Apple TV+ paid service: The company's latest big bet

Apple is making a big move into video streaming because the company can't afford to fall even further behind. Here's what's at stake.

By David Gewirtz for DIY-IT | March 25, 2019 -- 19:18 GMT (12:18 PDT) ZDNet

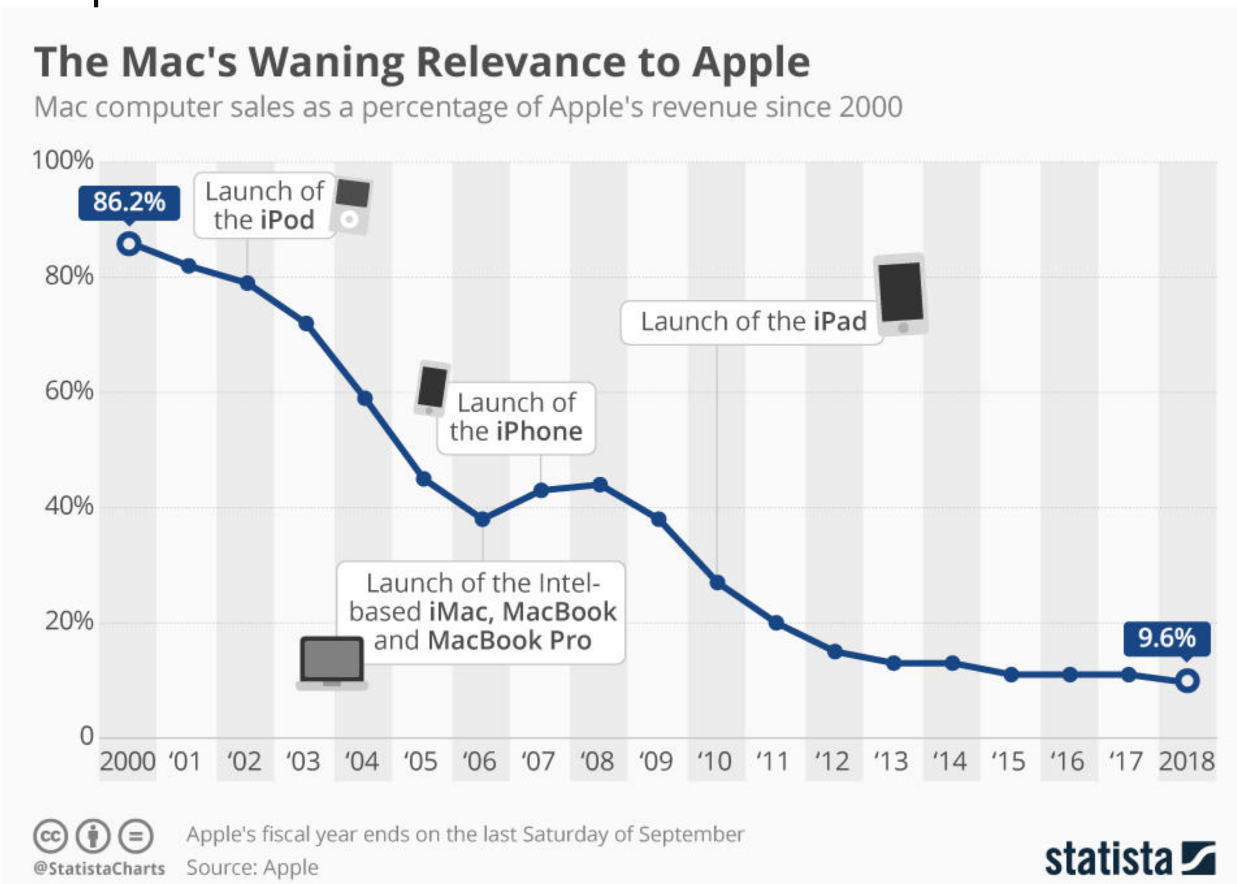
Updated March 25: Apple announced today a new credit card; a $10-per-month magazine subscription service; an all-you-can-eat gaming service (as yet unpriced) called Apple Arcade; a new TV app that will also run on smart TVs and Roku devices; and an Apple TV+ paid service with original programming, including programs from Steven Spielberg and Oprah Winfrey.

Why is streaming so important for Apple now, in 2019?

