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Netflix's recession resistance: Courting creators, ad revenues, and AI

Article

Netflix remains a revenue leader in the streaming space, however tariff concerns and tightening budgets for both consumers and advertisers have increased the pressure across all providers to stand out.

Some 60% of US marketers expect a 6% to 10% decline in ad budgets due to tariff-related pressures, according to a February IAB study, and only 9% of US consumers say tariffs won't change their spending habits, per a February Numerator study.

While connected TV (CTV) is expected to continue growing, the impact of leaner advertiser and consumer budgets remains uncertain.

Balancing subscription and ad revenues

Netflix has reported a 13% YoY rise in Q1 revenue. However, as subscription costs continue to rise, the streaming service is "approaching the ceiling in the US where their monetization is the highest," said Paul Verna, EMARKETER's vice president of content, on a recent episode of "Behind the Numbers."

Netflix has its eyes on over 400 million subscribers by 2030, which is an aggressive but attainable goal, he said.

"A lot of it is going to come down to whether they can license more sports content that's going to drive wholesale increases in subscribers," Verna said. "Some of it may come down to what happens to the competition, especially considering how fragile some of its competitors are."

As consumers look to cut costs, trimming subscriptions won't be their first move, said EMARKETER analyst Ross Benes.

"People are going to be stuck at home and spending less on entertainment outside of the home," said Benes on the episode. "[Netflix] doesn't rely on ad revenue as much as other streaming services, and the ad revenue is going to fluctuate sooner."

As for ad revenue, Netflix forecasts earning $9 billion worldwide by 2030, a number the streaming service could hit if it effectively taps into international audiences, he said.

Using AI to viewers browse

20% of consumers will turn off the TV and do something else if they can't find something they want to watch, according to Nielsen's "State of Play" report. Netflix is hoping to combat this churn with its AI-powered search tool, a feature still in its testing stage that allows users to filter content based on their mood and emotions, rather than key words.

While streaming services should consider how the volume of content choices could overwhelm consumers, creating an AI-generated feature can create an experience that is more clunky than helpful, said Benes.

“When AI is jammed into search products, it can make them worse,” he said. “AI does a lot of things well, but search is still being figured out, for sure.”

Adding creators to the content library

Netflix is courting more subscribers and competing with YouTube by embracing the creator economy. Netflix has already partnered with Ms. Rachel, a children’s education YouTube creator with 14.6 million subscribers, whose content is now available on the streaming service.

“I don’t think there’ll be a strong division in the future between social media creators versus Hollywood producers and actors,” said Benes, who stressed that this opportunity is especially relevant for content that appeals to younger audiences.

When considering content growth outside of new movies and TV shows, Netflix should also embrace the trajectory of Spotify, said Verna—which has expanded beyond its music streaming reputation through video podcast offerings and partnerships.

“Making that brand flip or changing the perception is a very tall order, but I think Netflix has the capacity and the resources,” he said.

Listen to the full episode.

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