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An Assessment about the Business and Profitability Analysis for Netflix

Haoyu Meng[1,*], Jiayi Zhang[2,*], Yifang Zhang[3,*], Wanbing Zhou[4,*]

[1] *Haoyu Meng, School of Management, Lanzhou University, Lanzhou, 730106, China 1*
[2] *Jiayi Zhang, School of Accounting, Nanjing University Of Finance & Economics, Nanjing University Of Finance & Economics, Nanjing, 210023, China 2*
[3] *Yifang Zhang, Tianfu colleague, Southwestern University Of Finance And Economics, Chengdu, 618599, China 3*
[4] *Wanbing Zhou, School of Economics and Management, Beijing Institute of Technology, Beijing, 102401, China 4*
[*] *Corresponding author. Email: menghy19@lzu.edu.cn*
[†] *These authors contributed equally.*

ABSTRACT
This project is to make a detailed analysis of Netflix Inc to assess the business strategy and profitability condition of Netflix Inc. Netflix Inc is a good case in the media streaming industry because it has a rapid development in the last 10 years and takes a large share of its national market together expanding its market internationally. The research will firstly introduce the background and illustrate strategies of Netflix Inc. After that we will use financial analysis to dig deeper into the profitability condition of Netflix. What comes next is our recommendations for Netflix based on our analysis above. Finally, we conclude that Netflix's profitability will develop steady in the near future. But it will face growth ceiling and downward challenges. At this stage, it is urgent for Netflix to make new exploration and innovation.

Keywords: *Business strategy, Profitability analysis, Revenue forecast*

1. INTRODUCTION

Under the COVID and the telecommunication, the streaming industry keeps benefiting during the development. Even after the situation getting better, the industry can still develop a lot thanks to this kind of entertainment has become part of people's way of live.

Netflix is a large streaming company, got rich by DVD at first, successfully transformed to streaming industry in 2007 and knowing for its high-quality original programs after 2013. However, the future for the industry benchmark like Netflix is still challenging. The competition makes the market getting more and more saturated, with almost all of the film and television media companies jump into the streaming industry. The operation process includes not only the traditional way but also launching movies that were originally planned to hit theaters. Some competitors even try to focus on the middle-aged audiences. A fierce, segmented market environment like that keeps driving us to think at what level the profitability condition of big name like Netflix is playing and where it can reach in the future.

The existing studies mainly provide the overall analysis for Netflix, but this research will focus on the profitability analysis and try to give constructive suggestions to more companies. The purpose of this research is to centralize the analysis on Netflix, trying to discover and predict the profitability condition of it from a business and financial point of view. The evidence will take both the qualitative and the quantitative sides into consideration.

This paper will be divided into five parts. Following the introduction, the business analysis will try to answer the questions like what strategic actions has been taken to improve the profitability condition. Then the financial analysis and discussion part will include crucial financial indicators to evaluate the profitability condition and have some reasonable recommendations about Netflix. Finally, the conclusion will summarize the assessment of Netflix.

According to the previous researches, the transformation in the television industry (Evens & Donders, 2018; Hesmondhalgh, 2019), as well as the development of streaming industry based on the cross cover of media and technology industry with the comparation of the companies thereof (Luo, 2020; Cody, 2021) have been taken into vast research. Besides, there have been plenty of reports presenting the perspectives on the current and future financial performance of Netflix by quantitative analysis (Lisbon, 2017; Financial Express, 2020; Andre & Paola, 2021), or illustrating the business model and strategy of Netflix (Anders & Lucy, 2019; Pavel, 2018; Li, 2018). Nevertheless, there has been few researches concentrating on both strategy and profitability of Netflix and relevant advice. Hopefully this research will help us better understand the company and the industry.

2. BUSINESS ANALYSIS

2.1. Business Environment: Industry Analysis by Five Forces Model

With the duality of the business process of original production of contents and distribution by technology channel, Netflix holds a hybrid position in media and technology industry. (Anders & Lucy, 2019). Therefore, the emergent and standalone industry of streaming media services in the cross-cover of the traditional media and technology industry may be the subject to analyze.

2.1.1. Threats of New Entrants

The industry barrier of streaming media service may be relatively high with the tremendous capital requirements for content acquisition and production, as well as the technology support. Besides, the steady relationships between existing streaming company and channel suppliers impede and exclude the new entrants to some extent. Therefore, the threat of new entrants is low for Netflix.

2.1.2. Bargaining Power of Suppliers

Contents and channel are two principal resources for Netflix's steaming business. On the one hand, the intellectual poverty suppliers may hold relatively less bargaining power, with the low supplier concentration attributing to the diverse genres of contents, low customer switching cost, and the Netflix' original produced contents as substitutes. On the other hand, the bargaining power of the network channel suppliers may be relatively strong, for the high supplier concentration, high customer switching cost, few substitutes for the internet and the low dependence of internet suppliers on the streaming media industry. Besides, the long-term relationship and cooperation with specific internet supplier, like Amazon, in common circumstances for stability conduces to the reliance on specific supplier. Therefore, the bargaining power of contents suppliers are moderate while the power of technology suppliers is strong.

