NETFLIX

Business Plan

Table of Contents

<u>**Executive summary**</u>

Company Mission & Values

Netflix's company mission is "to entertain the world. Whatever your taste, and no matter where you live, we give you access to best-in-class TV shows, movies and documentaries." Netflix also seeks to differentiate itself with its unique company culture. Listed are a few of the things Netflix does to facilitate its culture:

1. encourage independent decision-making by employees
2. share information openly, broadly, and deliberately
3. are extraordinarily candid with each other
4. keep only our highly effective people
5. avoid rules

Company History

Netflix was founded in 1977 by Reed Hastings and Marc Randolph. It began as an online internet subscription service that would allow users to choose a movie or tv title that would then be mailed to them as a DVD.

2007 is when Netflix began offering users the option to stream some of its movies and shows to their homes. In 2010, Netflix introduced a streaming-only plan that offered unlimited streaming service but no DVDs. In 2013, Netflix began producing its own original content - launching these efforts with the release of the show "House of Cards". By the end of 2021, Netflix now offered more than 2,400 original titles. By 2016 Netflix's streaming service was available in more than 190 countries.

Streaming Service & Production Company

Netflix is an online streaming service & production company. It offers various monthly subscription plans - currently utilized by over 200 million subscribers. Users can access a wide variety of shows and movies, some produced by Netflix themselves (Netflix Originals). The service can be accessed by computers, televisions, tablets, and mobile phones.

<u>**Industry & company overview**</u>

Industry Overview

Since Netflix established its dominance over Blockbuster, many competitors have emerged. Companies like Disney, HBO, and Amazon each provide online streaming services of their own. Each streaming service tends to own different licenses for different shows and produce original content of their own.

Worldwide revenue for the Subscription Video on Demand (SVOD) industry in 2021 was $70.84 billion. The top 5 (2021) countries in revenue were (in million USD $):

