Another Streaming Newcomer Undercuts Netflix

Description

Since its latest price hikes went into effect earlier this year, **Netflix** (NASDAQ: NFLX) has been charging subscribers $12.99 per month for access to its most popular plan. That may not seem like an outrageous rate given the fact that Netflix is the dominant service on the streaming market, and some competitors, including **AT&T**'s HBO Now, are in the same ballpark. Yet all of a sudden, Netflix's current price is looking a bit too high.

That's thanks in part to the new competition offered by **Walt Disney**'s (NYSE: DIS) Disney+. The entertainment giant's new streaming service will cost just $6.99 per month when it debuts in November, and Disney will also offer Disney+, Hulu, and ESPN+ in a bundle for $12.99 per month. Combined with a rough quarter for growth following the Netflix price increase, this new competition suggests that Netflix has a pricing problem. And now it's getting worse, because **Apple** (NASDAQ: AAPL) is looking to undercut Netflix, too.

Apple's pricing play

Apple, like Disney, has been working on a new streaming video subscription service that seems designed to challenge Netflix in the subscription video on demand (SVOD) space. Apple is building its service on its TV app, a streaming platform that offers free content and also acts as a hub that gives users access to premium content from subscription services like HBO. Apple's TV app is already up and running, but it will soon add a new source of premium content that comes straight from Apple itself: Apple TV+.

Apple announced this month that Apple TV+ will cost $9.99 per month. That's not quite as cheap as Disney+, but it's still cheaper than Netflix's most popular plan (Netflix does offer an $8.99 per month plan that limits viewers to standard-definition streaming on a single screen, but it's not as popular as the $12.99-per-month Standard plan, which includes HD streaming on two screens).

It's more trouble for Netflix, which is now facing two new major competitors at lower price points — in addition to Hulu, which has long been cheaper than Netflix.

Betting on a fractured market

It was one thing when a pricier Netflix faced down a cheaper Hulu in a relatively sparse streaming market. Netflix has been the king of streaming for more than a decade, and its huge library of strong content has long made it the prohibitive choice for consumers.

But that won't be true for much longer. Even if Netflix pours more money into its original series and manages to keep its content library from shrinking, it still won't have the monopolistic position that it once did. While Apple is relying on huge investments in original content to build its new service despite a background in tech rather than video content, other companies are simply taking their own media properties home, and in many cases, away from Netflix. Netflix has lost Marvel Studios content from Disney and will soon lose popular sitcoms from **Comcast**'s NBCUniversal — including *The Office*, which is Netflix's single most popular show.

The streaming market is becoming increasingly fractured. That's likely to lead to much more subscription churn as more users hop from service to service to catch up on favorites. It's also likely to give an advantage to cheaper services that position themselves as a part rather than the whole of a user's streaming media solution.

Hip to the hub

Apple knows that the market is getting fragmented — in fact, the company is among those betting on it. Again, Apple's TV app allows users to subscribe to other services and view all of their content (along with free ad-supported content) within one app. Netflix users can't do that. And hubs like Apple's — as well as **Amazon** Channels and platform-style hubs like **Roku** — will be able to take a cut of each subscription that their users add.

Netflix has a pricing issue, and it's not just competing against individual services. It's competing against bundles and all of the different a la carte setups that consumers can create on competing platforms. The streaming market seems poised to shatter into a world of cheaper and more numerous subscriptions — and everyone seems ready for it except Netflix.

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