

Subscription E-commerce

Introduction

Key terms :

- Subscription e-commerce: An e-commerce subscription company **sells its products on a recurring basis online**. Typically, it sells and ships products to customers on a monthly or quarterly basis.
- Customer churn : Customer churn (or customer attrition) refers to **the loss of customers or subscribers for any reason at all**.
- Customer lifetime value : Customer lifetime value (CLV or CLTV) is **a metric that indicates the total revenue a business can reasonably expect from a single customer account throughout the business relationship**.

Netflix

Company Profile

About : Netflix is a leading entertainment service with 278 million subscribers globally with a wide variety of movies, series and documentaries.

Business model : The business model started as a brick-and-mortar store for DVDs but now it is a tiered subscription model to suit the viewing needs of various preferences. However, due to subscriber loss in 2022, Netflix added a ad-supported plan with 1 in 3 subscribing to this particular plan in September 2023.

<https://www.statista.com/statistics/250934/quarterly-number-of-netflix-streaming-subscribers-worldwide/>

Selection Criteria : Netflix's **low churn rate(exception of 2022)**, **innovative marketing strategy** and **well-known recommendation engine** has kept it ahead of the curve from most competitors reporting Netflix's quarterly revenue (Q2 2024) to be 9.2 billion USD up from 8.2 billion USD (Q2 2023).

<https://www.statista.com/statistics/273883/netflixs-quarterly-revenue/>

Key metrics (with figures as of end 2023)

1. **Total revenue** : \$33,640,458,000
2. **Paid memberships** :
 - **United States and Canada (UCAN)**: 80,128,000 members
 - **Europe, Middle East, and Africa (EMEA)**: 88,813,000 members
 - **Latin America (LATAM)**: 45,997,000 members
 - **Asia-Pacific (APAC)**: 45,338,000 members
3. **ARPU(Average Revenue Per User) by Region (2023)**:
 - **United States and Canada (UCAN)**: \$16.28
 - **Europe, Middle East, and Africa (EMEA)**: \$10.87
 - **Latin America (LATAM)**: \$8.66
 - **Asia-Pacific (APAC)**: \$7.64
4. **Viewing metrics** : hours watched, average viewing time, and the number of times a particular piece of content has been considered.
5. **Content performance metrics** : popularity, audience engagement, and ratings
6. **A/B Testing Metrics**: number of users exposed to a particular test, the number of users who have converted etc

<https://datazip.io/blog/breaking-bad-with-customer-analytics-a-netflix-perspective/>

<https://about.netflix.com/en/news/what-we-watched-a-netflix-engagement-report>

https://s22.q4cdn.com/959853165/files/doc_financials/2023/ar/Netflix-10-K-01262024.pdf - Netflix Financial Report 2023

Analysis of Strategies

Factors influencing Subscriber Decision

1. **Content quality and variety** : The quality and variety of content have always been crucial for Netflix's customer retention. However the loss of popular shows like "The Office" and "Friends" to these competitors has negatively impacted Netflix, pushing it to rely more on original content.
2. **Pricing**: Price increases have been a significant factor leading to cancellations. As Netflix has raised its subscription fees, many users have reconsidered the value they are getting, especially when cheaper alternatives are available. This trend has contributed to Netflix losing long-term subscribers, with a noticeable rise in cancellations among those who had been with the service for more than three years
3. **External Factors and Public Perception**: Political and social factors have also played a role. For instance, Netflix faced a wave of cancellations in 2024 after its co-founder Reed Hastings made a significant political donation.

<https://9to5mac.com/2022/05/18/netflix-long-term-subscribers-canceling-service-increased/>

<https://thedirect.com/article/people-cancelling-netflix-why-what-happened-2024-explained>

General insights on customer relationship with subscription e-commerce

1. Customers prefer pay-as-you-go model, but subscription is either more beneficial for them or they have no other option but to subscribe.
2. Financial incentives are the most important factor inducing customers to subscribe , followed by convenience and access to premium offerings.
3. More attractive price is the main factor that leads the customer to change the subscription provider or take up an additional one.

<https://www2.deloitte.com/content/dam/Deloitte/fr/Documents/consumer-business/Publications/deloitte-subscription-report-2022.pdf>

Challenges faced:

- Netflix raised the prices of its subscription services in January 2022 for the US and Canada market. The last increase was in 2020, where standard plan was increased from \$13 to \$14, and before that 2019, from \$11 to \$13.
- Due to the ongoing geo-political unrest (Russia-Ukraine conflict), Netflix decided to suspend its services in Russia which resulted in a loss of 700,000 subscribers.
- Password sharing which first worked as a boon for Netflix and helped it reach a larger audience, has now become a bane as terms of password sharing remain unclear.
- Fierce competition; as various new OTT platforms which have emerged that offer streaming services at a lower price with greater variety and more categories of content such as sports and news.

<https://www.argoid.ai/blog/how-does-netflixs-recommendation-engine-manage-low-churn-rate>

Tactics to increase CLV and decrease churn and its impact

1. **Personalized marketing** : Netflix provides personalized content recommendations that increase user engagement and satisfaction. This personalized experience helps retain customers, thereby enhancing Customer Lifetime Value (CLV). The recommendation system is so effective that it drives more than 80% of the content watched on the platform.
2. **Content strategy** : Netflix produces a wide variety of shows and movies, thus engaging a diverse audience.
3. **Pricing strategies** : Netflix has introduced different subscription tiers, including an ad-supported option, which allows users to choose a plan that fits their budget.

Impact

- **Ad-Supported Tier**: The introduction of an ad-supported tier was a significant shift in Netflix's strategy, aimed at attracting more price-sensitive customers. This move has had a mixed impact.
- **Crackdown on Password Sharing**: In an effort to increase CLV, Netflix has started cracking down on password sharing, which is expected to convert

some shared accounts into paying subscribers. However, this strategy also risks alienating users, which could potentially increase churn if not handled delicately

- **Content and Pricing Adjustments:** Netflix's adjustments in content offerings, including more diversified and localized content, have had a positive impact on CLV by attracting new subscribers from different regions. However, frequent price hikes have led to an increase in churn, particularly in markets like the US, where competition is intense.

<https://www.endersanalysis.com/reports/netflix-q1-2023-growth-through-optimisation>