

Netflix begins its Basic ad-free plan phaseout

Article

The news: Netflix is putting its plan to phase out its cheapest ad-free tier into action, per The Verge. The company is notifying some users in the UK and Canada that their “basic” subscription plan is being discontinued, and users will either have to opt for a cheaper, ad-supported tier or take a more expensive ad-free option.

Netflix previously [canceled its Basic tier for new subscribers](#) in Canada, the US, and UK last summer. The ongoing phaseout is for existing subscribers.

Kicking into gear: In January, Netflix stated it would make a concerted effort to convert Basic subscribers to ad-supported tiers. At the time, Netflix said its ad-supported plan accounted for 40% of new sign-ups and that it was “looking to retire our Basic plan in some of our ads countries.”

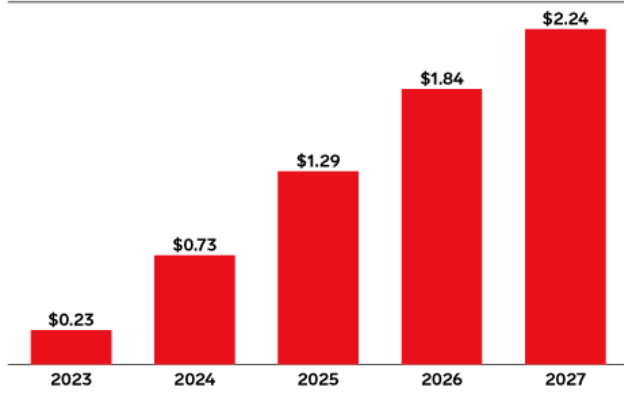
- The effort to funnel more users into ad-supported subscriptions comes after months of relatively low advertiser interest and frustration with the company’s ability to scale its ad offerings.
- Netflix’s late 2022 entry into the market has been dwarfed by **Amazon**’s advertising offering earlier this year. The company made ad-supported viewing on **Prime Video** the default for all Prime members, giving it a baked-in audience for advertisements that almost immediately dwarfed Netflix’s about 22 million ad-supported subscribers.
- Increasing the gap between ad-free and ad-supported plans continues Netflix’s existing strategy for boosting ad-supported subscriptions. The company’s password sharing crackdown, bundling efforts, and price hikes have raised the cost of ad-free viewing and made its ad-supported tier its new “default.”
- But still, its approach—and that of others like **Disney+**—is dwarfed by Amazon’s all-in effort that instantly made it a top competitor in the space. Netflix will have a considerably more difficult time encouraging ad-supported sign-ups after more than a decade of ad-free, standard viewing.

Our take: Increasing the cost gap between ad-free and ad-supported subscriptions is likely to upset some Netflix viewers, but the industrywide pivot to advertising has made consumers more accepting of ads in general.

Had Netflix launched its ad-supported tier in 2024 after Amazon, it would likely also be tempted to make ad-supported viewing the default on its service: With more than 260 million subscribers worldwide—a number that dwarfs even worldwide Prime memberships (though not households)—flipping the switch ala Amazon would instantaneously give it a lead in the market. But without taking that approach to begin with, it may be too late to do so now.

US Netflix Ad Revenues, 2023-2027

billions



Source: Ampere Analysis as cited in company blog, May 4, 2023

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