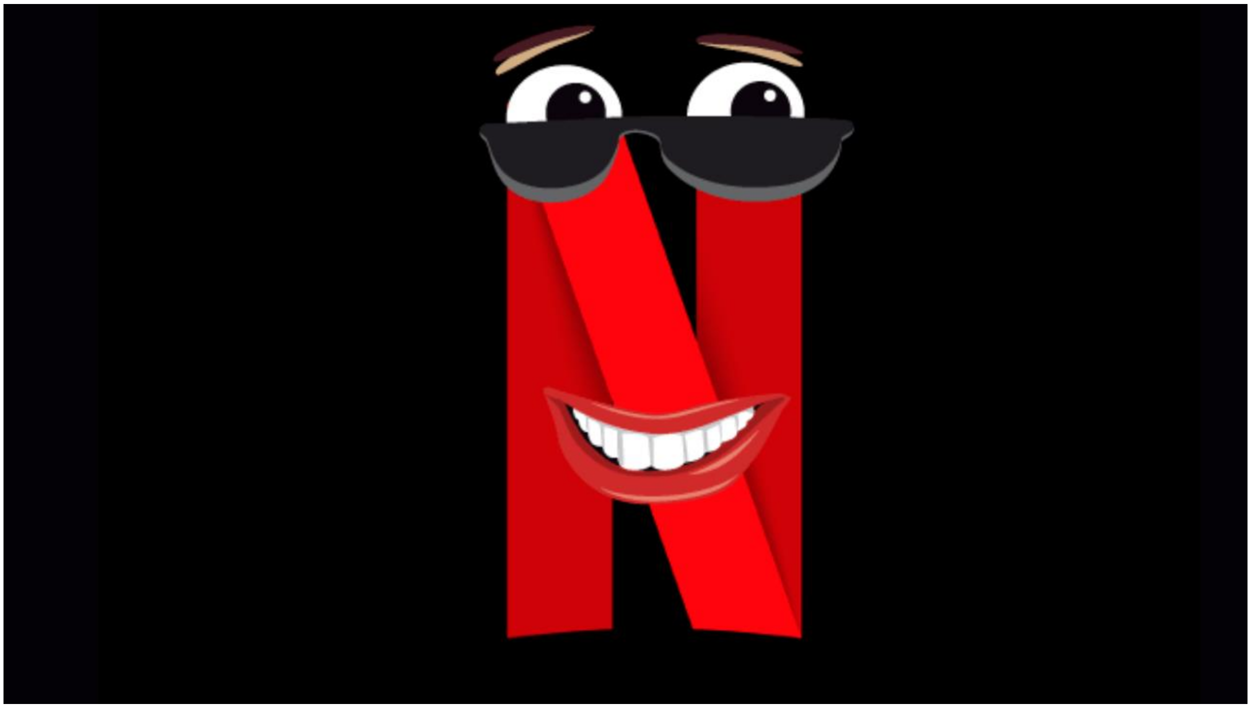

NETFLIX Case

Competitive Strategist (Team 3)

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Executive Summary:

- Overview: Netflix started as s DVD-by-mail service in 1997 and began its streaming service in 2007. Today Netflix is an online streaming platform where users can view movies, TV shows and documentaries. The platform generates its revenue through the 231 million paid subscriptions. In 2022 the company generated a total revenue of 31.615 billion, of which 31.469 billion was generated through their streaming platform. Netflix started the trend Netflix was the pioneer in the streaming service, but the competitors caught up and are giving Netflix a tough time to differentiate itself from others. In Q2 of 2022 the subscriber count of Netflix dropped by nearly 1 million, therefore ending it growth trajectory, which has been exciting since the inception of the company.

- Situation: The streaming industry has become a highly attractive industry; this has caused the industry to get flooded with a lot of competition. Industry is dependent on subscriptions for their revenue. The subscription model has proved to be a good source of revenue but with too many players in the market, companies are scrambling to provide the best value at the best price. The streaming companies are on a mission to make each platform more attractive that the other leading the companies to offer bundle packages like Apple+, creating an ecosystem around streaming or offering a wide array of services within one subscription like Amazon. This lead traditional streaming platforms like Netflix to go back to the drawing board and reinvent itself to stay ahead in the competition. Netflix is looking to expand its platform's offering to improve the value it provides for the premium price it quotes for its subscribers.

