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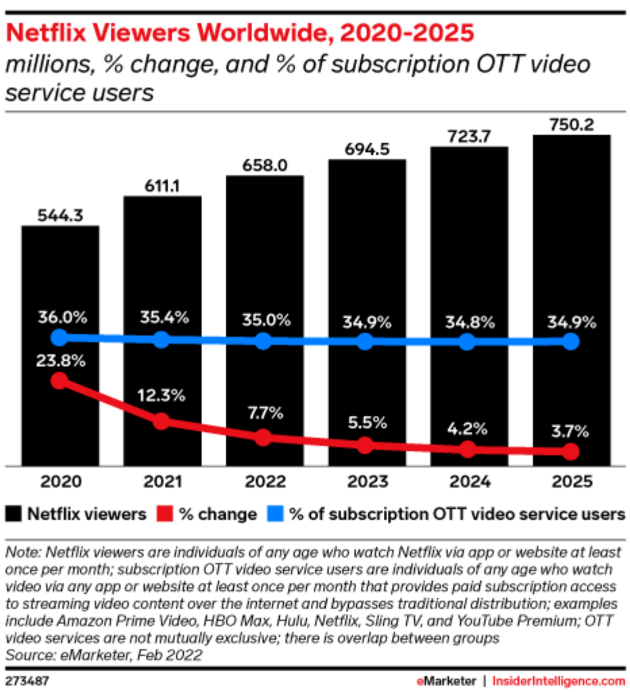
Streaming service competition heats up amid inflation and economic volatility

Article

Rising costs and economic uncertainty are contributing to a reconsideration of streaming's future. Streaming services are under pressure to attract consumers and retain them, all while inching toward profitability. As the category's leader, these pressures affect **Netflix** acutely. Its recent stumbles open the door for competing players to attract viewers to emerging services.

Short-Term Changes

- **Netflix will look to restrict free viewers as its subscriber numbers fall, but it'll face headwinds in doing so.** Netflix wants to crack down on password sharing among subscribers by charging more for those who share a password outside their household. But we don't expect account sharing blockages to immediately crank up—or to stay there. Netflix is likely to encounter resistance from users: 45% of US Netflix users said they're "very likely" to cancel their subscription if Netflix begins charging extra for account sharing, per a March 2022 CivicScience survey.
- **Netflix will explore new business opportunities beyond streaming subscriptions.** The company will continue to build a video game business; it has tried syndicating shows and theatrical releases for some of its content, and it will explore alternative revenue streams as a way to supplement subscription revenues.

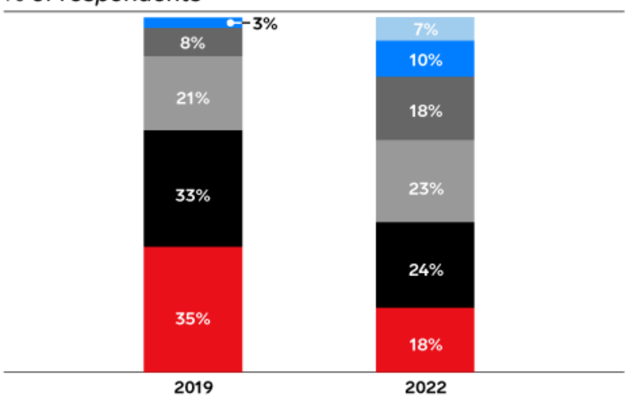


Long-Term Changes

- **Streaming competition will escalate.** Consumers have become overwhelmed by the growing number of streaming options. Just three years ago, less than 1 in 3 (32%) US paid video subscribers paid for three or more services, per Nielsen. Now, that figure is 58%. Consumers feeling the pinch from inflation are likely to take a hard look at which services they will stick with.
- **Netflix is set to include advertising.** After resisting ads for years, Netflix will adopt advertising under intense pressure to grow revenues amid its subscriber slowdown. To give a sense of this business' potential, we forecast that Netflix will reach 658.0 million viewers worldwide in 2022, but we will revise this forecast downward in Q3. Across streamers, consumers pay extra to avoid ads. We expect Netflix's ad tier to be discounted, providing further justification for others to charge premiums for ad-free plans.

Number of Paid Streaming Services Among US Paid Video Subscribers, 2019 & 2022

% of respondents



Source: Nielsen, "State of Play," April 6, 2022

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The Era of Uncertainty