

Netflix loses nearly 1 million subscribers in Q2, will launch ads in early 2023

Article

The news: Netflix's second-quarter earnings show a company still trying to get on solid ground after its Q1 report shocked the streaming industry and sent the company on a

desperate reimagining of its business model.

- Netflix lost **970,000 subscribers** in Q2, a loss nearly five times as large as Q1 but still far below its expected loss of 2 million.
- The streaming service's ad-supported (AVOD) subscription tier will launch in the "early part of 2023." That's later than the **Q4 launch** suggested by internal notes but still an aggressive timeline for a company that's historically shirked advertising.
- Netflix will test two approaches in Latin America to reduce password sharing with the hopes of launching an "easy-to-use paid sharing offering" in 2023.

Still shedding subscribers: Netflix's Q2 subscriber loss may not have been as bad as expected, but it's still a worrying sign for a company that relies entirely on subscription revenues.

- Price hikes, a crowded streaming market, and an **uncertain economic outlook** have prompted many to cancel their Netflix subscriptions, prompting the company to turn to ad-supported streaming to address revenue concerns.
- Netflix has been fishing for an intellectual property that it can expand into a Star Wars-like multimedia franchise for some time with little success while competitors' originals make a bigger splash.
- Its strategy of shotgun blasting originals at the wall to see what sticks **has not proved fruitful**, though it did benefit from releasing the latest season of hit show "**Stranger Things**" across two monthly subscription periods.
- There are still some sectors of growth for Netflix. APAC subscriptions rose by 1 million, and the company expects to **add 1 million subscribers in Q3**. But those come with caveats: Its APAC growth has been **stymied by competitors**, and last year's Q3 saw it gain 4.4 million subscribers.

Netflix Streaming Subscriptions and Revenues Worldwide, by Region, Q1 2021 & Q1 2022

	Q1 2021		Q1 2022	
	Revenues (billions)	Paid memberships at the end of period (millions)	Revenues (billions)	Paid memberships at the end of period (millions)
US and Canada	\$3.17	74.4	\$3.35	74.6
Europe, Middle East, and Africa	\$2.34	68.5	\$2.56	73.7
Latin America	\$0.84	37.9	\$0.99	39.6
Asia-Pacific	\$0.76	26.9	\$0.92	33.7

Note: paid subscribers only; excludes revenues from DVDs; numbers may not add up to total due to rounding

Source: Netflix, April 19, 2022

274814

eMarketer | InsiderIntelligence.com

AVOD update: Netflix is focusing on an ad platform to help make up for its stalling growth and revenue losses, but there's no guarantee that a cheaper, ad-supported option will resolve churn issues.

- Tightening purse strings and more streaming options than ever have prompted consumers to broadly adopt AVOD viewing channels. **US AVOD viewership will reach 140.1 million** this year.
- Netflix initially said it could take years to launch ads on the platform, but that changed after its rushed announcement was criticized and competitors ramped up their own AVOD plans; Netflix's [announcement](#) that it would partner with **Microsoft** on an ad platform came just one day after **Disney** struck a [similar deal](#) with **The Trade Desk**.

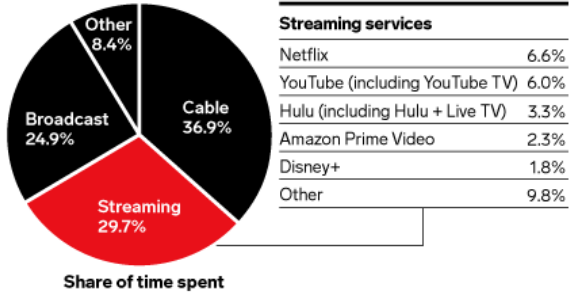
Analyst insight: "Netflix's subscriber loss was expected, but it remains a sore point for a company that is wholly dependent on subscription revenue from consumers," said senior analyst **Ross Benes**. "Given demand from brands, its advertising product will likely boost average revenue per user eventually. But there's no evidence yet it will lessen opt-outs or meaningfully bring in more subscribers."

The big takeaway: Netflix's extremely high market penetration means its subscriber growth was bound to stall eventually.

- Marketers will pounce on the opportunity to advertise alongside Netflix's expansive catalog and reach its hundreds of millions of viewers, but an ad-supported tier may not be enough for Netflix to stanch its losses.

Share of Time Spent with TV, by Type, March 2021

% of total



Note: ages 2+; numbers may not add up to 100% due to rounding
Source: Nielsen as cited in company blog, April 21, 2022

275023

eMarketer | InsiderIntelligence.com