

LAU Case Competition

Hulu's Churn Rate

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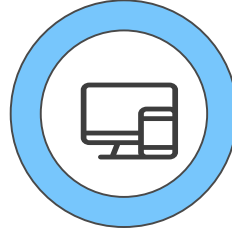


Executive Summary

To mitigate the churn rate that Hulu suffers from, a rewarding system was suggested. This system engages users in a way that will keep them subscribed to Hulu, and it goes as follows:

- Users with a specific watch-time on a specific genre will be able to leave comments on movies/ shows relating to this genre. These comments can be upvoted/ downvoted by the rest of the community, and depending on these votes, the user will be given quality points. These quality points can keep on increasing (depending on the votes received) until they reach an upper limit.
- When the user reaches a certain level of quality points, they are rewarded. There exist several different thresholds at which different rewards are given. Rewards include a wide variety of features, such as increasing the number of downloads the user will be able to perform in order to watch offline, providing discounts on certain subscriptions, allowing more users to exist on the same account, and lastly completely remove ads from the application.
- These quality points, however, are subject to a constant change. An inactive user will encounter a decrease in the number of quality points, whereas a user who has unsubscribed from the service will undergo and even faster decay of quality points. This procedure is to encourage users to remain active and subscribed to the service, thus limiting the churn rate.
- One limitation of this plan is the fact that it might take users some time to familiarize themselves with the different features and capabilities associated with it. Moreover, the existence of bots and spammers incentivizes the presence of continuous monitoring on the application to ensure the high-quality of the service.

Other recommendations include the idea of Hulu going international via integrating a VPN into the system, which allows users from countries outside the USA to use the service freely and simply. Another course of action is the constant strive to make original and exclusive content of high quality that will keep users captivated, thus boosting Hulu's fanbase and reaching an ever-increasing number of households worldwide.



OTT Trends and Market Development

- The Over the Top (OTT) Market was valued at USD 101.42 billion in 2020, USD 129.67 billion in 2021, USD 149.34 billion in 2022 , and it is predicted to grow at a CAGR of 13.87 percent from 2021 to 2026, to reach USD 223.07 billion. The start of the COVID-19 epidemic had a beneficial influence on the OTT ecosystem, with people watching more content on OTT devices at home. This will certainly hasten the growth of this format.
- Some major OTT market trends are : The use of 5G internet which is likely to become the standard, especially in metropolitan areas, it will permanently transform streaming patterns. 5G will provide the increase that live sports and event broadcasting need, with latency as low as one millisecond, resulting in reduced network interference and delays for a faultless watching experience. User's experience is key , viewers demand an easy to navigate interface that has an extensive library of content.
- OTT companies must stay ahead of their competitions in the coming years as people expect more and more. That being said , to maintain their existing customers, OTT companies should provide new experiences relying on new technologies such as Smart TVs and Virtual Reality which will pave the path for OTT platforms and services to become the next medium of content enjoyment.
- Reaching millions of people , OTT platforms have regulations. Each piece of material on OTT platforms must include an age-based content rating and a content description. If necessary, they should also provide a viewer discretion warning at the start of the show. They should also recognize the multi-racial and multi-religious setting and use caution and judgment when highlighting any racial or religious group's activities, beliefs, practices, or viewpoints.

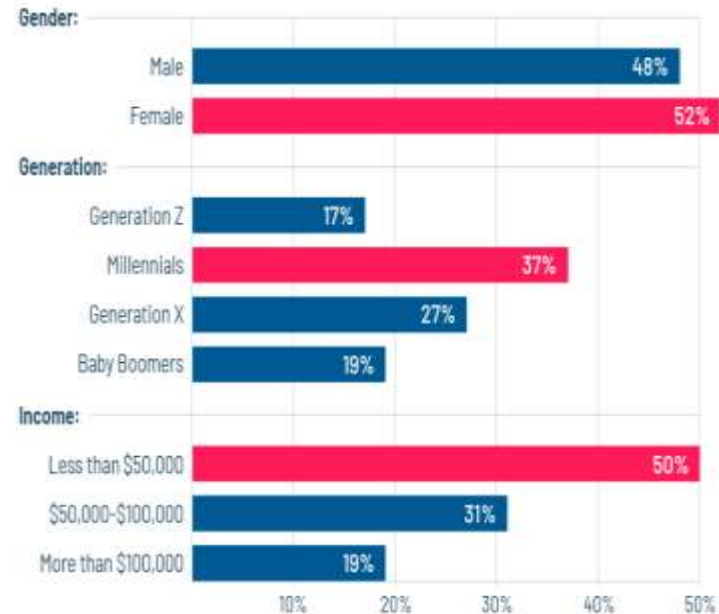
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Baseline Assessment

