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Summary of WP Student Team

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Han Mengjie	Management	A disruptor who reinvents the logic of the industry and continues to innovate

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A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

NETFLIX: THE KING OF STREAMING SERVICES

Subtitle 1: Binge-watching and Netflix health concerns (by Giacomo Brancadoro)

Subtitle 2: The streaming's dirty secret (by Francesca Duso)

Subtitle 3: Netflix's current downfall (by Tomás Dos Santos Abreu Mota)

Subtitle 4: A disruptor who reinvents the logic of the industry and continues to innovate (by Han Mengjie)

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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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GROUP PART

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 th

at 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:

Reputation: 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.

Expansion: 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.

Subscribers' plans: 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 illegal streaming, 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 flattered 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 CO₂. In general, one hour of streaming video in Europe has an ecological footprint of roughly 55g CO₂e (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 and lining 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 would be 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 Netflix Q4 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 2020.

INDIVIDUAL CONTRIBUTIONS

Tomás dos Santos Abreu Mota

Subtitle: The current downfall of Netflix

7. The current downfall of Netflix

Netflix, for many years, has been praised for all its accomplishments so far, being the most streaming platform on the world, no one would possibly think that this company faces nothing but success in its future, but is that actually what is happening with this multinational?

Netflix was one of the first ones to take advantage of the new developing technologies to differentiate itself from its competitors in this entertainment providers market, but as previously mentioned these technologies keep advancing and start to become more easily accessible to other people/companies. One big mistake that a lot of market leaders sometimes make is stopping to innovate, no longer seeing a big necessity for it, which allows other competitors to catch up or even new ones to appear that try to provide new services to better satisfy the customers' needs. The perfect example of this was Blockbuster on which it refused to adapt to changes and got left behind, in this case Netflix was the asteroid that killed this dinosaur. The society that we live in keeps evolving and its people changing, discovering new ways that they need to be fulfilled and start believing that what they have right now isn't enough for their own happiness.

On the last couple of years, this entertainment business started growing even bigger than it already was with more streaming platforms being developed and improved shaking this market in a way that left its consumers wandering into so many different ways to consume content. With all these changes in this market of course that, even though still positioning itself above

all other streaming platforms, Netflix felt its effects hard, but how did these events really impact Netflix?

7.1 Question I: What indicators seem to show a difficult near future for Netflix?

Answer I: Since its dismal first-quarter financial report, which exposed multiple fundamental flaws in its business model of the streaming juggernaut, Netflix's stock has struggled to recover. A newfound focus on fundamentals in the midst of a bear market and an economy headed for recession has generated a number of problems for the streaming behemoth as its managers and investors are forced to face reality.

Over the last years, Netflix has gathered around 26 million customers per year, a number that has reduced starting 2021 and, for the first time, in this year of 2022 instead of being able to attract new subscribers to its streaming service, Netflix has actually lost subscribers, losing around 200 thousand on its first quarter and losing almost another 1 million subscribers in the following quarter. These numbers were projected to have been even more dire than they were, but something "strange" happened in this second quarter that helped dampen this big hit on Netflix's subscribers numbers with the release of the new season of the hit show *Stranger Things*, as yet again, the show's popularity has directed the eyes of the subscribers to this streaming service (Clayton 2022). As seen on Appendix 2 (Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 3rd quarter 2022 2022), this graph perfectly shows the progress that Netflix has made over the last ten years and that this progress started to slow down.

The executive director of Ampere Analysis, Guy Bisson, stated that this was "inevitable" that Netflix's hold on the market would begin to wane, saying "When you're the leader, there's only one direction to go, especially when a large amount of competition launches, which is what Netflix has seen in the last couple of years" (Bisson 2022).

The pandemic of 2020 helped delaying what was bound to happen, as it helps solidifying Netflix's position, with people having fewer options of entertainment and not being able to leave their houses.

Another big indicator which is really important for Netflix's investors and that has taken a really big hit from the reports of its current state is its stock price which after years of regular growth, with some ups and downs across the years, has plunged down, losing almost 75% of its value in a matter of six months, shown on Appendix 13. Even though, in the following months, Netflix was able to recover some of this value it is still a big red warning of what it is currently happening.

