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**NETFLIX: THE KING OF STREAMING SERVICES**

# Binge-watching and Netflix health concerns

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Abstract

When people think about Netflix they think of the main streaming service, one of the best solutions to watch their favourite movies and series. This report will develop a deep analysis to discover the secrets that brought Netflix to its success and the ways this giant entered almost everyone's home. However, Netflix is not just about smiles and rainbows as there are several different problems that it has been facing for a long time. What is the dark side of Netflix? Are there any solutions to mitigate it?

Keywords: Streaming, Films, Binge-watching, Sustainability, Subscription, Downfall, Innovate

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# 1. Introduction

## 1.1 Netflix history

Netflix is a website that offers online streaming of movies, TV series, and documentaries. It is currently the most widely used video streaming service worldwide. Through a subscription service, the consumer can access all these videos. Regularly, Netflix adds new TV episodes, movies, and series to the chart so that users can watch them right away. Following Google, YouTube, Yahoo, Facebook, Twitter, and other prominent websites, it has succeeded in maintaining its place among the top 50 websites. (Kobiruzzaman 2021)

Netflix was established in California in 1997 by Reed Hastings and Marc Randolph.

According to Reed Hastings, the $40 fee he received for renting the movie Apollo 13 from a long-gone Blockbuster and returning it six weeks late provided the inspiration for the idea. The pain of the fine motivated him to come up with a service that allowed people to order movies online and receive them by mail.

However, Marc Randolph claims this tale is untrue and only a joke. In contrast, Reed was Pure Atria's CEO in the early part of 1997, while Marc served as the organization's vice president of corporate marketing. They both would lose their jobs due to an impending merger with another company, so they made the decision to start a new business. However, Marc Randolph left Netflix in 2002.

Marc had heard of the DVD, a brand-new item created in Japan. He understood that DVDs would soon overtake VHS cassettes as the preferred home video format.

Marc and Reed purchased a CD on a summer day in 1997 and mailed it to Reed's home a few blocks away. They knew they had found their ticket to e-commerce success when the CD showed up undamaged. (Kariuki 2022).

Netflix was established in 1997, with at least $1.9 million coming from Reed Hastings. Later, additional investors added to this capital.

Netflix began operations in 1998 by mailing out DVD rentals and sales. The product was a DVD that was available for rent by mail, and the payment methodology was pay per rental.

In the year that followed, 1999, Netflix debuted its new subscription service, which allowed users to rent DVDs on a regular basis. With monthly payments, subscribers to this service might rent DVDs indefinitely. In other words, a monthly subscription model replaced the pay-per-use paradigm. The movie and video titles are chosen by the subscribers from the Netflix website.

When it reached one million customers in 2001, Netflix kept expanding, and the following year it became public. Netflix was worth $309.7 million after the IPO raising $82.1 million.

In response to concerns from subscribers that it was taking too long to receive their DVDs, Netflix developed regional warehouses and introduced overnight shipping.

In 2007, Netflix launched a brand-new service for streaming movies and TV shows. Success has been facilitated by the effective use of change's driving force. Due to their adoption of new features in response to customer demand, the company has gained a competitive advantage.

For smartphone users, Netflix launched its iOS service and mobile apps in 2011. Both the Google Play and Apple App Stores provided the apps for free download to smartphone users.

Netflix separated its streaming and DVD rental businesses into two separate subscription plans: Qwikster for DVD rentals and Netflix for streaming. Less than a month after 800,000 users stop using Netflix, Reed changed the unpopular decision.

Since 2012, Netflix has created and made available its own original material, which includes popular television shows and movies. The online library offers this range of content saved for subscribers to view. It has been offering services in about 190 nations since 2016. In addition to Brazil, the Netherlands, France, the United Kingdom, Japan, India, and South Korea, this corporation has offices all over the world.

According to a report in 2020, Netflix has achieved $1.2 billion in operating income for its outstanding performance. The company also plans to expand its company into the video gaming sector in 2022. With a collection of games like Apple Arcade, Netflix's 200 million members could be attracted.

### 1.2 Netflix's strategic activities

Because of its high quality, easy accessibility, and complex features, Netflix is gaining popularity every day. After all, utilizing new technologies and adapting to them is a necessary strategy for meeting and exceeding client expectations. People no longer desire to set aside additional time to visit the movie theatre in the twenty-first century. They can readily be entertained by new technology, such as PCs, laptops, and smartphones, through internet service. Then, the social media revolution also altered how people communicate with each other. It has developed into a fantastic channel for sharing user-generated content.

Globally, most people utilize social media for a variety of purposes, including marketing, entertainment, and education. The decision-makers at Netflix had anticipated the forthcoming demand. To view movies and television shows on computers and smartphones, they have modified their business strategy. Netflix's management revised the business model after realizing that customers dislike storing videos.

To gain a competitive edge, Netflix has also adopted a blue ocean strategy. Red ocean strategy refers to competing to outperform rival companies in the same industry, whereas the blue ocean strategy refers to developing a new market for businesses. A new feature that establishes a distinct and uncontested market was launched as part of the blue ocean approach to draw in customers.

From an economic perspective, Netflix was able to make use of the benefits of being the first to adopt new technology, in fact, before others could do the same, anticipating their time of entry into a new market and securing benefits like:

### 1.2.1 Brand Loyalty and Technological Leadership

Being the first to market with or adopt a new technology can ensure leadership in its application. This technological dominance also results in greater market shares even after competitors enter the market, a strengthening of the company's reputation, and a rise in consumer brand loyalty.

The "long tail" was one element that helped the company advance in a positive way (Appendix 1). The term was initially used by Anderson in a 2004 article for Wired magazine to investigate the internet sales trends of companies operating in a variety of industries (movies, video games, music, and books) and discovered that a significant portion of the profits can be attributed to modest but frequent purchases of goods other than the bestsellers. This is made feasible by the virtual world's new spatial dimension, which enables far greater diversity and variety of products and services. All this works best for users who have more freedom of choice because they allow them to follow their personal preferences rather than conform. (Anderson 2007)

### 1.2.2 Right of option on scarce resources

Investing in a new technology first gives the advantage of choice and greater control over the acquisition of scarce resources, such as exclusive relationships with suppliers, a more advantageous location, and privileged access to distribution channels or, as in this case, to licensing rights. It was risky to enter a developing market like the DVD market since the road ahead was impassable and the future of this investment in the US market was uncertain. The cost of DVD players, which was far greater than the VHS players that were prevalent in American homes, was one of them.

The decision to stick with VHS technology caused the corporation a lot of trouble as competitors who were erecting significant hurdles to entry through exclusivity and licenses were imposing restrictions on the diversity and depth of their catalog.

When faced with this decision, Netflix chose the more challenging but potentially more advantageous path. By taking advantage of its rivals' lack of foresight and their negative perception of the business, Netflix was able to start along a promising route of market conquest while putting up hurdles to the entrance into this untapped market.

### 1.2.3 Increasing learning curves and returns

The timing of investments in the development of a new technology is crucial in determining the possibility of its effective adoption. By discussing industries where competitive pressures are convergent on a dominant design, this becomes more pertinent.

When Netflix first entered the video rental industry, it used economies of scale to build its distribution networks. Later, when it entered the over-the-top market, it used economies of scale to fully utilize the internet's capabilities. The business initially relied on a single distribution centre in California. Even though the facility was efficiently run and organized, it was unable to guarantee across-the-country shipping times that were quick enough. Therefore, the number of distribution centres increased to 44 in 2007. Their opening was crucial because it allowed for the renovation of existing warehouses into distribution centres, which cut down on the time it took to transport DVDs and allowed for a quick, large-scale cost recovery. In this manner, nearly all subscribers—about 90%—were able to obtain the titles they had requested within one working day.

At this point, economies of scale were crucial because they enabled the company to raise its margins significantly by lowering the average expenses of establishing new distribution locations and securing an extra service at a competitive price. (Willy C. Shih 2007)

### 1.3 Organizational structure

As regards the organizational structure, the flat organization at Netflix gives staff members lots of independence. It is often referred to as a decentralized organizational structure since it empowers the individual to act quickly. The unitary organizational structure, commonly referred to as the U-form organizational structure, is upheld by Netflix. To foster a positive work atmosphere for employees, Netflix's organizational structure shuns top-down decision-making techniques. It also emphasizes fostering an environment that will help employees perform better at work. The labour division at Netflix seeks to raise performance levels. The authority frequently evaluates the performance. The organizational management team at Netflix is constantly focused on using and upholding the TQM concepts that helped the company become the most well-known in the world.

Netflix's organizational structure is divided into three primary groups: functional, geographical, and products team. CEO, content, communication, talent, finance, legal, and other departments are included in the functional division. The geographical team also includes of local and foreign streaming. The product team manages the operation's effectiveness and oversees the content.

### 1.4 Culture at Netflix

One of the first businesses to adopt such a resolute and outspoken stance on culture was Netflix, and it paid off. The organization has earned a reputation as a performance-driven environment where great achievers go to success.

When it was made available to the public in 2009, the Netflix Culture Deck, which outlined the company's revolutionary culture, instantly gained notoriety.

