

Netflix: How to Keep a Continued Success

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ABSTRACT

Netflix, a subscribe-based online movie platform was launched in 1997 by Reed Hastings. The company began with a DVD rental store through the pay-per-rent model and monthly subscription approach. People could rent a movie in DVD format, and the DVD would deliver directly to their house. By 2006, Netflix had 44 centers across the United States which made it easier and faster to deliver DVDs to its subscribers. Netflix shifts its focus to streaming media by 2007. Having an adequate audience basic, it expanded internationally starting in 2010 with Canada and is available in over 190 countries. Today, Netflix has more than 200 million subscribers around the world and gains \$7.7 billion in a year. By using data query, data analysis, and current political analysis, this essay analyzes the marketing strategy of Netflix infirm and consumer's perspectives. This essay concludes that the reason Netflix has been able to maintain its continued success in the streaming industry is due to its innovation in movie concepts and conformation to the internet. What's most important to Netflix's solidification of the streaming industry is its core philosophy of continuous innovation and focus on growth. Netflix is well-positioned in the market and has a clear goal: to focus on "finding the most satisfying personal experience of global titles for everyone."

Keywords: *Netflix, Streaming media, Marketing strategy, Video recommendation algorithm, Consumer behavior*

1. INTRODUCTION

With the popularization of the internet, consumer habits are changing, and people are adapting to the digital age. Streaming media is multimedia that delivers audio, video, animation, or other content in real-time on the Internet in the way of the data stream. Tiktok, Youtube, and Facebook are all concluded in the streaming media industry while forming a competitive stream media market. Netflix, a subscribed-based online movie platform founded in 1997, entrenches its position in streaming media in the rising blossom of video platforms. Developing from a DVD rental company to one of the world's biggest streaming platforms, Netflix has a smart strategy and value position to keep its audience stay in the platform. Netflix's strategy consists primarily of two components: movie concept innovation and internet conformation. The innovation in the movie concepts enables Netflix to attract and grasp its audience successfully. And the conformation to the internet helps Netflix capitalizes on the growth of the internet to cement its position in streaming media. The original intention of Netflix is to achieve personalized recommendations and establish a subscriber operating model. And it is this value position that drives Netflix to continuously

produce or introduce high-quality movie content, thereby retaining audiences. Over the years, Netflix has been able to stand out from the competition and capture its target audience by devising some interesting brand communication strategies. This essay focus on the marketing strategy of Netflix from the perspective of firms and consumers. Analyzing Netflix's marketing strategy can help us understand the relationship between consumers and companies in streaming. We can also analyze the cleverness of Netflix's approach from every strategy Netflix makes in its marketing, and how the company had an accurate vision for the future of media development. What's more, based on the analysis of the development process of Netflix and the methods used in the process, we can analyze the industry of streaming media and predict its future development.

2. TECHNIQUE INNOVATION

As Netflix turned its focus to streaming media industries, it introduced a personalized recommendation system where a user-based rating helps to accurately predict choices for Netflix members.

2.1 Algorithm: recommendation system

After Netflix turned its focus to the streaming media industry, with an incessantly increasing number of videos on Netflix, new problems arise. Some popular video content will always be ranked at the front of the website, while unpopular videos will always be ranked at the back of the website. It is a serious problem since this created a polarization of the popularity of Netflix videos and seriously affect the flow of videos. In psychology, the audience usually has two preferences when they watch a movie: aspirational preference and revealed preference. Aspirational preference is the preference the audience wants to reach and revealed preference is the actual preference of the audience. The audience's watching habits are mainly based on those two preferences. In the former algorithm of Netflix, videos are further recommended based on viewer ratings. In this case, the audience is more likely to watch the video based on their aspirational preference. However, Reed Hasting, the founder of Netflix, realized that there are some movies with low ratings but high recommendations. To keep the audience on the platform, the algorithm should recommend the concepts that meet the audience's revealed preference. On October 1, 2006, Netflix offered a \$1 million bounty to the developer of the first video recommendation algorithm that could predict customer ratings more than 10 percent higher than the existing Cinematch algorithm on Netflix. In 2009, a team called BellKor's Pragmatic Chaos won the prize and provide an algorithm that generates an average of 30 billion predictions per day, by 10 percent or more[1]. The basic logic of the new algorithm, Netflix Recommendation Engine (NRE), is that the platform Netflix will mutually recommend related videos to those who watched the same video. So both sides of the audience could receive a proper recommended video.