1. United States - 32.080.00
2. China - 11,810.00
3. United Kingdom - 3,121.00
4. Japan - 2,324.00
5. Germany - 2,299.00

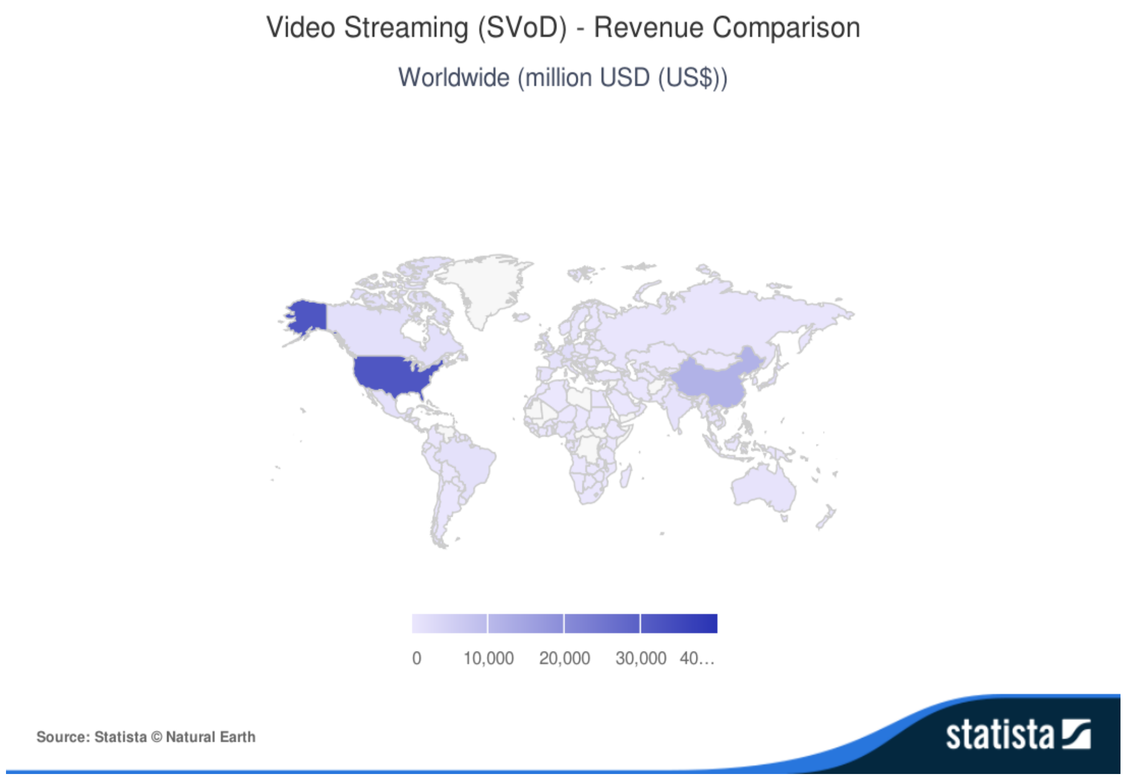


Figure 1. A map which displays the revenues generated worldwide by each country

At the moment, Netflix currently leads the SVOD industry with 221.64 million global subscribers. Disney, which encompasses Disney + (129 million subscribers), Hulu (45.3 million subscribers), and ESPN+ (21.3 million subscribers) has a total of 196.4 million subscribers. Disney is also off to a strong start for the 1st quarter of 2022 with a reported gain of 11.7 million subscribers. HBO & HBO Max ended 2021 with 73.8 million subscribers. Amazon, which bundles its streaming service with Amazon Prime has more than 200 million Prime members. However, it's not clear how many of those Prime users also utilize Amazon's streaming service.

Company Overview

- Product: An online, subscription-based streaming service that provides a wide range of television shows, movies, and documentaries. Netflix also produces original content as Netflix Originals (media exclusive to Netflix's service).
- Business Philosophy: "At Netflix, we want to entertain the world. Whatever your taste, and no matter where you live, we give you access to best-in-class TV shows, movies and documentaries."
- Business Slogan: "To Entertain the World"
- Website: Is accessible on a majority of electrical devices as a website on netflix.com. Is also available as an app on IOS and Android devices.
- User Demographic: Due to the wide variety of content Netflix provides, its demographic encompasses those from every group. However, Netflix does have greater popularity amongst younger consumers.

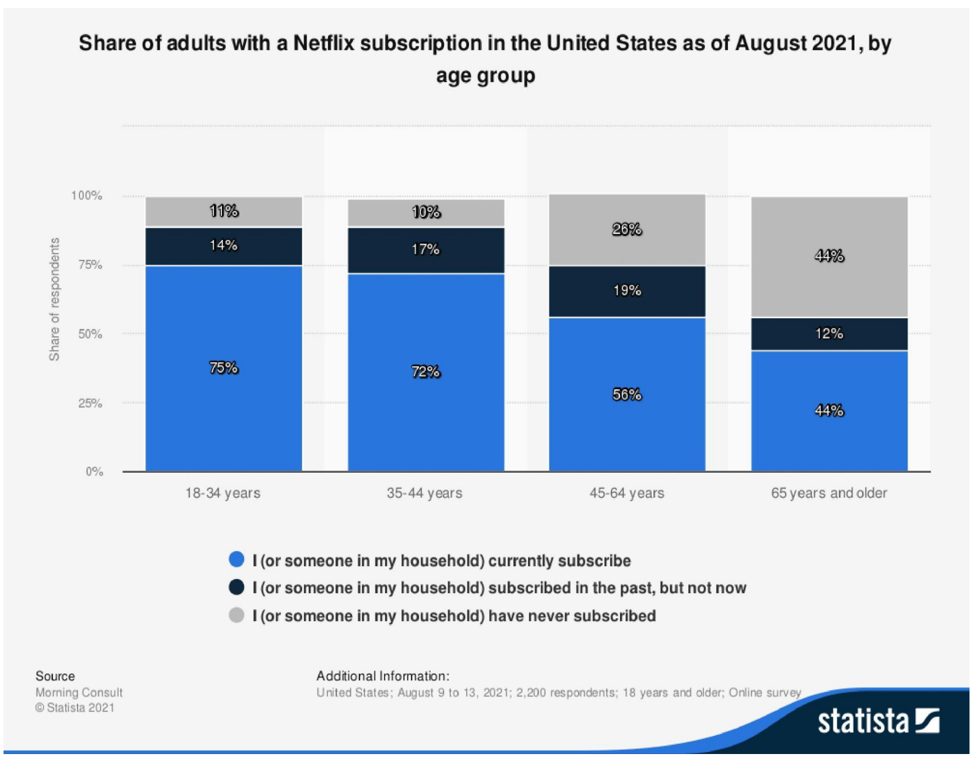


Figure 2. The share of adults with a Netflix subscription in the US by age group

<u>**Business strategy**</u>

Revenue Strategy

Netflix generates revenue through its subscriptions. It offers three different subscription plans - the more expensive plans offer better video quality & resolution while additionally offering more devices.