Netflix's "culture decks" are extensive documents outlining all the guiding principles of an organization's activities. This was accomplished by Netflix with the help of its "Netflix Manifesto," also known as the "Reference Manual for a Culture of Freedom and Responsibility."

The 7 guiding principles are values, high performance, freedom and responsibility, context, alignment, promotions, and market-leading remuneration. (Hastings, Slideshare 2009). By following these aspects, the objectives are to promote employee decision-making, openly, broadly, and purposefully share knowledge, communicate honestly, and retain only the most talented individuals. (Netflix jobs s.d.)

Positive and helpful criticism is a regular occurrence at Netflix rather than just an annual event. Because of this, the company coaches employees and sets an example for the behaviours it wants to see throughout the organization to help them understand how to offer and receive criticism. It is crucial to grow both personally and professionally because it supports the company's dream team.

By giving its employees complete freedom to act however they like as long as they serve Netflix's interests, the company has established itself as a great place to work. Employees are trusted to make the right choice and are encouraged to take significant risks. At Netflix, employees have the freedom to fully exercise their creativity possible while simultaneously being held accountable for their actions.

It is the duty of managers and leaders to encourage staff members to express their genuine opinions regarding novel concepts or choices, especially if they are flawed.

In addition, Reed Hastings personifies the adaptable leader, who takes charge by defining a context rather than a list of objectives. This instructs the organization to experiment while just outlining the guidelines for performing trials. The CEO's job is to lead and encourage the staff while also assembling the greatest team for decision-making and execution. Hastings adds that genuine innovation necessitates diversity in decision-making. (Italiano 2021)

## 2 SWOT analysis

In the following passage, it has been developed a deep analysis of what are the main factors that brought Netflix to success as well as its main issues. In addition, the main opportunities that the current streaming market offers and the threats that the company must face are present.

**Strengths**: The main factors that enabled Netflix to gain a competitive position over rivaling products are:

<u>Reputation</u>: Not only in the USA but also in other nations throughout the world, Netflix is a well-known brand. It is among the most well-known and established names in the internet streaming industry. A sizeable portion of the platform's users is drawn there by the brand name.

Due to its longstanding reputation for providing effective streaming services, users often choose Netflix over its rivals. As a matter of fact, according to “The Best Global Brand” (Interbrand 2022), Netflix is ranked 36, with a brand value of $15.0 billion.

Global customer base: Netflix has a global subscriber base and offers services in more than 190 nations. Netflix has over 167 million customers, which provides it significant negotiating power with the studios to get exclusive programming. In the first semester of 2022, the platform reached over 220 million users (Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 3rd quarter 2022 2022). This is the highest number of customers that any internet streaming service has ever seen. (Appendix 2).

High-Tech: The internet interface for Netflix is user-friendly and well-made. Customers may navigate the app and website freely as a result. It is widely acknowledged as one of the businesses that make considerable investments in technology. The greatest innovation so far is the introduction of artificial intelligence used for the "Play Something" function. For instance, the platform uses AI to choose and start a movie or TV show depending on customer watching preferences.

Authenticity: Since 2013, Netflix has begun making original television episodes and films. Some of them got so well-known that many more people signed up for the platform to access specific content. For instance, Stranger Things, Narcos and more enabled Netflix to increase its popularity among customers. Because the programming is exclusive to Netflix, it has a competitive advantage over other platforms and, as a consequence, people ended up preferring Netflix over its competitors.

**Weaknesses:** What are the main factors that, instead, negatively affect Netflix?

Environmental concern: Leading companies are under more and more pressure to take ecologically sustainable actions. Tech giants like Google, Amazon, and Facebook embrace renewable energy to save the environment. As the giants have promised to utilize only renewable energy for their enterprises, this is beneficial for their reputation. The brand suffers from Netflix's unwillingness to participate in such projects.

According to the well-known "Shift Project", digital technologies have a greater carbon impact than the aerospace industry. Almost 1% of world emissions are caused by online video streaming. (Romain Grandjean 2019)

Nowadays, nations all over the world are endangered by climate change, causing high carbon emissions to constitute a serious hazard. What if countries took the option of limiting Netflix consumption? The effect on the environment would be majestic, but people around the world would look for different sources of entertainment on other streaming platforms or, even worst, would lead people to download movies on Google which represents a seriously illegitimate act.

Growing debt: One of the weakest points that Netflix has been dealing with in the past few years regards the costs to provide varied material to a worldwide audience. As a matter of fact, Netflix has engaged sizable amount of long-term debt in the past; its financial documents reported having $14.69 billion in debt as of December 2021, which indicates a decrease of 7,06% when compared to the previous year (Macrotrends 2022). Despite the decrease registered in 2021, Netflix is planning to keep adding to it more and more debt to keep running (Appendix 3). This may result in a strong solvency deficiency for the company itself.

Internet: Customers of Netflix can only utilize the service if they have internet connectivity. Although some contents are available for download so that members can watch it offline, internet access is still required for the initial download of the content itself. This platform's excessive reliance on the internet could be problematic, particularly in nations with underdeveloped internet infrastructure. In fact, many countries do not have easy access to the internet meaning that, for these countries, it is nearly impossible to download Netflix.

**Opportunities:** The streaming market is a fast-growing market that can easily offer companies such as Netflix the possibility to grow and affirm themselves under many circumstances.

<u>Expansion:</u> Worldwide, Netflix is accessible in several nations. However, it doesn't have any unique material for every nation or language in the globe. To draw in more people, Netflix may decide to diversify its programming to include every language and region. The firm already has the means to bring all the materials together under one roof. It can therefore gain from expansion.

Additionally, Southeast Asian nations, India, and Pakistan should all be targets for Netflix's expansion of its subscriber base. Since English is a second language in certain areas, people there will be more interested in viewing the movies.

In doing so, Netflix should be well aware of the regulatory system of other countries. Indeed, in many nations, service providers like Netflix may be seriously threatened by strict governmental restrictions and regulations. For instance, given China's restrictions on foreign content, Netflix's growth there would be improbable.

<u>Subscribers' plans</u>: Netflix's customers can only choose from three pricing options. Netflix might develop additional strategies to attract more clients. Some clients are interested in a certain material, such as TV series, and would be happy if the company offered a specific package for TV series alone.

Therefore, Netflix may divide its present plans into smaller ones that are suited to certain client tastes. Each plan's cost may be quite low, which will increase the number of subscribers as it would appear more appealing to some niche customers.

Additionally, users frequently subscribe for one month of Netflix service and binge-watch all their favourite episodes in a short amount of time once the service releases new or fresh content. Since customers can cancel their subscriptions without incurring any fees after viewing all the new content, Netflix suffers significant revenue losses. By launching an annual subscription with incentives to entice monthly members to switch to yearly plans, the business can enhance its earnings.

**Threats:** The followings are the main threats that Netflix has to daily face:

Competitive pressure: There are other companies besides Netflix that offer digital streaming in different countries. Every year, its rivals grow more numerous. Disney+, Apple TV+, HBO, Amazon, Hulu, and YouTube are consistently challenging Netflix by providing its users with ongoing access to fresh and original content.

Although Netflix is still considered the first streaming platform in terms of revenues and subscribers, there are many similarities among its competitors that can eventually threaten Netflix.

First of all, their price options are almost identical among providers meaning that, when compared to its direct competitors, Netflix needs to offer a higher level of service in order to achieve more clients. The business model as well is quite similar as all the aforementioned platforms are very client-oriented and implement similar strategies in order to tackle their clients (for example the Advertising Business Model which is very popular and consists of attracting new clients in web advertising through Cookies and many other instruments).

With more than 100 million subscribers, Amazon Prime is one of Netflix's greatest rivals. Due to its ability to produce fresh content naturally, YouTube is also risky. However, YouTube is more of a specialized rival since the business is a bit different and it does not provide a subscription plan for movies.

Piracy: Digital piracy is still a crucial topic as thousands of people find ways to obtain media content worldwide due to expensive monthly fees that they cannot afford. It poses yet another serious danger to Netflix as it “steals” potential new clients in the market.

Netflix’s success was inspirational for the introduction in the market of many new legal streaming platforms which dramatically reduced piracy. Despite that, piracy is still at its peak, the so-called "streaming wars" is not over yet.

According to statistics from Dataprot.net, “126.7 billion viewings worth of US-produced TV episodes are pirated every year.” This has major effects on the movie industry as well as the music industry and any other legal streaming platform around the web. It is a big threat for Netflix since it is said in the same research that more than 80% of global online piracy is linked to illegitimate streaming services. This is revealed to have an enormous impact on the economy of the country and, as a consequence, on Netflix subscribers. As a matter of fact, in the movie industry, the annual global income losses due to digital piracy range from $40 to $97.1 billion in the USA.

Netflix is highly threatened by piracy as the more customers find benefits from illegalstreaming, the more Netflix loses new potential clients. (Spajic 2022)

## 3. PESTEL analysis

To have a better understanding of the environment in which the company works, it has been conducted a deep analysis using the PESTEL framework. The latter is hugely applied by many companies during corporate strategic planning and corporate risk planning as it gives the management Team a great overview of the political current situation, the economic trends of the market, the social impact of the company, the most favorable technological incentives, the environmental pressures and, finally, the policies and laws in force.