After analysing these occurrences, it becomes more clear the current dangers of the market in which will need a more extensive examination on the factors which are making this happening like their competitors and economic and social factors.

7.2 Question II: Why is Netflix losing subscribers?

Answer II: It is undeniable that Netflix's subscribers are not happy, and that there appear to exist some different factors that are making a lot of them unsubscribe.

The first of them is the price changes. Netflix tries to increase its profits from the same clients that it already has, which may be a good tactic in some situations, but in this case this strategy may have backfired. Regarding mainly the "standard" Netflix's plan, in the US, just a few years ago, 2019, its price was set at 11\$ which for a lot of people seemed as a reasonable price for its service, in the beginning of this year this price was at 14\$ and right now it has increased to 15.49\$. Not only in the US, but also in the UK Netflix's plans also increased by 1£ since January.

Guy Bisson also spoke regarding this problem of Netflix's price stating that "At some point, yes, they're going to reach a threshold where a significant number of people say enough is enough, because of the additional choice... price hikes are a riskier strategy.", also agreeing with the peril of this tactic.

As the cost of living keeps rising up its subscribers start to look at ways to cut their expenses, and with this increasing Netflix's prices, this streaming service appears to be a good way to save some money not bringing the value it used to.

Another big problem that is also affecting the levels of happiness of Netflix's subscribers a lot is the current content available on the streaming service. This problem can be seen from many different angles, on the one hand audiences are becoming to spread their tastes along many different genres and as for new sign-ups that come from an older generation with different tastes, creating a need for a more diverse content with the standards that is expected of Netflix, and in the other hand you have the consistency of the quality of the actual content that is put on this streaming service which receives a lot of different reactions, with its original shows and movies being considerate fantastic or just something to fill more content on the platform. Even according to tv critic Hayley Campbell she states, "I think Netflix is losing numbers because it keeps pumping out endless shows without stopping to check if they're good" and also "ratio of rubbish to brilliant is way off". It is true that some different shows have really helped Netflix like the previously mentioned *Stranger Things* and others like *Squid Game* and *The Crown*, which made an enormous success worldwide, but you can't only make a handful of great content leaving to your subscribers most of the time only mediocre content for them to consume while they are waiting for Netflix's next big success. Something that seems to happen a lot is the fact that Netflix is too quick to pull the plug in a great deal of its shows, not giving them a chance to grow and enlarge its audience, also making early fans of this shows mad for not being able to see these shows for more than 1 season due to the fact that it wasn't an instant success.

In the last couple of years, it started to appear more streaming services from other established companies. This poses an incredible threat to Netflix as it relies basically only on streaming. There were some tries in the mobile games industry with a very small effect, and it still has a DVD rental operation but not anything like it once was. This is more worrisome to Netflix as for its competitors it is just another source of revenue for their parent companies.

This relatively new rivals affect Netflix's success in more than one way, first of all they offer cheaper packages going around 5 to 10 dollars, they also provide more features like Paramount+ providing live sports coverage and Disney+ coming as a bundle that also includes Hulu and ESPN+, and they also have pore in demand property, something that really gives them an hook to attract new subscribers, for instance the popularity of superhero content is "super" high right now, bringing a lot of attention to Disney+ with their MCU films and to HBO with its DC Comics content. Not only that Disney+, very cleverly, was able to appeal to the sense of nostalgia of the more mature audience with Disney and Pixar's classics and similar new content that they also enjoy.

Another way in which the rivals are cracking Netflix's business plan is by taking away a lot of its materials. Netflix was once known for being a streaming service where you could watch it all, being mainly provided by third parties content, but now some of this parties decided to profit from Netflix's popularity by starting their own streaming services and making their content exclusive of their own. With this happening Netflix is losing content left and right as each time they have to pay more for outside content, which has been one of the drivers for their price increase, and right now its compelled to depend more on its originals and smaller third-party producers. This situation does really bother the consumers, as at one point in time they could be happy just subscribing to Netflix for almost everything they wanted but now they have

to subscribe to a considerable number of streaming services to have access to all the content they want to consume, leaving them frustrated and with some tough choices to make.