2.1.3. Bargaining Power of Customers

The bargaining power of the users of the streaming media is weak with the low customer concentration, large customer base. Although the customer switching cost is quite low that the numerous users may maintain simultaneous relationships with multiple entertainment video providers, which, on the other hand, reflects the low-price sensitivity of customers, as they prefer to pursue high-quality and multitudinous contents rather than cheaper price. In addition, almost every entertainment video provider holds some contents with exclusive copyright, which enables the differentiation of products.

2.1.4. Threat of Substitute

As the essence of streaming video, like films, TV series, is a tool for entertainment at free moment, other things that people may choose at their moments if free time may be the substitutes of streaming videos. On the one hand, the traditional ways for entertainment encompassing watching movies in cinemas and TV series or TV shows on TV have been in recession due to the boom of internet and the COVID-19 pandemic. On the other hand, the social media platforms like Facebook, Wechat, and the streaming short videos services, like Youtube, Douyin, as well as the games, electronic books, which also occupy massive idle time of people's life, may generate strong threat of substitutes for the streaming media providers.

2.1.5. Industry Rivalry

The industry rivalry are quite competitive. With the prosperity of entertainment under the internet era, the fast growth of streaming media industry during previous years has attracted some involvement of the traditional providers of entertainment video including broadcasters and cable network operators, such as HBO max, and the original contents producers, like Disney plus, as well as the internet companies including internet based e-commerce and electronic devices producers, such as Amazon and Apple plus, which hold large scale of business, great financial, as well as the exclusive copyright of IP or the robust infrastructure and system of network. Besides, other streaming entertainment providers which provide short videos, like Youtube, may also be the powerful competitors. Therefore, the threat of industry rivalry may be high.

2.2. Business Overview: SWOT Analysis

As the target subject in this paper and 'instrumental case' (Stake,1995) and 'exemplary'(Yin, 1994) in the emergent streaming industry, the business overview of Netflix should be depicted by SWOT to provide the general information on the business situation and position of Netflix.

2.2.1. Strength

2.2.1.1. Core Competitiveness of Quality-Contents

Firstly, resulted from the perpetual pursuit on the contents of diverse genres, multiple culture and various language, the contents provided by Netflix cover feature films, TV series, documentaries, TV shows, children's programs and other genres. Besides, Netflix's quality orientation contributes to numerous typical contents originally produced by Netflix, like House of cards. And the permission on the local creation and production of contents by local team under the circumstance of global expansion enable the rapid and substantial increment of customers of Netflix. (The Squid Game)

2.2.1.2. Reputation for Excellent Service

Netflix are reputed for excellent service on account of no advertisement, full release of whole season, continuous improvement of user interfaces.

2.2.1.3. Brilliant Market Presence and Operation Performance

As the pioneer of streaming entertainment, rapid growth ($24996.0 million revenue and 24% growth, $29697.8 million revenue and 18% growth in FY2020 and FY2021) and large customer base (203 million in FY2020, 222 million in FY2021) enable Netflix the dominant position in the streaming entertainment market. (Annual Report, 2021)

2.2.2. Weakness

Large amount of debt ($16,308.9 million in FY2020 and $15392.9million in FY2021, 51% of revenue) resulting from large investment in contents assets could have a major impact on the operational performance of Netflix, as major portion of its earnings would be diverted to servicing its debt obligations. It may have negative impact on Netflix's activities of raising funds from the investors, which may increase the company's vulnerability to adverse economic and industry conditions. The simple revenue source may increase the vulnerability and risk once the streaming market doesn't perform well.

2.2.3. Opportunity

In the post-pandemic period, continuously global expansion, deeper penetration in media and entertainment industry in the US and development pf video game market may be the opportunities for Netflix.

2.2.4. Threats

The slowdown of the subscribers growth on account of the recession of benefits from home isolation for pandemic in the post-pandemic society may be a serious threat for the Netflix's revenue growth. Besides, as the analysis of industry above, the competitive rivalry in the industry may be the strong threats of Netflix's market position. Additionally, the probable restriction and limitation on the third party's supply of technology, channel and copyrights for the competition may cause adverse impact on the operation and sales of Netflix. (Annual Report, 2021)

2.3. Business Strategy & Business Model Analysis

On account of the simplex revenue composition and structure based on subscription model, subscribers base and growth have been being attached great significance to Netflix's core strategy. Therefore, there may be three main aspects of Netflix's business strategy oriented to the prior market presence, attraction of potential users and the retention of existing users.