- **Political Factors**

All governments in all countries act to some extent as an organizational structure to limit or promote media agencies, and this opposition between structural constraints and agency also applies to the media and political world. Netflix in the United States also faces this problem. Our research focuses on the following:

- Regulatory restrictions and cable threats
- Countries and regions have limited access
- Political power
- Legal rulings

As a streaming giant, Netflix is regulated by the FCC and needs to meet the institutional conditions and legal requirements of the United States. Netflix supports the protection of intellectual property and piracy, and actively protects users' personal data from being leaked. In addition, Netflix is also subject to the U.S. National Competition Regulation and is not subject to antitrust laws. From a cable threat perspective, the merger of AT&T and Direct TV poses a huge threat to the company, which led Netflix to send its concerns to FCC officials.

Netflix is currently operating in more than 190 countries or regions around the world, but this is not all countries. Legally, the U.S. government prevents companies from operating in countries such as North Korea, Syria, and Crimea. At the content level, Netflix offers an extensive list of content, but in some countries, companies can only share content that is licensed by the state (TV station). This is similar to drawing concentric circles with a large difference in radius, even if there is more content, the overlapping parts under multiple filters are limited. At the censorship level, U.S. restrictions are not the only obstacle. Censorship policies also affect the company's business expansion, in China, for example, Netflix must obtain permission from the Chinese government to operate in China, according to which series or movies need to be reviewed. For Netflix, limited access is an important issue to be addressed.

Netflix, as the main online streaming media, has subverted the media development path to a certain extent. (Avery 2022)

Not only that, but friendly dealings with parties will also determine the fate of the company. Susan Rice, a former national security adviser to the Obama administration, joined the company's board of directors in 2018 and has since signed $143 million worth of original programming deals with Obama stakeholders. In addition, the Netflix CEO has a track record of friendly exchanges with the Democratic Party, including campaign contributions for presidential candidates. The alienation of the right has stirred up right-wing dissatisfaction with Netflix, which they denounce and urge like-minded people to unsubscribe, which also makes taking sides a very important political influence.

As a local company in the United States, Netflix's development in the European market has not been smooth. In 2018, the European Union voted to announce its ruling on streaming platform European content, giving Netflix and Amazon two years to develop 30% of the content in their video libraries as European content, while paying a 26% traditional media tax.

- **Economic Factors**

New media has played a positive role in promoting modern social and economic development, efficient information dissemination and two-way interaction have accelerated the economic development of all walks of life, changed people's consumption habits and consumption patterns, and spawned the new media economy. On the contrary, economic development is also affecting the business expansion of the new media industry. Based on Netflix's unique monetization model, the following aspects are analyzed in order from outside to inside:

- Weak dollar and exchange rate
- Covid-19
- Amazon and other competitors
- Add subscribers and business models

As a multinational company operating worldwide, Netflix's global business involves the exchange rate of many countries. Weakness in the U.S. dollar or other major world currencies could affect Netflix's bottom line, forcing customers to pay more for subscriptions. It also means that companies need to spend more money on channel building and content production.

For other services or media, such as catering, travel, etc., Covid-19 is a big bad news. However, it turns out that Covid-19 has been a boom for streaming giant Netflix. The annual revenue and net income of Netflix during the pandemic year of 2020 has increased by 26.19% and 98.48% respectively. It is reasonable to think that this is mainly due to the decrease in the number of people going out. More time to work remotely and learn remotely also opens up new opportunities for video media companies.

Also, with the advent of more and more streaming services, customers can have more content choices. Whether it is the package price or the subscription content, it is worth for consumers to repeatedly compare before subscribing. Netflix's price increase has been somewhat higher than that of its peers Apple and Disney, which has made many subscribers distressed.

The most noteworthy is Netflix's unique business model. The company's most important growth secret is user growth as the only KPI. The horizontal merger of Disney and Fox and the vertical merger of Warner Brothers and AT&T are both designed to exploit Netflix's bundled strategy of selling movies. (Michael D. Smith 2019)

In the startup stage, Netflix entered the market as a revolutionary, and in order to attract users, Blockbuster paid per visit, Netflix paid monthly, and the price was much lower than that of Blockbuster. In the streaming media business stage, in the face of the advertising model of new platforms such as YouTube, Netflix chose to abandon advertising in order to maintain high user growth and created its own differentiated advantages. Whether it's taking into account user sentiment or continuing to invest in user growth, Netflix follows fan preferences and continues to build a company library to help the company steadily increased its monthly subscription rate. Of course, the reduction of some high-quality programs and increasingly high subscription fees have also caused dissatisfaction among some users.

- **Social Factors**

This refers to any change or evolution in stakeholders' perspectives on life and leisure, which might have an impact on business operations. Social aspects include, for example:

- Age
- Gender
- Purchasing power
- Social class
- Salary

- Consumer behaviour

In comparison to the economic considerations above described, social issues may appear as a minor factor. However, they can still have a startlingly disproportionate impact on whole sectors of the economy.

In this sense, Netflix is playing a predominant role in the streaming market. For the reasons analysed in the market analysis, consumer behaviour, when it comes to watching movies, has deeply changed over the last decades. This shift toward a more “comfortable” and “easier” way of watching movies given by the streaming industry depends on the customer segmentation considered. For instance, the consumption of Netflix is strictly connected to the gender, age, purchasing power, and social class to which the consumer belongs.

Indeed, Netflix's success has been greatly attributed to its influence on social media promotion as well as the fact that it focuses more on younger audiences. Given that YouTube and other streaming services have rendered television useless for younger generations, they have examined and predicted the future market. The question Netflix probably addressed to itself was the following: why wait for a specific program to air on television at a specific time when you can watch it whenever you want?

Both how to draw in their desired audience and how to provide them with what they wanted were skills they already possessed. A significant investment in marketing research was necessary for this and it has turned out to be crucial to gain its success.

Here, there is a glimpse of the target market and the generation that brings the most favourable feedback. The younger generation, known as Millennials, has the most interesting viewpoint. This implies that they are also the group of people who most frequently use Netflix's streaming services. This is crucial information because it tells Netflix how and, more importantly, to whom they should advertise their service. By considering the social component, Netflix may choose how to sell the service more efficiently to an audience that might not have a favourable impression or is just unaware of it.

Apart from the final aim of individuating the perfect target to tackle, the social cluster of the PESTEL analysis for Netflix has another important output, namely the lifestyle attitude of customers and, more specifically, the health consciousness inside society. In fact, has been demonstrated that Netflix has a strong social impact in terms of people's health both physically and mentally. When people are flatted and upset, they often take refuge in a movie that can somehow reflect their current feelings and make feel them better. On the contrary, when people are happy and surrounded by friends, they might feel joy in watching movies as a way of spending time together. On the other hand, as deeply developed in the paragraph entitled "Binge-watching", Netflix may have a bad effect on people's health. All this has an enormous impact on the strategies and marketing decisions Netflix is considering embarking on.

- **Technological Factors**

Technology is pervasive in today's business environment and is evolving quickly. Both management teams and analysts need to be aware of potential technological effects on an industry or business. The technological factors to take into account might be:

- Automation
- The potential effects of research and development (R&D) on prices and competitiveness
- Technological foundation (like 5G, IoT, etc.)
- Internet safety (cybersecurity)

Depending on the business model of the company, one factor might have a stronger impact than others. For instance, since Netflix is an online-based service, technology is crucial to their business. Patents, copyrights to trademarks, and other types of intellectual property are very significant to Netflix. To stream their content, they require ongoing intellectual property updates from third parties, and this is strictly linked to the level of technology applied and other government policies in force. For instance, the advent of 4K televisions has significantly affected Netflix. In fact, in the USA the purchases of up-to-date 4k television have increased a lot, therefore, the firm has put in place procedures that will give the required quality to ensure that Netflix subscribers may access their material in 4K quality. However, their current difficulty is preventing the use of a significant quantity of bandwidth to stream 4K video. In this matter, customers expect high-quality content when they subscribe to Netflix. This refers to both the type and the quality of the video. Netflix has developed a method for compressing videos without compromising on quality. You need fewer data to watch the video as a result.

Moreover, Netflix will undergo a significant change because of the advent of 5G technology, which will speed up browsing. The ongoing advancement of technology has made it possible to produce fresh material frequently and download content in a blink. In addition, with the aid of AI and fast-speed connections, Netflix has been able to develop and use a variety of algorithms and machine learning to serve its consumers and deliver shows and movies based on their preferences. As a result, their user interface flows like a river and allows for simple tap-to-play content.

Another technology-related topic that represents a big threat to Netflix, is cybersecurity. Especially in recent years, the latter has moved from the IT department to the board room. It has become a priority at every organizational level as attacks have increased in number and the potential penalties, both regulatory and in terms of loss of customer trust, have increased. (Marr 2022)

Every company is adapting to a more controlled system in terms of technologies to prevent, more than heal, cyber-attacks. To improve safety, and to push even further the viewer experience, Netflix has also poured a considerable amount of money into its research and development division. According to their financial indicators, Netflix has invested $2,685M in R&D in the current year registering an increase of 27,03% when compared to the same figure of the previous year. (Macrotrends 2022)

One of the many outcomes of these investments is well visible and accessible to all customers. As a matter of fact, Netflix launched Stethoscope in late February. This is an open-source online application that offers suggestions for enhancing consumer device security. This is a great method to remind consumers of the value of online security measures and cyber threats.

