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NETFLIX: THE KING OF STREAMING SERVICES

Subtitle: A disruptor who reinvents the logic of the industry and continues to innovate

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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. In this report, it will be developed 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. 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.

2. 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 1). (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 2)

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 3)

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 4&5)

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 6)

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 7)

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 2020.

INDIVIDUAL PART

Subtitle: A disruptor who reinvents the logic of the industry and continues to innovate

3. A disruptor who pursues content as king

"There is no successful enterprise, only the enterprise of the times", as the Chinese entrepreneur Zhang Ruimin said, the difference between an excellent enterprise and an ordinary enterprise lies in whether it can grasp the trend of the times. Subversive innovation, ants defeating elephants, many times on the verge of bankruptcy and many times to create peaks. As a young company of only 21 years, Netflix continues to use advanced business models and technical means to reshape the logic of the media industry. Netflix is a disruptive innovation because it revolutionized how people get their daily dose of entertainment.

Big data is powerful, and big data plus big ideas are even more revolutionary. Netflix is composed of two words, net and flicks. Netflix attaches great importance to the development of its content and technology. Clayton Christensen, author of "The Innovator's Dilemma," said that Netflix is one of the few companies in the world that is not afraid of disruptive innovation, because it not only has the spirit of disruptors, but also the organizational structure needed by disruptors (Christensen 1997). I will illustrate Netflix's uniqueness in reshaping the industry logic from the perspective of content and technology innovation.

16.1 Question I: What are the advantages of the transition from online rental and DVD mailing to online streaming?

Answer I: Before 2000, offline video stores led by Blockbuster occupied the mainstream position in the US video rental market. In order to improve the DVD turnover rate and inventory management ability, Blockbuster will charge customers an extremely expensive extension fee, which is even more expensive than the rental fee, and the penalty for delay accounts for 10% of Blockbuster’s revenue. Netflix, an online video rental company with no extension fees, is trying to disrupt Blockbuster's business with a new model.

Compared with offline video rental business, the advantages of online video rental business are:

a) No store-related operating costs.

b) Limited by store space, the capacity of DVDs in offline video stores is limited, while online, there is no limit to the capacity of DVDs, and the selection of sources is more complete.

c) In offline video stores, customers can only make choices based on the limited information on the disc packaging, while online, customers can make choices from more dimensional information such as user reviews, viewing ratings, and movie introductions, so they can Easily find your favorite videos.

Of course, online video stores are not without disadvantages. There are two main points:

a) Timeliness is not high. In the early days, it took 5 to 7 days for users to mail the discs rented from Netflix to their home, while Blockbuster claims that 70% of the people in the United States only need to spend 10 minutes to find a branch store, so in terms of timeliness, online There is a big gap between online and offline.

b) The Internet penetration rate is not high. In 2000, the Internet penetration rate in the United States was only in single digits, so the user reach of online video stores was limited. This is why Blockbuster ignored Netflix as an opponent in the early stage. Blockbuster’s management does not have a dynamic perspective, and it takes it for granted that there are too few online users, and it is not worth doing business alone.

The transformation from mailing DVDs to online streaming media has enabled Netflix to quickly occupy the market, and even opened a new era of global video websites. In 2005, with the advancement of network technology, the speed of the network has been greatly improved, making it possible to stream in low-definition situations. In the same year, YouTube was established. Subsequently, YouTube's big victory in the market made Reed Hastings realize that users were willing to sacrifice a certain degree of clarity in exchange for convenience, so he established the first streaming media long video company.

Compared with traditional movie rentals, streaming media has two advantages:

a) Realize online on-demand, solve the pain point of mailing time, and the convenience fully surpasses offline rental.

b) No postage cost and inventory cost, further saving costs.

The only disadvantage of streaming media is the lack of clarity for the time being. However, with the advancement of technology, this is in the process of rapid improvement. Netflix has shifted from online movie rental business to streaming media business, further establishing Netflix's subversive positioning. What’s even more commendable is that Netflix was able to switch from subverting the industry to subverting itself, avoiding its own strategic backwardness due to its adherence to vested interests, thus repeating the failure of Blockbuster.