2.3.1. Cost and Differentiation Orientation of Contents Matched with Customer Preference: Market Priority and Large Customer Base

As the streaming video company providing contents to customers, Netflix' value proposition recognizes the contents' capability of appealing to subscribers, embracing high quality, diverse genres, differentiation and according with the customer preference, as the core competitiveness and content strategy to occupy the market and gain large consumer base. To illustrate, Netflix has held a large-scale investment in the contents acquisition and production. The net content assets reached about 30 billion in 2021, accounting for 70% of the total asset. 17,470 million in USD has been spent on content in 2021. (Netflix Annual Report, 2021). Attributing to the large investment, the contents of high quality, like House of cards, Black Mirror, Orange Is the New Black, and of diverse genres and languages including feature films, TV series, documentaries, TV shows, children's programs, etc. in more than 30 languages (Netflix Proxy Statement, 2021), has contributed to the large customer base of various ages and regions. Furthermore, as a result of the homogeneity of the service model of the provision of media content, the similarity of core business process (Anders & Lucy, 2019), and customers' low sensitivity of the membership fees (Deloitte), the differentiation and heterogeneity of contents has been a crucial part in the Netflix's strategy. Since the huge success of the first original produced content, House of Cards, in 2007, the proportion of original produced content assets has experienced a constant growth compared to the licensed contents. (17 billion in FY2021, about 56% of content assets). Earning a record 160 Emmy nominations and 36 wins within year 2020(Netflix Proxy Statement, 2021), the original produced contents of Netflix has occupied the dominant proportion in the customer demand compared to other platforms (Statista, 2021). In addition, analysis of 'data flow' on consumers' consumption behaviors, users' interactions and viewing habits using the combine of machine learning and algorithms with human intelligence (Anders & Lucy, 2019) match the contents of Netflix with public flavour and social preference, which improves the accuracy of content recommendations about the design and choice of plot, characters, actors, genres and so on.

2.3.2. Outstanding Customer Service: Retention of Existing Customers

'Platform model' and 'cutting-out-the-middleman model' (Andre & Paola, 2021) are used in the online streaming distributions and operations to improve distribution efficiency, and customer satisfaction and experience, which enhances the retention of existing customers. Direct distribution of original contents to users without middlemen or intermediaries via its own content delivery networks (CDN) ensure the control of quality and efficiency of distribution service and minimize the latency. (Anders & Lucy, 2019) This can also provide primary footprint and information for the data analysis of customer consumption behaviors and public preference. Besides, Omnichannel coverage and myriad devices permission containing mobile devices, computers, large screens ('smart TV'), etc. satisfy more users' requirements and gain more opportunities of occupying leisure time of people. Furthermore, no advertisement and the full release of whole season at a time obviously improve the users' experience. These differentiated services contribute to the high retention rate of existing customers. With the highest retention rate among the industry, more than two third of existing subscribers in 2019 would continue the subscription of Netflix in next 12 month (Rieck, 2019). And only 14% subscribers in 2021 would cancel paid-for streaming service of Netflix in next 12 months in UK, according to the research from Statista.

2.3.3. Global Expansion: Attraction of New Customers and Market Expansion

Orientation of global market penetration as the growth strategy of Netflix target on the expansion of the business scale, global market priority and additional subscribers increments. Low cost and rapid speed in the distribution of streaming video among the world by sophisticated network enable global business as the crucial position in streaming industry. Netflix's strategy of international cooperation and cultural communication play a significant role in the global market expansion. Cooperation with international media company and emphasis on local creation and local team to better excavate and present local elements in the culture and society can attract more local customers and reduce the cultural discounts for distribution of produced contents (Li, 2018) The huge success of Squid Game which made by famous and excellent local team from Korea released in 2021 can be a typical instance. The second half of 2021, after the release of Squid Game, experienced a 12.7 million net additions of global paid memberships, especially the growth in APAC. As another example, Narcos produced by the cooperation of Netflix and one of the most famous media companies in Latin America, Dynamo, acquired favorable reception and Emmy nominations. Based on the true story of Colombian drug Lord Pablo Escobar, Nacros fully explored and implied the characteristics of Colombian society, which resonated and attracted numerous local customers. (Li, 2018)

3. FINANCIAL ANALYSIS

3.1. Operating Performance: Profitability Analysis

3.1.1. Ratio Analysis

Except the ratio of capital structure leverage is decreasing in recent three years, profit margin of ROCE, asset turnover and ROCE are all rising. This is a good thing for Netflix, Netflix's profitability is rising.