7.3 Question III: What is being done by Netflix to recover from their current situation?

Answer III: Observing the current state of the company, Netflix knows that it must take action. As their current subscribers and potential new ones are being taken away by the competition or even by family's expenses cuts, Netflix is planning to do something that goes against its original business model, which is based on monthly subscriptions, and use a thing that it never desired to use... ads.

In 2023, Netflix intends to launch a tier of its streaming service with advertisements. The co-chief executive Ted Sarandos better explains this situation for the ones who are concerned that their streaming service will change drastically by saying “We're not adding ads to Netflix as you know it today. We're adding an ad tier for folks who say 'Hey, I want a lower price and I'll watch ads',” (Sarandos 2022).

So how much potential does this new Netflix tier have? In Netflix's second-quarter earnings call, the COO Greg Peters has stated that “We've seen a lot of excitement in our early discussions with brands,” (Peters 2022).

Researchers believe that with the potential for technology development and Netflix's desired content might lead to the company earning up an extra couple of billion annually. The amount of domestic ad sales is estimated to be \$1.2 billion, even at the low end. The majority of analysts predict that Netflix will bring in somewhere in the middle of \$2 billion and \$4 billion in ad revenue annually.

By creating this option, Netflix will better attract new clients and also bring back old subscribers who are more price sensitive. This will also have a great deal of potential to damage its rivals by putting its platform on the pool of options for ad expenditure making way for a few changes in some ad budgets, as someone must lose sales so that Netflix can gain them. Given that a large portion of Netflix's new rivals still derive a sizeable part of their income from linear TV, it might put an extra pressure on their own streaming services, creating a need to increase their profitability more quickly as Netflix begins to take away ad revenues of its competitors from TV commercials.

Looking at Appendix 14 it is possible to observe some of Netflix rivals' advertisement revenue and its contribution to their entire revenue. From this table, it is confirmed that this revenue stream has a big impact on these companies' profitability, generating among the three more than 28 billion dollars, representing a significant part of Warner Bros. Discovery and Paramount Global's total revenue. Even though this source of revenue only represents 13% of Walt Disney's total earnings, it is still an important component of its business model which will affect the company if it is "attacked".

There are also a couple of new ideas that Netflix also wants to implement in the next few years, like the control of password sharing where the streaming service will try to monetize this occurrence creating a way for some of its subscribers to relieve their "guilt" for doing this and to also limit the use of this strategy by its consumers.

Although Netflix is seen as a streaming service, it also wants to be known as the go to place for entertainment, so one of the next steps it is planning to take will be focusing in improving its online gaming availability for its clients, having right now 22 games at one's disposal on its platform with a goal of having 50 by the end of the year.

Lastly, Netflix had turn down the idea of bidding in live sports, having Reed Hastings co-founder and chief executive officer of Netflix stating that they would never follow a competitor, but after the great outcome of the Formula One series “Drive to Survive” and the following increase of the popularity of the sport, Hastings stated recently “A few years ago, the rights to Formula 1 were sold, at that time we were not among the bidders, today we would think about it.” (Hastings, Netflix, once the great disruptor, is now taking ideas from the industry it upended to jumpstart growth 2022)

7.4 Question IV: How can Netflix truly surpass its current challenges and create a path to a brighter future?

Answer IV: The entertainment industry seems that will continue to grow gradually over time and there will come new challengers who want a piece of this expanding cake. In spite of the fact that Netflix has been recovering from the blows that it took in its first two quarters and is already planning a few good strategies to beat its current rivals, there is still a lot that could be done/explored, not only rise again and distance itself from the competition but also position itself so high as a centralized entertainment destination, trying to fill every open hole in this industry, making it harder for new competitors to enter the market not letting space for them to show any improvement over what Netflix currently provides.