To unpack this, we need to look at two seemingly unrelated vectors: the changes in Apple's revenue balance over the past few years, and the change in television and streaming overall.

LET'S LOOK AT APPLE

There once was a time when the lion's share of Apple's revenues came from sales of Macs. As this chart from Statista shows, back at the turn of the century, Apple made 82.2 percent of its revenue from desktop and laptop computers.



Mac sales as a percentage have declined, but revenue has been slowly increasing.

In 2000, the company's total revenue was $7.98 billion, which put Mac revenues at about $6.5 billion. Today, just the last quarter of 2018 brought in revenues of $62.9 billion. This, of course, is no surprise to anyone. Over the last 18 years, the iPhone has taken Apple from a small also-ran computer vendor to the leviathan we know today.

While Mac sales have diminished as a percentage of Apple revenues to only 9.6 percent today, that's 9.6 percent of a much larger pie. While iPhone sales have exploded since the days when Macs and iPods ruled, the Mac is still holding its own. At $25.5 billion in 2018, it would be a bigger company on its own than McDonalds.

That's not something to shake a McShake at. Apple's services business has also been growing. Based on Apple data, Statista reported Apple's revenue for the App Store, Apple Music, Apple Pay, AppleCare, licensing, and other services blew past $37 billion in 2018. As you can see from Statista's chart, the growth in services has been strong and steady.

But iPhone revenue, that bulwark of Apple's revenue success story, has been rocky of late. Apple shipments fell in 2019, down by millions, according to reports we published back in January. iPhone revenues went down by 15 percent. For most companies, a 15 percent drop is scary. But when we're talking Apple numbers, a 15 percent drop in revenue is pretty much the same as if Corning or Salesforce or Xerox (all $10 billion companies in 2018) just stopped making any money.

While Apple certainly isn't going to be running out of money anytime soon, they can't keep all their eggs in just the iPhone basket. Given how strong Apple's services growth has been, eclipsing both Mac revenue and iPad revenue, services - in the form of online content -- looks like it might be worth some attention.
Especially since online content has been going through an epic digital transformation in the past decade.

LET'S TALK TV

When I was a kid, we had three main TV channels: Channel 2 was CBS; Channel 4 was NBC; Channel 7 was ABC. We had something on Channel 5, and Channel 13 was public broadcasting. We watched TV when the networks wanted us to watch TV. We saw the same news reports. We watched the same shows. It was the era of appointment TV.

Over time, cable eclipsed over-the-air broadcasting. We got more channels. We also started to pay for TV. We liked the programming on HBO and the better signal quality (mostly) that cable provided.

While TV went through a bit of an overhaul when HD replaced standard-def, and some folks now watch over-the-air HD broadcasts, the model of cable-distributed TV has lasted for decades. For a few years, I had satellite TV, but it followed the same cable model, costing pretty much the same as cable TV.

Now I, and a growing army of Americans, pay the cable TV services not for TV, but for bandwidth. It's become the era of streaming services.

According to The Wall Street Journal, more than a million customers cancelled their cable TV or satellite subscriptions in the last quarter of 2018. The Journal further reported that more than 10 million US homes have dropped from traditional pay TV services since 2010. A different measure, this time from Leichtman Research Group and reported in Deadline Hollywood, reported that nearly three million pay-TV (not streaming) subscribers dropped in 2018, double that of 2017.

But it's not like we're watching less TV, or even that there's less TV to watch. It's actually like we're in a new golden age of entertainment. According to a report in Deadline

Hollywood, 2018 had the most new, original scripted television shows that had ever been on TV -- ever. Online services, not traditional networks, have produced 160 scripted original series in just 2018. That's a 385 percent growth since 2014.

Quick disclosure: ZDNet is owned by CBS, the giant television network and home of Star Trek. While nobody on the Star Trek team is willing to listen to any plot suggestions from those of us here at ZDNet (and that's probably wise of them), the fact that we're even tangentially related to the Red Angel gives some of us goose bumps. OK, back to our regularly scheduled programming.

Or, as is much more accurate, back to our binge watching. Millennials must have a heck of a lot of free time. According to a survey by Deloitte reported in USA Today, 37 percent of millennials surveyed say that they binge watch four hours of TV at a time, at least once a week. The average consumer now subscribes to three streaming services. A year ago, streaming service subscriber numbers began to eclipse that of traditional pay TV, with more people subscribing to streaming services than pay TV.