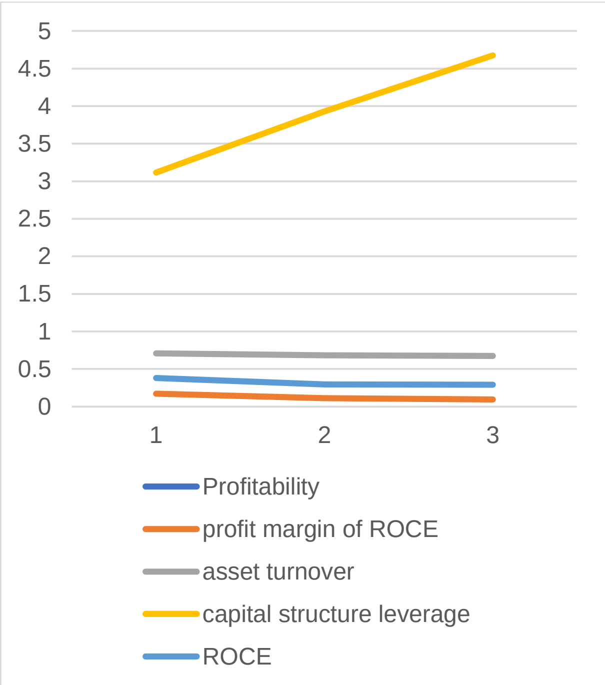

Figure 1 Profitability ratio

From 2017 to 2021 the growth rate of net income is going down, even under the benefit of COVID—19, although the revenue in 2021 has increased, this was due to the COVID—19, which delayed the release of films made by Netflix that year to the following year, and the revenue(from new subscribers)is also delayed in 2021. Under normal circumstances, Netflix would not have another explosive income growth in 2022. In the last point, all the leverage ratios (liability to asset ratio, liability to shareholder's equity ratio, long-term debt to long-term capital ratio and long-term debt to shareholder's equity ratio) are decreased, but the cash flow is positive, is just like what mentioned above, Netflix may be looking to improve profitability and profit space by optimizing its debt and asset structure.

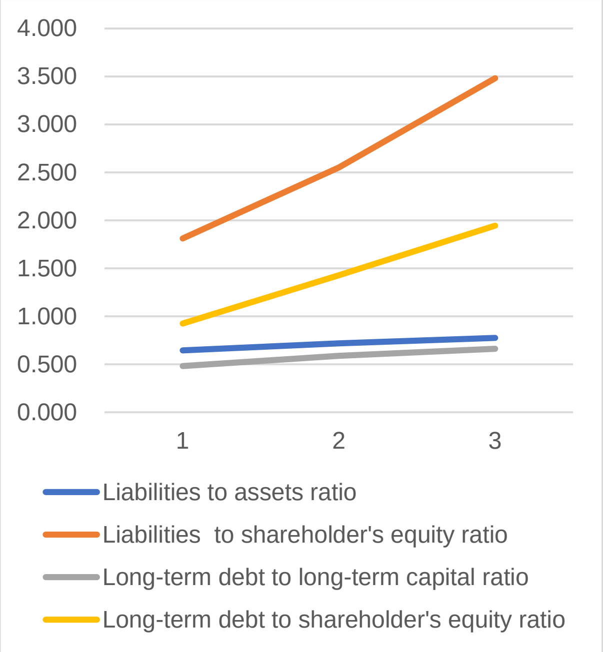

Figure 2 Leverage ratio

In horizontal comparison, the development of Netflix's profitability is laudable , compare with Amazon Netflix's profitability is more outstanding.In recent three years, compare Netflix's gross profit margin(38%—41%) with Amazon's gross profit margin(40.99%—42.03%), and compare Netflix's net profit margin(9.26% — 17.23%) with Amazon's net profit margin(4.13% — 7.10%) ("Inline XBRL Viewer", 2022), Netflix is more outstanding, this shows that Netflix is also competitive in the streaming media platform and streaming fields, and according to the data, Netflix's competitiveness is increasing. ("Amazon Financial Ratios for Analysis 2009-2022 | AMZN", 2022)

3.1.2. Operating Analysis

This part will introduce the performance of Netflix during recent years, and through the understanding of statement to build more reliable financial information for Netflix.

3.1.2.1. Income Statements

In the income statement, the growing proportion of revenue and cost of sales are both decreased. The revenue is increasing from 2019 to 2021, which should be attributed to COVID-19, because the housing economy brings more subscribers for Netflix, and Netflix’s income is decided by subscribers. Although the cost of sales and expenses is also increasing. However, its growth rate does not affect net income, so the net income is increasing. But what is not optimistic is that the percentage of revenue growth decreased from 28% to 19% (from 2019 to 2021) and the percentage of the cost of sales growth decreased from 25% to 13% (from 2019 to 2021). Under the benefit of COVID-19, the growth rate is also decreased, which means Netflix’s profit space of streaming media is gradually decreasing.

3.1.2.2. Balance Sheet

In the balance sheet, the cash and equivalent in 2020 is significantly improved, but in 2021 it returns to a relatively normal level; in addition, short-term debt is increasing and long-term debt is decreasing. The increase in cash and cash equivalent shows the opening value is bigger than the year ending value. Most likely the cost will be deferred to 2021 due to the COVID—19, so in 2020, the cost in this year is smaller than others, and its returns to normal in 2021. Secondly, liability (current liability and not current liability) is roughly decreasing, while retained earnings increases. Probably because Netflix is adjusting its asset structure that optimizes its asset structure, it can rise asset return and utilization of assets. This has great benefits for increasing income space.