16.2 Question II: What disruptive strategies has Netflix adopted in the shift?

Answer II: Since 2007, streaming media represented by YouTube has gradually emerged and become popular. Netflix is not interested in fighting YouTube in the technical battleground they are good at. Like Blockbuster, it needs to attack the opponent's weak point. Fundamental differences in the type of content that is broadcasted may limit the intensity of competition between Netflix, YouTube, and TV (Oliver Budzinski 2021). Netflix once again set its sights on the traditional industry - film and television content production. In this way, it will face two opponents at the same time, the traditional cable company represented by HBO TV network and the streaming media company represented by YouTube.

For opponents in different industries, Netflix has played two sets of combined punches. When dealing with HBO, Netflix still adopts the people-friendly route to deal with Blockbuster.

First, HBO subscribers pay an average of more than $130 a month, compared with $90 for other cable subscribers. Although HBO is a well-produced, high-quality network, the cost is still too high.

Netflix set a price of $7.99 per month (increased to $9.99 in 2015), which is much lower than the traditional TV industry.

Second, in response to the fixed-point and quantitative "linear TV" viewing method of the traditional TV industry, Netflix launched an innovative TV viewing model, that is, online TV that can be watched anytime, anywhere.

HBO and other TV networks have hit series in seasons, with one episode per week and one season per year. Of course, based on the consideration of user stickiness and payment, this model has its reasons for existence. But because most users watch programs on TV, missing or watching them late will greatly affect the viewing experience. Netflix chooses the multi-terminal watch mode at any time and can watch the content of the current season at one time.

For streaming media companies, Netflix chooses to complete its own industry value chain. It does not simply compete with algorithms and traffic but expands from a distribution channel provider to a content producer. Netflix believes that it has long been a downstream of the film and television industry chain, with low profits. The high degree of dependence cannot complete the company's business closed loop, and it is not enough to deal with competitors from two planes.

In 2012, Netflix entered the field of content production and filmed its first water test, the original TV series "Lily Highmore". After the film was broadcast on NRK TV in Norway, it created the highest ratings record in Norway's history - 57%, and Netflix successfully tested the water. In 2013, Netflix officially implemented the original content plan and spent 100 million US dollars to create "House of Cards". Up to now, Netflix has produced a large number of cross-cultural movies and TV shows, won more than 300 Emmy Award nominations, and was nominated for Academy Awards and Golden Globe Awards many times.

16.3 Question III: Why did Netflix choose to enter the extremely competitive field of copyright production when the streaming media business was in full swing?

Answer III: This actually has something to do with the cooperation between Netflix and Starz. Starz has an important advantage since it has 4K support in its single package. The support covers the entire original programming and selected third-party titles (Younas 2022). In 2008, Netflix and Starz, an American cable TV station, signed a five-year copyright licensing contract for US$30 million. In 2011, Netflix requested to renew the contract in advance. Starz was jealous of Netflix's great success in the field of streaming media and thought that he had suffered a big loss in the past transactions, so he asked for 300 million US dollars, which was ten times the price, which led to the breakdown of the cooperation. This transaction made Netflix realize the importance of mastering high-quality upstream copyrights and announced its entry into the field of copyright production in the same year.

How does self-made content help Netflix business? Honestly, it has been decisive for Netflix's current success.

a) Add exclusive premium content to make the platform unique.

b) Save content costs. Backward integration can help Netflix save a lot of copyright costs, and the risks are both coexisting with benefits, while saving costs, Netflix will also face the market risk that the content is not accepted by users. However, Netflix's advantage is that the streaming business provides it with a lot of data on market preferences, allowing it to tailor content to market needs, thereby reducing market risk.

c) Raise awareness of the copyright production industry, thereby enhancing upstream switning power and screening power for high-quality copyrights.

The above three points are all from the perspective of Netflix's own business development. When Reed Hastings talked about this problem, he gave the answer from the perspective of industry chain development and industry competition: one of our goals is to become HBO before HBO becomes us. And this phrase became like a prophecy, a fact that is happening at the moment. The growth in popularity of on-demand content consumption, boosted by large global agents such as Netflix, Amazon and HBO, has brought audience fragmentation even further (Neira, Clares-Gavilán e Sánchez-Navarro 2021).

Under the continuous erosion of streaming media, traditional TV stations and film producers are forced to launch their own streaming media, such as HBO launched HBO Max, Disney launched Disney+, NBC launched Peacock, AMC launched AMC Theatre on Demand.

4. A pioneer in opening-up a membership-based business model

Of course, we can't ignore the business model and multiple barriers to Netflix's turnaround, all of which show Netflix's competitive advantages.