Age and Sex

- The current market segmentation of streaming and broadcast service of Hulu is between the age of 18 years and 49 years. This entails mostly Millennials and Generation Z.
- It is notable that the largest segment is comprised of more females than males, but that's inclusive to almost all OTT platforms.
- While most Hulu users are young technologically aware people who are in schools and have a lot of free time, the new segment of Hulu could be older customers that are beyond the age of 50 years.
- Older customers can also be a huge group in promoting the success of Hulu brand since it's centered on people who have retired or are at the pinnacle of their careers. This target group does not utilize social networking sites, the corporation will have to rely on conventional media to sell its video streaming services such as radio, television, and newspapers.

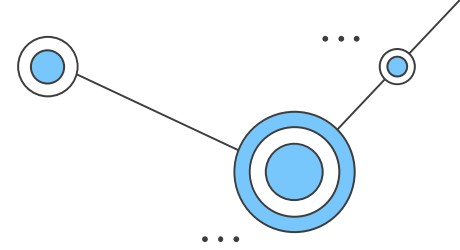
Demographics of Hulu Users



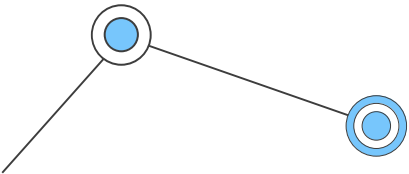
Source: 99firms, 2021

Baseline Assessment

Income, Demands, and Bundles



- In 2019, 70% of all Hulu customers are on an ad-supported plan. This means that the majority of Hulu subscribers choose the ad-supported plan. Also, four million people have signed up for Hulu's Live TV package. Hulu offers a Live TV bundle in addition to TV series and movies, and Hulu statistics reveal that Live TV users are approximately 5.5 times more lucrative per user than streaming-only subscribers.
- However, a sizable proportion of users complain about numerous crashes and an excessive number of advertisements, and demand that they be reduced. Hulu tries to improve the way it presents advertising more viewer-friendly by limiting ad duration to 90 seconds, despite the fact that the ad industry is a substantial source of revenue for the firm.
- Another major demand users make is the limited library, and the countless crashes that occur while the platform is being used. It is worth mentioning that only 40% of Hulu's content is original, which is very low in comparison to its major competitors such as Netflix. Moreover, there is a huge demand for less expensive streaming platforms outside of the USA such as Hulu.