7.5 Question V: How could Netflix actually achieve this?

Answer V: When Netflix started it was able to see a clear need of the customer who wanted to consume content in an easier way than was available at the time, but as time passed it seems that the streaming giant lost touch with its consumers. In the last 15 years society has evolved and the people have changed and at one point Netflix kind of stopped the way people

needed to have access to content and became more a universally good way of getting entertainment, and because of this other companies profited in creating platforms which addressed more current needs of entertainment consumers with some kinds of hooks, like was previously mentioned.

Netflix needs to adapt its current business model by creating new avatars of their subscribers and new possible ones taking time to understand the uniqueness of this avatars, as the world becomes more diverse in terms of likes, wants and needs, and after extensive research create its own hook for this people, to demonstrate that Netflix really is the king of streaming services and that they are leagues above everything else.

Something that Netflix is already focusing on doing is video game development, but on a smaller scale. I believe that, with Netflix resources, the company would be able to create games to compete in the big leagues, as this could possibly bring a lot of revenue to Netflix and making it not only rely on streaming for its profits because as mentioned before when talked about in the entertainment industry the video game market produces more revenue than the music and film industry. Netflix could utilize its strengths to differentiate itself in this market and take a big bite of the potential growth in this industry by focusing on video games with great story telling. Having created content over many years, Netflix has accumulated a lot of brilliant writers and producers who could dedicate their talents to create beautiful stories in which players could involve themselves on. In order to do this, it is very important that Netflix creates good partnerships in order to save up on investment with a reliable and already established game development company which will aid it developing better games to be really noticed on the gaming market.

One last thing Netflix should try to invest in diversifying its content geographically. A few examples of international original shows like *Squid Game* and *Money Heist* proved to be great

successes worldwide, this shows the potential of untapped markets that have a lot to offer, and besides creating new quality content for its subscribers it also will bring a lot of new ones from this new locations of this shows, especially if they turn out to be really accepted by an international audience as this people would like to see their countries representation on the streaming service.

8. Conclusion

Netflix continues to be the “King” of streaming services that revolutionized the entertainment industry and the go to platform that people use whenever they want to consume content, but as is clear now at this day and age it is facing many different challenges which may cause Netflix to lose its position on the market if it doesn’t adapt to the changes of the world and stops innovating to better provide its services to its consumers and to address their always changing needs.

As it has been established Netflix’s rivals are making a run for its current and potential subscribers by providing unique content and lower prices, exploiting Netflix’s weaknesses in their favour. These weaknesses and other external factors like the increase in the cost of life have clearly taken a toll in the company’s numbers as its seen-on Appendix 2 and Appendix 13.

Netflix has certainly noticed these events and is acting accordingly by creating new more affordable options, acquiring new types of content which attracts a different kind of subscribers, and focusing on developing other branches of its activities that are still not relevant enough that may have a higher contribution to Netflix’s revenue in the future.

Will this be enough to keep Netflix up top and its stakeholders happy? Or will Netflix fall short to hold back its competitors or even new ones?

One thing undeniable, there is still a lot of room for improvement that will never be enough with the not stopping evolution of the world. Netflix will always need to be on its toes and not trust how big they were/are right now, because “Hey, we all know what happened to Blockbuster”.

