



# Research on Innovative Development Strategy of Netflix

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**Abstract.** In the 21st century, with the rapid development of the global economy, the reflection and discussion of enterprise self-development strategy has become an indispensable part of enterprise value shaping. The development strategy of the enterprise has more important significance for the operation and growth of the enterprise, and the innovative development strategy can not only further win the market share of the enterprise, but also promote the production and sales of the enterprise. Through the research on the innovative development strategy of Netflix, this paper summarizes the successful experience and methods of Netflix and puts forward some enlightenment for Chinese streaming media enterprises based on the innovative strategy of Netflix.

**Keywords:** Netflix · Innovation · Development strategy

## 1 Introduction

With the popularity of “*squid game*” in the world, the market value of Netflix has refreshed many times in just one quarter, creating a revenue of \$7.48 billion, a year-on-year increase of 16%, and the market value is close to \$286 billion. As a media enterprise starting from DVD rental to the world giant of streaming media, Netflix’s innovative development strategy is regarded as a beacon by many entertainment industries, and also has enlightenment on China’s existing streaming media and online video platforms. Therefore, Netflix’s innovative development strategy is worth studying and discussing.

## 2 Innovative Development Strategy of Netflix

### 2.1 Business Model Innovation

Netflix was a DVD rental company in its early days. At that time, Blackstone, a former American entertainment giant, dominated the market. As a video rental company, Blackstone’s business model was offline video rental. In 1997, Blackstone had 8000 offline stores and more than 50 million tenants. At this time, Netflix began to use its new DVD rental business model to enter the home entertainment market.

### **2.1.1 Online Operation**

Netflix chose not to open a physical store but only to operate online, which not only saved many store rent but also saved most of the salaries of service personnel. As the main part of operating costs, store rent and personnel salaries helped Netflix save a lot of money. Compared with the costs of Blackstone, the advantages of Blackstone also became its disadvantages.

At the same time, the online operation also makes Netflix's user data analysis more comprehensive, and the collection of online user data is more convenient and practical than offline statistics.

### **2.1.2 Direct Mail Service**

Taking into account the small size and lightweight of DVD, Netflix provides all customers with DVD direct mail service, which saves users' time and cost to a certain extent and enriches their purchase methods; In addition, by user analysis, Netflix found that the overnight commitment has a relationship with the user's registration rate and order placing rate. Netflix has set up warehouses in major urban agglomerations, selected the nearest warehouse according to the user's order placing address, and delivered DVDs to customers overnight, posing a huge challenge to the operation mode of Blackstone offline stores.

### **2.1.3 "Three-No" System**

Considering that many users who rent video tapes at Blackstone can not afford huge late fees and can not tolerate the agreement that there is a deadline for return, Netflix launched the "three noes" membership system without an expiration date, late fees, and postage. As long as consumers pay a fixed US dollar to apply for membership, they can rent up to four discs each time, and there is no return period or late fee limit. In contrast, Blackstone users not only have to go to the physical store to select videos in person, but also have to pay the return deadline and high late fees.

Blackstone company was forced to apply for bankruptcy in 2010. Netflix beat the former home entertainment market overlord "Blackstone" with the great advantages of operating income of \$2.16 billion and net profit of \$161 million, became a famous industry benchmark, and successfully entered the home entertainment industry market.

## **2.2 Industrial Structure Innovation**

From 2006 to 2007, the popularity of the Internet in the United States has more than doubled the number of broadband owned by American households at that time, nearly 100 million; From the appearance of YouTube to November 2006, it was purchased by Google for \$1.65 billion in just over a year. The popularity of the Internet and the rapid success of YouTube have made Netflix realize that the product of the combination of the two, that is, the era of "streaming media" later called, has begun to come. If Netflix wants to further stabilize the market, it must carry out innovation and transformation of the industrial structure. The early DVD model no longer has advantages.

### 2.2.1 Launch New Services

Based on the original DVD mode and in combination with internet elements, Netflix has launched a business model for members to watch videos online, so that they can watch videos without DVD leasing. Since the transformation of the industrial structure requires a large cost, at the initial stage of transformation, Netflix only purchased some old films and TV programs with relatively low copyright prices and provided them to its members. Based on not having too much cost pressure, DVD rental members not only enjoy the DVD rental business, but also experience the online video viewing business, and the company's business model structure has changed from single DVD rental to "DVD&streaming media" service. It will not affect the growth of the DVD business model, but also attract some customers interested in online video, laying the foundation for the subsequent comprehensive transformation.