- **Environmental Factors**

As the business community started to understand that changes to the physical environment can create material dangers and possibilities for firms, environmental considerations started to make sense as an addition to the original PEST framework.

There is concrete information about what binge watching, or watching streaming content on Netflix or other services, means according to study done by “Save on Energy”. This study, “Netflix & COVID - 19: The environmental impact of your favorite episodes”, was based on information that was publicly disclosed by Netflix for the months of October 2018 and September 2019, a time span precedes the coronavirus's spread. Data can be overstated then considering the sample to be equally relevant because the corporation run by Reed Hastings has frequently been accused of manipulating its stats. (Mezzetti 2020).

The research shows that in terms of pollution, a movie like "Birdbox," which has had over 80 million views, is equivalent to a trip of approximately 237 million kilometers and the emission of more than 66 million kg of $CO_2$. In general, one hour of streaming video in Europe has an ecological footprint of roughly 55g $CO_2e$ (grams of carbon dioxide equivalent), equivalent to heating up an electric kettle three times.

- **Legal Factors**

A legal factor is one that results from changes in the regulatory environment and may have an impact on the overall economy, a particular industry, or even a single business within a given sector. Industry regulation, operating licenses and permissions, employment and consumer protection regulations, and IP protection are examples of this type of factor (Intellectual Property).

As regards licenses and permissions, many TV episodes, and movies, including well-known ones, are acquired exclusively by Netflix. Every year, the corporation invests a significant amount of money—several million dollars—in the licensing of works created by others to restock the subscriber-accessible collection.

In terms of legislation protecting workers, Netflix maintains an inclusive and belonging policy (e.g., by reflecting different religions, family obligations, gender identities, or disabilities).

In addition to this, in the workforce, women make up half (47.1%), including in leadership positions such as director and above (47.8%). Additionally, people from one or more underrepresented racial or ethnic minorities make up nearly half of our workforce (46.4%) and leadership (42%, director and higher levels). Black workers now make up 8% of the workforce and 9% of the leadership in the US, having doubled in the last three years (directors and above).

The organization also wants its workers to feel like they belong and at home. If they experience representation at work, this is likely. Representation can appear at many organizational levels, in casual conversations, and in virtual meeting spaces. Employee Resource Groups (ERGs), for instance, are groups of coworkers that come together to discuss common interests and experiences.

## 4. Netflix's Porter Five Forces

### Competition in the Industry

The analysis of Netflix's rivals demonstrates that there is a lot of strong competition in the market.

It has become quite easy for companies like Amazon, HBO or Disney to enter this kind of market. Competitors who offer more extra services and have more control over content are therefore serious risks to Netflix. Just by considering some of the most, non-Netflix originals, popular shows like *The Office* and *Friends* have been taken away from Netflix as they lost their rights to be on their streaming service when Warner Media launched HBOMAX and Comcast launched Peacock Premium, something which has taken a toll on Netflix's numbers and really showed the potential danger of this competition.

As between 2022 and 2027 the revenue is projected to have an annual growth rate of 10.72%, there will be quite a few chances for these companies to make their moves and take advantage of the market which will cause an enormous rivalry in the next years. (Video-on-Demand - Worldwide 2022)

### Threat of new entrants

Content is the biggest requirement for any company that is planning on launching a streaming platform. The risks and costs associated with developing or licensing new content are substantial; moreover, as the leading platform, Netflix has an advantage over new entrants in that it can contract with producers.

Only a few newcomers to the market are successful since it takes time to fully understand what customers want, and these ones have had this time and have the power and the rights to distribute a lot of content to their customers.

Over the years, Netflix has gained plenty of customers and market trust. Because of its original material, it is regarded as a premium content provider.

One thing that has been giving Netflix an edge is its recommendation engine which has been keeping viewers captivated and helps the company saving around a billion dollars a year. It is challenging to create this exclusive technology.

### Threat of Substitutes

In the market, there are not many alternatives to content consumption, so the threat of replacement services is therefore medium.

With the development of technology, many new ways to entertain people have appeared. Social media and gaming are posing a serious threat to just watching a series or a movie. While watching movies is still a favorite activity for older generations, Gen Z prefers playing video games, social media, and music.

As seen in Appendix 4 video games are a serious threat to take into account and even players like Spotify, one of the main sources of listening to music, have a big presence on how people spend their time.

### Bargaining Power of Suppliers

There are not many suppliers, as Netflix mainly provides content that is expensive to produce. Due to the scarcity of suppliers, they dominate the market. Netflix has a variety of ways to obtain the content it provides, including by producing original TV shows, licensing existing shows, and purchasing exclusive distribution rights to shows made by other companies.

The past couple of years truly shows the power of the suppliers. For instance, as previously mentioned, some of the most watched shows on Netflix were taken away due to the loss of their rights.

### Bargaining Power of Customers

Customers have relatively little switching costs because practically all services are provided at very little price differences. Every customer has the option to stop using the service at the conclusion of each month without facing any repercussions and because there are so many alternative entertainment options, consumers have gained more power, and with the raising of a lot more options recently has only contributed to the increase of this power.

The biggest thing that Netflix needs to worry about regarding this problem is to keep creating and distributing content with a higher quality. The latter is, in fact, one of the most important factors when a customer is choosing a streaming service or even changing streaming services.

## 5. Netflix in the Market

### 5.1 The Market: What is entertainment?

Everyone needs something to fill their free time, besides work and school or any other activities standardized in everyone's day-to-day. People try to cure this boredom by doing any activity that brings joy, fun, pleasure, etc., anything really that "entertains" them.

Everyone is different and requires different things to retain attention, as the culture that surrounds people, also affects the way they think and act. By considering each individual taste, the Entertainment market has been adapting to be able to provide products to every different type of person to satisfy their entertainment needs.

Nowadays there seems to be an unlimited number of ways that people can entertain themselves with, especially since the start of the internet, people have found ways to entertain themselves in ways that no one could predict a few decades ago. The community right now does have things like movies and other kinds of content to spend their time on without even leaving their homes.

### 5.2 Market Analysis

The Entertainment industry was quite different when Netflix was launched, so there is a need to compare this market back then and how it turned out to grow through the years until the current days.

Starting with the Film industry, in that era people were faced with great filmmakers and the release of iconic movies. In order to have access to them people had to go to a movie theater when they were released to the public, or if they waited a while after a movie release, they would be able to watch the movies on a VHS or a CD.

One thing that also added a lot of value to this industry was the video rental stores like Blockbuster that allowed families to consume a lot more content in a more affordable way. These days, this industry keeps surprising us releasing each year more movies than the previous. Besides that, one genre that has brought a lot of attention to this industry and a lot of revenue is the superhero genre. Superhero films have been around for a while, since the mid-20th century, but since the early 2000s, there has been a surge of these films attracting attention andlining the pockets of those in the industry, which has grown by leaps and bounds since then.

Another way that families also used to spend their time was by watching regular television, which was a major form of home entertainment. The 90s was also considered a golden age for television shows, delighting their audience with iconic shows like *Seinfeld*, *Saturday Night Live*, among many others which really kept people glued to the tv screen whenever they wouldbe on (Encyclopedia n.d.).

Videogames had a huge presence in kids' and teenagers' lives, when two major players were competing, Sega and Nintendo, selling millions of consoles like *Genesis* and *Super Nintendo*.

Right now, the Gaming industry is the biggest one in current entertainment, having continuous growth through the years, with a revenue of 235.7 billion dollars this year alone and with a huge, expected growth rate in the next few years (see Appendix 4) (World Economic Forum 2022).

The Movie and Music industry also hasn't stopped growing with its global market size reaching 90.9 billion dollars, having movies a share of 55.4% (see Appendix 5). This market size is predicted to grow at a rate of 7.2% until 2030 (Grand View Research n.d.).

This growth that has been happening in these markets is the outcome of years of technological development, an acceleration in production, and the culture that has been developing in the world of an increase in consumption of these types of content.

In addition to content consumption, there are various means of entertainment. One big way that has been present in our society for a very long time is the Casinos. People may go to these for more than one reason, but the two most common ones are to make money or to simply have fun with friends and entertain themselves.

Even though most people know that they will lose money entering a casino they also are aware that with the right mindset they will be able to have a couple of laughs and even possibly hit jackpot. Casinos have always been masters in keeping people entertained inside their facilities and keeping them as long as they could, using methods like flashing lights and machine reward sounds to keep their dopamine levels high, and providing some kind of services like bar service and spectacular shows, giving them even more reasons to come to their establishment.

### 5.3 Netflix in this market

Netflix entered this market with the goal of providing its clients a way of entertainment, trying to give them the possibility to consume content more easily rather than renting videos. The initial idea was the one of pushing the service further compared to what others players did. In fact, companies like Blockbuster were physical stores where customers needed to go in order to get the movie. On the contrary, Netflix tried to implement a new business according to which the client would receive the chosen movie at home, by simple mailing.