This has not gone unnoticed by pretty much anyone out to make a buck online. In 2018, there were about 200 streaming video services. Now, there are more than 300.

All of that brings us back to Apple.

APPLE'S RELUCTANT EMBRACE OF STREAMING SERVICES

When Apple introduced the iPod (not the iPad, but the music player), it transformed the digital music business. Within two years, we were reporting that Apple had 74 percent of the digital music market. But that was before streaming.

Apple missed the early years of music streaming, allowing the likes of Pandora and Spotify to gain a strong footing. Apple wasn't alone to underestimate the growth of this market. Amazon and Google each introduced their own late-to-the-party streaming music services that tied into their other offerings.

Apple introduced Apple Music in 2015. Pandora started in 2000, Spotify in 2006. In other words, Apple did not have first mover advantage in the market it had originally pioneered. But Apple has been actively gaining progress. Variety reported in 2018 that while Spotify had 36 percent of global market share and Apple only 19 percent, Spotify's growth remained flat, while Apple picked up 9.2 million subscribers.

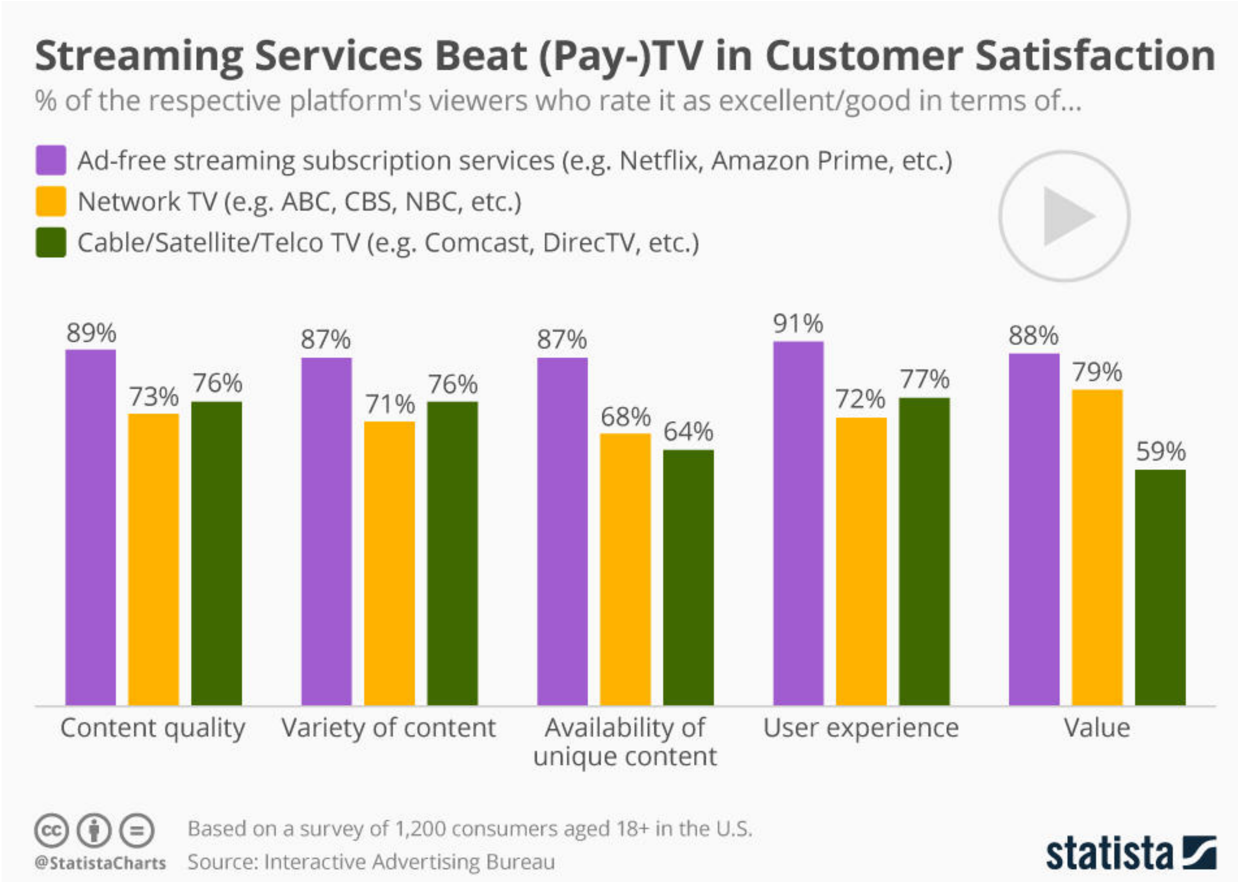
Keep in mind that Spotify has both free and paid subscribers, while Apple just likes to get paid. Back in September, Variety reported that Apple was about to overtake Spotify in streaming subscribers - and by now, it probably has.

