Netflix shares plunge as subscribers drop

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Netflix says subscribers sharing accounts with other households is among its growth challenges.

Netflix shares lost a quarter of their value Tuesday after the company revealed its ranks of subscribers shrank in the first quarter of this year.

It was the first time in a decade that the leading streaming television service had lost subscribers. The company blamed the quarter-over-quarter erosion to suspension of its service in Russia due to Moscow's invasion of Ukraine.

Netflix ended the first quarter of this year with 221.6 million subscribers, slightly less than the final quarter of last year.

The Silicon Valley tech firm reported a net income of $1.6 billion in the recently ended quarter, compared to $1.7 billion in the same period a year earlier. Netflix shares were down more than 25 percent to $259.30 in after-market trades that followed release of the earnings figures.

Netflix believes that factors hampering its growth includes subscribers sharing their accounts with people not living in their homes.

The streaming giant estimated that while it has nearly 222 million households paying for its service, accounts are shared with more than 100 million other households not paying subscription fees.

"When we were growing fast it wasn't a high priority, and now we're working super hard on it," chief executive Reed Hastings said of account sharing during an earnings call.

"These are over a hundred million households that already are choosing to view Netflix; they love the service, we've just got to get paid in some degree for them."

Netflix is testing ways to make money from people sharing accounts, such as by adding a feature that lets subscribers pay slightly more to add other households.

"If you've got a sister, let's say that's living in a different city, and you want to share Netflix with her—that's great," chief product officer Greg

Peters said on the earnings call.

"We're not trying to shut down that sharing, but we're going to ask you to pay a bit more to be able to share with her."

Another factor crimping Netflix growth is intense competition from titans such as Apple and Disney.

Inflation squeeze

Netflix and its rivals in streaming television are also up against a rate of inflation that has people likely taking stock of how many entertainment subscriptions they have racked up, according to analyst Rob Enderle of Enderle Group.

"With inflation taking hold, people are starting to watch their pennies," Enderle said. "You get a situation where people are thinking through the subscriptions they have and the subscriptions that they keep."

A big player in the market like Netflix will find it hard to grow in that kind of economic environment, especially in a market like the United States where it is deeply penetrated, Enderle told AFP.

Netflix recently announced subscription price bumps in the United States, with the basic option now costing $9.99, and the most expensive going up to $19.99.

Netflix is looking at possibly adding a lower-priced subscription tier subsidized by advertising, a model that Hastings had long snubbed.

"It's pretty clear that it's working for Hulu," Hastings said.

"It you still want the ad-free option, you will be able to have that. If you'd rather pay a lower price and you're ad-tolerant, we're going to cater to you also."

Weaving ads into Netflix for revenue is "inevitable" given the recent earnings figures, said Upholdings portfolio manager Robert Cantwell.

The streaming television race is heating up, with Disney showing earlier this year that it was closing the gap with market leader Netflix, whose stride has slowed.

Like the Prime video streaming service fielded by Amazon, Disney is copying Netflix's tactic of investing in local content that appeals to the language, culture and tastes in respective international markets.

Netflix has made that approach work, backing original blockbusters such as "Squid Game" from South Korea and France's "Lupin."