Netflix built a platform for watching content, not just how it was watched. To find a point of demand and cater to popular tastes, Netflix emphasized the power of fresh ideas in business success from the beginning. As the first video company to launch a membership system, Netflix struggled in the early days of the launch of the membership system, which was undoubtedly a strategic and disruptive decision.

The biggest advantage of the membership system is that users can spend a limited price and enjoy unlimited film sources, so the consumer experience is greatly improved. To retain customers left due to high subscription fees or win over prospective customers, Netflix should implement its lower-priced mobile-only plan. Mobile plan options were first tested in India (Kweon e Kweon 2021).

The traditional charging method is not useless, and its biggest advantage is that it can maximize the Pocket share for customers. Users have a limited budget, and the amount they spend on entertainment varies depending on personal preference. Charging per slice maximizes the consumer's share of pockets. In the membership system, regardless of the demand, each consumer pays the same amount, so the scale of revenue is certainly not as good as charging by the piece.

The main cost of the film and television industry lies in the production cost of copyright, while on the channel side, the film and television industry are characterized by a one-time output with zero marginal cost. This characteristic is also destined to be the best solution for the film and television industry. Because the increase in Pocket share only makes value flow from the pocket of the consumer to the pocket of the producer, it does not create incremental value. The membership system can greatly increase consumer surplus without adding too much cost, thereby increasing the total value of the entire industry.

Time and again, Netflix's keen insight into the market has pushed its legs to all-time peaks.

5. Multiple moats crowned

a) Content barriers, streaming media as a content platform, its core competitive advantage must be inseparable from content copyright. The barriers to copyright content are mainly reflected in three aspects: time cost, capital cost, and production capacity. Different from the linear scheduling model of the TV era, streaming video platforms need to reserve a large amount of content to meet the instant on-demand needs of users' heads and long tails, so the richness of content is one of the key factors to attract users to subscribe. However, the accumulation of content requires long-term time and capital costs for copyright procurement and content creation, and Netflix, as the earliest and largest streaming video platform with a large subscription, has an absolute advantage in this regard.

In addition to quantity, quality is also the key to attracting long-term user retention.

In 2020, Netflix received 160 nominations for the Emmys, significantly surpassing the traditional TV overlord HBO. If you look at the history of Netflix's original content, you will feel even more incredible, a company that only got involved in the field of copyright production in 2011, the number of Emmy nominations soared after he entered, and it took only 7 years to break HBO's 17-year dominance, and in 2020 it was greatly surpassed.

b) Netflix has the largest subscriber base of all U.S. streamers, reaching a staggering 210 million people, 2.8 times more than second-place Amazon Prime Video.

In addition to its absolute advantage in the United States, this lead comes more from Netflix's successful internationalization. It is a pity that other streaming media are sub-businesses of listed companies, and data disclosure is limited, and regional data cannot be collected to make a visual comparison. However, Netflix is definitely the only phenomenal streaming platform in the world. Whether in Europe, Japan, Hong Kong, Latin America and more than 190 countries and regions around the world, you will find Netflix's loyal audience.

Netflix's international success owes much to the well-developed U.S. film and television industry and the international influence of U.S. culture, but that's not why Netflix outperforms other U.S. streaming platforms in the process of internationalization. What really makes Netflix stand out in the internationalization process is its local operation.

Different countries and regions have completely different cultural backgrounds, but also shape completely different values and aesthetic concepts, simple content output is difficult to capture the mainstream audience of other countries, so if the film and television industry wants to succeed in the international market, it must adopt a multinational implementation strategy.

In the process of internationalization, in addition to entering the local market with original high-quality content, Netflix will also purchase local content copyrights according to the preferences of the local market, and even Netflix will produce exclusive original content locally, such as Netflix's "Corpse Battle North Korea" in South Korea and "Dark" produced in Germany.

Netflix's subscriber scale has brought him two intuitive benefits: first, high subscription revenue and more resources to invest in content rights. Second, users reach a wide range of users, have high distribution efficiency, and are more likely to explode under the effect of network word-of-mouth.