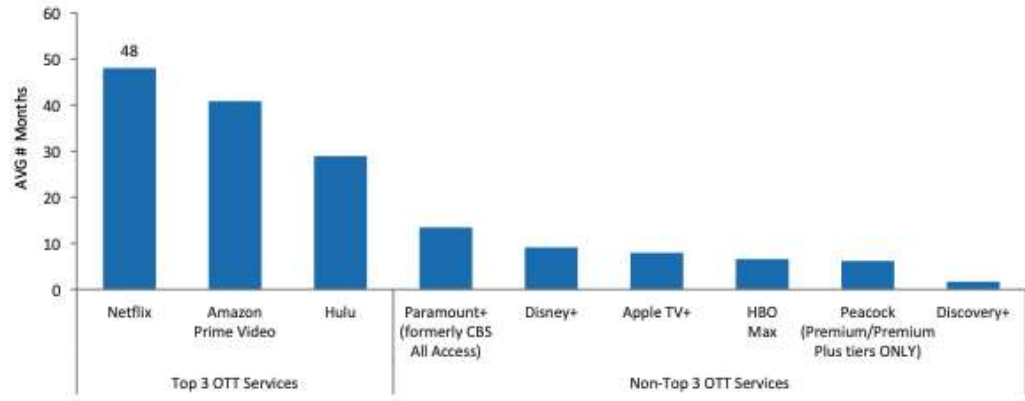


Baseline Assessment

Retention Rate

- In 2020, Hulu had a 67 percent retention rate. It's worth noting that this statistic does not include Disney+ users who utilize the platform as part of a Disney+ package. With this excellent retention percentage, Hulu ranks fourth out of seven major industry competitors, with Disney topping the pack at 78 percent. Netflix, its main competition, has a retention rate of 74%. Taking that into consideration, Hulu's decent retention rate is accompanied by a relatively high churn rate as well, and both statistics can be hugely improved upon.
- The high churn rates associated with Hulu is not a promising indicator for the future of the platform. In the age where the OTT market is the most competitive and will likely maintain its state into the future, this is dangerous and could spell disaster on the long term.
- Moreover, a higher retention rate will secure Hulu a bigger share in the market compared to its competitors for a long period of time.

Subscription Length of OTT Services



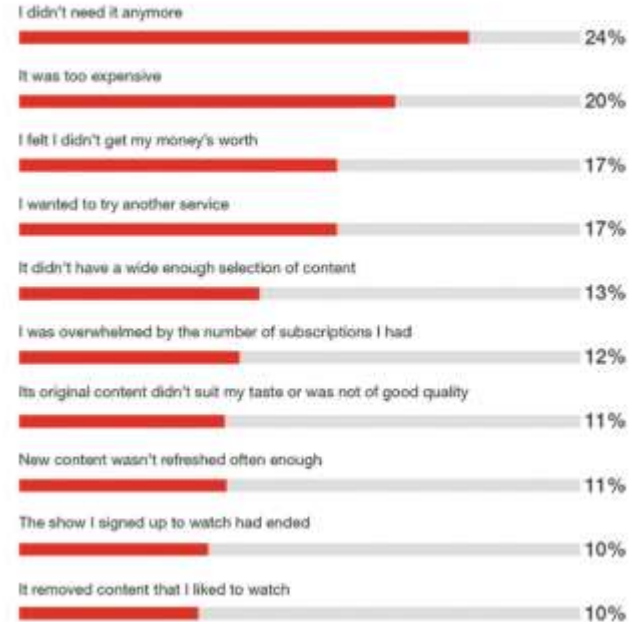
Source: Parks Associates, 2020

Baseline Assessment

Main Churn Rate Drivers

- Hulu's churn rate is not the best compared to its competitors. In general, the biggest OTT churn motivators include but are not limited to:
 - high churn rates
 - experimentation with different applications
 - lack of quality content
 - poor user experience and service
- In regards to Hulu specifically, these general churn drivers are manifested as follows:
 - Too many ads which although they allow for the subscription to be cheaper, brings down the level of the overall platform. Even though a subscription without ads does exist, people mostly opt for the cheaper option on this platform and this makes it the standard of the platform, and still brings down retention rates regardless.
 - Crashes and relatively poor customer service, which is particular to Hulu.
 - Lack of classics and major new blockbusters which together give a stable supply of both classical and original content.

Reasons motivating streaming subscription cancellations



Source: PwC Consumer Intelligence Series, 2019

Hulu vs. Other OTT platforms

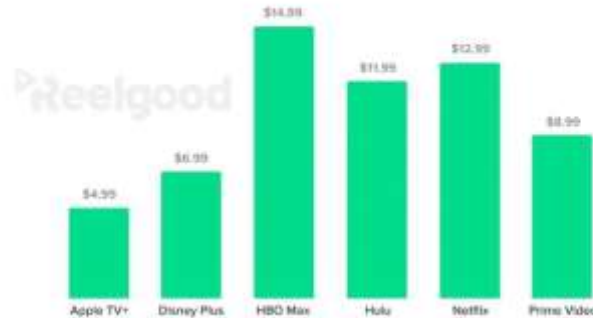
Subscription and Services:

- Hulu benefits from services such as Disney+, ESPN, and a variety of live TV programs which function as a cable replacement yet are priced relatively high compared to other services.
- Hulu's standard plan, which costs \$6.99, includes ads which can be removed by paying an extra five dollars. However, despite Hulu having a lower subscription price than Netflix's default plan, Netflix still scores more subscriptions, which shows the importance of user experience and quality.
- Hulu's Livestream features sets them on a competitive advantage compared to their competitors which explains its high price of 69.99\$.

