

The story of how Netflix became the world's most successful subscription company

On the list of the world's largest and most successful subscription companies, we find is **Netflix**. The American streaming giant, that ended 2020 with 204 million subscribers worldwide, and currently has a market value of more than USD 272.6 billion. It is hard to imagine that the company is only almost 23 years old. It is even harder to imagine that Netflix did not start its life as a subscription company at all. However, the company's switch to a subscription-based business model ended up saving the company's life.

How Netflix ended up as subscription-based and what this meant for the company is a fascinating story. The story has many elements that any subscription company can learn from.

Intro into Netflix early days: [Source Link](#)

Netflix was founded by Marc Randolph and 'money man' Reed Hastings. Netflix went live on March 10, 1998. The goal was to enter the online market for the sales and rentals of DVDs, which back then was a new movie medium launched a few years earlier and predicted a great future. In other words, Netflix was a traditional e-commerce business built on transactions. This is what Netflix looked like the first year and a half of the company's life. But it was certainly not a period of progress and success. Almighty Amazon would launch itself in the market for the sale of DVDs and forced Netflix into an unfavourable collaboration agreement with Amazon. All sales of DVDs had to be forwarded to Amazon. Therefore, after a few months, Netflix only had the rental of DVDs left.

Need of a new business model:

Netflix needed a new business model to survive and it ultimately designed a subscription model which helped Netflix in coming years to grow.

Because the rental of DVDs was not an easy task. It required a customer who was very well-organized. A customer that already on Tuesday could predict what he or she would like to watch during the weekend, and who could always manage to watch the film and return it within 48 hours to avoid fines. In other words, virtually no customers! So, in the summer of 1999, Netflix was left with an unprofitable business and empty coffers. Something had to happen if the company was to survive. The people behind Netflix set about reinventing their business model.

To address customer challenges, Netflix came up with three different innovative ideas:

- The Home Rental Library, which allowed customers to always have four DVDs on the shelf at home (as rental movies) and as long as they wanted.
- Serialized delivery, where customers built their own 'queue' of movies they wanted to watch. Netflix automatically broadcasts (or 'auto-magically', as they called it) the next movie on the list once the customer has returned a movie.
- A fixed monthly payment of USD 15.99 for the above services with 1) four movies at home and 2) the option to constantly switch to new movies.

But the challenges for Netflix were so great that there was no time to test which idea was the best. Therefore, the company decided to launch all three at once. All that was left was to wait for the customers' verdict – and it was overwhelming. The new model outperformed the old transaction-based rental model by a factor of five. In fact, 80% of the customers presented with the subscription model chose to purchase a subscription. An incredibly high conversion rate.

As early as February 2000, Netflix decided to drop the old rental model altogether, only to offer subscriptions. And it has been this way ever since.

Some early tactics of subscription business that Netflix pioneered:

First month free: One of the methods to get so many of the customers to try the subscription model was a completely new and exciting approach: Try the first month for free. It made good sense to let the customers try the service before they decide if they wanted to pay. But how do you get them to pay after the free month? The answer for Netflix was 'negative option'. In other words, subscribers must submit their debit card information already when they sign up for the free month. If the subscriber does not unsubscribe during the trial period, the paid subscription will continue.

Now, talking about today, free trials are a completely common practise for thousands of subscription companies worldwide. Nevertheless, it was a completely untested model at the time and subject to much debate in the young start-up. But the customers were happy, and a vast majority continued after the free trial period.

This was a turning point for Netflix. Perhaps this was the case because Netflix behaved exemplary towards its customers in all other areas. From day 1, it was an important principle that it should be as easy for customers to cancel a subscription as to sign it up. In fact, for many years, netflix.com had a link on the front page titled 'Cancel anytime'. That was not the norm for subscription companies around the turn of the millennium.

So, in many ways, Netflix came to set the standard for a whole new type of subscription business that focused on simplicity, convenience, and reasonable terms. Today, Netflix no longer offers a free trial. Because Today the knowledge of the service and content displayed is now so strong that customers are ready to pay from day 1.

The subscription model is the path to growth:

Following the launch of the subscription model in the summer of 1999, things went well for Netflix. After just over a year, the service rounded 200,000 paying subscribers and in May 2002, Netflix went public. All based on physical DVDs. But up through the 00s, the direct streaming of movies and series via the internet become an option. Here, Netflix was in a perfect position with a strong customer base, and with a subscription-based business model that fits perfectly with streaming.

Streaming also gave Netflix the opportunity to expand beyond the rest of the world. This journey began in 2010. At that time, Netflix had 20 million subscribers in the United States. 10 years later, the company thus rounded the 200 million subscribers.