But over time, Netflix realized that it had to act to differentiate itself from the competition, so it focused on trying to find a way to provide its consumers with its content in a different form from what was being done in the current market.

Later in 2007, Netflix changed its business model by creating a streaming platform where their customers could pay a monthly fee and get access to all their content, revolutionizing the way people consumed this kind of content, using the evolution of technology to their advantage, becoming one of the main ways for entertainment.

Every market is like a force of nature that requires evolution. People's needs are constantly changing and growing, and in this market, the consumer is not loyal to one company, but is always looking for the best opportunities for himself and keeping up with the latest trends.

This adaptability to the new technologies really showed how this market needs to adapt to the development of society or you may be left behind, as was the case for Blockbuster.

## 6. Financial figures analysis

In the second quarter of 2022, Netflix achieved revenue of $7.970 billion, a yoy (Year-on-Year) increase of 1.30%. The net profit was 1.441 billion US dollars, down 9.77% yoy. Under the influence of inflation, increased competition, and foreign exchange changes, the market did not expect much from Netflix's performance in the second quarter, especially regarding the growth of paying users.

However, the actual results came out, and they were not as pessimistic as the market thought. The most eye-catching data in the financial report for the second quarter of 2022 is the loss of users (970,000), which is lower than management's guidance and market expectations (2 million), and the more pessimistic expectations of some core investment banks (2.5 million to 3.5 million). From the perspective of different regions, the difference in expectations mainly comes from the two emerging regions of Latin America and Asia Pacific. The North American region has lost users for two consecutive quarters, and the market ceiling has been visible to the naked eye. Foreign investment banks predict that the market space of paying users is 80 million, and Netflix's penetration rate has exceeded 90% (Appendix 6). (Netflix Investors 2022)

In terms of broken-down business, streaming media revenue increased by 8.7% yoy, mainly driven by the growth of single-user paid ARPU (Average Revenue Per User).

As a sunset industry, the DVD business has maintained a decline rate of about 20%, and the proportion of revenue has been very small. Management's revenue guidance for the third quarter was $7.8 billion, up 5% yoy. Suppressed by exchange rate changes, the growth rate after excluding exchange rate effects was 12%, implying the expectation that the business development would be relatively stable and would not be significantly damaged by factors such as inflation and competition. Total revenue guidance remains below consensus expectations of $8.1 billion. Management is also conservative in its user growth guidance for the next quarter, expecting a net increase of 1 million, below the consensus estimate of 2.4 million. (Appendix 7)

The change in cost structure was explained by a decrease in severance pay (Netflix laid off nearly 500 employees in the second quarter) and impairment of some office space, which combined to approximately $150 million in non-operating costs.

After adding back this part of the expenses, the gross margin was basically in line with market expectations. In addition, the higher cost of content is also a cost change factor. Cash flow pressure increased in the second quarter of 2022 due to the redemption of the acquisition of Next Games Studios. Free cash flow under non-GAAP was close to $13 million, down from $800 million in the previous quarter.

However, management mentioned that it expects free cash flow for the full year 2022 to be $1 billion, implying a total net inflow of $200 million in the second half of the year.

In terms of regions, mature markets such as North America and Europe continued to lose users, decreasing by 1.3 million and 770,000 respectively month-on-month, and the penetration rate showed obvious signs of peaking.

The two emerging markets of Asia Pacific and Latin America mainly played the role of user growth, increasing by 1.08 million and 10,000 respectively. Latin America's growth may be related to Netflix's introduction of "account-sharing packages", in which a family account can be used by 2-3 new families for an additional lower price. (Appendix 8)

By the end of 2021, the total revenue in North America was US$12.972 billion, accounting for 44% of the total revenue; Europe, the Middle East, and Africa followed, with revenue of US$9.700 billion, accounting for 33%; Latin America and Asia Pacific accounted for $3,577 million and $3,267 million, accounting for 12% and 11%, respectively.

However, from a single-quarter perspective, North America's revenue share has decreased from 48.9% in Q4 2019 to 42.9% in Q4 2021, while the Asia-Pacific region increased from 7.7% to 11.3% in the same period, doubling from $418 million to $871 million. (Appendix 9&10)

For future user growth, Netflix remains focused on controlling the "account sharing" feature that can inspire 100 million potential users. From the perspective of the regions that Netflix first promoted, account sharing mainly exists in emerging markets. Although the scale is not small, the value of a single user is not high, so for Netflix itself, the final revenue increase may not be significant. (Appendix 11)

At the beginning of 2022, the price increase effect in North America began to appear in the second quarter, although it will increase the loss of users.

However, recently Disney's ESPN+ also announced that it will start raising prices in August, and the price increase is large (the standard version price from $6.99 to $9.99), so the pressure brought by Netflix's price increase at the beginning of the year on user growth can be relieved after peers raise prices. (Appendix 12)

According to Disney's Q4 financial report for fiscal year 2021, its streaming platform Disney+ added a total of 44.4 million new paying subscribers in the fiscal year, nearly 2.5 times more than Netflix.

Disney+, ESPN+ and Hulu, Disney's three major streaming platforms, added a total of 58.4 million subscribers, bringing the total number of subscribers to 179 million as of October 2, 2021, reaching nearly 84% of Netflix subscribers in the same period. AT&T, the parent company of Warnermedia, also disclosed in its Q4 earnings report that the total number of users on its streaming media platform HBO Max and HBO was 73.8 million, an increase of 13.1 million.

In order to fend off competition from platforms such as Disney+, Netflix's costs increased significantly in 2021. According to NetflixQ4 financial report, its content cost (Additions to content assets & Change in content liabilities) in 2021 was $17.469 billion, an increase of nearly $5 billion from $12.536 billion in the same period in 2022

## 7. Introduction to Binge-watching

There are several problems that, indeed, negatively affect Netflix. Some of them are strictly related to Netflix's bad administration and strategies that have proven to be misleading, others are the so-called "Exogenous factors". The latter mainly refers to those external elements such as the environment, demographics, culture, and many more that can easily influence the business ongoing and that Netflix cannot control. In general, regardless of their entity, these problems can be grouped into different clusters depending on their nature: economically related, sociocultural-related, environmentally related, etc. In the following paragraphs, it will be given an instance of a sociocultural threat that Netflix has been dealing with, and a possible solution to mitigate it.

### 7.1 Question I: What is one social-related problem that Netflix is facing?

**Answer I:** Binge-Watching: The problem

With the introduction of new video streaming services, which provide an alternative approach to the well-known television methods of delivering series episodes to subscribers, the term "binge-watching" has been introduced. The latter refers to sitting in front of a screen for a prolonged amount of time while watching five, ten, or fifteen consecutive episodes of a TV show

### 7.2 Question II: To what extent does this problem relate to Netflix?

**Answer II:** Netflix and the Being-watching concern

The term Binge-watching gained great popularity when Netflix first started airing unreleased television series and making complete seasons simultaneously available in early 2013. It is possible to watch them one after the other as if they were one big movie that lasts ten times longer. A miniseries often lasts 10 to 15 hours, while a series split into multiple seasons may last up to 5 or 6 days in total. This phenomenon of binge-watching has become more easily associated with miniseries, which are dramas broadcast in a limited number of episodes. These dramas give viewers an intense desire to see the end, which causes them to be fixated on the television for several hours, days, and sometimes even longer periods of time.

There are millions of people who regularly engage in binge viewing. According to research carried out by Statista in 2020, on average, about 65% of worldwide users have done it at least once, dedicating an average of three days to a television marathon. Another form of this practice is called "binge racing" which indicates watching every episode of a season of a television show within the first 24 hours of its premiere. This practice is primarily practiced by teenagers and young adults and involves approximately 8,4 million people worldwide. (Stoll 2021)

Just to give a hint of the prevalence of this phenomenon, consider that between the years 2013 and 2016, the number of Netflix subscribers who finished a television series within the first 24 hours of its launch increased more than thirty times, from 200 thousand to 5 million subscribers. (Vojinovic 2022)

### 7.3 **Question III:** What is the actual consequence of binge-watching on people's well-being?

**Answer III:** The effect on people's health

At this point, I would like to draw attention to a few crucial issues that emerged during several clinical pieces of research. These studies have prompted discussion about the dangers the practice of Binge-watching poses to people's health. In actuality, binge-watching should be acknowledged as potentially hazardous to consumers' bodies and health if done repeatedly over an extended period. In rare instances, it may even cause a significant impact on health, with both medical and psychological repercussions, for instance:

- Visual disturbances;
- Sleep disturbances;
- Temporal cognition loss
- Relationship, communication, and ethical issues
- Inactivity and Obesity

In 2015, a team of researchers from the University of Texas found that binge-watching is linked to melancholy, loneliness, inability to self-govern, and obesity. As a matter of fact, in this research titled “A Bad Habit for Your Health? An Exploration of Psychological Factors for Binge-Watching Behavior” by Yoon Hi Sung and other scientists, Sung states that “Physical fatigue and problems such as obesity and other health problems are related to binge-watching and they are a cause for concern. When binge-watching becomes rampant, viewers may start to neglect their work and their relationships with others. Even though people know they should not, they have difficulty resisting the desire to watch episodes continuously”. (Gutierrez 2015)

Moreover, other studies (Alexander Ort 2021) demonstrate the potential occurrence of the phenomenon in conjunction with other clinical conditions, such as, for example, binge eating or binge drinking. The common aspect among these conditions is represented precisely by the "filling" connotation that the TV series assumes, as well as food, alcohol, or other objects that take over to replace something that is missing. It could therefore be connoted as an attempt to counter a possible sense of emptiness in which the binge itself and, subsequently, the binge contest, seem to take on a "relational" value.