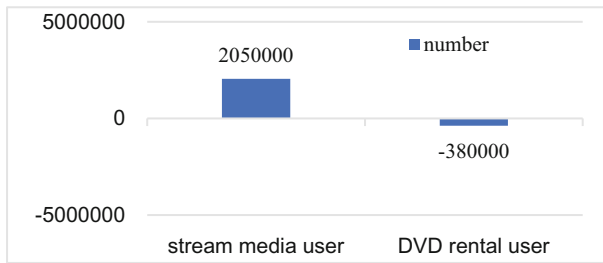
### 2.2.2 Split "DVD&Streaming Media" Business

After stabilizing the "DVD&streaming media" business, Netflix began to split the original \$10 overall service into two single businesses, DVD rental and streaming media service, and charged \$8 rent from each business respectively. However, due to the abruptness of the split, a large number of customers did not have a transition period and could not understand Netflix's policies. At that time, the voice of opposition occupied the main part. In just two months, the company lost 800,000 customers. Compared with the entire entertainment market at that time, the service fees required by the two single services provided by Netflix are more economical than other video content providers. However, due to the influence of consumers' inherent consumption habits, from July 2011 when the price increase was announced to the end of 2011, the share price of Netflix fell from \$300 to \$70, down nearly 80%, which brought some losses to Netflix.

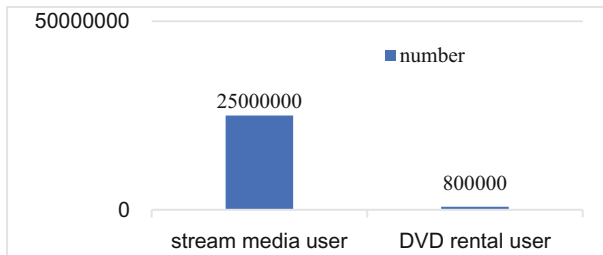
### 2.2.3 Adhere to the Split Strategy

Due to the abruptness of the policy announcement, Netflix had a low point at the end of 2011. Considering the long-term development of the futures market and the transformation of comprehensive industrial institutions, the company still decided to adhere to the split strategy. Although users objected at the beginning, Netflix was still the best choice in the whole market. Since the second half of 2012, the performance of Netflix has gradually improved.

From Fig. 1 the growth of users of Netflix in the fourth quarter of 2012, it can be seen that current users have begun to choose streaming media services, achieving an increase of 2.05 million in the fourth quarter of 2012, while the number of users of DVD rental business is decreasing, There was a negative growth of 380,000 in the fourth quarter of 2012. Further observation of Fig. 2 shows that the cumulative number of users of Netflix in the fourth quarter of 2012 shows that streaming media has an absolute advantage with 25 million users over only 8 million DVD rental users. It indicates that Netflix has realized the transformation of "streaming media business".



**Fig. 1.** Growth of users in single business of Netflix in the fourth quarter of 2012



**Fig. 2.** Distribution of cumulative users of Netflix in the fourth quarter of 2012

### 2.3 Product Content Innovation

In the decade of the 21st century, with a large number of subscribers and good reputation at home and abroad, Netflix have become the object of learning and imitation for many overseas media enterprises. With the further popularization of the Internet and the improvement of people’s living standards, the demand for streaming media continues to expand, and the streaming media market business continues to expand. In order stabilize its market position and improve its market share, Netflix began to think about how to further improve the company’s self-worth around 2013, and finally decided to create original content.

#### 2.3.1 Reflection on Self-worth

At that time, unlike most streaming media companies, Netflix’s main revenue came from advertising business. According to the disclosure of Netflix’s annual report, Netflix had no advertising revenue in its main business revenue. All its revenue sources came from subscription fees. When Netflix reflected on itself, it believed that there were only two ways to increase revenue and maintain growth. One was to raise prices, The other is to increase the number of subscribers, which is a simple model of “unit price \* quantity = total amount”. The price-raising strategy has been negatively affected during the early development of Netflix. For Netflix, it is no doubt that it can only start from the perspective of the number of subscribers, that is, to increase the number of subscribers and maintain the continuous growth of corporate income, so as to maintain the self-worth of the company.

**Table 1.** Profit statement of Netflix 2009–2012 (part) Unit: \$100 million

	2009	2010	2011	2012
Main business income	16.70	21.63	32.05	36.09
Main business cost	10.79	13.57	20.40	26.26

### 2.3.2 Attention to Product Quality

Increasing the number of subscribers includes two sources: the first is the repurchase rate of original users, and the second is to attract the attention of new users. Based on maintaining the increase in the number of users from two aspects, Netflix focuses on product content, that is, relying on the stickiness of product content to attract and retain users. In addition to price increases, Netflix is the most effective means to maintain its market position. Therefore, it can be seen from Table 1 that the cost of the company's main business in the income statement disclosed by Netflix during the decade of the 21st century has been extremely high, and it once maintained a growth rate of 20%. This is why the cost expenditure accounts for almost 2/3 of the company's main business income.