All based on a dramatic and necessary shift from transaction to subscription during the hectic summer days of 1999. **A shift that, in the words of Co-founder Marc Randolph, saved Netflix:** “If you had asked me on launch-day to describe what Netflix would look like, I never would have come up with a monthly subscription service. But the subscription service saved Netflix and quickly came to define it”.

The above are just some of the many exciting insights from Netflix’s subscription journey from the book “That Will Never Work”. Herewith a great call for a good reading experience for true subscription enthusiasts.

Let us delve deep into Netflix business model: [Source Link](#)

Today, providing unlimited streaming of TV shows, movies, documentaries, and other forms of entertainment. Here are the key components of its business model:

Netflix offers different subscription plans: (All four plans offer Unlimited ad-free movies, TV shows, and mobile games)

- **Mobile:** watch on 1 phone or tablet at a time, watch in 480p (SD), Download on 1 phone or tablet at a time (Rs. 149/month)
- **Basic Plan:** watch on 1 supported device at a time, watch in 720p (HD), Download on 1 supported device at a time (Rs. 199/month)
- **Standard Plan:** Watch on 2 supported devices at a time, watch in 1080p (Full HD), Download on 2 supported devices at a time (Rs. 499/month)
- **Premium Plan:** Watch on 4 supported devices at a time, watch in 4K (Ultra HD) + HDR, Download on 6 supported devices at a time, Netflix spatial audio. (Rs. 649/month)

Revenue streams:

Netflix's primary revenue comes from its subscribers. As of 2024, the company has over 277.65 million subscribers globally, generating billions in revenue annually. Additionally, Netflix has ventured into other revenue streams:

- **Merchandising:** Licensing its popular shows and characters for merchandise.
- **Partnerships and Promotions:** Collaborating with other brands for cross-promotional activities.
- **Gaming:** Exploring the gaming industry by developing games based on its popular franchises.

Key success factors: (Competitive advantages) < Unique elements of Netflix >

1. **Content production:**
Netflix spends billions of dollars annually on content production. The company focuses on creating original content, which sets it apart from competitors. Popular Netflix Originals like "Stranger Things," "The Crown," and "Bridgerton" have attracted millions of viewers, enhancing subscriber loyalty.
2. **Technology and Innovation:** Netflix invests heavily in technology to enhance user experience. Its recommendation algorithm, user interface, and streaming technology ensure a seamless viewing experience, which is a significant competitive advantage.
3. **Diverse and High-quality content:** One of the most distinguishing features of Netflix, is its Diverse unique content. Most of Netflix content is quite highly produced and lavish from different geographic regions. People of all regions come here and watch content from all other countries. Making it a feasible option for the subscribers to binge watch any country’s content.

SWOT Analysis of Netflix in 2024:

Strengths:

1. **Strong Brand Recognition:** Netflix is a household name synonymous with streaming.
2. **Large customer Base:** With over 230 million subscribers, Netflix has a vast and loyal audience.
3. **Original content:** Investing in original content has allowed Netflix to differentiate itself.
4. **Global reach:** Netflix is available in over 190 countries, providing a vast market
5. **High Tech:** Advanced algorithms and High quality user-friendly interface enhance user experience.

Opportunities:

1. **Expansion into New Markets:** Potential growth in emerging markets.
2. **Partnerships and Collaborations:** Opportunities for strategic partnerships with other domestic brands and platforms.
3. **Expansion into Gaming:** Developing games based on popular series.
4. **Technological Advancements:** Leveraging AI and machine learning for personalized user experiences.

Weaknesses:

1. **High Content Costs:** Producing original content requires significant investment.
2. **Market Saturation:** In some regions, Netflix has reached market saturation, limiting growth.
3. **Debt Levels:** Netflix has accumulated substantial debt to finance content production.
4. **Dependence on Subscription Model:** Limited diversification in revenue streams.

Threats:

1. **Intense Competition:** Increasing competition from other streaming platforms.
2. **Regulatory Challenges:** Potential regulatory changes in different countries.
3. **Economic Downturns:** Economic instability can affect subscriber growth.
4. **Piracy:** Illegal streaming and piracy can impact revenue.

Key points to know:

Netflix main competitors: Amazon Prime Video, Disney+, HBO Max, Hulu, Apple TV+, Paramount+, Domestic Ott’s like Sony liv, Jio cinema, Zee5 etc.

Strategy for content production: Netflix's strategy for content production involves investing heavily in original content, acquiring exclusive distribution rights, and collaborating with renowned filmmakers and studios to produce high-quality series, movies, and documentaries.

Impact of Netflix: Netflix has revolutionized the entertainment industry by popularizing streaming services, challenging traditional cable TV, and setting new standards for content delivery, production quality, and viewer engagement.

Netflix recommendation engine: Netflix's recommendation algorithm uses machine learning and data analytics to analyze user behaviour, preferences, and viewing history. It then suggests content tailored to individual users, enhancing their viewing experience.