Benchmarking

MONTHLY SUBSCRIPTION COST OF U.S. STREAMING SERVICES

as of June 1, 2020



HOW MANY TV SHOWS DO YOU GET PER DOLLAR?

*based on U.S. catalog data from Reelgood and monthly streaming service costs as of June 1, 2020



Hulu vs. Other OTT platforms

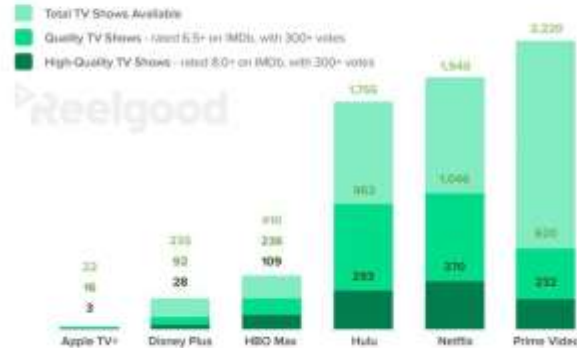
Content-wise:

- Hulu has a fair number of movies and TV shows, compared to other OTT services, albeit not as much as OTT giants such as Netflix and Prime Video.
- In general, these movies and TV shows are of relatively lower quality according to major critics, whereby they lack major original content series such as Game of Thrones, Squid Game, etc. and blockbusters movies such The Adam Project , Uncut Gems, Red Notice, etc.

Benchmarking

TV SHOWS AVAILABLE ON U.S. STREAMING SERVICES

*based on catalog data from Reelgood and IMDb ratings as of June 1, 2020

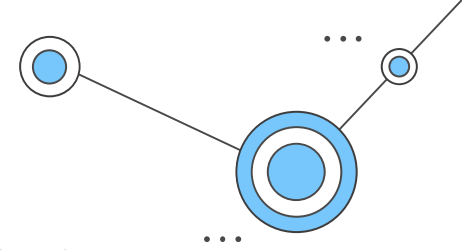


MOVIES AVAILABLE ON U.S. STREAMING SERVICES

*based on catalog data from Reelgood and IMDb ratings as of June 1, 2020

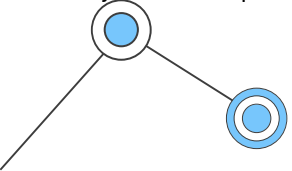


Retention Programs



Some retention programs that have proven to be successful for companies such as Netflix include:

- Algorithm and email recommendations and reminders which aim to keep the user hooked, similar to Netflix reminding their audience on a weekly about the new released episodes , series, and movies.
- Investing in various high-quality content with several seasons/ installations, thus maintaining their audiences. Such as HBO max , producing “Game Of Thrones” , an original content series, composed of 8 seasons.
- Investing in content that has a targeted audience . For example , HBO max’s “Euphoria” that targets teenagers which represents a high percentage of this media’s audience.
- Building a rapport with the audience to ensure a successful brand and a loyal fanbase that is less likely to unsubscribe from a company’s services, a problem that hinders Hulu’s advancement.
 - For example, Netflix has a huge following on social media, especially on Facebook, Instagram, and Twitter. They post images, videos, and GIFs every few hours, receiving thousands of likes out of the tens of millions of followers they have. These posts often include behind the scenes clips, memes, community polls taking people’s opinions on certain matters, and frequently popular clips from iconic TV shows.
 - Likewise, Hulu benefits from their social media presence, albeit now as much as Netflix. With their weaker following on platforms such as Facebook, Instagram, and Twitter, in addition to their less interactive posts with their audiences, it is harder to build a loyal customer fanbase than in Netflix’s case.
- Finding a convenient pricing scheme to suit the customers’ capabilities, plus matching the quality of the service provided. In Hulu’s case, the standard plan, costing \$6.99, includes ads and if the user wanted to remove them, they are required to pay an additional \$5. Whereas in Netflix’s case, the basic plan which is only \$1 more expensive than Hulu’s, is completely ad-free.