3.1.2.3. Statement of Cash Flows

In the cash flow sheet, it's worth noting that Netflix achieve positive cash flow in 2020 and 2021, and Netflix's CFO also said: Netflix’s total debt will be maintained at $10 billion to $15 billion in order to retain the opportunity to access debt markets if necessary. In addition, excess cash will also flow back to holders through buybacks. That could give Netflix's shareholders more confidence, and take more financing to Netflix. Netflix also has an opportunity to optimize its debt structure and prevent financial risk because of short-term liabilities.

3.1.3. Revenue Analysis

Revenue which generated from the main business activities and its growth rate also reflect the profitability of the company.

Subscriptions is the most important source of revenue for Netflix. When users sign up and pay a membership fee, they are entitled to receive Netflix's service, and Netflix earns money for providing the service. Then it is easy to understand that Netflix's main revenue drivers are the number of subscribers, the amount of money that subscribers pay per person which also called Average revenue per membership (ARM), quoted from the NFLX’s financial statements. According to the data Netflix disclosed in the past three years, the average ARM is \$13.46, with \$12.57 in 2019, \$13.32 in 2020 and \$14.49 in 2021.

Revenue structure is quite simple for Netflix. In 2021, 99% of the revenue is earned from the streaming business compared to 1% from DVD business. Divided by the geographically segmented market in the past three years, around 47% of the revenue coming from the United States and Canada (UCAN), 31% coming from Europe, Middle East, and Africa (EMEA), 13% coming from Latin America (LATAM) and 9% from Asia-Pacific (APAC). Although it seems like the UCAN contributes the most, the proportion has been declined every year since 2019, from 50% in 2019 to 43% in 2021.

3.1.3.1. Revenue Forecast

Based on the above understanding of Netflix's income structure, this part of the investigation tends to predict Netflix's future income and compares it with other major competitors in the industry. The four prediction dimensions are listed below:

1.Revenue Drivers are Average revenue per membership (ARM) and Paid membership size, following the formula as Revenue=ARM * Paid membership size.

	Subscribers	ARM	Predicted Revenue
2022	241847	11.18	2704181
2023	261814	11.55	3023766
2024	281782	11.92	3358055
2025	301750	12.29	3707037
2026	321718	12.65	4070713

Figure 3 Revenue forecast 1

2.Historical growth rate forecast predicts a revenue growth rate around 4% in the next 5 years. Using the historical revenue growth rate, we can try to predict the future revenue growth rate in the next five years.

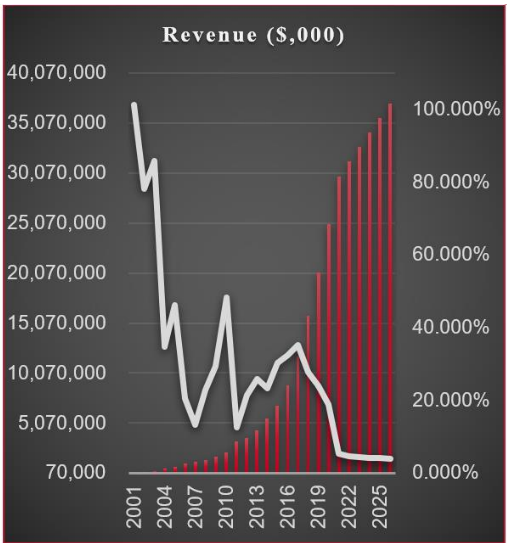

Figure 4 Historical growth rate

	Predicted Revenue	Predicted Growth Rate
2022	31276672	4.62%
2023	32720781	4.40%
2024	34159731	4.20%
2025	35593958	4.02%
2026	37023847	3.85%

Figure 5 Revenue forecast 2

3. The international revenue will take about 58%-62% in the total revenue for the next 5 years.

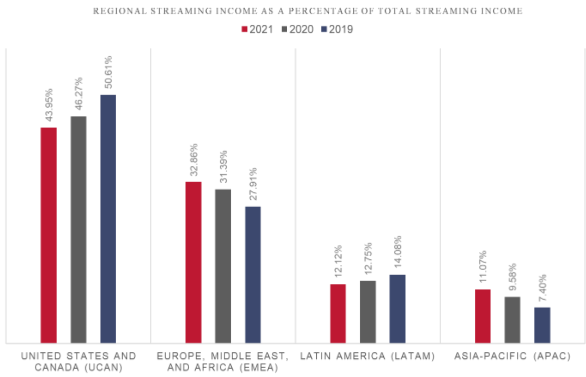

Figure 6 Historical segments performance. Regional streaming income as a percentage of total streaming income.

