and whether Disney+ can realize its advantage of being part of media conglomerate with multiple divisions.

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