Apple has had a weird relationship with streaming TV. Back in the day, Steve Jobs referred to the Apple TV as a hobby project. It took a while for Netflix, Hulu, Amazon Prime Video, and others to arrive on the Apple TV. Worse, by the time they did, Roku had a very strong foothold in the set top box market, aided by its inclusion in the inexpensive and brilliantly usable TCL TVs running Roku software. which now even have Alexa integration.

WHY STREAMING IS SO IMPORTANT

All that brings us to now. On one hand, Apple is experiencing its first big "uh oh" moment with iPhone sales. On the other hand, the entire pay-TV market is flipping on its head.

Statista reported that on every measure, consumers prefer streaming services. They prefer the quality of content, the variety of content, the availability of unique content, the user experience, and even the value. Streaming is better and cheaper.



But while almost all indicators point to streaming blasting cable and satellite TV out of the water, there's one problem: Discoverability. The LA Times reported that users are having trouble finding the programs they want to watch on streaming services and that programming sometimes vanishes mid-season. Even worse, with so many things on streaming TV, the various competing libraries are becoming cluttered and messy.

It's almost like streaming TV needs its own KonMari decluttering . And yes, Japanese organizing consultant Marie Kondo has her own TV show on Netflix. If you can find it.

Streaming TV seemingly fits into Apple's strengths. Apple has long taken moribund markets (like desktop computers, cellular phones, and the music industry) and transformed them into something beloved to consumers and insanely profitable to Apple's shareholders.

Transforming pay TV would seem to be a similar transformation for Apple, except for one fact. Others got there first. Whether it's Netflix, Hulu, HBO, Prime Video, CBS's own CBS All Access, or one of hundreds of other services, other companies have made strong inroads into streaming TV.

Apple is not moving into streaming TV to transform a market. Apple has to move into streaming TV so it doesn't get left behind.

This is going to be a tough fight for Apple. The licensing and rights challenges underlying streaming TV are daunting, labyrinthine, tortuous, byzantine marvels of competitive interests and bureaucratic nightmares. Hot streaming properties are owned by direct competitors. Apple, who has long practiced an "our way or the high way" approach to licensing and resale deals will have to learn to compromise.

It won't be easy. The New York Times reported that Netflix won't be part of Apple's new streaming program. If true, this is a big problem for Apple. Because while Apple has share of mind in the smartphone business, when it comes to streaming, that's Netflix's domain. Netflix is effectively synonymous with TV streaming.

To be fair, Netflix's overall revenue is still lower than Apple's revenue just from Macs, but it's the mind share and the wide library of programming that gives Netflix an advantage. After all, if Apple is going to claim some improvement on improved watchability and discoverability, and you can't even bring up anything on Netflix, you're not going to be chill.

But even without Netflix, original scripted programming streaming is going to be important for Apple. One look at Apple's revenue growth for services reinforces how big an opportunity this is for Apple. After all, Apple has long seen how each of its businesses reinforced adoption of other businesses. If it can vertically integrate an ideal video watching experience, the rising tide of video streaming revenue can't help but raise all of Apple's other boats as well.

Whether Apple succeeds at all, whether it helps aggregate streaming services from three or more subscriptions a month to one Apple subscription, or whether it fosters consumer adoption of more streaming content is something we won't know for a while. What we do know is that excellent programming -- whether it be Game of Thrones, House of Cards, The Man in the High Castle, or

Star Trek: Discovery- - drives streaming adoption. If Apple wants a winning streaming service, we will all benefit because we'll undoubtedly get more excellent programming.

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