Approach to grow Internationally: Netflix's approach to international expansion includes offering localized content, partnering with regional content creators, and adapting its marketing strategies to cater to diverse cultural preferences and viewing habits.

By understanding Netflix's business model, strengths, weaknesses, and competitive landscape, we can gain valuable insights into its future prospects and its role in shaping the future of digital entertainment.

Challenges faced: Netflix faces challenges such as high content production costs, market saturation in some regions, increasing debt levels, and intense competition from other streaming platforms.

Factors affecting customer subscriptions and customer loyalty for Netflix: [Source Link](#)

All of the below combinely affect Netflix’s customer loyalty in future.

Familiarity: Most of the success of Netflix comes with its familiarity. Customers only pay for a subscription service only when they are aware of the service and only when they trust them with certainty.

Quality of service: From customers perspective, service quality refers to how well organization goods/services meet or surpass their expectations. It is entirely based on subjective judgement. And Netflix managed to ace it.

Price: Research demonstrates that price majorly impacts the subscription type business model. An affordable price for a reasonable time-based subscription enhances customer willingness to purchase a subscription immediately without any delay.

Promotion: Sometimes Discounts and Promotional activities of upcoming movies and Tv shows will definitely spiral customers interest to purchase a subscription just to watch that particular movie or a TV show and if he/she likes the content, might as well as continue to subscribe for coming months as well.

Convenience: Netflix has successfully replaced traditional television content, Well thanks to Internet and smart TV tech, Netflix had enabled that same television as a medium to watch its shows/movies and rest of the content. It can also be accessed by a smart mobile at any time if they are willing to watch the content. It also allows to download the content on it application and enabled the option to watch later when & then the customers are willing.

Table 3. Summary of Regression Analysis	
Variables	Consumer Loyalty
Familiarity to Netflix (FAM)	-.084
Quality of Service (QOS)	.196
Pricing (P)	.192
Promotion (PRO)	.104
Convenience (C)	.472
R ²	.599
F Value	54.253
Durbin-Watson Statistic	2.002
a. Dependent Variable: Consumer Loyalty	
Note. N=150; *p < 0.05; **p < 0.01; ***p < 0.001.	

Netflix strategies on consumers: [Source Link](#)

- **Personalization:** Netflix's recommendation engine is highly personalized, which means that users are more likely to see content that they are interested in. The company uses a variety of factors to personalize its recommendations, including the user's viewing history, ratings, and reviews. This personalized approach to recommendations makes it more likely that users will find something they want to watch, which keeps them coming back for more.
- **Variety:** Netflix offers a wide variety of movies and TV shows, which means that users are more likely to find something they want to watch. The company has a library of over 17,000 titles, including original content, licensed content, and foreign language content. This variety gives users a lot of options to choose from, which keeps them engaged and coming back for more.
- **Affordability:** Netflix's subscription prices are relatively affordable, which makes it a more attractive option than cable or satellite TV. The company offers a variety of subscription plans to fit different budgets, starting at Rs.149 per month. This affordability makes it easy for users to sign up for Netflix and start streaming.
- **Loss aversion:** Netflix uses "loss aversion" to encourage users to renew their subscriptions. When a user's subscription is about to expire, Netflix will often send them continuous email reminders with a discount offer or a new movie/Tv show recommendation. This promotion creates a sense of urgency and makes users more likely to renew their subscription, even if they were not planning to do so.

- **Anchoring:** Netflix uses "anchoring" to set expectations about the price of its subscriptions. When Netflix recently, started offering monthly subscription for Rs.149. This price point was anchored in the minds of consumers, and it made it difficult for them to justify paying more for other streaming services which are quite costly.
- **Scarcity:** Netflix uses "scarcity" to create a sense of urgency and encourage users to take action. For example, the company will often offer limited-time deals or discounts. This scarcity creates a sense of urgency and makes users more likely to sign up for Netflix or renew their subscriptions.
- **FOMO (fear of missing out):** Netflix uses FOMO to encourage users to watch new content as soon as it becomes available. The company knows that users don't want to miss out on the latest shows and movies, so they are more likely to watch them by resubscribing again.
- **Gamification:** Netflix uses gamification to make its platform more engaging and addictive. For example, the company offers users badges and rewards for watching certain content or completing certain challenges. This gamification makes users feel like they are playing a game, which makes them more likely to keep coming back to Netflix.