$,000	UCAN	EMEA	LATAM	APAC	Total revenue
2022	14,418,009	11,817,164	3,960,130	4,166,236	34,361,539
2023	15,873,994	13,907,499	4,348,563	5,065,113	39,195,169
2024	17,329,979	15,997,834	4,736,997	5,963,989	44,028,798
2025	18,785,963	18,088,169	5,125,430	6,862,865	48,862,427
2026	20,241,948	20,178,504	5,513,864	7,761,741	53,696,057

Figure 6 Revenue forecast 3

4. More investment on contents, more revenue Netflix earns. Only consider the historical data of Netflix, they have a linear relationship as Revenue=1.519 investments -0.469

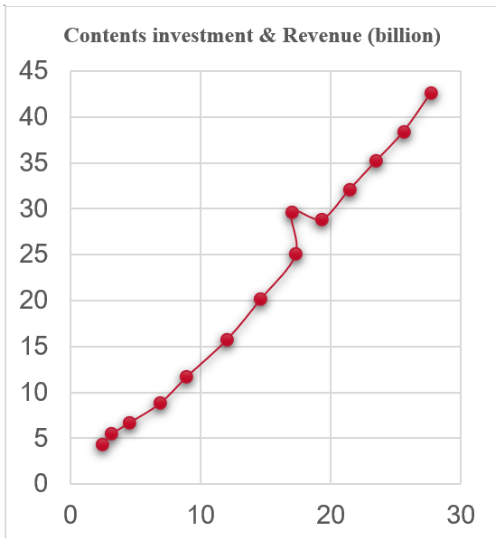

Figure 7 Linear relationship. X: Contents investment, Y: Revenue, Y=1.519X-0.469.

	Contents investment (billion)	Revenue (billion)
2022	19.32	28.87
2023	21.43	32.07
2024	23.52	35.26
2025	25.62	38.44
2026	27.72	42.62

Figure 8 Revenue forecast 4

3.2. Operating Capability: Liquidity Analysis

Liquidity is an important index to assess the operation situation of a company, and if a company failed to keep its liquidity, it may fall into trap where it doesn' t have enough to manage its operation. As we all know, Netflix ' s main way of requiring revenue is its customers' monthly paid membership, which allows Netflix to enjoy high liquidity. However, due to it has to purchase copyrights of movies, series and invest in its own production, Netflix in fact doesn ' t have a large liquidity. Contrary to it, through analysis of its annual report, we draw to a conclusion that Netflix' s liquidity is low.

When looking at its financial statements, we can find that its turnover ratios are decreasing (the turnover ratio of trade receivable from 46.93%in 2020 to 41.97% in 2021, the turnover of its accounts payable from 20.66% in 2020 to 18.48% in 2021), implying when the company sells its products to the customers, it cannot receive payments quickly, so it cannot pay its accounts payable quickly too.

We find the situation of its short-term ratios are also worsening. Current ratio is an indicator of company' s ability to pay short-term obligations; calculated. by dividing current assets by current liabilities. Quick ratio functions, similarly, calculating by dividing quick assets by current labilities. And according to its Balance sheet, Netflix 's inventory is very limited, we will only talk about the first ratio rather than both. Compared to 2020, current ratio a has a noticeable decline rate from 125.06% to 95.06% and its operating cash flow to current liabilities ratio from 33.11% to 4.82%, almost 8 times., implying its cash flow reduces or its current liabilities increases. If the reason behind is its current liabilities, the decline rate of current ratio should be in accordance with that of operating cash flow to current liabilities ratio. Meanwhile, by comparing interest coverage ratio (net income basis) and interest coverage ratio (cash flow basis) in 2021, we can also find that the though the company ' s net income increases, its cash flow decreases. As a result, I speculate that the main reason is that Netflix' s cash flow is weak.

When it comes to its leverage ratio, we find that Netflix is shortening its indebtedness. The liabilities to assets ratio reach 181.30% from 254.99%. Long-term debt to long-term capital ratio reduces from 58.83% to 48.11%. all of these figures show that Netflix doesn' t want a heavy debt, which leads to the fact it loses a resource of cash.

4. DISCUSSION

4.1. Outstanding Financial Performance Attributed to Appropriate Business Strategy and Model

According to the strategy and profitability performance analysis above, the continuous growth of the revenue and the consistent profitability on account of the consecutive subscriber increment manifests the validity and effectiveness of the strategy. Orientation of quality and differentiation of contents strategy, as the core competitiveness to attract subscribers which is the main revenue factor, contributes to the primary part of continuous profitability in last decades. Although resulting in huge debts, the leverage strategy provide opportunities for Netflix for business expansion and competitiveness formation including contents acquisition and production, technology and channel investment, which is the financial foundation of contents strategy. The strategy of customer data flow analysis, as the basis and reference of contents strategy, improve the contents attractiveness and also reduce the cost for trial and error. Furthermore, the rapid growth of profitability in last three years and the potential growth in the future crucially attribute to strategy of international expansion with localization of production and operation.

4.2. Assessment of Future Profitability of Netflix

4.2.1. The Trend of Increasing

Netflix still has the increasing trend in the next stage considering the factors below.