	Basic	Standard	Premium
Monthly price	$9.99	$15.49	$19.99
Video quality	Good	Better	Best
Resolution	480p	1080p	4K+HDR
Watch on your TV, computer, mobile phone and tablet	✓	✓	✓

HD (720p), Full HD (1080p), Ultra HD (4K) and HDR availability subject to your internet service and device capabilities. Not all content is available in all resolutions. See our Terms of Use for more details.

Only people who live with you may use your account. Watch on 4 different devices at the same time with Premium, 2 with Standard and 1 with Basic.

Figure 3. The offered subscription plans for Netflix

Netflix relies on acquiring distributing licenses of already-made content and producing their own original content. Original content can help bring in new subscribers while retaining old ones. Netflix Originals are also products they can own in perpetuity. Therefore, original content is advantageous as no extra costs must be paid to external sources for the licenses.

Key Performance Indicators

Netflix is one of the largest online video streaming platforms with over 220 million subscribers. Along with generating its own content online, it rents various shows and movies from producers to increase its values and selection among the current subscribers and attract new customers. Moreover, to enhance the quality of their business and quality of their content production, Netflix uses certain key performance indicators to measure them.

The KPI are listed below.

1. Average hours watched per user (usage) :Netflix's primary goal is to keep customers entertained through the content they are showcasing on their interface. In continuation, their most important metric would be how long they are able to hold the attention of their customers while they are viewing a particular show or a movie. I would start with a metric that focuses on the amount of time they are being entertained by Netflix. Analyzing the average number of days a month a user uses Netflix, it would still pose a conflict when the user binge watches a particular show in a day and watches a show every day of a week. Ratio of new, paying users to churning users (sales/retention) - you also want to know how successful your current marketing and advertising is to get people into the service. We then balance against the users that are churning out after they have signed up.

2. Percent of users watching only Netflix content: Along with producing their own content Netflix also rents a humongous number of shows and movies from producers to provide customers with diverse content offering in different languages. Depending on that Netflix can enhance their content and also make a change in the type of movies they are renting.

3. Video start up time: The time from when the viewer intended the video to play, to when the first frame of the video is displayed.

4. Error Rate: Error rate occurs while playing a video, for instance, video playback error and download error which might disturb the video viewing experience.

5. Ended Plays: This metric observes the user experience and how long the content is able to hold, ending play occurs when a subscriber chooses to exit a show or movie due to disinterest. This helps Netflix to gauge how much exciting content is being produced by them and the movies they have rented, this helps them to improve their quality of content and value of the whole business.

Competitor Analysis

In the past couple of years the movie-streaming service has witnessed many new entrants into the business, and Netflix now has many competitors in this industry. Despite that Netflix boasts around 220 million customers around the world.

The most interesting factor amongst these video streaming platforms is that all of them produce their content giving customers globally a chance to view interesting content across all platforms.

Some of the competitors in the video streaming platform for Netflix are Amazon Prime, HBO, Disney, HULU and Apple TV. Amongst these platforms Amazon Prime Video is the primary competitor with over 100 million subscribers globally.

Other than video streaming platforms, they are other type of competitors such as the following:

Television Channels:
Despite a lot of personalized content available online, television channels such as CNN, Fox News, MSNBC, Food Network still hold high viewership, which affects the substantial amount of revenue for Netflix.

Cinemas:
Any online video streaming platform cannot provide the experience of cinema theater, for instance, the VFX effects and sound system can only be experienced in a theater and cannot be compensated for on a mobile device or television.

Who is the biggest Competitor of Netflix?
Amazon Prime is currently Netflix's most significant competition. However, there are a number of powerful rivals, like HULU, Disney, and others. When it comes to audience attention, all of these competitors have seized part of Netflix's share.

What makes Netflix Stand Apart?
One benefit of Netflix is that, in addition to renting movies from other producers, it also features original content developed by Netflix. Selection, pricing, and convenience are also three key factors that have aided Netflix's rise to the top of the video streaming industry.

Is Netflix expensive compared to other competitors?
The organization aims to keep their rates up to date in order to provide a greater selection of movies and television series. The company's desire to invest in its product features and content slate is also reflected in the price hike.

Regardless of the fact that there are several popular and effective video streaming services available, Netflix remains the industry's predominant player. Their shortcomings, on the other hand, are the programming expenses and the stock valuation. The stock market for the industry will stay unstable in the next few years.