6. Culture is the soil for innovation

Although Netflix's competitive barriers seem strong, these are not inherent to Netflix, but shaped by its step ahead of competitors in the competition, and innovation is the core of Netflix's construction and continuous improvement of barriers.

a) The environment requires Netflix to adopt a more flexible management approach

Netflix is in the film and television industry, and the environment is characterized by change:

Business models are changing rapidly

Consumer preferences change rapidly

Internationalization needs to address regional cultural differences

Therefore, this environmental characteristic requires that the company's strategy must constantly innovate to adapt to changes in the environment. The strategic demand for continuous innovation further requires enterprises to choose more flexible management methods that can stimulate the creativity of employees.

b) Netflix's Human Resource Management Guidelines

Netflix's first rule is: We only hire ‘adults’

‘Adults’ are mentally challenged, eager to succeed, and willing to put enough effort into it. In terms of ability, it is necessary to have a clear direction, the ability to dig deep into the essence of the problem, and the ability to solve huge problems.

‘Adults’ don't need incentives and solving the most difficult problems with a good team is the best reward, so Netflix has no variable salary and adopts a fixed salary policy. "Adults" can take responsibility for their own actions and do not need additional constraint management mechanisms, so Netflix implements an indefinite annual leave system and no reimbursement approval system.

Because of this culture, Netflix co-founder Mark Lendolph stepped out and let the more leadership Reed become CEO, and Patty McCord, former chief talent officer of Netflix and author of "Netflix Culture Handbook", also led by example, opting out when Netflix needed fresh blood to internationalize.

7. Netflix doubles down on gaming, can new businesses be a cure?

Netflix has been in gaming for a year now and is doubling down on its bets. According to Netflix's 2022 third quarter financial report, after losing users for two consecutive quarters, 2.41 million new subscribers were added in the third quarter, changing the decline. In its latest letter to investors, it said that there are currently 35 games in the service, and another 55 games are in the process of development, most of which are based on film and television IPs on their own platforms.

In the dilemma of peak growth and revenue, whether it is deploying games or launching advertising, the company has been reshaping its business model to seek new growth points. ‘Increasing revenue and membership is the biggest challenge for the company right now.’ Netflix said in a second-quarter letter to investors. Since then, it laid off 150 employees in May this year to reduce expenses, and another 300 in late June.

Since announcing its intention to explore the gaming field in July 2021, Netflix has made frequent moves in the gaming business. On September 26 this year, Netflix opened a game development studio in Helsinki, the capital of Finland, the first of its own. Prior to that, it had acquired 3 game studios. Also, in September this year, it joined hands with the veteran French game manufacturer Ubisoft and is expected to launch mobile game versions of "Assassin's Creed", "Braveheart" and "Castle Rush" next year.

However, the degree of overlap between film and television users and game users is not high, and the user structure has natural deficiencies. The users of film and television dramas, especially those of long dramas, are mostly women. From the perspective of the global market, the users of the game are mainly young men. Therefore, the intersection of the two is not large, and the former may not be willing to pay for the game. What kind of strategic role games can occupy in this streaming company remains to be explored.

8. Conclusion

Content innovation is Netflix's game-breaker, and fierce competition in streaming makes it difficult for Netflix to maintain its expected growth rate, but in terms of long-term potential, Netflix is bound to be one of the winners in the streaming industry.

There are indications that 2022 has become a turning point for Netflix. The company, which is regarded as the "industry benchmark", is stepping down from the altar, standing in the same camp as the domestic long video platform, and embarking on the route of "streaming + advertising". After Netflix's user growth in recent years has reached the ceiling, it is certain to develop diversified business models, such as games and advertising businesses.

For Netflix, it is not realistic to increase revenue and membership by raising prices. Conversely, the company's plans to launch low-cost subscriptions with ads are more likely to gain traction, while increasing internal technology can curb the sharing of accounts.

In addition, Netflix has reached more than 190 regions around the world and has about 223 million paid members, but for now, Asia Pacific is still the focus of the company's user growth. Netflix must not only find more potential users, but also do its "homework" for more than 200 million paying customers.

Netflix's competitors include Disney+, Discovery's HBO, etc., whose decades of content experience accumulation and capital reserves, as well as the IP resources on hand, constitute a moat to consolidate its market position. Netflix may be able to find new business opportunities - deeply cultivate IP to tap more commercial value, use games as film and television derivatives, form a more diversified payment system, and develop "film and game linkage" as a breaking point for performance growth.

In the past development that conforms to the trend of the times, Netflix has continuously subverted the logic of the industry and shaped new consumption habits with its keen market insights, so we should also believe that in the torrent of the times, technology companies with innovation as the starting point can go with the flow.