2.2 Incentive Matters

The Netflix Recommendation Engine (NRE) is vital for Netflix to keep the audience. According to a survey from a machine learning engineer David Chong, "80% of stream time is achieved through Netflix's recommender system, which is a highly impressive number." Moreover, Netflix believes that creating a user experience, can

improve user retention and thus save on user acquisition costs (estimated \$1B per year as of 2016). [2]. Word of mouth is brought by the operation of NRE since it improves audience comfort while using Netflix. From the perspective of the audience, imagine you are a seasoned movie lover and have just finished watching a movie on Netflix. You are planning to watch another movie, but you have already watched all the high-rating movies on Netflix and worry about what movie to watch next. However, after the implementation of NRE, some obscure but suitable movie recommendations will appear on your page after you watched the movie. You are very satisfied with the movie viewing experience on Netflix this time, so you consciously recommend Netflix to those around you. The word of mouth, therefore, is born. Word of mouth helps things catch on and is the primary factor behind 20 percent to 50 percent of all purchasing decisions[3]. The development of the Netflix NRE algorithm not only improves the content of the platform but also provides high-quality publicity for the Netflix platform.

3. CONFORM THE INTERNET DEVELOPMENT

With the emergence of numerous streaming platforms in the media industries, and as internet entertainment integrate generally into our lives, transporting videos is no longer the occupant strategy for a streaming media company. In the third quarter of 2011, Netflix ushered into its "recession period" due to a newly-published decision. Netflix decided to split the service to consumers into parts: a streaming-only plan, a DVD-only plan, and an option to subscribe to both. Consumer withdrew almost immediately after the news. Netflix's stock plummeted, from \$41.61 in mid-July to \$7.69 in late October and has fallen further since then. (Figure 1) In addition, the competitors of Netflix had changed from Hulu, an American local video-based platform, to a streaming company like HBO, which "with its decades-long reputation for quality, edgy, and respected original programming" [4]. Netflix introduced a long-term ideology aimed at this phenomenon. This ideology can be divided into three parts: Bought content, becoming a manufacturer; Promoting individual concepts; Open membership system.



Figure 1: Netflix Stock Price from Yahoo Finance

3.1 Get public attention by making movies

In 2010, the releasing of made a hit with the public. Breaking Bad is not an original drama produced by Netflix. It was firstly aired on AMC, and Netflix bought the remaining season afterward. However, the release of this Breaking Bad attracts many new Netflix subscribers as people discuss the show's intriguing concepts. In 2011, Netflix purchased Mad Men, and the impact of Mad Men was under the expectation. Since Mad Men have already been released on AMC a while previously, although the audience watches Mad Men on Netflix, when they talk about this show, they think about AMC instead of Netflix. This stanchd the determination of Reed Hastings, CEO of Netflix, that high-quality original concepts can help Netflix strengthen its position in the streaming industry. With the instructive precedent of Breaking Bad, Netflix decided to put more attention on producing concepts instead of buying.

In 2013, Netflix released the first 13-episode season of House of Cards, the first TV series to stream. House of Cards \$100 million budget bought 2 x 13-episode seasons equating to a cost of \$3.85 million per episode [5]. To cover the \$100 million budget, Netflix would need an extra 1.25 million subscribers. Most streaming companies would not risk producing this original show under the fierce competition of online video platforms. However, House of Cards evoke public positive repercussions and obtained unexpected achievements. The show won the awards a total of 56 times, which included multiple wins also at the Golden Globe Awards, Young Artist Awards, BMI Film & TV Awards, Satellite Awards, Golden Reel Awards, TCA Awards, Screen Actors Guild Awards, Humanitas Prizes, and WGA Awards. As House of Cards became popular, Netflix gradually became a household name. And the power of mouth strengthens in a further step. As a result, Netflix got one million more subscribers and the stock price increased incessantly.

High-quality concepts strengthen the retention of Netflix. And the continuous output of high-quality film and television works can effectively retain the audience and enable the healthy development of the business. "That's the virtuous cycle which is, as we get more subscribers, we're able to get more content, which then helps us get more subscribers." [6].

3.2 Publicizing concepts

House of Cards' instant hit was no accident. Before that, Netflix had accumulated video playback data of 30 million users. It has strong data support. Netflix could use the data to predict the probability of the audience's likeliness of a certain show. And there is an innovation in the release of House of Cards. Unlike traditional TV shows, Netflix released thirteen episodes of House of Cards at the same time and did not implement a strategy of weekly updates. This strategy is based on consumer behavior: Binge viewing. Binge viewing is the practice of watching entertainment or informational content for a prolonged period, usually a single television show. And Netflix found out that binge viewing has become a popular trend among the audience. According to the data collected by Britannica on January 5, 2022, "73% of Americans admit to binge-watching, with the average binge lasting three hours and eight minutes. 90% of millennials and 87% of Gen Z stated they binge-watch, and 40% of those age groups binge-watch an average of six episodes of television in one sitting." [7]. Binge viewers compose a great percentage of society; they can establish beneficial social connections as they convey their observability. From the perspective of a binge viewer, holding back a bunch of series, viewers may find the show more enjoyable when watching episode after episode, minus the agony of waiting to see what happens next, one week at a time. After constantly watching bundles of series in one period, the concepts of the show will fill their mind. Since people's memories of the show are still fresh, it's easier for them to talk to others about their views on the show online or in real life. The publicity of the conversations and perspective from the

audience can create behavioral residue and make the private behavior, of watching shows, into a public issue. Their behaviors can produce social proof that potential permeate into our lives. This further exponentially increases the discussion of the drama and the media further fermenting the drama online.

