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Netflix slashes prices in over 30 countries, sacrificing revenues for adoption

Article

The news: In a year that's seen streamers raising prices almost across the board, **Netflix** is taking a different approach. The company has lowered the cost of subscriptions in **more than**

30 countries as it tries to keep users with plenty of streaming options signed on.

- The reductions have landed worldwide in regions like Eastern Europe, sub-Saharan Africa, the Middle East, Southeast Asia, and Latin America, per The Wall Street Journal. In some countries, subscription costs were cut as much as 50%.

The road less traveled: At the start of the year, we predicted that most streaming services would implement price hikes in an attempt to increase shrinking revenues, which have become a priority for investors.

- Last year, Netflix's first-ever subscriber loss ignited a panic about streaming saturation and subscription fatigue. But the rest of the year proved that consumers weren't willing to cut off their entertainment sources, even as fear of a recession mounted (Netflix co-CEO **Greg Peters** said the company is a "non-substitutable good").
- But with prices and uncertainty rising, cracks are starting to show. **Disney**, Paramount, and others have either raised prices or announced hikes, but the early response has been rough. Disney+ had its first-ever subscriber loss in its fiscal Q1 earlier this month, including decreases in key foreign regions like **India**, where **it shed 6% of Disney+ Hotstar subscribers**.
- By lowering its prices, Netflix is making a bet sacrificing short-term revenue gains for stronger adoption in competitive regions. And it might work: Netflix's brand recognition is strong and consumers frequently rank its catalog as one of the best on offer.

Netflix Streaming Subscriptions and Revenues Worldwide, by Region, Q3 2021 & Q3 2022

	Q3 2021		Q3 2022	
	Revenues (billions)	Paid memberships at the end of period (millions)	Revenues billions)	Paid memberships at the end of period (millions)
US and Canada	$3.26	74.0	$3.60	73.4
Europe, Middle East, and Africa	$2.43	70.5	$2.38	73.5
Latin America	$0.92	39.0	$1.02	40.0
Asia-Pacific	$0.83	30.1	$0.89	36.2

Note: paid subscribers only; excludes revenues from DVDs; numbers may not add up to total due to rounding
Source: Netflix, Oct 18, 2022

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But how long can it last? The dramatic decreases will likely be felt in Netflix's Q1 earnings, where the market could punish it for dwindling revenues even if subscribers significantly increase.

- As a reminder, Disney stock fell sharply when its Q4 results missed revenue expectations by $1 billion even though it gained **more than 12 million subscribers**.
- Netflix will have to convince investors that potential revenue losses are worth it to onboard millions of new subscribers, which could sweeten the appeal of advertising with Netflix and prime users for new product releases like its ongoing gaming developments.
- But it's also possible that the losses won't be felt so severely: Netflix's long-awaited password sharing changes kicked into gear this month and could help the company drive up revenues (and even new subscriptions, if empty nesters force their kids to pay for Netflix themselves).

Our take: Reducing prices significantly in so many regions is a risky move in a market that has ruthlessly punished streamers for missing revenue expectations. But if the lower price leads enough consumers to sign on with Netflix, it can make significant gains in foreign markets where its competitors are showing weakness.