- Problem Statement:
  - How will Netflix build an ecosystem around the existing platform and stay afloat in the competition?
  - Can Netflix stop the fall in the number of subscriptions cause by the recent external events and change made in the platform by Netflix?
- Strategic Response: Netflix in trying to adapt and is venturing into different product that it did or is planning to launch. It has taken the adaptive strategy as there is an increase in the competition and are providing better a better value for money than Netflix. Netflix has to expand its offerings to its subscriber either through collaborations or launching the products on their own.

STEEP

- Social:

  Fast moving user preferences – As major platforms like Disney+ and Peacock roll out cheaper subscription tiers and crack down on password sharing, consumers are becoming more conscious of their streaming choices and look for most value for the money they are paying. NPR released a poll that suggested that 92% of the users consider cost as an important factor for streaming subscriptions and almost 70% users were inclined to having an Ad-free option. A significant portion of the respondents were also interested in accessing Live TV and Sports on their streaming services. While other streaming services like Apple and Prime are offering greater incentives to a single subscription, Netflix might be left with focusing just on their content without any differentiating motives.

  Balancing price sensitivity, content exclusivity and offerings – There is an increasing demand for streaming providers to lower the cost tremendously while also continuing to offer great content. It becomes more attractive for consumers when they have an impressive UI to navigate through the content library and have been bundled with multiple other platforms. Additionally, users can be more divided than ever given the number of options available for streaming services and the millions of contents offered in all of them.

  Shift in consumption habits – With increase in mobile devices and decreased screentime after pandemic, users may start to consume content differently than before. Users may prefer to watch shorter videos and content on platforms like TikTok, Instagram and YouTube, and this can impact the type of content Netflix produces and how it is presented to users.

- Technological:

  Will we be watching Harry Potter in VR? – As competition increases in the streaming market, Netflix will need to innovate continuously to remain competitive. The emergence of Virtual Reality or Augmented Reality technology can lead to a new category of content that users may be interested in.

  Compromise on user experience – Netflix will have to seamlessly integrate ads into the platform without negatively affecting the user experience. Netflix has built its brand on ensuring uninterrupted streaming experience without ads so far, hence introducing ads may cause frustration and potentially lead to decline in user engagement.

  Infrastructure and latency issues with gaming services – Netflix will face difficulties when there's an increased demand and traffic for gaming services and having the appropriate servers and networking infrastructure to deliver high quality gaming experiences to users would be extremely essential.

- Economical:

Finding their happy medium between advertising demand and pricing strategy – The entire objective for Netflix to incorporate ads into their platform is to compensate for the lower priced subscriptions. However, if the advertiser demand is on the lower end, Netflix might be put in a challenging position where they would not be able to generate substantial revenue from ads and the cost of implementing the same may not be justified. At the same time, they need to consider how to price the ads on their platform. If they charge too much, they would potentially be driving away advertisers and if they charge too little, they may not generate enough revenue to compensate for the ads.

The possibility of a synergy with Microsoft – A recurrent future collaboration or acquisition could lead to synergies between both the companies such as cross promotion and integrating Microsoft's technology into Netflix. This could help with cost savings and improve the profitability of both the companies.

Direct to consumers? - Broadcasters and global content creators can choose to create their own channel to distribute content directly to their consumers, which would leave Netflix at a tough spot with significantly less original content that’s created and produced by Netflix.

- Environmental:

Increased electronic waste and energy consumption – Streaming services and cloud gaming services require great amounts of energy to always keep their infrastructure and servers functional. This consequently increases the carbon footprint of the company along with generating exorbitant electronic waste. This could challenge Netflix with long-term sustainability and product efficiency.

- Political:

Content restrictions due to Government regulations – Some countries may be more culturally sensitive and have Government that are increasingly concerned about censorship. This would restrict the variety of content Netflix can churn into those countries and can interrupt the user engagement in the future.

Looming recession and inflation – If there are signs of recession or actual economic downturn, consumers are more skeptical about spending money on expensive streaming services and prefer cutting down their personal costs. This could affect Netflix's future revenue as users wouldn't want to pay for a platform that doesn't offer multiple incentives for their single subscription.

Competitive Landscape

The video-streaming/ media industry has become more competitive as more businesses have entered the market and as established players have expanded their product lines. Companies are currently involved in an "offering battle" to provide the best features and content in an effort to attract and retain customers.

