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How rising streaming prices will reshape entertainment choices in 2024

Article

The news: If there are two words to sum up 2023 in streaming, they're "price" and "hikes." Streamers spent the year cranking up the cost of their services to meet investor demands for higher revenues—sometimes more than once.

- For consumers, that means the cost of streaming has never been higher. The large number of popular services is forcing households to make difficult decisions about where to allocate their entertainment budgets, driving significant changes in the video landscape.

Why are the prices so high? For the last decade, subscriber growth was the primary metric used to determine which services were performing well. But in the last year, streaming services started caring less about subscription growth and more about average revenues per user. So what changed?

- The answer is **interest rates**. The Federal Reserve increased interest rates 11 times from March 2022 to July 2023 to combat inflation, meaning companies were suddenly pressured to reign in spending as much as possible and focus on revenue growth.
- Streaming is a costly business, and many leading services like **Peacock** and **Disney+** are still not profitable. But streaming services couldn't afford to stop spending to deliver competitive original content or improve the user experience, forcing them to find revenues elsewhere.
- That led to changes like the launch of several ad-supported subscription tiers, but the easiest way to boost revenues was to raise prices.

Why it made sense: For consumers, price hikes are music to no-one's ears. But despite grumbling about rising costs—of which there was plenty—data shows that, even during tough times, consumers are unlikely to cut off access to entertainment.

- Streaming has established itself as the new defacto form of entertainment in much of the world, giving streamers enough confidence to crank up pricing without fear that it would lead to a mass exodus of subscribers.

The consequences: The surge in price hikes this year, combined with Hollywood strikes, created a perfect storm for streaming services that eroded consumer goodwill and left a lasting negative impact on their brands.

- Over the summer, Disney raised monthly costs for Disney+ and **Hulu** by several dollars more than competitors, and Netflix decided to convert password sharers into subscribers while eliminating its cheapest, ad-free subscription tier.

- The rising cost of streaming services has accelerated the decline of traditional pay TV services. Pay TV penetration has been on a decline in the US for years, but the trend will be observed on a global level for the first time in 2024, with penetration set to decline steadily through at least 2028.
- Price hikes for ad-free tiers give streamers an opportunity to onboard consumers to their ad-supported tiers, which generate higher revenues. Streamers are also looking for lower-cost onboarding options: **Netflix** and **Max** are offering a bundle via **Verizon** that offers even cheaper access to both service's ad-supported tiers.

Changes US Consumers Have Made to Entertainment Subscriptions Due to Economic Conditions, by Generation, Nov 2022

% of respondents in each group

	Gen Z	Millennials	Gen X	Baby boomers and seniors	Total
Cancelled a paid entertainment subscription to save money	30%	32%	30%	15%	26%
Dropped at least one paid entertainment subscription and switched to a free ad-supported service	21%	31%	19%	8%	19%
Signed up for a bundle of entertainment services to lower overall subscription costs	17%	18%	14%	4%	13%
Added a paid entertainment subscription to replace other higher cost entertainment activities	13%	15%	14%	6%	12%
Switched from a higher cost, ad-free entertainment subscription to a lower cost, ad-supported version of that subscription	16%	18%	10%	4%	11%
Have made at least one of these changes	54%	66%	51%	25%	47%

Note: ages 14+; Gen Z born 1997-2009, millennials born 1983-1996, Gen X born 1966-1982, baby boomers born 1947-1965, seniors born 1946 and earlier; in the past 6 months
Source: Deloitte, "Digital Media Trends," April 17, 2023

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