Also, a study carried out in 2017 by Jan Van den Bulck, coordinator of the Journal of Clinical Sleep Medicine, demonstrates the problem of sleep disturbances related to binge-watching. In particular, the study covers a sample of 423 people between the ages of 13 and 49 and focuses on how much sleep quality affected the individuals' habits of watching media, such as movies and television shows. The study's findings revealed that 75% of the sample, who identified as binge-watchers, had a 98% higher likelihood of experiencing insomnia than the rest. In this context, the author also used the term "cognitive arousal" to describe the mental state that results from the emotional escalation of the TV show, which triggers a mechanism for brain overstimulation, such as making sleep difficult (Liese Exelmans 2017)

### 7.4 **Question IV:** What strategies might Netflix consider to apply to mitigate the problem?

**Answer IV:** The solution

Facing the issue

As previously mentioned, many pieces of research show that, nowadays, young people do not practice enough sports and, at the same time, they spend way too much time watching TV. What if the two elements might be combined towards a more enjoyable approach to movement?

The idea would be a way through which, with the support of innovation as well as cooperation with different companies, people from all around the world might benefit from doing sport not only from a physical and psychological point of view. In specific, people might get big discounts on movie platforms (in this circumstance it will be deepened the case of Netflix) only by doing sports. What if there was an App from Netflix that tracks the customer's daily routine and, based on the results, would pay back its subscribers with discounts? The more sport you practice, the more chances you have to gain different awards.

In the following paragraphs, a deepen research will be developed regarding the feasibility of what was previously described in terms of market trends, implementation, and outcomes of the idea.

Market trends

Although more people are physically active compared to years ago, the average percentage of Americans who participate in sports and exercise each day is still quite low. A Statista survey from 2020 reveals that only 23.4% of adults are engaged in sports regularly (Statista, 2022). Additionally, a World Health Organization (WHO) report from 2018 found that 27,5% of adults globally do not meet the organization's physical activity guidelines, which indicates a minimum of 75 minutes of hard work out or 150 minutes of moderate exercise each week. Moreover, the latest recent statistics show that in 2020, 235 minutes per day were spent on average viewing television across all of Europe. Portuguese TV viewers spent the longest time in front of their television at nearly six hours daily, followed by Serbia, Romania, and Greece. Sometimes watching television might have a great effect on people’s minds. Indeed, it is a fun distraction, it is relaxing after a long day writing the WorkProject, it is quite formative, and so on. Other times it is clear that excessive use can result in serious and concerning health hazards, both physically and mentally.

From a trend to an opportunity

The aforementioned trends, particularly the fact that the number of people watching movies, regardless of age, is rapidly increasing and the negative influence they have on one's health, constitute a strong opportunity for Netflix. As a matter of fact, in their Annual Report published in December 2021, they stated that “Experience and expertise in identifying and developing opportunities for long-term value creation, including experience in driving innovation, opening markets, improving operations, identifying risks, and executing successfully”. This, in particular the fact that Netflix has demonstrated to be open to new technologies and innovations, highlights how keen Netflix is to implement new ideas and innovations towards an outstanding service for clients and how their business model is client-oriented. Concerning this, Netflix has demonstrated, in the past few years, to be very interested in how nowadays people think, behave and react when it comes to movies. As a matter of fact, in an interview, co-founder Reed Hasting states that “If the Starbucks secret is a smile when you get your latte, Netflix’s secret is that the Web site adapts to the individual’s taste”. Netflix is based on and specifies Hasting, three different phycological principles: The Reciprocity Principle; The Cocktail Party Effect, and The Idleness aversion. The first one refers to when a positive action is followed by another positive action. Netflix applies this by asking their potential customer “What one thing would you like to know more about before joining Netflix”. The most frequently given response (46%) was "knowing all the movies and TV shows that are accessible." As a result, Netflix tried out presenting users with the available material on the home page. According to the "Cocktail Party Effect," people prefer to concentrate on pertinent information. The Cocktail Party Effect, however, also demonstrates that, if we dig a little deeper, relevant content can produce amazing outcomes. Netflix calls itself "customer-obsessed" and aims to give users a unique experience. The best illustration of this principle in action is found in their "Top Picks for..." category. Customers viewed more than 80% of the Netflix shows in the previous two years as a direct result of Netflix's recommendation engine. Finally, the Idleness effect refers to the fact that people seem to be happier if they are busy. The application of the latter on the Netflix website is evident when you click on the title, Netflix forces you to watch trailers that automatically play. Many users find this feature to be inconvenient, yet Netflix has certainly benefited from Idleness Aversion and offset the drawbacks.

Takeaways

All this shows that Netflix is trustful, customer caring, and focused on details. Moreover, after careful consideration of the business model of Netflix, and its current and previous strategies it has turned out that Netflix is an open innovative firm. The latter means that it is not limited to its own business but it gathers some information, know-how, strategies, and ideas from the outside. For example, Netflix counts more than 140 partners in its ecosystem, many of which are technology partners such as Megaport and DigiCert.

As a result, the following final question arose: "What if Netflix surfed the wave of the television consumption trend to mitigate an existing and concerning health issue caused by the excess of television consumption itself?"

## The solution

As fully shown in the previous paragraphs, Netflix has all the inputs to implement a solution that is straightforward and can, somehow, mitigate the problem of binge-watching. The solution that will be discussed in the following paragraphs aims to give an overall perspective of how this can be done without contrasting Netflix's values and ethics.

The solution is structured on two main pillars:

1. The App: Netflix Health
2. The Partnership: Gympass X Netflix

### 1. The App: Netflix Health:

Netflix might think of an App that can track the customer's daily routine in terms of movement and exercise and, based on the results achieved, offer a discount plan and other rewards.

#### 1.1 How it works:

1. Download: the App can be easily downloaded for free on the AppStore for any kind of mobile device that has internet access. Although there is no need to have an existing account on Netflix movies to download and use the App, it is well recommended to create one as, without it, the functionality of the App itself would be limited and no benefit could be exploited.

2. Create an account: Netflix Health App requires the customer to create their own account with their name, surname, age, and so on. After accepting the Terms&Conditions and activating the localization (in order to track your path), you are free to use the app.

3. Tracking and AI: From the moment you create your account, Netflix Health tracks everything you do in terms of exercise: how many kilometers you have walked so far, the speed, the slope, and, thanks to the artificial intelligence system it also tracks your Kcal and heartbeat.

4. Awards: every now and again, Netflix Health sends you notifications about the rewards and discounts you can benefit on their movie platform (see following paragraphs for details).

The rewards are proportionated to the effort made to achieve them; basically, the more you train the less you pay.

1.2 <u>Rewards and discounts:</u>

Netflix will use incentives and discounts to strengthen the already existing customer loyalty and draw in new customers. Discounts are based on a strategy according to which the more youtrain the less you pay. In this circumstance, a simple logarithmic equation has been developed thanks to which it is evident how the customer would pay the streaming service proportionallyless as long as he gains his daily/weekly/monthly objective (see details in Appendix number 13 and 13.1). Discounts are differentiated on a daily, weekly, and monthly basis and depending onthe type of exercise performed (light/moderate/hard work-out) in order to give the customer many options and possibilities to have access to discounts. Artificial intelligence is crucial in this manner. Indeed, it can verify if the customer is doing a light workout (a walk in a park) ora hard workout (hit work-out) with the aid of Kcal consumed and heartbeat per minute. For instance, imagine a customer who is very active in sports and trains four times per week, and has a standard subscription plan ($15,99). At the end of the month, the total hours of moderatework-out performed would be sixteen hours meaning that the customer could benefit from a 24% off (computed with the logarithmic equation) on its monthly subscription plan on Netflix

(0,24*15,99$ = 3,8$ of saving per month).

As far as rewards are concerned, the idea is quite the same. In particular, the idea would be the one of introducing a set of contents that the customer can unlock only if he achieves the objective. For instance, some sport-related movies are not included in the subscription plan but, based on how often and how hard you train, they become immediately available. (Netflix Investors 2022)

### 1.3 Potential Impact

From an economic perspective, Netflix will, indeed, have many additional costs such as the cost of Research and Development, cost of production and implementation of the App, cost ofnew personnel, permits costs, marketing costs, and so on. Despite the great investments needed, Netflix will have even more outcomes from different perspectives. First of all, the problem of binge-watching which has been neatly described above would be dramatically reduced. In fact, having Netflix an enormous impact on people's way of consuming time (see statistics in paragraph 6.1 Market trends), any innovation from its side, would be highly appreciated and considered by the customers. In addition, Netflix would appear more client-oriented, client-caring, and ethical meaning that new potential clients might end up preferring Netflix's service over competitors' one. The two outcomes above described, when combined, have a strong positive impact on Netflix's number of subscribers which would lead the company to be even more profitable.