Strategies Netflix follows to Handle key challenges: [Source Link](#)

- **Challenge of Recommendation:** Netflix uses advanced recommendation engines and data analytics to actively send personalized content suggestions to all of its customers. This makes them to continuously resubscribe the service even when they are not willing to do in that moment.
- **Challenge of user experience:** Today, users want everything new each day, thus Including interactive experiences in Tv shows/Survival shows etc like that was seen in Black mirror Bandersnatch, which gave different people different endings depending on the choices they made during the film, it has added another layer to the experience provided by Netflix. This in turn massively diversifies the experiences people can have on Netflix and therefore leads greater viewer retention and people to continue their membership.
- **Challenge of competitors:** To expand its reach to various countries, it locally enters into collaboration agreements with domestic content providers. For example, In India Netflix collaborates with Tata sky, Airtel etc to subscribe their service as a combo option with their DTH service.
- **Challenge of Content production:** One of the most distinguishing features of the Netflix is its original content. Now, in order to be competitive and as a matter of prestige, Netflix is continuously expected to be the leader of rich content production with immense diversity which in turn costs a ton of money for them, ultimately Increasing its overall debt.
- **Challenge of price:** With its lavish original content, it's very difficult for Netflix to set much lower prices than what we have now, in fact these prices might increase in future. For example: The Gray men and Red notice both costing around 200 million proves that in order to facilitate a high-quality movie for audiences nowadays, movies will have to cost large amounts of money to produce due to the large amounts of different technology and CGI that now goes into almost every movie made. Now these huge costs will definitely reflect in subscription prices, which in turn effects the subscriptions & viewership.
- **Challenge of Technology:** Technology in the modern world continues to grow and evolve at extreme rates. This in turn means in order for Netflix to supply the most up to date experience for its subscribers, they will have to continue to adapt so that they can meet such demands. As well as this, keeping up to date with the latest technology ensures they remain the largest streaming platform ahead of the likes of Apple Tv and Amazon Prime, therefore this means they will have to spend more money continuously in order to be in tune with the latest trends and technology. However Netflix do not compromise for improving its tech and continuously stay ahead of its competitors.
- **Challenge of Piracy:** The development technology that is available can enable people to illegally stream different movies and series that are on Netflix, and actually proves technological advancements to also be a large downfall. These pirated movies are favourable for many due to the high prices that Netflix charges for their services. This in turn will affect sales as people will rather use these pirated sites for free rather than paying for Netflix. However still in order to curb piracy on its own application, Netflix do not allow any screen recording to be done.

Netflix Impact: [Source Link](#)

- **Consumer Habits:** Until the Queen's Gambit hit our screens in 2020, chess was kind of a geeky pastime. But the 1960s-inspired series brought a whole new meaning to the game. Sales of – and Google searches for – chess boards skyrocketed online in November of that year. Online retailer eBay reported a 273% rise in searches for chess sets – the equivalent of equalling to one search every six seconds. Chess websites welcomed 2.8 million new members, with a marked increase in female players. As Netflix becomes a part of our everyday lives, it's clear the link between our buying, hobbies, shopping habits and streaming is becoming stronger.
- **Binging behaviours:** With Netflix making it much easier to consume the content we want to watch, wherever and whenever, binge-watching has become the norm for modern society. For many of us, it is a type of escapism, distracting us from our everyday responsibilities and uncertain times by giving us the enjoyment of continual entertainment. But in a demanding world, flooded with choice and fear of missing out (FOMO) on the next episode, it's only made our expectations higher as we demand variety, value and urgency in other aspects of our lives.
- **Unlikely Fashion trends:** One unlikely modern-day influencer was Lady Whistledown, from the period drama Bridgerton (2020). The show was named the biggest drama series *ever* by Netflix, and the romantic, Regency-era inspired design influenced shoppers to rethink their clothing and homeware choices too. Pinterest searches relating to corsets, hair ribbons and regency bedrooms all rocketed in the wake of its popularity. Fast-forward through history to The Crown, which gave a similar boost to Princess Diana's coy 1980s fashion style, and the correlation between the screens and our wardrobes and homes is apparent.
- **Music to our ears:** The Netflix phenomenon can be heard through our speakers too. Stranger Things topped the list of the most-streamed Netflix soundtracks on Spotify, with an average of 87 million streams per song. If you've watched the 80's-based series, I'm sure you'll understand why. And the decade's revival didn't stop there; Spotify reported a 54% increase in listeners making nostalgic-themed playlists. With the pandemic having changed our daily routines and music consumption habits, consumers are looking and leaning towards more creative forms of music for example Music playlists from Netflix Tv shows/Movies.
- **Matters that mean the most:** Netflix has also influenced political awareness. The pandemic interrupted the cinematic release of David Attenborough's A Life on Our Planet, but its Netflix premiere meant it was still able to send its powerful message to viewers, and influence action on environmental issues. WWF reported that the show *'inspired millions of people to take action for our planet, including decision-makers and key influencers in their 'How we made a difference in 2020' report.* Since its release, social media has continued to see spikes for 'meat-free meal'searches, with a significant knock-on effect awareness and an upsurge in consumers championing environmental and sustainable brands.