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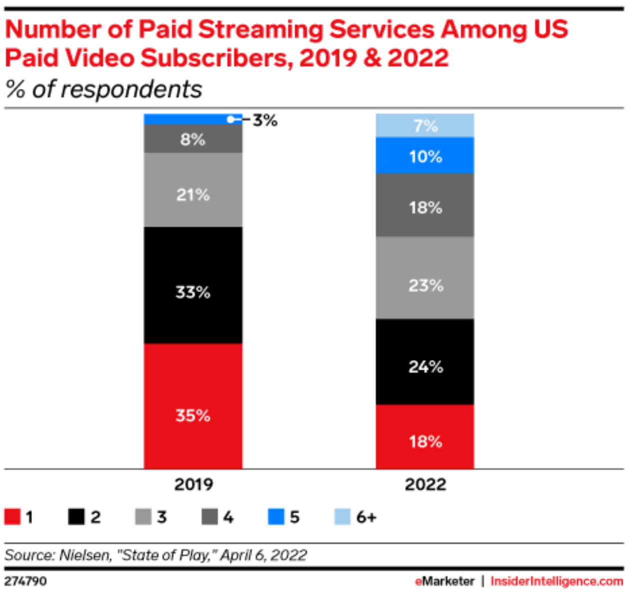
Netflix loses subscribers for first time in a decade, mulls ad-supported tier

Article

The news: **Netflix** shed 200,000 subscribers in Q1, marking the streaming leader's first subscriber loss in more than a decade and prompting the company to accept advertising and crack down on password sharing in an attempt to keep growing.

More on this: What caused Netflix's subscription reversal? CEO **Reed Hastings** cited password sharing (which could net **$1.6 billion** according to experts) and the crowded streaming market as potential culprits. But he also warned that its solutions like stemming password sharing and adding an ad-supported channel could take years to implement.

- Netflix's new $15.49 price point makes it more expensive than any competitors and even some bundled options, and could have contributed to cancellations since consumers are becoming more cost-conscious.
- A recent survey from Fandom found that while consumers think Netflix is the most valuable streaming service, they still feel they're overpaying for it by about $5 per month.
- Another challenge: There are simply more services now than in years past. Just three years ago, less than one in three (32%) of US paid video subscribers paid for three or more services, per Nielsen. **Now, that figure is 58%.**