## 2. The partnership: Gympass X Netflix

Gympass: it is a comprehensive subscription that gives you access to the largest selection of gyms, fitness apps, and facilities. It has three different subscription plans:

- Starter: for $9,99 per month, you have access to 70 gyms and 19 wellness apps.

- Gold: for $49,99 per month, you have access to 1.500+ gyms, 25 wellness apps, and a 1:1 class with a personal trainer.
- Diamond: for $129,99 per month, you have access to 2.200+ gyms, 25 wellness apps, and a 1:1 class with a personal trainer.

The particularity of the platform is the one that not everyone can have access to this kind of service. Only workers who have a permanent contract in an office that partners with it can exploit the great advantages this service provides.

## 2.1 The partnership

The partnership between Netflix movie and Gympass has the final aim of broadening access to everyone who has a subscription plan with Netflix. The main concern that Netflix might consider is that the benefits to customers overtake the costs for the company to implement the new service. In particular, the customer could potentially end up paying $16,98 (considering purchasing the basic Netflix Subscription plan and the Starter pack for Gympass) and have in exchange unlimited access to movies and training. Although this might turn out to be very appealing for the customer, it is, indeed, too unprofitable for the company. As a consequence, a possible solution to overtake the problem could be allowing only premium customers to have access to Gympass. The Partnership is not only limited to the service just described. In fact, the gyms that partner with Netflix would have to introduce in their machinery the possibility for customers to have access to their Netflix account while training. For instance, imagine having, while running on a treadmill, your favourite Netflix series in front of you. To what extent do you believe this would get running more enjoyable? Probably, very much (to see how the implementation would look like go to Appendix 14).

Regarding the feasibility, the solution is quite straightforward as nowadays almost every machinery has the screen englobed and gyms would only need to support the costs of implementation of Netflix in the software.

2.2 Potential impact

Generally speaking, partnerships have great benefits for all the companies involved. For instance, the companies take advantage by gaining access to new markets, promoting their brand overseas, by forming partnerships with particular businesses, the company may enhance its reputation and demonstrate the moral principles of your business, by sharing marketing-related expenses and many others. In this case, all these apply. In particular, Netflix should definitely consider partnering with Gympass to be inspirational for those customers who are not involved in sports at all and suffer from binge-watching. Despite this target being very hardto tackle, it is the one that can benefit more from the partnership as customers who belong to this target very hardly give up their favourite Netflix series for some sport; thanks to the implementation of Netflix in the gyms, they can do both things at the same time. Plus, for whoever is pursuing to start being more physically active but cannot afford the high price nowadays gyms ask customers, the partnership is very appealing. As a matter of fact, by subscribing to Netflix Premium, they would have access to the great discounts Gympass offers. For instance, on average, a basic subscription plan in Milan, Italy, costs 150 euros (gym, swimming pool, personal trainer, all classes, and an ad hoc nutrition plan included); with Gympass, the same service for the same gym would cost 129,99 euro per month (Diamond plan, see the above paragraph entitled "Gympass X Netflix).

On the other side, Gympass would have many benefits as well. First, it would have great visibility as anyone who has a Netflix subscription plan would have the chance to get to know the training platform. As a result, Gympass would considerably increase its revenues due to new joiners. Another great advantage Gympass can take from partnering with Netflix is the customer loyalty the streaming platform has achieved during these years. It is not hard to believe that, since Netflix has demonstrated to be very trustworthy and well-established in the streaming market, Gympass, as a direct effect, would gather great trust and reliability among people.

## 8. Conclusion

This first section of the work project had the final aim of analyzing one Netflix issue from its origin to the current situation it is trying to face to end up with possible solutions to mitigate it. As clearly defined in the report, Netflix is, indeed, well aware of the obstacles in the market in which it operates but knowing the enemies does not mean beating them. The binge-watching problem is not something Netflix can fully control and solve because human beings very rarely tend to abandon their “comfort zone”. However, the solutions proposed above do not want to eliminate the problem, but to alleviate the impact that this problem addresses on people’s health.

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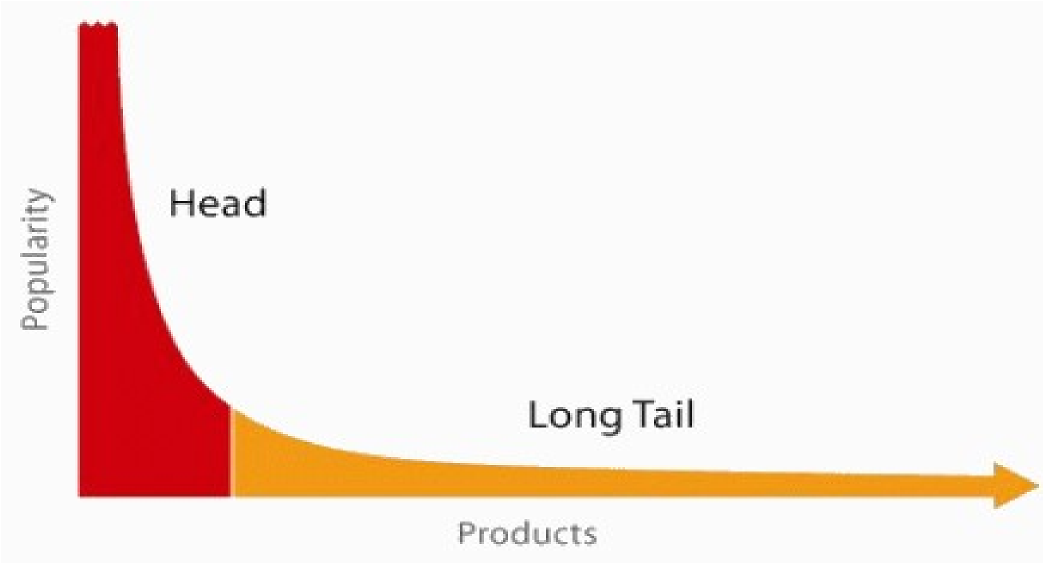
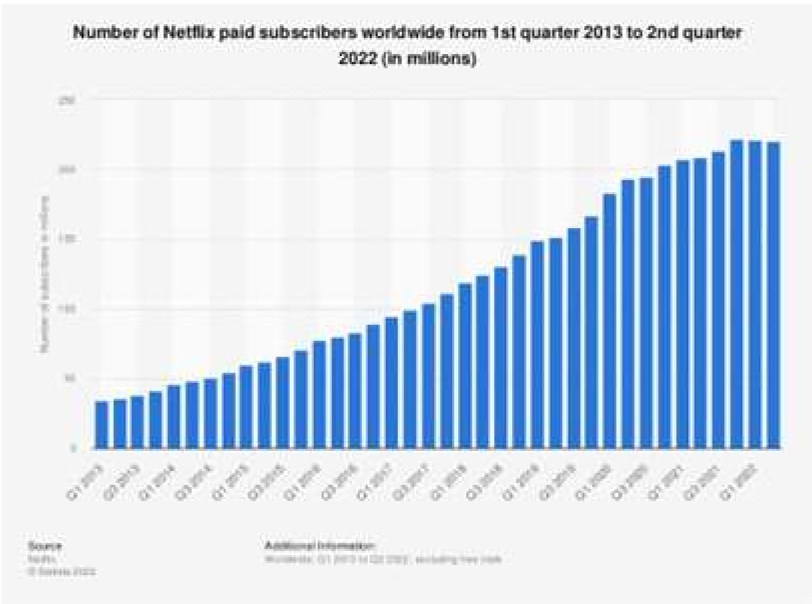
## Appendix

**Appendix 1** – Long tail advantage.



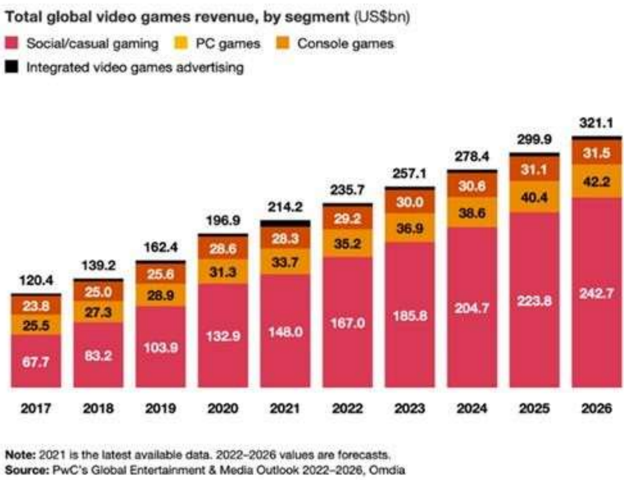

**Appendix 2 –** Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 2nd quarter 2022.



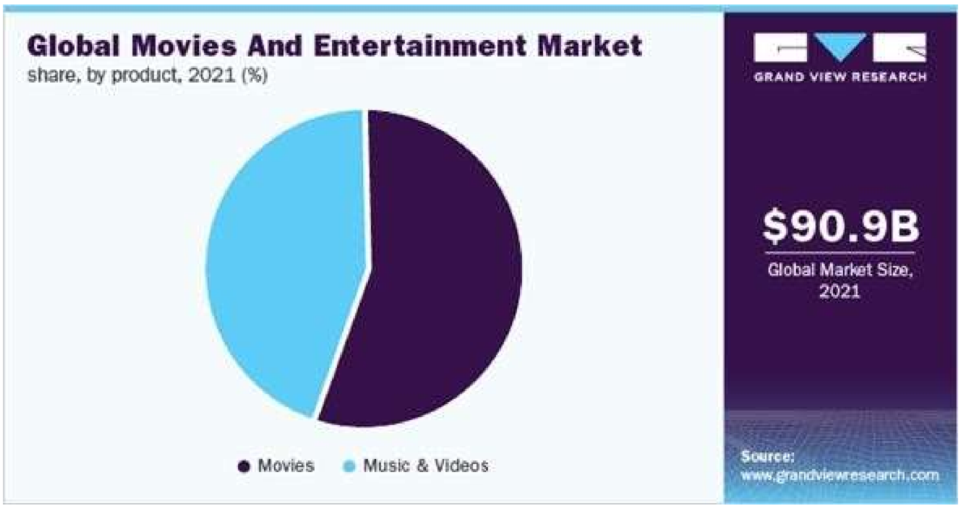
**Appendix 3 –** Netflix annual long-term debt.