Based on the current indicators, we realize that Hulu's major churn drivers are too many crashes, relatively higher prices for the content provided, and too many ads which cause a drop in user engagement and immersion. Due to that, we propose the following strategy:

- We start by the investment and development of the software update. This will approximately take 2 to 4 months including testing ,development, and research.
- During this time, for the first 1 to 2 months, Hulu should be investing in improving user experience through fixing major crash issues and customer service. Moreover, we should tackle involuntary churn, which is the single biggest contributor to churn, by sending more emails to users days before subscription ends to remind them of it.
- Following that, Hulu should be marketing its new platform, especially on social media to appeal to the younger technologically advanced audience. When the update is up and running, this will bring a lot of clout and interested people to try the new platform.
- The next couple of months will be crucial for Hulu in determining how to move forward, basing its assumptions and decisions on direct user feedback and other sources.
- If the strategy and update is a success, it will generate a lot of revenue and will grow the target audience of the platform a lot on the long term. However, for the first couple of months, churn rates might go up just a little bit due to the users who were not comfortable with the new update and prefer the old one. With that, a lot of new users will take their place, and hopefully a lot more on the long term.
- Approximately a year from now, churn rates should be getting much better and a lot of new users will be introduced to the platform. For this reason, Hulu will be able to begin considering going worldwide with a partnership with a major VPN title such as Nord VPN. This huge step, in addition to the added revenues, will act as major catalysts to allow Hulu to expand its library of classical movies and new blockbusters to top it all off. Hulu can then even start producing shows for the growing Anime fanbase all over the world.
- With the rise of Hulu, and it potentially becoming a major contender as possibly the best OTT platform in the world, this can anchor its position in the market and keep its churn rates to a minimum.
- We estimate that during the first 6 months of the strategy, churn rates will reach a maximum of 8-9%. However, it will go down in the following 6 months to around 5% and maybe even get down to 4 or even 3%.

Strategy development




Financial Analysis



We used major assumption to estimate the presented income statement for Hulu's previous fiscal year. The numbers were estimated based on the following:

- Revenues and profit were found roughly on the internet and calculated.
- R&D and other costs were estimated based on their general costs in regards to OTT platforms and then scaled onto Hulu.
- Profits were approximated as well in a similar fasion.

In 1000 USD



Period Ending:	12/31/2021
Total Revenue	\$4,465,235
Cost of Revenue	\$2,589,836
Gross Profit	\$1,875,399
Operating Expenses	
Research and Development	\$380,358
Sales, General and Admin.	\$404,791
Operating Income	\$785,149
Add'l income/expense items	\$87,326
Earnings Before Interest and Tax	\$872,475
Interest Expense	\$102,548
Earnings Before Tax	\$769,927
Income Tax	\$97,217
Net Income-Cont. Operations	\$672,710
Net Income	\$672,710
Net Income Applicable to Common Shareholders	\$672,710




Financial Analysis



This newer financial statement is estimated based on the following:

- At this point, we predict that the new strategy and the new platform is up and running, and if the plan is executed as advised, this entails 8 months.
- This means that we are past the point of investing in the new platform and its R&D and testing phases.
- Our growth rate at this point is expected to go up much more than previous years due to the investments in marketing, user experience through server improvements, and customer support.
- Using that information, and comparing to previous breakthroughs, we were able to estimate our new revenues, costs which will go higher due to more R&D and marketing, and taxes were calculated based on percentages from previous years.
- Finally, our income here is higher than before although it will have gone through rough phases in the previous months and is expected to skyrocket in the following months if daring decisions are taken.

