

## **1. Case**

Netflix, a prominent Software as a Service (SaaS) product, is renowned for delivering online streaming services, allowing customers to access a vast array of movies and TV shows. While predominantly operating in the Business-to-Consumer (B2C) market, Netflix also engages in Business-to-Business (B2B) partnerships with content providers and distributors.

The core of Netflix's value proposition lies in providing users with a substantial and varied content library that can be conveniently accessed at any time, from any location, and on any device. In addition to offering an extensive selection of licensed content, Netflix distinguishes itself by creating original productions exclusive to its platform. This commitment to producing exclusive content enhances the platform's appeal and contributes to its unique value proposition in the streaming industry.

## **2. Revenue model**

Netflix relies primarily on subscription fees (over 90%) as its main revenue stream. Customers are required to pay a monthly fee to gain access to the diverse content available on the platform, and the cost varies depending on the plan selected. Netflix presents users with three subscription options: Basic, Standard, and Premium. These plans differ in terms of the number of screens allowed for simultaneous use, video quality, and additional features like the ability to download content for offline viewing. The flexibility in subscription plans caters to a range of preferences and usage needs, providing customers with choices that align with their viewing preferences and requirements.

## **3. Pricing strategy and model**

Netflix's pricing strategy and model can be dissected using Lehmann and Buxmann's six parameters:

- **Formation of prices:** Netflix employs a cost-based pricing approach, determining its prices to cover expenses related to content acquisition and production, platform maintenance and improvement, and marketing efforts for service expansion. Additionally, Netflix takes into account customer-perceived value and competitor prices in diverse markets.
- **Structure of payment flow:** Netflix operates on a rental model, wherein customers pay a fixed monthly fee to access the streaming service for a specified duration. Notably, there are no additional charges for individual usage or transactions. Furthermore, Netflix provides a free trial period, allowing potential subscribers to evaluate the service before committing to a subscription.
- **Assessment base:** The assessment base for Netflix's pricing is feature-based, with varying prices associated with different plans that offer distinct features and benefits. Additionally, Netflix adopts a regional assessment base, adjusting prices based on market conditions and customer preferences in different countries or regions.
- **Price discrimination:** Netflix employs second-degree price discrimination, allowing customers to choose from plans offering different levels of service quality and quantity. The platform also incorporates third-degree price discrimination, with customers in different markets paying varying prices for the same service.
- **Price bundling:** Unlike price bundling strategies, Netflix does not offer multiple products or services together at a reduced price. The platform focuses on a singular product – online streaming of content. However, Netflix does provide discounts for annual or longer-term subscriptions in certain markets.
- **Dynamic pricing strategies:** Netflix adopts dynamic pricing strategies, where prices fluctuate based on factors like demand, supply, or other market conditions. While Netflix generally maintains stable and consistent prices, occasional adjustments occur to align with changes in costs, perceived value, or competitive dynamics. This flexibility in pricing allows Netflix to adapt to evolving market scenarios while providing continuous value to its subscribers.

#### **4. Advantages and disadvantages of the selected model**

Customers benefit from the simplicity and transparency of Netflix's revenue model. The pricing structure is straightforward, making it easy for users to understand and compare. Moreover, Netflix offers a flexible and convenient service accessible across multiple devices and platforms, providing a seamless viewing experience. The platform's high-quality and diverse content library caters to various tastes and preferences, enhancing the overall user experience. Additionally, the personalized and interactive nature of the service, which recommends and adapts content based on customer feedback and behavior, further contributes to customer satisfaction. However, there are some drawbacks for customers. For those who use the service infrequently or have limited viewing preferences, Netflix may not offer the best value for money. Furthermore, the platform may not always have the latest or most popular content available on other platforms, potentially limiting the breadth of entertainment options. Service levels and content quality may also vary across different markets or regions. Additionally, there are concerns about customer privacy and data security, particularly when using the service online or on public networks.

From the perspective of the software vendor, Netflix's revenue model presents notable advantages. The model generates a steady and predictable stream of income, providing a foundation for long-term growth and investment. The platform's ability to cultivate a loyal and engaged customer base contributes to reducing churn and increasing retention rates. Offering original and exclusive content serves as a powerful competitive advantage, setting Netflix apart from other platforms. The network effect and positive feedback loop, where more customers and content providers are attracted to the platform, further solidify Netflix's market position. Nevertheless, there are challenges for the software vendor. The model incurs high and variable costs related to the acquisition and production of content, potentially impacting profitability and sustainability. Intense and dynamic competition from similar platforms or channels poses an ongoing challenge. Legal and regulatory issues from different jurisdictions and authorities may affect operations and expansion plans. Additionally, there are technological and operational challenges in maintaining, improving, and ensuring the reliability and security of the platform over time.