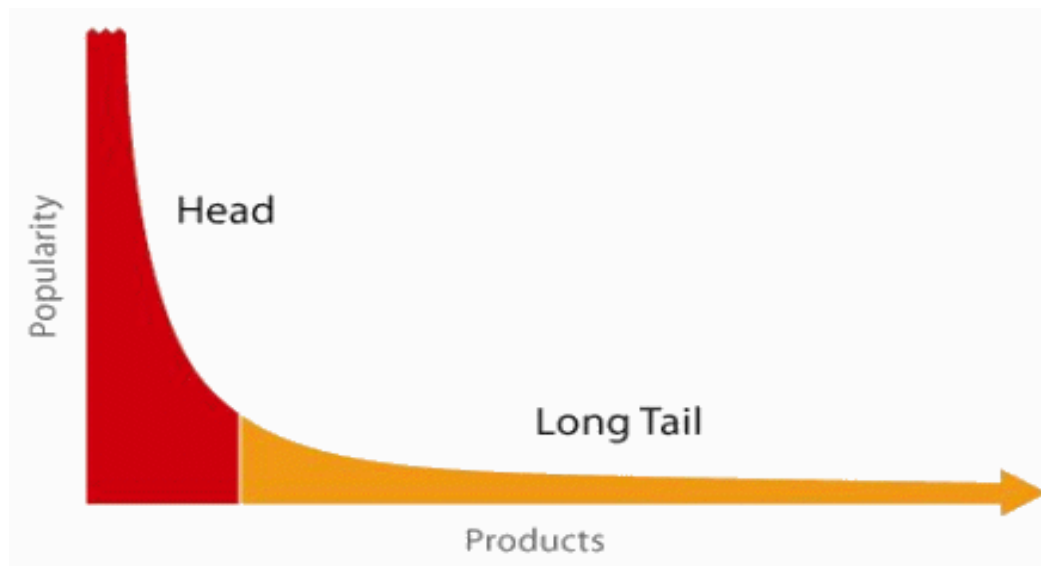
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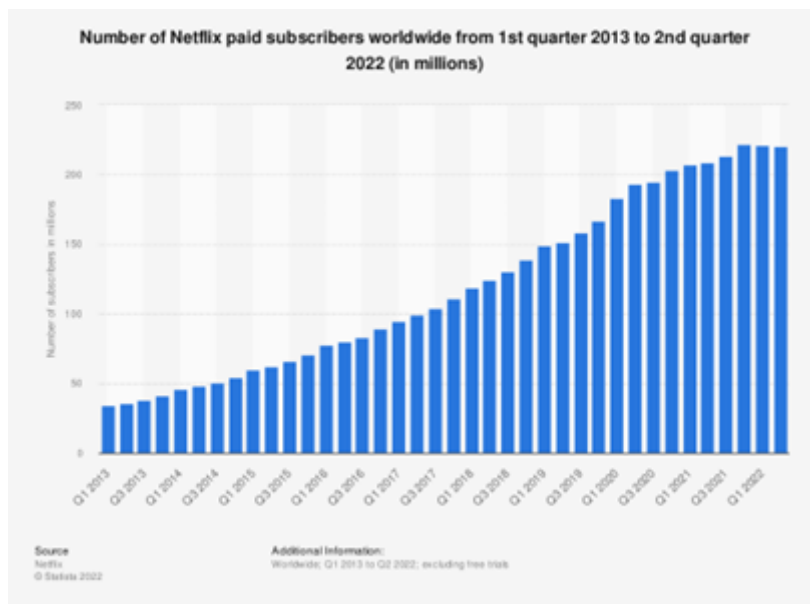
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Appendix

Appendix 1 – Long tail advantage.



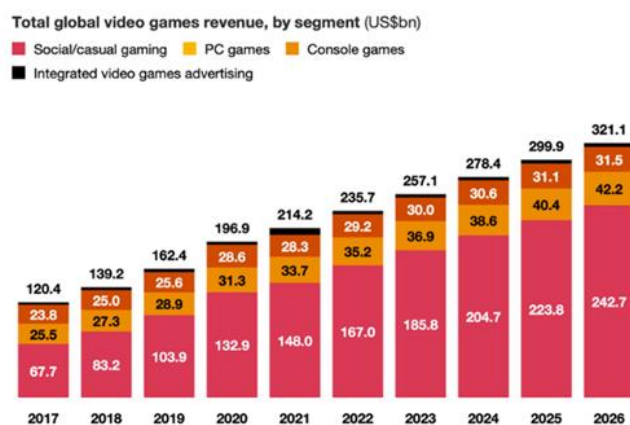
Appendix 2 – Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 2nd quarter 2022.



Appendix 3 – Netflix annual long-term debt.