All of this caused Netflix to have a challenging year in 2022. The streaming service was paralyzed with fear as it appeared that its meteoric rise was coming to an end. Following the unexpected decline in subscriber numbers, the company reported, its stock price fell.

Some of the major Incumbent competitors in this seascape are:

Amazon Prime Video - The platform has over 100 million subscribers from all over the world. Amazon has approximately 75 million videos available on Prime Video. The second-largest video-on-demand streaming platform is Amazon Prime Video. Furthermore, Amazon Prime has expanded its offerings beyond just video-on-demand, posing a threat to Netflix's viewer market.

Disney+ - When Disney Plus launched in 2019, 10 million users signed up on the first day. After a few years, Disney+ has established itself as a serious contender in the infamous media wars between Netflix and Amazon, two of the most well-known streaming services. Today, Disney+ has 164.2 million users worldwide. Disney+ Projects to have 230-260 million users by 2024 and projects a threat to Netflix's market.

A few other incumbents in the streaming market are Apple TV+, Amazon Prime Video, YouTube TV, Sling TV, HBO MAX, Hulu, Showtime, Tencent Videos.

This being said the popularity of video games, livestream Broadcasting and short snippets of videos as a form of media are rising quickly, and streaming services have taken notice of this. Entertainment companies are competing to adapt popular gaming intellectual properties, and other forms of media and translate their own pre-existing IPs into the new world in an effort to win the media wars.

Some of the major insurgent competitors which are disrupting the seascape are:

Tik Tok - TikTok, the short-form video platform, has grown rapidly. Looking at the numbers, it only took the social media platform about five years to amass more than one billion users (an achievement it met last year). That user base has helped to position the platform well for ad spending and disrupting the media market. TikTok is expected to outperform YouTube in terms of ad revenue in the United States by 2024.

Twitch - Twitch is a video live streaming service based in the United States that focuses on video game live streaming, including broadcasts of esports competitions, as well as music broadcasts, creative content, and "in real life" streams. Twitch has 140 million unique visitors per month as of January 2023. Twitch has 31 million active users every day (DAUs). In 2021, Twitch users watched 1.3 trillion minutes in between them. The company is disrupting the media streaming market by its large offering of broadcasts.

Steam - Steam is a massive video game distribution platform. Since its inception in 2003, the service has grown in popularity among gamers worldwide. It now has over 120 million monthly active users and a catalog of over 50 thousand games. 62.6 million people use Steam on a daily basis. Steam users logged over 35 billion hours of playtime in 2022. Platforms like these are disrupting the streaming market by providing users with vast variety of games.

A few other insurgents are Origin, Vimeo Livestream etc.