| Netflix Annual Long Term Debt (Millions of US $) | |
|---|---|
| 2021 | $14,693 |
| 2020 | $15,809 |
| 2019 | $14,759 |
| 2018 | $10,360 |
| 2017 | $6,499 |
| 2016 | $3,364 |
| 2015 | $2,371 |
| 2014 | $886 |
| 2013 | $500 |
| 2012 | $400 |
| 2011 | $400 |
| 2010 | $200 |
| 2009 | $237 |

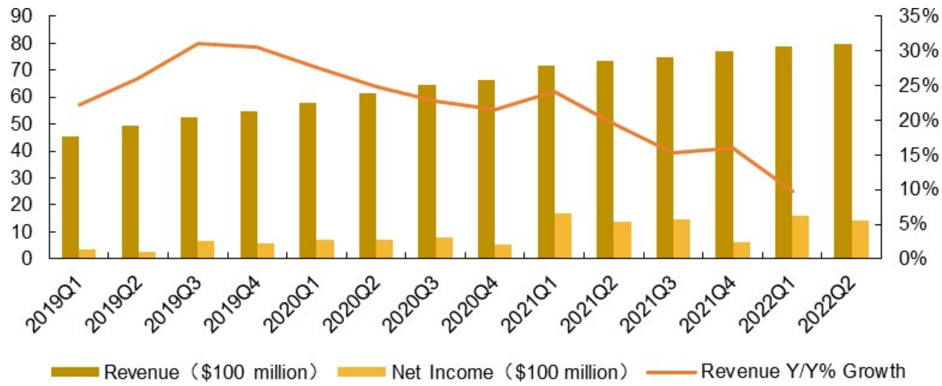
**Appendix 4 –** Video Games Market size



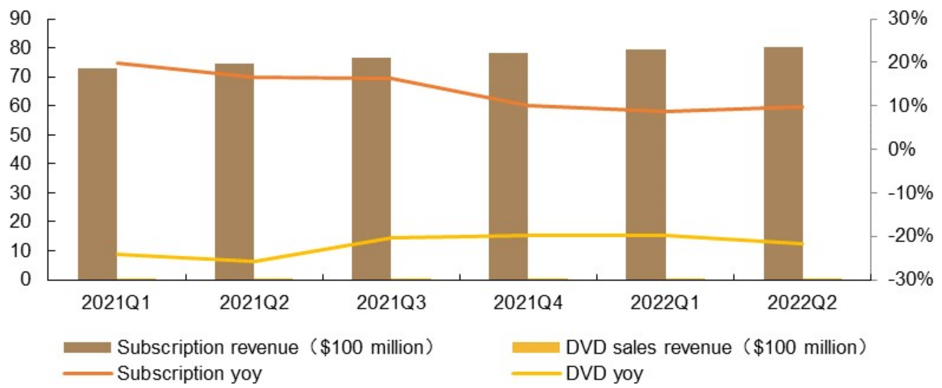
**Appendix 5** – Movie and music industry shares.



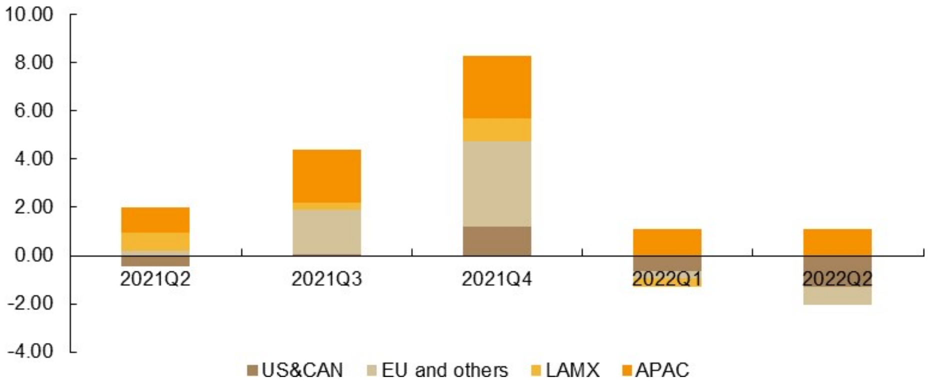

**Appendix 6** - Revenue and net profit for the quarters 2019-2022



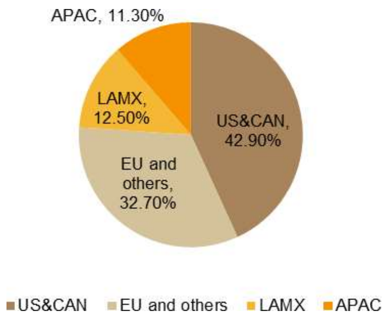

**Appendix 7** - 2021-2022 Quarterly revenue by business

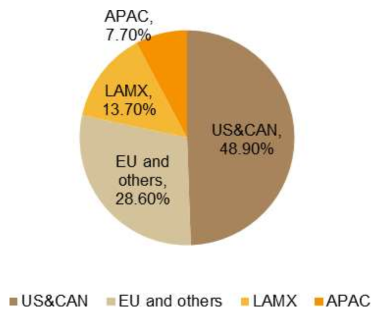


**Appendix 8** - 2021-2022 Paid Membership Growth by Region (Million People)

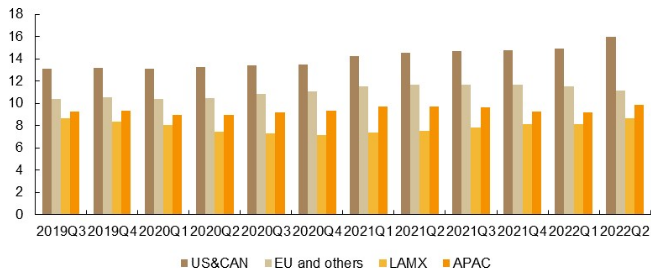



**Appendix 9**- 2019vs2021 Revenue by Region

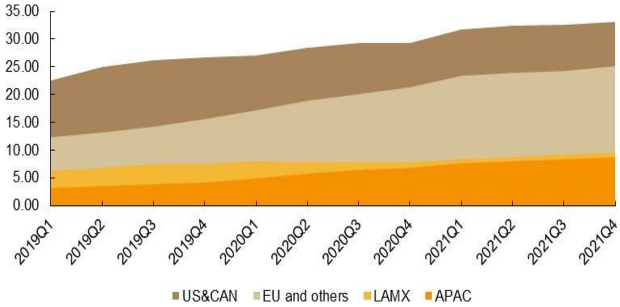



**Appendix 10** - ARPU situation by region 2019-2022 (USD)



**Appendix 11** - Quarterly revenue growth by region 2019-2022 (%)




**Appendix 12** - 2022 price comparison of the same industry

| Media | Price($/month) |
|---|---|
| **Netflix** | 15.49 |
| Disney+ | 7.99 |
| ESPN+ | 9.99 |
| Hulu | 12.99 |
| **Disney All** | 13.99 |
| Paramount+ | 9.99 |
| Showtime | 10.99 |
| Showtime&Paramount+ | 15.99 |
| Amazon Prime | 14.99 |
| HBO Max | 14.99 |
| Peacock Premium | 9.99 |

**Appendix 13** – Correlation between the number of hours of moderate exercise in a month and discount

| Hours trained per month | Discount |
|---|---|
| 0 | 0% |
| 1 | 3% |
| 2 | 6% |
| 3 | 10% |
| 4 | 12% |
| 5 | 14% |
| 6 | 16% |
| 7 | 17% |
| 8 | 18% |
| ... | ... |
| 30 | 30% |

**Y= 0,088ln(x)**

**Appendix 13.1** – Netflix subscription plan per month

**Pricing (US Dollar)**

- **Basic with ads***: $6.99/month
- **Basic**: $9.99/month
- **Standard**: $15.49/month
- **Premium**: $19.99/month

**Appendix 14 –** Netflix on machinery screens