

Netflix survives its final ads-free quarter with a return to subscriber growth

Article

The news: Netflix released its Q3 results on Tuesday after the bell and shared considerable information about its forthcoming ad-supported format.

- **Analysts expected the platform would add 1 million subscribers; instead, the company netted an increase of 2.41 million**—more than doubling its guidance from one quarter before.
- **Asia-Pacific accounted for 1.43 million new customers;** US and Canada, however, combined for just 100,000 new accounts.
- Wall Street consensus forecasts compiled by Bloomberg called for revenue of \$7.85 billion and \$2.22 EPS; instead, the company netted \$7.93 billion and \$3.10 EPS.

Looking ahead: As attention shifts toward the platform's planned ad-supported tier, advertisers are naturally placing less weight on the company's subscriber figures than in past quarters; instead, they're paying attention to how the new tier will affect the advertising world.

- It will cost \$6.99 a month for Basic with Ads and become available to US customers on November 3; soon thereafter, the plan will be launched in markets like the UK, Canada, Mexico, South Korea, and Japan.
- It's true that some full-price subscribers may switch to the ad-based tier, particularly given today's inflationary environment, though executives have publicly dismissed that speculation as overblown.

The Disney comparison: It's hard to overlook Netflix launching its lower-priced plan with ads at the same time **Disney+** is adopting ads. Both ad plans have something in common: Each streamer is pledging to run just four to five minutes of ads every hour while refraining from placing spots in kid-friendly programming.

- Netflix still has some issues to fix: Its ad-supported tier won't initially include all of the service's programming, which may be its most obvious flaw. Licensing issues are to blame, and Netflix has highlighted this as a problem it plans to solve—but that doesn't make it any less of an Achilles heel at launch.
- Basic with Ads has other limitations: a 720 HD stream limit and one device restriction on playback. Users interested in 1080 HD and support for multiple devices must pay for the \$15.49 per month ad-free Standard tier; 4K is only accessible to customers who pay \$19.99 per month. The \$7.99 Disney+ ad-supported tier comes bundled with multiple device streams, supports 4K, and includes all the platform's content.

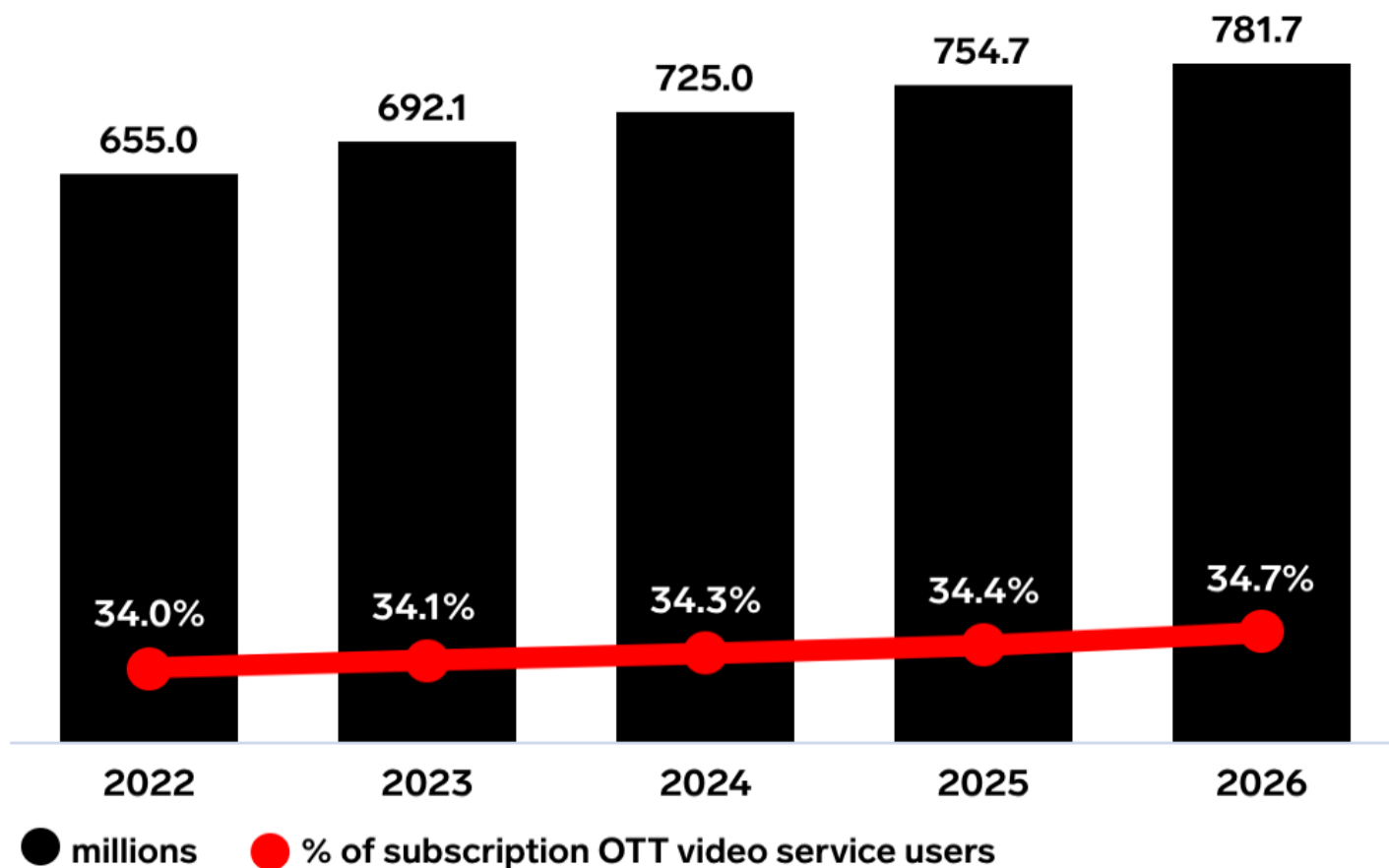
Why it matters: The stakes are immense for Netflix—and the advertising world in general.

- The company recently struck a [measurement deal with DoubleVerify and Integral Ad Science](#) (IAS) and [joined BARB](#), the leading UK audience measurement currency.

The big takeaway: Advertising brings in customers that previously wouldn't have considered Netflix at full price; the ad-supported tier allows those consumers to give the platform a second look.

Netflix Penetration vs. OTT Subscription Market

Worldwide, 2022-2026



Note: individuals of any age who watch Netflix via the app or website at least once per month

Source: eMarketer, October 2022

eMarketer | InsiderIntelligence.com

- It's hazy how big advertising will be for Netflix in Q4: Worldwide advertising president **Jeremi Gorman** has stated in the past that Netflix has sold out of nearly all of its ad inventory ahead of the launch which, if true, defies the general trend of a decline in global ad spend.
- At the same time, the streamer cautioned not to expect a “material contribution” from Basic with Ads in Q4, given its launch midway through the period. It's a fair point, but given [the high CPMs](#) Netflix has been asking for, it's safe to say the company is trying to manage expectations coming out of the gate.

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