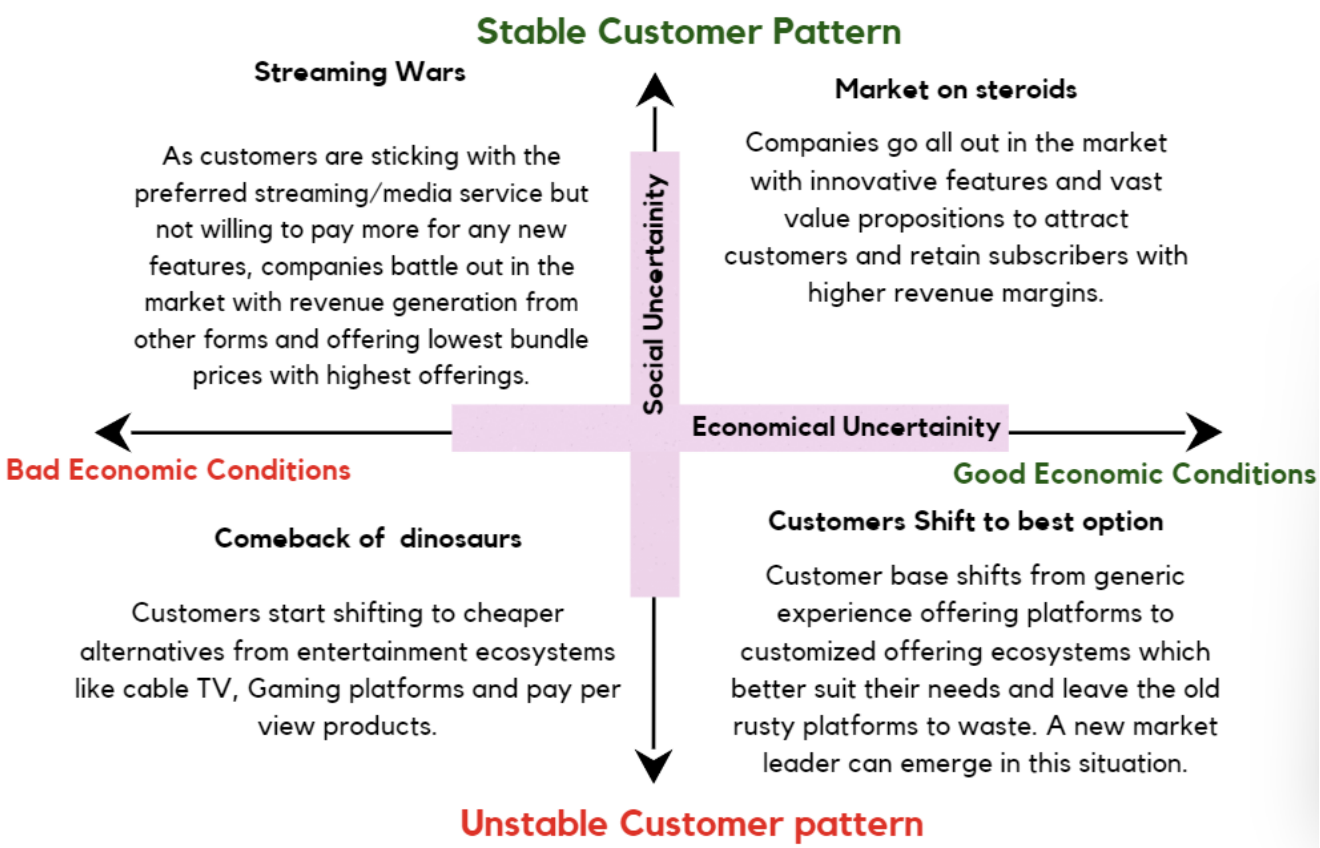
Further along, there are some companies which have not entered this media war but can be a future competition are:

Sony Interactive Entertainment - Sony Interactive Entertainment is supposedly developing a cloud gaming platform that could be incorporated into streaming services like Netflix and YouTube. The patent describes a system that allows users to access and play video games via a cloud gaming server that is reachable via streaming services using a pass-through device that can be integrated with streaming devices like Apple TV and Amazon Fire TV Stick. What prevents a company like Sony from entering the media ecosystem on its own given that it has everything in place—perfect sound systems, robust media and movie content systems, and robust gaming systems. Therefore, Sony Interactive Entertainment could one day threaten Netflix.

Amazon Luna - Amazon Luna is a cloud gaming platform developed and operated by Amazon. Luna was announced on September 24, 2020, with early access available to subscribers by invitation beginning on October 20, 2020. Amazon Luna offerings combined with Amazon prime offerings and Amazon Alexa can be a major ecosystem offering that Amazon can form to take the media war to a whole another level.

Some other Adjacent are Microsoft Xbox, Nintendo, Spotify, Pandora, Tidal, SoundCloud, Facebook.

Plausible Scenarios



DOTS Analysis

Drivers

- **Capability for Customer-centric adaptation:**

  The Netflix corporation has always been known as a company that puts their customer choices first and works relentlessly towards a strategy to satisfy the evolving needs of their customers. However, the last few years have seen them hit-and-miss regarding new policies and platform adjustments, suggesting that the company may not be perfectly in tune with current consumer preferences due to placing too much emphasis on monetization and profitability.

- **Economic conditions of the market:**
  According to Netflix, increase in subscription prices, more competition from other streaming platforms, slowing expansion into new markets, as well as specific global macroeconomic factors are some of the reasons which might have led to the downfall of their annual subscriber growth. Any hit to cash generation risks forcing Netflix to cut spending on unique content, which could dent its long-term growth outlook amid a backdrop of rising competition in streaming and slowing economic growth.

Opportunities

- **New Innovative Customer-centric Services:**

  Netflix could offer more customer centric services, and this can be done by considering the various needs of Netflix's customer segments and which is not currently provided by any other platform. This would not only improve the brand's image but also keep the audience engaged by collaborating with other brands and increasing customer "stickiness".

- **Offering More Local Content:**

  Netflix is very popular globally, but they mainly focus on the acquiring resources and providing content for the North American markets. This cannot be a place for them in the international market, however, offering more local content could drive positive growth in the international market, as well as offer subscribers' access to a more diverse range of programming.