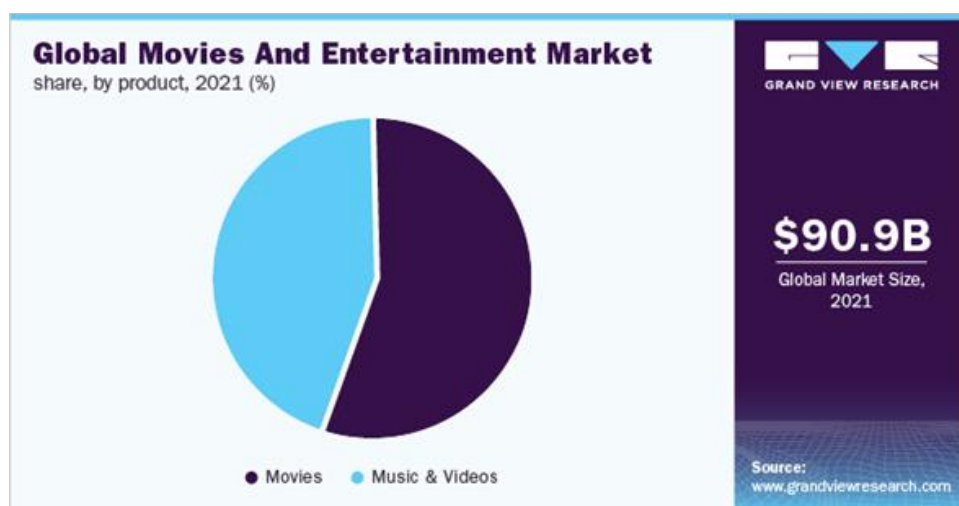
Netflix Annual Long Term Debt (Millions of US \$)	
2021	\$14,693
2020	\$15,809
2019	\$14,759
2018	\$10,360
2017	\$6,499
2016	\$3,364
2015	\$2,371
2014	\$886
2013	\$500
2012	\$400
2011	\$400
2010	\$200
2009	\$237

Appendix 4 – Video Games Market size

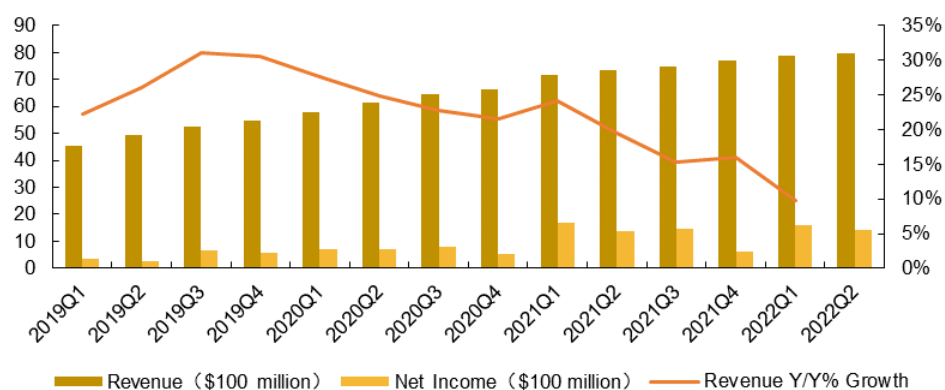


Note: 2021 is the latest available data. 2022-2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022-2026, Omdia

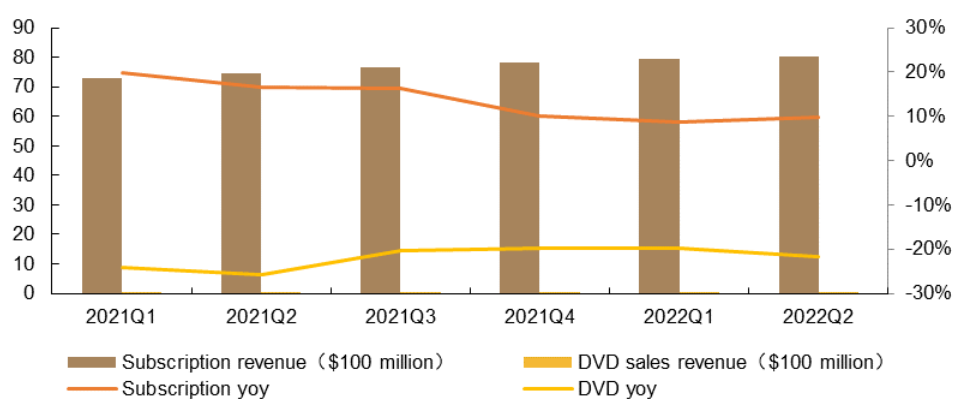
Appendix 5 – Movie and music industry shares.