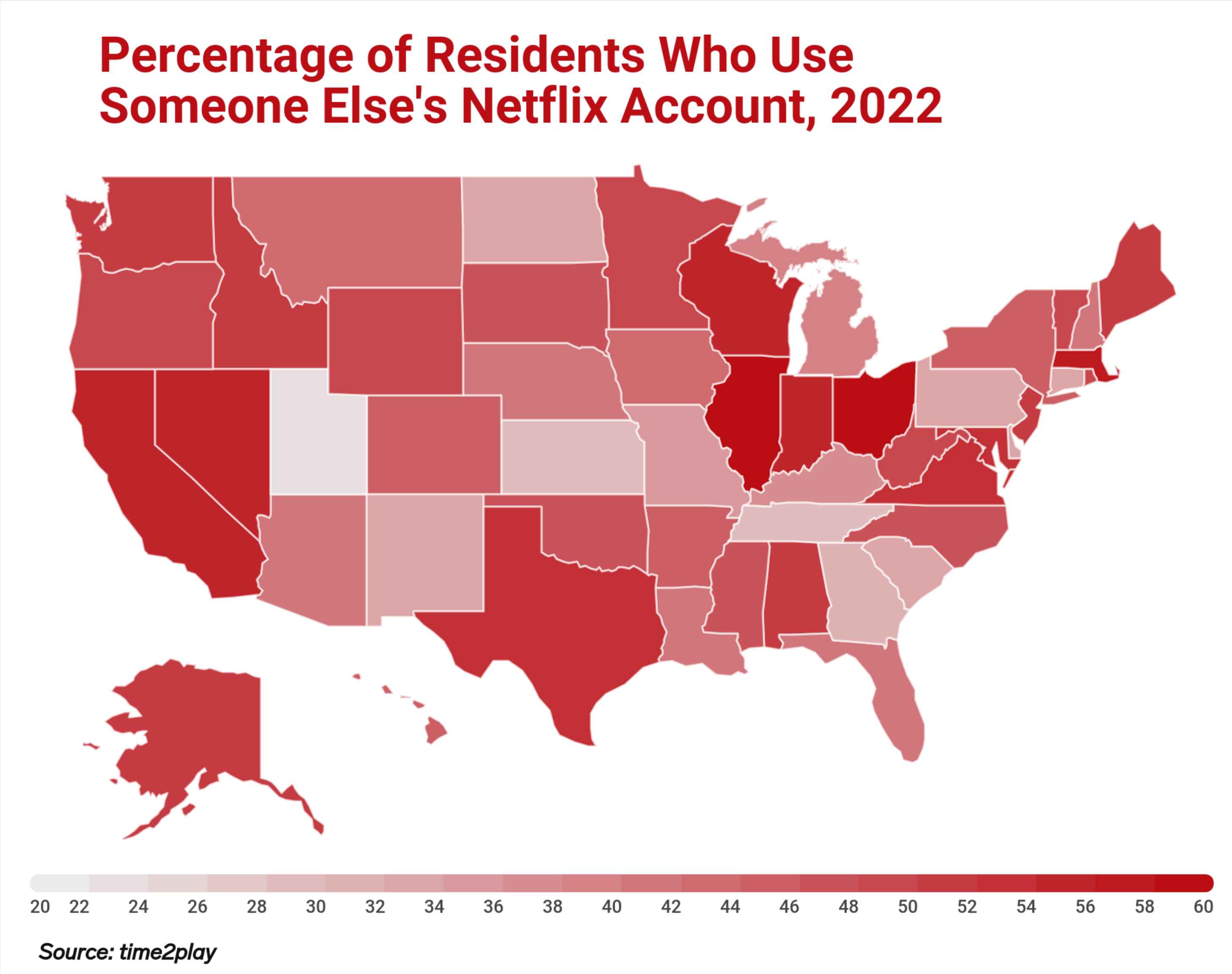
Netflix's advertising reversal: Hastings had long made the argument that the lack of advertising is what made Netflix a more distinct, better service than its competitors. But with HBO Max, Disney+, **Peacock**, and others adding or entertaining ad-supported channels, it's become easier for Netflix to make the jump and extend an olive branch to investors worried about subscription slowdowns.

- There's plenty of evidence that consumers are interested in more ad-supported video-on-demand (AVOD) streaming options. A quarter of US internet users used a mix of subscription-based video-on-demand (SVOD) and AVOD services in 2021, according to Ampere Analysis.

- Our forecast projects **Tubi**, a streaming service that is entirely ad-supported, will see ad revenues rise from \$0.94 billion in 2022 to \$1.82 billion just two years later.
- An AVOD channel also gives Netflix access to the format's rapidly growing ad spend. US AVOD ad spending reached **\$8 billion** in 2021, and will nearly triple to **\$22 billion** this year, according to MoffettNathanson Research.
- Still, adding an AVOD isn't as simple as pulling a lever. Hastings said it could take one to two years to implement, and added that Netflix will look to partner with adtech firms to develop a system that takes targeting and privacy into account rather than build it on its own.

Password problems persist: Hastings warned that a password crackdown on the estimated **100 million users watching Netflix for free** is on the way within the next year, but there's no guarantee that those users will convert to paid subscriptions, even if a cheaper AVOD option is added.

- In a CivicScience study last month, 45% of US Netflix users said they're "very likely" to cancel their subscription if Netflix begins charging extra for account sharing. Another 28% said they are somewhat likely.
- We'll go out on a limb and say the actual numbers won't be that high when Netflix does crack down on password sharing, but it does belie a tightrope Netflix must walk: bringing in incremental revenue against incremental account churn.
- The same study found 23% share a Netflix account—but don't pay. Another 14% share an account and split the cost.
- In the US, Utah, Tennessee, and Kansas are the states least likely to share passwords; Ohio, Illinois, and Massachusetts are the most likely to illegally share an account, per recent time2play data.



The big takeaway: Netflix is the last major domino to fall in streaming's pivot away from the longstanding subscription-only model toward accepting advertising, and there's no going back.

- It took an explosion of competitors threatening Netflix's dominance for the industry to arrive here, but the streaming wars are far from over. Sports, foreign markets, and other emerging battlegrounds mean Netflix will have to remain on its toes.

Editor's note: *Our Connectivity & Tech Briefing also covered this story; here's their take.*