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Streamers' price hikes are part of a larger ARPU battle

Article

The news: **Netflix** is contemplating a price increase for its ad-free service, according to The Wall Street Journal, with indications that the hike might be implemented a few months after the Hollywood actors strike concludes.

- This increase is proposed for multiple markets, primarily starting with the US and Canada.

Zoom out: Netflix isn't alone in this approach; over the past year, the cost of major ad-free streaming platforms has surged by approximately 25% in an effort to improve the bottom line.

- **Disney** recently raised prices for **Disney+** and **Hulu**.
- **YouTube** nixed its cheapest premium plan recently after upping its **YouTube TV** pricing earlier in the year.
- The latest price increase is coming to the ad-free tier of **Discovery+**, with **Warner Bros. Discovery** announcing an **immediate 30% hike** in the US and Canada.

Why it's happening: Content expenses have been ticking up for some time: Earlier this year, **Amazon** reported a 28% increase in content costs between 2022 and 2021.

- The Writers Guild of America's new agreement with the studios will increase costs for studios by $233 million annually—which will increase content costs.

Why it matters: This new dynamic has implications for consumers, advertisers, and platforms alike.

- The price increases may signal a new normal in streaming, one that inflation-weary consumers may be loath to stomach; 29% of US households are dropping streaming subscriptions due to financial considerations.
- Meanwhile, advertisers could be forced to adjust their budgets if CPMs trend upward to pay for platforms' increased content costs.
- While some platforms may be safe from consolidation, others such as **Peacock** and **Paramount+** may be under particular pressure to balance profitability with user growth.

Deeper dive: Netflix has previously initiated measures to increase user revenues, such as introducing a fee for sharing an account outside one's household. Disney+ is getting in on the password-sharing crackdown act as well.

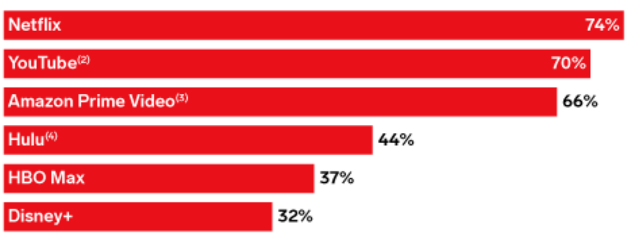
- Disney and WBD are also exploring new content tiers, like live sports, to attract subscribers.
- Companies are also working to enhance the revenue generation of both their ad-free and ad-supported tiers. Case in point: Netflix's focus on halting password sharing effectively acts as a price increase.

Our take: With the increase in prices, streaming platforms might be aiming to shift a portion of their user base to ad-supported plans, which are proving to be more lucrative.

- According to several sources, ad-supported versions of Disney, Netflix, and WBD streaming platforms are generating higher average revenues per user (ARPU) than their ad-free counterparts.
- We’re now in an environment where streamers are **prioritizing ARPU growth** over increasing sheer subscription numbers.
- While price increases might be a concern for consumers, platforms are likely betting on exclusive content and unique offerings to retain their user base.

Top 6 OTT Streaming Video Services Among US OTT Streaming Households[1], March 2023

% reach



Note: (1) homes with OTT or connected TV devices that stream content on those devices; includes devices that deliver video by connecting to a TV or via functionality within the TV itself (e.g., smart TVs); excludes desktops/laptops or mobile devices; (2) includes the YouTube app and YouTube TV; (3) includes data from the Prime Video app and any viewing happening from subchannels within the app (e.g., Starz channel on Prime Video) and includes Freevee on these platforms where the standalone app doesn't exist; (4) includes Hulu and Hulu + Live TV
Source: Comscore OTT Intelligence, June 5, 2023

282170 Insider Intelligence | eMarketer