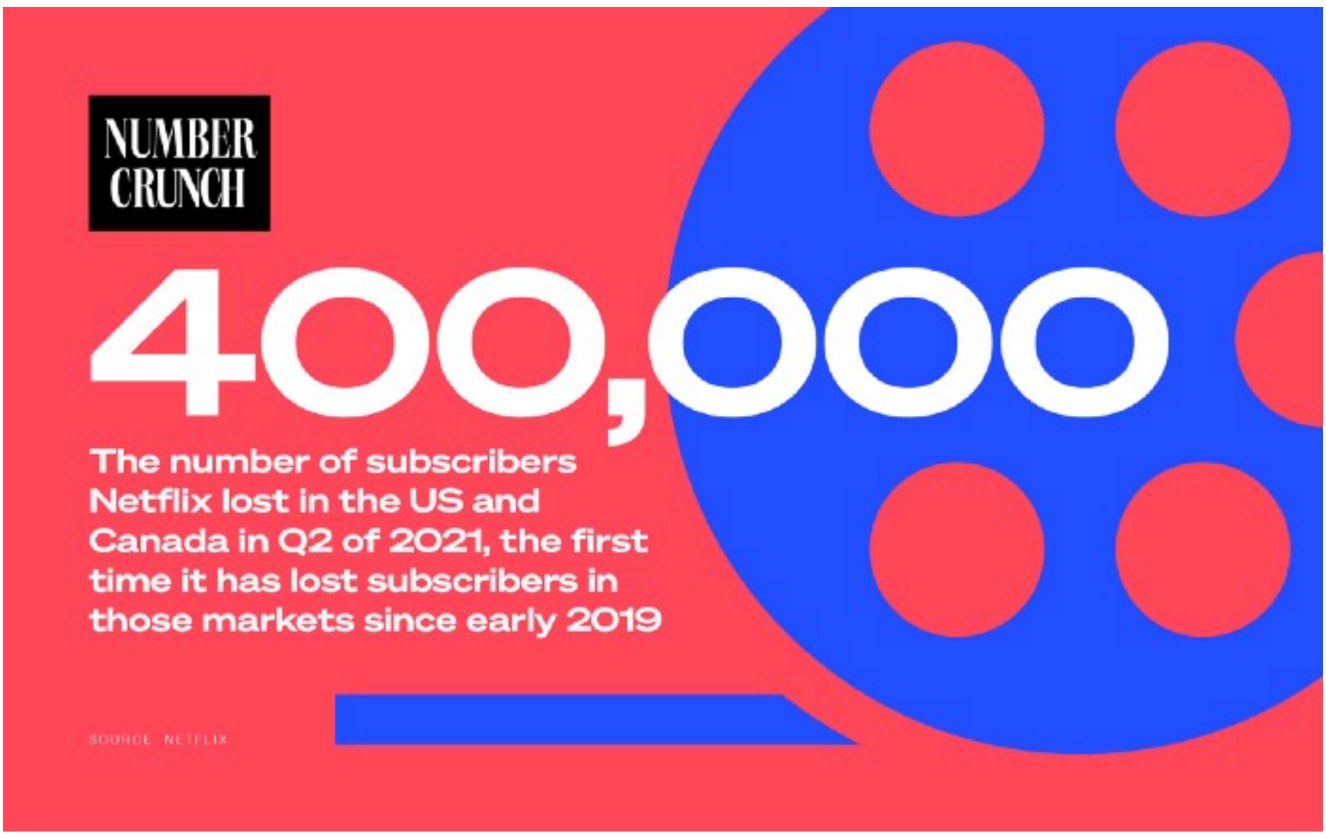
Netflix Can’t Chill As It Loses Subscribers in U.S. & Canada

The king of streaming is struggling for growth



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400,000: That’s the number of subscribers Netflix lost in the US and Canada in Q2 of 2021, the first time it has lost subscribers in those markets since early 2019.

Netflix is a business that is driven by one thing only: subscriber growth. To maintain its position as the market leader, keep investors happy, and be afforded the luxury of spending eye-popping amounts of money (the company projects an outlay of $17 billion in 2021), that number needs to trend upwards continually — and preferably as fast as possible.

In a Q2 earnings report published July 20, the company announced it had exceeded its growth forecast, adding 1.5 million new subscribers, marginally better than its estimate of 1 million. It ended Q2 with 209 million paying subscribers, a figure that is also ahead of its guidance forecasting. All should be well. But the loss of 400,000 subscribers in the US and Canada regions — the first loss of any kind in the area since early 2019 — shows that the streaming giant is struggling to maintain its meteoric growth amidst challenging conditions and growing competition. Or, as Netflix puts it, "COVID has created some lumpiness in our membership growth… which is working its way through."

The stuttering growth wasn't entirely unexpected. The company enjoyed a flood of new subscribers in early 2020 — around 16 million — as shelter at home orders were put in place. As restrictions have loosened, some of those new subscribers would have churned, causing the slowdown. But there are other troubling signs. Competition continues to eat into Netflix's share, with rival HBO Max gaining nearly 3 million subscribers in the last quarter (for context, the platform has only been around since May 2020.) Most worrying, for all its spending, Netflix has produced very few big hits in the past year. In October 2020, only 3% of Netflix's most-watched programs were produced in-house.

As a result, customers are switching to competitors like HBO Max and Disney+ who continue to produce high-quality content and blockbuster releases.

So it comes as no surprise that the company is looking elsewhere for growth markets. The first target appears to be gaming, specifically mobile gaming. Netflix has long been aware that it competes with the gaming industry for time and attention, with Reed Hastings once saying, “we compete with (and lose to) *Fortnite* more than HBO.” It’s another case of if you can’t compete with them, join them. The company announced it was hiring former EA and Facebook executive Mike Verdu to lead its gaming efforts, and new rumors have surfaced that the company is looking to partner with Playstation. Though there are no details yet on the when, what or how, Netflix has confirmed that the games will be included in subscriptions fees at no extra cost.

Why Doesn’t Netflix Just Hook Up With Stadia?

A streaming giant in need of games, and a gaming platform in need of customers. It could work.

Geetha Ranganathan, a BI media analyst, is unsure of how it will play out. “Don’t expect this to be a turning point, but it shows that the company will explore new formats to increase time spent on the platform.” Whether it will improve the company’s bottom line remains to be seen, but video games will attract new customers — especially the younger market captivated by games like *Fortnite* — and allow Netflix to offer something none of its direct competitors provide. That could be enough to maintain its market share, and continue to grow its subscriber base.

Have we reached peak “Netflix and chill”?