<u>4.2.1.1. The Growing Contents Investments Still Has the Chance to Boom Netflix's Market Performance.</u>

The above revenue forecast analysis suggest that revenue and the investment size are positively related when it comes to the history of Netflix development. As a media streaming company, Netflix faces fierce competition in the industry and can only win the market if the high-quality contents provided can prove that paying for Netflix is worthy. Therefore, Netflix's growing contents spending may help itself provide more high-quality outputs and attracts new customers, strengthen old customers' confidence in renewal and price increase. What is noteworthy is that contents spending is not only about the TV series and movies, but also the video games and other user-generated contents. Since Netflix acquired the Next Games on March 2022, the contents spending will increase, bringing more diversity and potential revenue.

4.2.1.2. The International Subscribers and the Service Plans Still Have Potential to Grow.

With the improvement of local infrastructures and cheaper internet connection, more and more internet users will flood into the Southeast Asian Market. Take India as an example, it has the largest internet users behind China, and the number is still growing. In addition, users need to pay 199 Indian rupees a month in 2020 to enjoy the Netflix service in their smartphones or tablets, the price and the types of service package can all be further improved, leading to larger profit space. Let alone Netflix's success in overseas markets. Series like South Korea's "Squid Game," Spain's "Money Heist," and France's "Lupin" can bring more international subscribers and strengthen Netflix' s brand awareness. All of these success in localization an expansion can be another optimistic factor for future profitability.

4.2.1.3. Although Netflix is Facing Fierce Competition, It Still Has Good Reputation and Remains One of the Benchmarks in the Industry.

As the business pioneer, Netflix has credit in the public emotional bank. Competitors like Apple and Disney all inspired by Netflix's business success. In the financial performance, Netflix's profitability ratio exceeds the industry average. Also, Netflix has the ability to stay in the top three when it comes to the subscription fee but still maintain its large subscriber base.

4.2.2. The Limitation of the Increase

However, Netflix certainly faces so many challenges in the future that this research supposes Netflix will have its profitability development ceiling if it does not make new exploration and innovation.

4.2.2.1. The Growth of Video Streaming Industry Users Has Slowed Down in the Post-Epidemic Era.

In the first quarter of 2022, Netflix lost 200,000 paid subscribers for the very first time which is well below market expectation. This could be a very adverse indicator that Netflix's core revenue base is shrinking. After the user surge thanks to the lockdown in the early days of the outbreak, Netflix 's market price experienced a fluctuation with the first-time negative growth of subscribers. Under this context, simply increase the price to make up for the decrease of revenue is very likely to lead to an adverse effect which means less subscribers and poorer profitability.

4.2.2.2. Netflix is Losing Market Share and Facing More Tough Competitors.

In 2019, Netflix has about 65% market share of the industry while in 2022 this proportion could be under 50%. At the same time, Disney spent only 2 years since 2019 to integrate the resources in ESPN+, Disney+ and Hulu, finally reaching about 190 million users which nearly catching up Netflix's 220 million. We can see that Netflix is facing great pressure about expanding user size.

4.2.2.3. Single Source of Revenue.

If the user decrease may be the same challenge for the whole industry, Netflix seems to be the most vulnerable company dealing with this situation. Other competitors like Apple and Amazon all have revenue sources from other business line as well as more steady cash flows to cope with contents spending increase and loss of users. Clearly, Netflix only has the streaming business and its entrance to video games is still obscure. For those competitors focusing on streaming, their contents spending is much less than Netflix and have less subscribers to maintain. All of these give them more space to adjust.

4.3. Recommendation of Direction of Future Development of Netflix

To break through the limited space of increment of future profitability and maintain the continuous and long-term profitable performance, under the circumstances of competitive rivals and saturated national market, it is advisable for Netflix to gain earnings and cash or income benefits from the core competitiveness and value cultivated before, including content assets invested and acquired, IP produced, and reputation and customer base accumulated, as well as constrain the production cost and acquisition expenditure to counteract the high debt and finance the sequential expansion of market and lines of business in the long term development. Following this guiding principle, there are several directions and approaches for Netflix in both short term and long term.

4.3.1 Short-Term Increase of Profit and Positive Cash Flow

4.3.1.1. Continuous Global Market Expansion and Penetration to Attract Additional Subscribers.

The production of Squid Game by cooperation with local company can be a success template to be generalized with relative specialization for different regions' situation and culture in the international market. The nascent market in Asia, Latin America still have great potential. With further and deeper implementation of the core strategy of emphasis on the localization of production and business, Netflix is expected to enhance the cooperation with local company and interaction with indigenous people. On the one hand, Netflix can intensify and diversify the consociation and relationship with various and preeminent indigenous production teams via the self-reputation, industry recognition and provision with the advanced idea, equipment and technology (4k, HDR, Dolby Atmos, etc.). Especially in Asia, where the culture, language and customs are quite different from western countries, the localization of content production, which is the combination of excavation and embodiment of local culture and adoption of Netflix's process concept and advanced technology standard, should be attached great significance to. On the other hand, localization of operation services, achieved by cooperation with local channel merchants with long-term contract-based relationship to occupy and anchor the local market via the abundant contents' capability to attract viewers, is another crucial part of market penetration. (Li, 2022)