Threats

- **Changing consumer preferences**

  With the evolution of technology, consumer preferences have been changing rapidly. As a result, there could be a shift in preference towards other forms of entertainment or media, which could impact Netflix's revenue.

- **Rising Operational Costs**

  Netflix heavily invests in their operational costs, which was not a concern when they had the number of subscribers increasing at a large number every year. However, with the recent loss in subscriber growth, the company might have to consider reducing the quantity of new content they offer and focus on producing higher-quality content.

- **Password sharing**

  Just like content piracy, Netflix also faces password sharing among their customers. Around 100 million subscribers still share their password globally, 30 million of which are from North America itself.

Strategic Response:

- **Strategic Re-branding**

  Even after the downfall in the number of new subscribers, Netflix still enjoys the top position for the best online streaming service and the brand image is solid. But lately, many subscribers have mentioned their concerns of Netflix using the low budget production. Netflix can think about producing a smaller number of shows which will allow the platform to focus more closely on the quality of entertainment they create, as well as potentially drive down costs associated with content creation.

  Also, recently, the adoption and near-adoption of various not so customer-friendly policies left a negative impression on a lot of subscribers. The company should invest significant time and resources into rebuilding this trust by positioning itself as the number one customer-centric streaming service.

- **Restricted Copyright Policies**

  Although Netflix uses most secure anti-party services in the industry and makes use of effective anti-piracy solutions such as Digital Right Management (DRM), it still needs to reduce the extent of content privacy by making significant investments in data security, IP address tracking, account monitoring, and so on. They can also consider creating a pay-per-view system that would ultimately discourage users from actively sharing their subscriptions.

Recommendations

STAGE 1: (0-6 months)

Cross Promotion with brands – Netflix could cross-promote with other brands to offer value to subscribers. They could offer discounts or special promotions to subscribers from partner brands such as food delivery services (Door Dash, Uber Eats, Grub Hub), travel websites or airlines (Expedia, Delta, American Airlines), merchandise, or other entertainment providers.

Partnerships with local broadcasters – Incorporating niche regional content and increasing the variety of the same with Netflix Original TV shows and movies will help them expand their reach and improve the value of their subscriptions for users in specific regions.

Collaborate and host virtual events – Develop and create Netflix produced talk shows and behind the scenes content of original TV shows and movies. Netflix can host virtual watch parties where users can watch a movie or TV show together and chat in real time. This can create a sense of community among users and increase engagement. They can collaborate with case and crew to offer Q&A sessions, partner with film festivals to host a virtual screening etc.

Add improved password sharing protection measures to Netflix – Netflix Should invest in not just a strong and secure password-sharing mechanism but also a implement a considerate process that looks after the legit concerns of the customers.

STAGE 2: (0-2 years)

Partner with social media influencers – Netflix can partner with influencers who have a large following on platforms like TikTok, Instagram and YouTube to reach a wider audience and potentially attract new subscribers. Influencers can create content using themes from Netflix shows and movies and have them featured on Netflix's "For You" page.

Leverage existing partnerships – Netflix can work with Microsoft and Nintendo to offer exclusive gaming content on its platform. Netflix can integrate Xbox and Nintendo Switch features which would allow users to log into their Netflix account on their gaming console.

Invest in game design to leverage media contents – As one of the leading players in the streaming industry, Netflix has a large library of original content that it can use to broaden its offerings and attract more subscribers by investing in game design and developing original games based on existing content.

STAGE 3: (0-3 years)

Creating an entertainment ecosystem – Netflix can use their circle of influence that it has created and develop an entertainment ecosystem which can be integrated to everyday objects in the user lives. This can be used to provide users with immersive experience.

- Integration with smart home technology – Netflix can partner with smart lighting systems and adaptive speakers to create a seamless and integrated entertainment experience.
- Incorporate in-house AI chat with voice to command feature – AI chatbots can provide 24/7 customer support to Netflix users to resolve issues, offer quick solutions and improve customer satisfaction. The voice command feature can additionally make it easier for users to interact with the chatbot, creating a more natural and intuitive experience.
- Focus on providing a variety of interactive and virtual reality experiences – Netflix can create original franchises that can be leveraged across different mediums. They can create TV shows and movies that can be turned into a VR experience or an interactive game.

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