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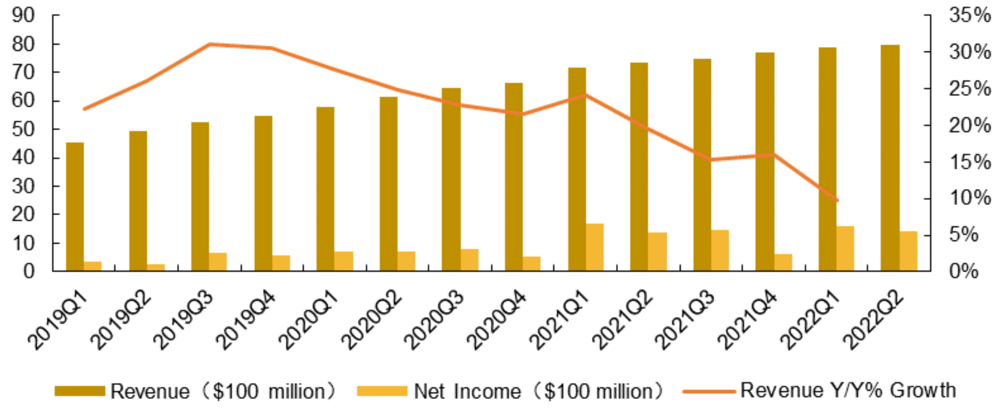
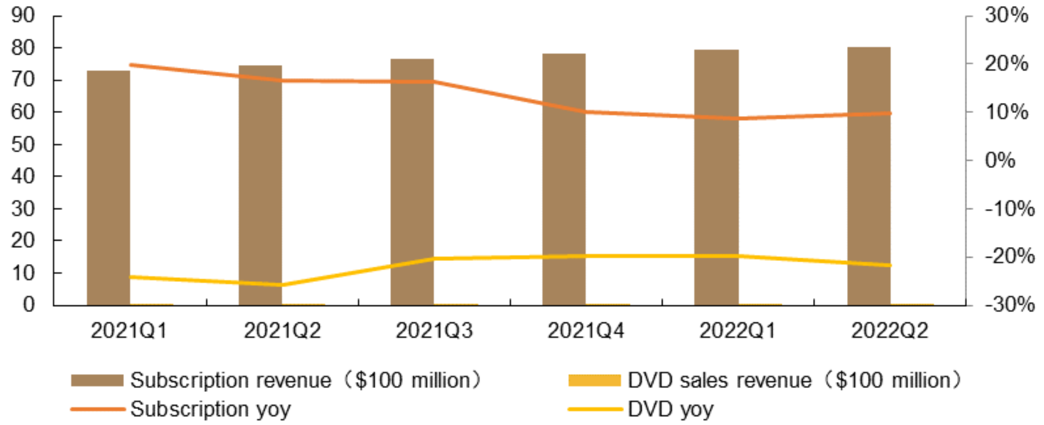
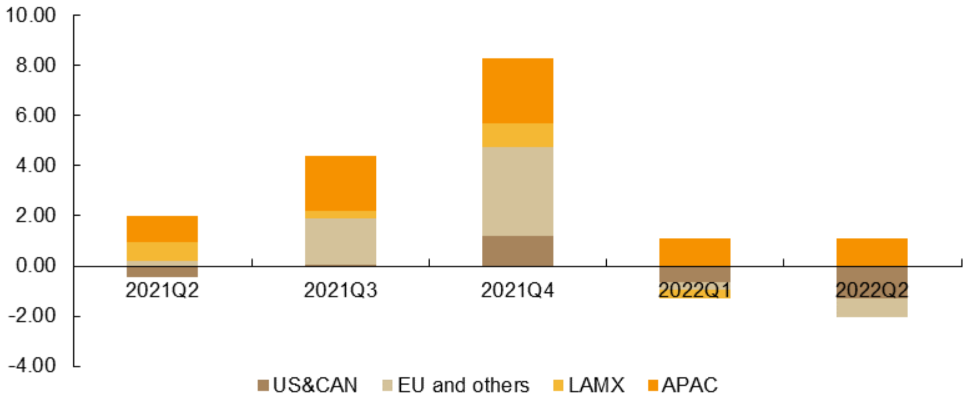
Appendix 1 - Revenue and net profit for the quarters 2019-2022