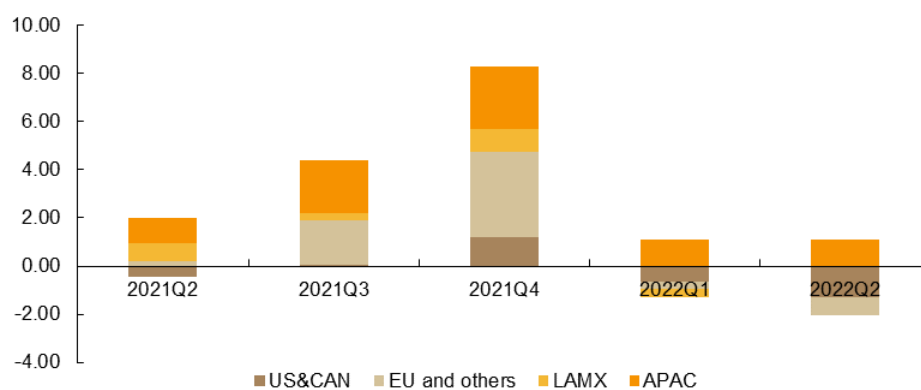
Appendix 6 - Revenue and net profit for the quarters 2019-2022



Appendix 7 - 2021-2022 Quarterly revenue by business



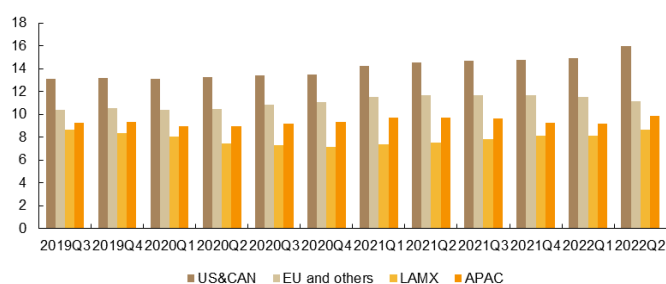
Appendix 8 - 2021-2022 Paid Membership Growth by Region (Million People)



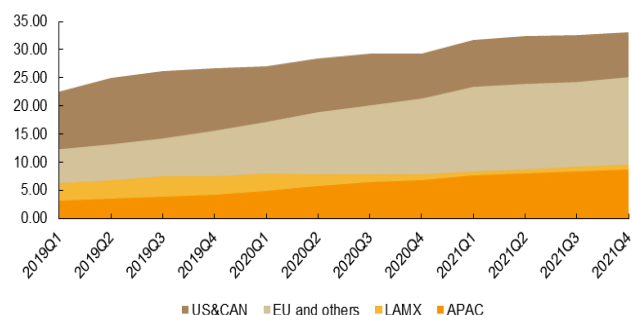
Appendix 9- 2019vs2021 Revenue by Region



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 – Netflix stock price in the last year



KEY DATA POINTS

Market Cap	\$129B
Day's Range	271,56 US\$ - 290,66 US\$
52wk Range	162,71 US\$ - 700,99 US\$
Volume	9,573,834
Avg Vol	13,680,080
Gross Margin	41.62%
Dividend Yield	N/A

Appendix 14 – Netflix competitors ad revenue from linear TV

COMPANY	2021 ADVERTISING REVENUE	PERCENTAGE OF TOTAL REVENUE
Warner Bros. Discovery	\$10.6 billion*	42%*
Paramount Global	\$9.3 billion	32%
Walt Disney	\$8.9 billion	13%

*COMBINED RESULTS OF WARNERMEDIA AND DISCOVERY.

DATA SOURCES: AT&T, WARNER BROS. DISCOVERY, PARAMOUNT GLOBAL, AND WALT DISNEY. CALCULATIONS BY AUTHOR.