

Why aren't cost-conscious consumers buying into Netflix Basic with Ads?

Article

Netflix saw an **increase of 7.7 million subscribers** in Q4, beating analyst expectations of 4.6 million, but its existing user base isn't buying into Basic.

“I think it’s kind of a hard sell,” said our analyst Daniel Konstantinovic of Netflix’s Basic with Ads tier on our “[Behind the Numbers: The Daily](#)” podcast. Existing Netflix users are used to ad-free content, and even a cheaper price won’t win most of them over, he said.

Could a potential recession change that? As consumers tighten extraneous spending, they may be inclined to trade down to cheaper tiers, but as it stands, people may actually be inclined to hold onto their subscriptions.

- The number of people in the US with [just one subscription video-on-demand \(SVOD\) service](#) has only declined to 19% in January from 21% the year before, according to CivicScience.
- The number of people with four or more SVOD services increased to 28% in January from 25% the year before.

“There’s been a lot of concern about consumer spending regarding inflation,” said Konstantinovic. But counter to previous expectations, people are still subscribing to streaming. “Not only have people shown they are willing to pay for entertainment through difficult economic times, but they’re actually adding more.”

Consumers may not prioritize entertainment forever. “You have to wonder if [the economy] worsens that number will kind of start to move in the opposite direction and people will really start cutting significantly,” said Konstantinovic. That could be good news for Netflix’s ad business.

The magic number: Netflix aims for ads to make up [10% of overall revenues](#). “It seems pretty reasonable they can get there,” said our analyst Paul Verna. “The question is how quickly,” because there are stumbling blocks.

- Netflix needs new (and some existing) viewers to think of it as an ad-supported platform.
- The platform needs to build and grow relationships with advertisers and agencies that didn’t exist before.
- And it needs to develop its partnership with Microsoft, which is still in its infancy.

Netflix’s [recent appointment of Greg Peters as co-CEO](#) alongside Ted Sarandos indicates the platform’s ad focus. “Greg Peters was one of the prime movers behind getting this ad business off the ground,” said Verna. “I think now both advertising and content are center stage.”

Ads aren't the only thing changing at Netflix. The streaming platform's 2023 content slate is significantly smaller than it was in 2022.

- “What’s interesting about Netflix’s slate is where [it’s] putting that more limited spending,” said Konstantinovic, pointing to its investments in Asia-Pacific content like “Squid Game,” which is the platform’s most popular property.
- Netflix is doubling down on profitable franchises, like “Stranger Things” and “Wednesday,” as the platform pushes quality content that will keep subscribers from dropping off.

What does this mean for advertisers? Netflix didn’t become an ad giant overnight when it launched Basic with Ads. But it still has great potential, despite sluggish initial adoption.

- Advertisers still have an opportunity to be early players in Netflix’s ad business, and since ad loads are still low, users may not have the ad fatigue experienced on other platforms.
- But advertisers will be working with a small subsection of Netflix viewers that isn’t growing rapidly.
- Keep an eye on the ways Netflix grows its ad business by winning over recession-weary subscribers, investing in international content, and cracking down on password-sharers.

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