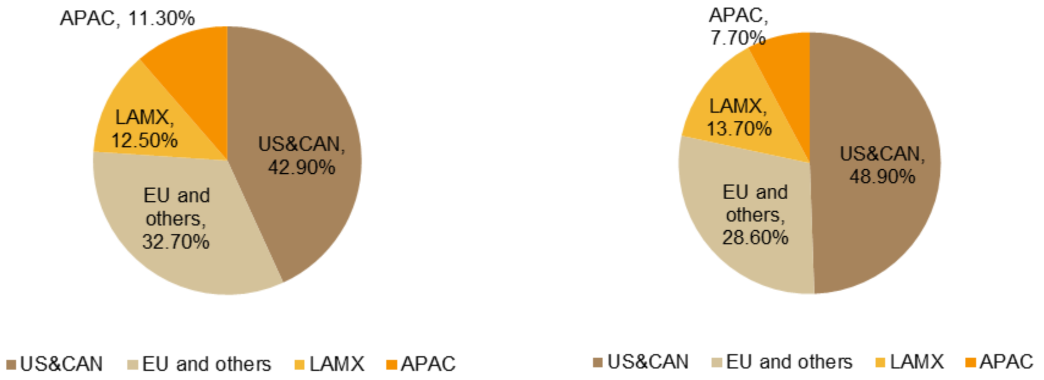
Appendix 2 - 2021-2022 Quarterly revenue by business



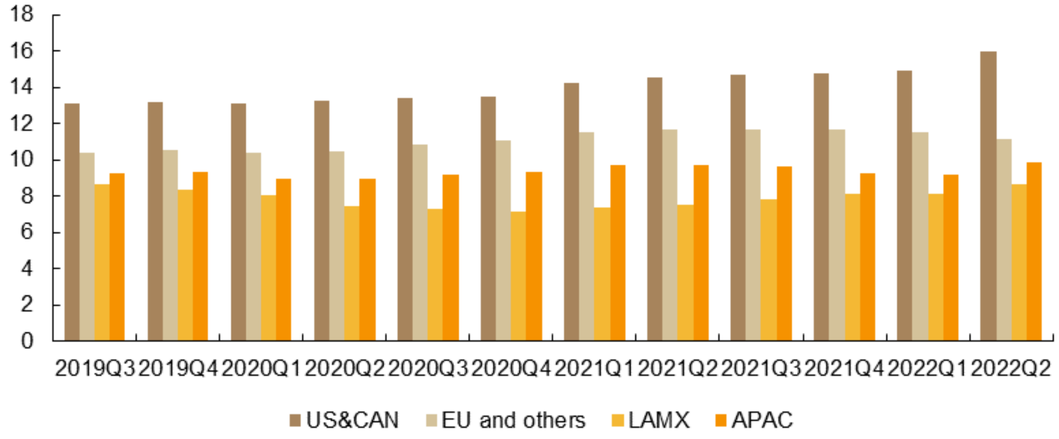
Appendix 3 - 2021-2022 Paid Membership Growth by Region (Million People)



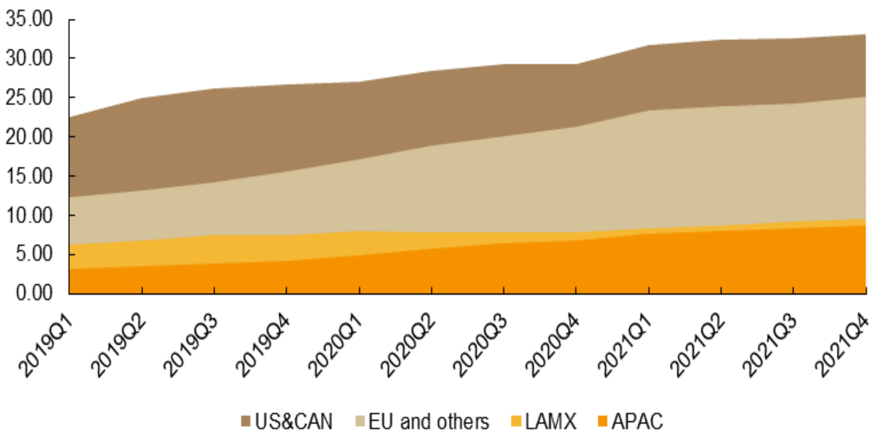
Appendix 4- 2019vs2021 Revenue by Region



Appendix 5 - ARPU situation by region 2019-2022 (USD)



Appendix 6 - Quarterly revenue growth by region 2019-2022 (%)



Appendix 7 - 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