3.3 Open membership system

The membership in Netflix is called the 3 Netflix plan. It provides three streaming options Basic, Standard, and Premium, starting at \$9.99 per month and ending at

\$19.99 per month. The business model of Netflix is explicit and easy to understand. Consumers pay the subscription fee on Netflix to enjoy stream series, movies and shows. Unlike Hulu Plus, subscribers must pay for the service (\$7.99) and still watch commercials while Netflix is commercial-free. According to an analysis made by Srinivas Vadrevu based on data from Netflix financial statements 2019Q4, figure 2 shows Average revenue and spending per paid user. “Going to a membership-only model also made the site’s members feel like insiders” [8]. Owning a membership system can create a stable revenue earning environment for Netflix.

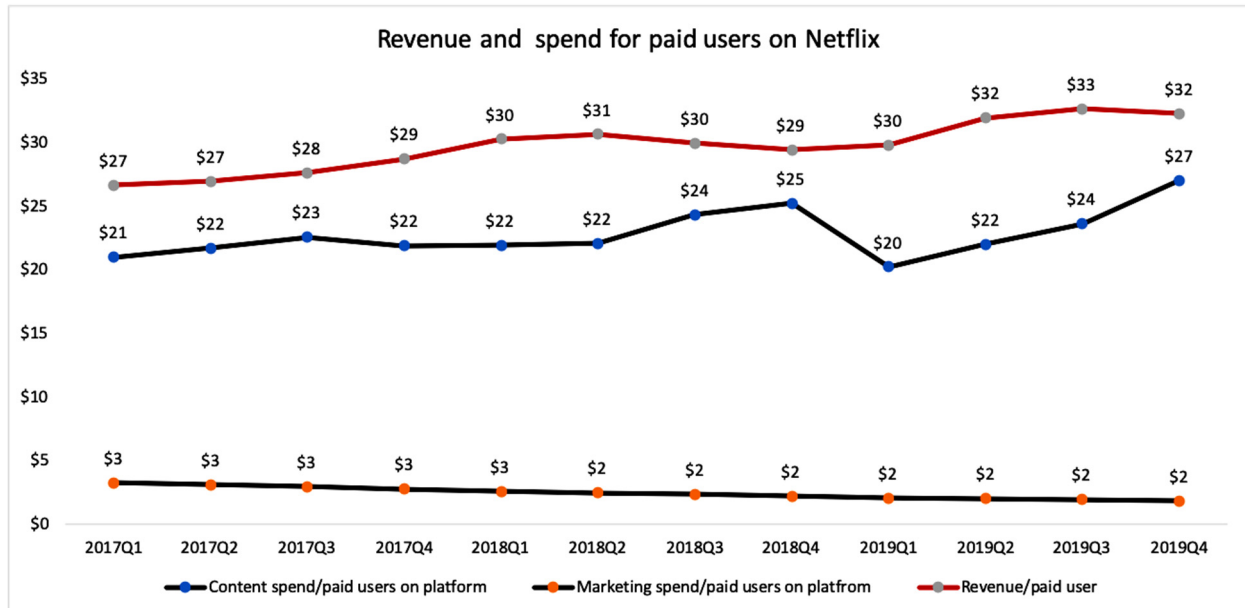


Figure 2: Revenue and spend for paid users on Netflix

4. CONCLUSION

In the Investor Page of Netflix, it states that “Netflix is a focused passion brand, not a do-everything brand”. Netflix’s ability to maintain consistent success in the streaming industry can be attributed to its innovation in movie concepts and conformation to the internet. Keeping up with internet technology could make it easier for Netflix to win a seat in the competitive streaming market and continuous innovation can broaden Netflix’s path. However, the most important thing that makes Netflix solidify the streaming industry is its core philosophy of continuous innovation and focus on growth. Netflix has an accurate positioning in the market and can have a clear goal: focusing on “personal experience that finds for each person the most pleasing titles from around the world.” This essay mainly combined business and consumer behaviors to analyze the success of Netflix. It is a lack of practical survey of the company. For further improvement, the research will focus more on the research of the physical market in the future. A more in-depth study of Netflix’s stock development and shareholder composition will be

conducted to comprehensively analyze Netflix’s development.

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