Netflix has invested a lot of money in the purchase of video copyrights, but these video copyrights are not only expensive, but also often not exclusive broadcast copyrights. The once well-known TV series the “*mad men*” was the first broadcast on American television AMC. Netflix only owns the second round of broadcasting rights of “*mad men*”, In this way, only those users who did not catch up with the first round of AMC radio premiere were contacted. This practice directly led to the “high input and low output” of Netflix. However, due to market competition, if there is no support for wonderful dramas, Netflix users are likely to turn to other streaming media platforms, resulting in the loss of Netflix users. Under such circumstances, Netflix has no choice but to further put forward innovative proposals for product content, which makes Netflix have the motivation to create original content.

### 2.3.3 Creation of “Data & Video” Products

After the broadcasting rights failed to meet expectations, Netflix began to create original works, which will reduce costs to a certain extent, and fundamentally solve the problem of exclusive broadcasting rights. For how to create and create TV dramas, Netflix has come up with its killer tool—user data analysis. Netflix made a quantitative analysis of each user's platform usage time, main trends, search preferences and other series of data, and even the clips that users watch most repeatedly in a video. Finally, it produced the world's first film and television series created with “data analysis”—house of cards. The result must have been that it was once loved by the audience and instantly became popular all over the world. At one time, it also brought Netflix a year-on-year increase of 18% of the revenue in the current quarter and revenue of US \$1.02 billion, making Netflix constantly create “myths” one after another.

### **3 Enlightenment to Chinese Streaming Media Enterprises**

According to the data in the report on the survey and development prospect forecast of China's online streaming media industry from 2021 to 2027, the number of online streaming media users in China has reached \$613 million by 2018, a year-on-year increase of 27%, achieving a fourfold growth rate in four years. It can be seen that although China's streaming media industry started late, and there is a lot of development potential, which has brought many changes and development to China's media industry. Therefore, how to seize the opportunities, formulate a reasonable enterprise development strategy and effectively innovate, Netflix's successful innovative development strategy has important learning and reference significance for China's streaming media industry.

#### **3.1 Build the Advantages of Its Business Model to Cope with Industry Competition**

In the early successful development strategy of Netflix, the biggest innovation is its business model—"DVD rental" model, which is different from other competitors in the industry. It relies on marketing means to beat back the industry giant Blackstone step by step to win the market and reputation. For our domestic streaming media enterprises, this point is also an essential core factor in the development strategy. Innovative marketing means often requires an in-depth analysis of the advantages and disadvantages of industry competitors. Therefore, China's streaming media enterprises must first create their industrial advantages based on the industry perspective, and can form their unique competitive advantages. They should pay attention to the combination of non-duplication and innovation, so as to deal with the competition among enterprises, Stabilize the market value of the enterprise.

#### **3.2 Pay Attention to Industry Frontiers and Hot Spots, and Keep Close Contact with the Industry**

After Netflix became an industry benchmark, what it did immediately paid attention to the background and hot spots of the times, understand the major events in the industry in the current period, that is, the popularity of the Internet and the rapid success of Youtube, and once again innovate, transform and upgrade its industry, so as to further maintain the position of the industry benchmark. Chinese streaming media enterprises should keep up with the real-time communication between the 19th National Congress and the 20th National Congress, pay attention to domestic and foreign hot spots, and implement the starting point of "strengthening cultural self-confidence and promoting cultural prosperity" put forward by the 19th national congress, give their satisfactory answers to the 20th National Congress, and fundamentally reflect and discuss the industrial structure, Create a streaming media company that meets Chinese standards, has Chinese characteristics, and keeps pace with the times.

#### **3.3 Utilize Data Analysis to Focus on Customer Segments and Content Quality**

Netflix has always been inseparable from data analysis throughout its innovative development strategy, whether it is the quantitative analysis of user groups or the creation

of high-quality content for its products, Netflix has always insisted on data analysis to meet the consumer groups and the fundamental quality of products, so as to build a first-class streaming media enterprise with an international reputation. In the era of big data, China's streaming media enterprises' investment in the data analysis sector can not be ignored. However, while emphasizing great investment and high attention, they should reduce the focus of data analysis to every customer group and even every picture, truly understand the user's tendencies and preferences, so as to achieve a good user experience. In order create a real "content is king" product.

## 4 Conclusion

The success of a business cannot be separated from the aspects of analysis, competitiveness, industry model, and content quality. Taking the development time of Netflix as a clue, this paper analyzes the main innovative development strategies of Netflix over the years. Facing the future, Netflix will continue to face risks and challenges. Only by persisting in innovation and development can Netflix continue to make self-progress and maintain its leading position. At the same time, it is also that China's streaming media keeps pace with the times. The only way to maintain the advanced level.

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