4.3.1.2. Reasonable Subscriptions Premium Due to Free Game Offering to Increase Subscription Revenue.

With the initiation in the game field in 2019, Netflix provide the game services for subscribers with no charge (Eddie, etc., 2021). The intention of attempt and trial and the immaturity of game function may be the reason for free in the initial period, yet the subscriptions should hold a corresponding increase to cover the cost. Besides, the improved experience of subscribers for participation and various plot development and cost investment of interactive contents, such as Black Mirror: Bendesnecki, which will be an important part for Netflix to develop, can be another factor for price premium.

4.3.1.3. Current IP Realization to Gain Additional Cash Income.

With numerous popular original produced contents, like House of cards, Stranger Things, Squid Game, Emily in Pairs, the elements (characters, materials, etc.) in these contents can be the intellectual poverty to earn money via derivation realization, market realization and content realization. The timely development and sale of derivatives and periphery of popular contents though the cooperation with e-commerce, for instance, the candy pies, masks and T-shirts printed with image of related characters in Squid Game, can generate considerable benefits from the fanaticism of the public. Besides, the offline IP realization that integrate IP elements into real entertainment including live entertainment, theme park, theme hotel, scenario scripts, theme exhibition, can realize the linkage of online and offline with cost saving and explore the development out of the content heat, which extend the vitality and increase the vale of IP. The development and lunch of new products from IP mutual authorization and linkage by cooperate with other brands can gain extra income and raise the popularity of certain IP, so that achieve win-win.

4.3.1.4. Constraint of Production Cost and Investment Expenditure.

The huge debt resulted from vast expenditure in acquisition of popular content assets and tremendous investment in content production complying with the strategy of quality orientation should be taken into great consideration to raise reputation, diminish risks and vulnerability of probable economic crisis. On the one hand, the dominant position in the industry benefited from core competitiveness cultivated and value accumulated before can enhance the bargaining power of Netflix towards other content providers. Also, the affluent resources and opportunities and strong platform advantages can be a mighty term in negotiation instead of the mere and huge money investment. On the other hand, it can save unnecessary cost for the avoidance of hiring superstars and celebrities with exorbitant appearance charges and the adoption of scouting, contracting and fostering own team of actors.

4.3.2. Long-term Continuity of Profitability Increment and Sustainability

The recession of the benefits on streaming industry from the home quarantine for pandemic when citizens gradually return to the normal pace of life for adaption of online study and work without much entertainment time and return to the offline life, give rise to the inevitability of limitation of the increment even the decline of subscribers, which may exert detrimental impact on the main revenue resources of Netflix. To cope with this serious threat and achieve sustainable and continuous development in the long term, the strategy transformation embracing addition of business services, innovation of business model and diversification of revenue sources should be taken into account. Netflix can charge extra for superior game function via the expansion of nascent game business of Netflix, including developing new channel or section for game based on the intellectual poverty of characters and film series by hiring or cultivating professional and technical production team or acquisition of game company and producing more game related content (Yoon, etc., 2021). Additionally, Netflix can exploit the functionality of social platforms based on the passion and comment, preference and communication of subscribers towards certain contents and interaction and connection between actors and fans by hiring technical teams to develop new applications or create channels within the existing platforms, or acquiring existing platforms like Patreon and Discord (Yoon, etc., 2021). There may be the additional membership system to gain extra membership revenue in the social platform. Not only can this innovation of community-based platform retain more initiative subscribers by further fueling the passion for contents and attract new viewers for certain contents by implicit publicity embraced in comments and communication, but it can also provide massive customer data about the content preference and suggestions for Netflix to precise customer groups and direction of contents production. Last but not least, the launch of another platform for free or lower subscriptions with advertisement and gradual and separate release of episodes by cooperation with advertisers can be a feasible resolution in business model for the considerable and relatively steady advertise income with little invested cost (AlphaSeeker, 2022). There may be plenty of advertisers willing to cooperate with Netflix on account of the Netflix's platform competitiveness and certain amount of customers with high sensitivity of price. The incremental positive cash flow from the advertiser income can be reinvested in the production of superior contents, expansion of game market and development functionality of social platform, which contributes to a sustainable and steady growth of profitability performance of Netflix in a long term.

5. CONCLUSION

Generally speaking, this study supposes that Netflix ' s profitability will develop steady in the near future. But it will face growth ceiling and downward challenges. At this stage, it is urgent for Netflix to make new exploration and innovation. In this research, the revenue forecast and ratio analysis is not based on a large sample but only focus on the historical performance of Netflix from a quite micro perspective. But the business analysis and recommendations discussed could be meaningful both for the company and the industry.

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