In 1000 USD



Period Ending:	12/31/2022
Total Revenue	\$5,581,544
Cost of Revenue	\$3,237,295
Gross Profit	\$2,344,248
Operating Expenses	
Research and Development	\$500,000
Sales, General and Admin.	\$600,000
Operating Income	\$1,100,000
Add'l income/expense items	\$100,000
Earnings Before Interest and Tax	\$1,200,000
Interest Expense	\$120,000
Earnings Before Tax	\$1,080,000
Income Tax	\$129,600
Net Income-Cont. Operations	\$950,400
Net Income	\$950,400
Net Income Applicable to Common Shareholders	\$950,400

Recommendations

- Since other platforms have entered the market first, Hulu is at a competitive disadvantage when compared to Netflix and others. For this reason, Hulu is in need of an innovative strategy to attract, and more importantly retain customers for long term sustainability.
- This calls for a rewarding system that increases user engagement on the platform while still maintaining high quality.
- To increase user engagement on such a platform, a typical comment section is not exactly manageable and is highly likely to be flooded with spam.
- For this reason, the most optimal way forward is a comment section that allows only specific people who have reached a certain watch-time threshold per genre to be able to leave a comment on a movie of the same genre.
- In addition to being filtered, these user reviews will implement a voting system which allows any user to up/down vote any comment which in turn ranks the comments.
- In accordance, users are given quality points based on the number of upvotes they get and their watch time. These quality points can be redeemed for a better user experience. For instance, users with a certain quality level will be able to watch ad free content for the price of a normal ad supported subscription. However, this reward system will be aggregate, so as users reach higher quality levels, they will be able to redeem higher level rewards. At the same time, accounts will decay the longer users go without commenting or watching, and with the cancellation of one's subscription, accounts will decay faster and user will lose more quality points, encouraging users to stay subscribed. Users with the ad free bundles will be automatically pushed to the ad supported bundle with no ads when they get to said quality levels. There will also be a maximum level.
- As for the rewards, users at the first threshold will be able to download more content to be watched offline. The second threshold will entail a 10% discount on the subscription for the following month. The third threshold will allow the download of even more content. The fourth will entail a 15% discount. The fifth level will allow an upgrade from the previous 4 to 6 users per account. The sixth and final level will make the account ad free or make a premium account cost the same as an ad supported account.
- Needless to say, the comment section must be censored and well monitored, and only the main account will have access to the quality points, encouraging even more subscriptions.

Recommendations

- To illustrate, Joey just subscribed with an ad supported account. Joey is a 15 year old boy who enjoys comedy movies. With time, Joey was reading comments on the Platform but was unable to comment before watching 35 hours of comedy movies. While reading comments to see other people's opinions on famous shows and movies, Joey was upvoting or downvoting comments he like/disliked based on their representation of the movie. Finally, with a lot of watch time and after reaching the 35 hour watch threshold, Joey was able to build his profile and unlocked the ability to comment on comedies and getting a lot of upvotes on comments. Later, he was able to download 20 hours of content from the previous 10 to watch his movies when the connection is bad. At the last stage, Joey is now watching ad free, and will not unsubscribe to maintain his value points and prevent the decay of his account.
- One major risk of this plan of action is that although it might revolutionize OTT platform optimization and engaging, it might take a while before people are accustomed to it and the algorithm is made as good as it can be. Moreover, bots and spammers are hard to keep at bay and it is absolutely necessary in this case to maintain the high quality of the platform.
- Another recommendation would be to find a way to go international . Unlike its competitors , Hulu is only available in the U.S and Japan due to copyright laws and distribution rights. That being said , Hulu should partner with a VPN platform that will create a built-in VPN that will run directly when launching the Hulu App on all devices without an increase in price. This is easier for Hulu than having to go through changing the licenses of already licensed American shows. This in turn will cause Hulu to reach a wider audience and increase its worldwide recognition.
- However , one major limitation of this change would be risking losing some profits implementing the VPN while trying to reach a wider audience.
- Finally, as we assumed Hulu is trying to make original content and expanding its library with the classics of the 20th century, it is still not as diverse as others probably due to expenses. Therefore, this problem can be solved after Hulu's revenue is given a boost with this plan and in turn exponentially growing the loyal fanbase on the platform where it is even possible that it will become a standard someday that every household worldwide should have a Hulu subscription.
- As for the timeline, we estimate that the development, implementation, and testing phases of the software development should take around 2-4 months. Following that, the updated platform can be tried for a couple months and user feedback will be very significant in this phase in determining how to move forward and how much to capitalize on the success of the idea, or in the worst case, the opposite. During this phase, if the strategy was a success, Hulu can consider taking the big step in going international and investing in worldwide content. Finally, from classics to improving its originals content, Hulu may reach a point where it has the biggest market share of all OTT companies.

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