

# Next on Netflix: Advertising?

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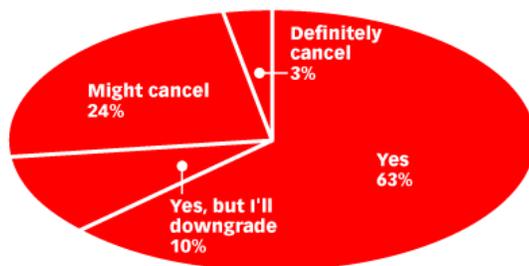
**Blake Drosch**

**N**etflix is still the king of streaming, but will its subscription-based model be able to sustain the business as cheaper, ad-supported platforms enter the streaming space?

The company kicked off 2019 by announcing **price increases of 13% to 18%**. And that made a lot of subscribers unhappy. According to **Streaming Observer**, 27% of US Netflix subscribers said they are either considering canceling or will definitely cancel their service because of the recent rate hike. More than half of those surveyed, however, said they were open to an ad-supported option at a lower cost.

## Will US Netflix Subscribers Continue with Their Subscription After Price Increases\*?

% of respondents, Jan 2019



Note: n=607 ages 18+; \*Netflix announced price increases of \$1-\$2, dependent on plan, on Jan 15, 2019

Source: Streaming Observer conducted by Mindnet Analytics; eMarketer calculations, Jan 16, 2019

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## The Old Guards Becomes a New Threat

Historically, Netflix has been able to increase prices **without negative overall impact**, even when customers have **threatened to cancel**. But the streaming world is changing. Media giants are launching services of their own—and they’re bringing their vast content libraries with them.

AT&T, Disney and Viacom are set to join the over-the-top (OTT) market in 2019. NBCUniversal will debut its ad-supported streaming platform in 2020. In addition to challenging Netflix on price, these new competitors present an additional threat to Netflix: the possibility of losing some of its most valuable content.

“Companies plan on weaning off the library content that exists on those ad-free platforms right now,” said Linda Yaccarino, chairman of advertising sales and client partnerships at NBCUniversal, during our **“Behind the Number”** podcast.

It’s still too early to tell what most of these companies will do with their content. But news that **Disney will pull its programming from Netflix**, along with the now-infamous **\$100 million payment Netflix made to keep “Friends,”** have raised questions around how much Netflix will have to pay to retain its popular non-original content—if it will be able to retain it at all.

“There’s going to be a balance of power shift,” Yaccarino said. “And I believe what you’ll see—and as demonstrated by the announcement that we had—that ad-supported product, delivered in the right way to the consumer, is here to stay.”

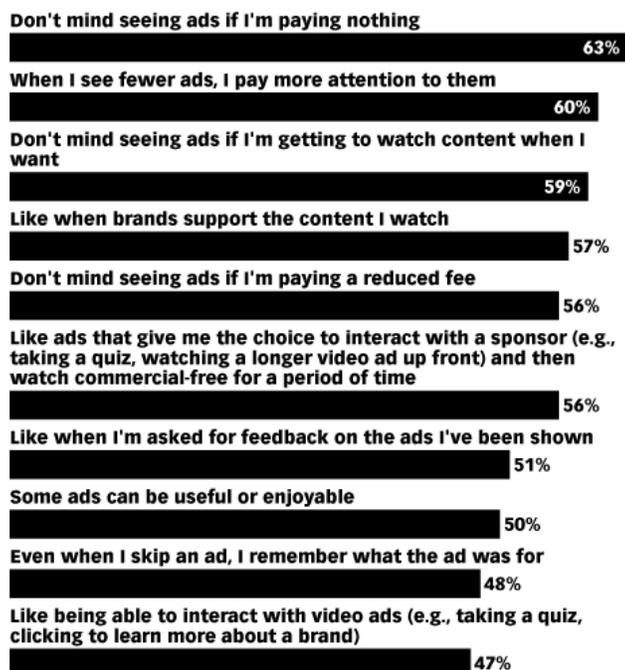
### **Consumers Don’t (Necessarily) Mind Ads**

Netflix's subscription-based model helped define the OTT landscape, but that doesn’t mean subscribers aren't open to ad-supported options, especially if they're being served the right ads at the right cost.

According to a September 2018 survey by the **Interactive Advertising Bureau**, 73% of adults who typically watch streaming OTT video say they watch ad-supported OTT video. Additionally, 59% said they don’t mind seeing ads as long as they can view content when they want, while 56% said they don’t mind watching ads if they’re paying less.

## US Ad-Supported Video Viewers' Attitudes/Behaviors Toward Ads, Sep 2018

% of respondents



Note: n=589 ages 18+; responses of "agree" and "strongly agree"  
Source: Interactive Advertising Bureau (IAB), "Ad Receptivity and the Ad-Supported OTT Video Viewer" conducted by Maru/Matchbox and sponsored by SpotX, Oct 10, 2018

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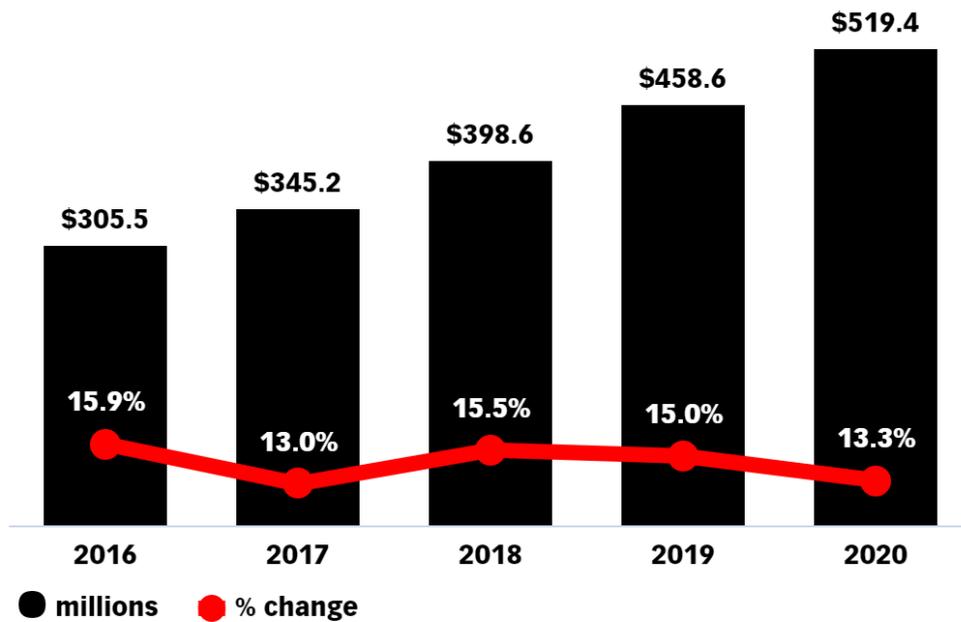
## The Hulu Comparison

Last year, Hulu announced it had **40% more viewers on its ad-supported service** year over year. Today, fewer than **40%** of Hulu subscribers pay the additional \$4 per month to avoid ads. And the company recently announced that it will slash the price of ad-supported content even further.

We predict Hulu's ad revenues will surpass \$500 million by 2020.

## Hulu Ad Revenues

US, 2016-2020



Source: eMarketer, September 2018

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Hulu will, however, also raise the price of its linear OTT service, suggesting that its low-cost subscription may not be sustainable on ad revenues alone.

The bottom line? "Pure subscription services like Netflix will, at some point, have to resort to additional monetization options (i.e., advertising)," said eMarketer principal analyst Paul Verna. "It's also true that hybrid models will also face upward pricing pressure."