

Netflix subscriber drop hints at streaming-service fatigue

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Netflix subscriber growth was weaker than expected in the April-June 2019 quarter, prompting a slide in shares of the streaming television giant

How much is too much for streaming video?

A dramatic slowdown in worldwide growth at Netflix—including the first quarterly drop in its U.S. subscribers since 2011—is raising questions about just how much are people willing to pay for streaming services. Especially with a host of new ones from Disney, Apple and others on their way.

A recent price increase seems to have spooked Netflix subscribers. The company lost 126,000 subscribers in the U.S., less than 1% of its 60.1 million paid U.S. subscriptions, during the April-June period. Its most popular plan rose from \$11 to \$13 in a U.S. price hike announced in January and rolled out for many subscribers during the second quarter. Worldwide, the service picked up 2.7 million worldwide subscribers, far below Netflix's forecast of 5 million.

"Netflix raising prices prompted people to think about whether they were getting value for money," Wedbush analyst Michael Pachter said.

While people are willing to shell out for several services to meet their streaming needs, he said, they're also willing to cancel if they're not using it enough, just as they would with a gym membership or a subscription to the New Yorker magazine.

Streaming services preparing to compete with Netflix appear to be taking note.

Disney Plus, set to debut in November, will already be cheaper than Netflix at \$8 a month, though Disney Plus will also have a smaller video library. Hulu has cut prices to \$6 from \$8 for its main, ad-supported service. Services from Apple, due out this year, and WarnerMedia and NBCUniversal, out in 2020, don't have announced prices yet, although the NBCUniversal service will be free and ad supported for traditional cable TV subscribers.

Of course, even if these individual services are cheaper than Netflix, it's not clear how many consumers will be willing to pay for.

One way to make a service appealing is not through better prices but through exclusive shows and deep libraries, including shows that Netflix will be losing. Netflix's two most popular shows, "Friends" and "The Office," will be departing in the coming months for rival services.

Group M analyst Brian Weiser said that for now, other services shouldn't be overly concerned by a weak quarter or two at Netflix. He said streaming content consumption is still growing rapidly, so the overall market has plenty of room for competitors. And the streaming arena is a growth area in the much bigger and more mature entertainment industry.

"I don't think it follows that if Netflix has an underperforming quarter that tells you about others," he said.

Some analysts also believe Netflix's trouble is temporary.

Canaccord Genuity analyst Michael Graham said the subscriber numbers will likely hit the stock in the short term—the stock was down 11% in midday trading Thursday—but overall the company's growth remains on track, particularly overseas.

"We still see a strong content strategy and room to add large numbers of international subscriptions as key strengths going forward," he wrote in a note to investors.

Similarly, Pivotal Research Group analyst Jeffrey Wlodarczak said investors shouldn't make a "mountain out of a molehill," with the most recent quarterly figures.

The spring quarter is typically sluggish for the streaming service, and

Netflix acknowledged a weak content slate could have been partly responsible for the drop. It expects to regain some momentum this summer, projecting that it will add 7 million subscribers from July through September. The optimism stems in part from the immense popularity of "Stranger Things," whose third season attracted record viewership after its July 4 release.

Netflix has said it welcomes competition. It ended June with 151.6 million worldwide subscribers, far more than a current crop of video streaming rivals that includes Amazon and Hulu.

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