There are several significant competitors who might present a hazard to Netflix. As a result, the future will disclose if Netflix is able to keep up with market changes as well as their subscribers' wants and preferences.

Figure 4. Competitors of Netflix

Financial Projections

In the beginning of 2021, the revenue was simply calculated by subtracting the end-of-year (End of year) revenue for 2020 in Netflix. Meanwhile the Short-term development was used to forecast revenues for the years 2021-2024. The slowing financial growth rate might be attributed to new entrants into the video streaming industry as well as an improvement in subscribers' number due to the availability of several new streaming platforms. Initially, Netflix had a short-term growth rate of 21% per year. Despite the presence of Netflix competitors in the market like HULU, Disney, Apple TV, there is potential development in the industry to have new features and additions in terms of content production and improving the user experience.

Netflix will constantly update its service in terms of technology, content, and selection, but short-term growth will be stagnant, due to new entrants and various forms of entertainment available on the internet. which has been constantly dropping. In terms of revenue, Netflix has an extremely high cost-to-revenue ratio because of the quality of material it provides to its subscribers. Because high-demand material is exclusively accessible from one creator, Netflix's negotiation leverage is essentially non-existent. As a result, Netflix must incur significant fees in order to lease and stream content.Netflix's expenditures have been about 60% of income for the previous four years, although they have been falling. As a reason Netflix's costs will continue to fall over the following 10 years.

Most of Netflix's material is rented from other creators, with most contracts lasting four years and this suggests their leased content would depreciate at a rate of about 25% each year. Moreover, Netflix also has material online that is generated by itself, the depreciation rate in terms of assets is reduced.

According to the financial statements, it is predicted the stock price will rise about $56 during the following five years before falling to $25.39 by the conclusion of the ten-year prediction, that is between 2020-2030.

The net worth is also expected to fall by roughly $10 billion due to the rising rivalry in the streaming business. The primary reason is due to a portion of the drop in share price and total value. It also relates to the loss of leasing material and Netflix's inability to produce as soon as needed.

Data Analysis

The purpose of the data analysis was to provide a baseline for the recommendations below based on Netflix's latest datasets from Kaggle. We used three datasets from Kaggle, including Netflix's latest dataset in 2021, which contains data about each title's information, such as types and scores, Netflix daily top 10 having every day's rank from 1 to 10, and movies on streaming platforms containing information about which platforms offer each title.

It is critical to identify which content will have a higher possibility of becoming popular for a long time for users to maximize the revenue from ads. To improve the efficiency of ad campaigns, Netflix can identify better ad placement for every different user by focusing on user targeting parameters.

Netflix's Distribution Between Movie and Series

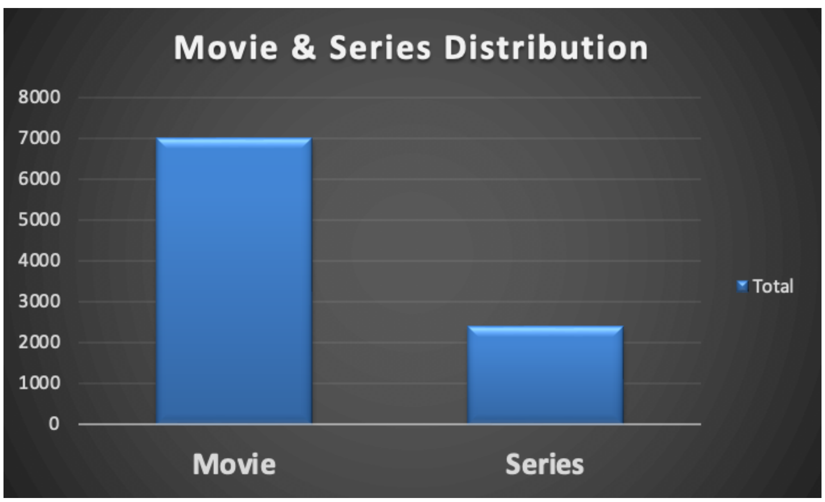


Figure 5. Movie & Series Distribution

Among 9425 content released by Netflix, 74 percent of the content is movies, and 26 percent are series. From this data, Netflix offers about three times more movies than series to the users.

Exclusive vs. Non-exclusive

Row Labels	Average of Rank	Average of Viewership Score
Concert/Performance	**3.5**	**12**
Exclusive	3.5	12
Movie	**5.635005745**	**38.94867867**
Exclusive	4.928522805	48.66575902
Non-Exclusive	6.543782837	26.44921191
Stand-Up Comedy	**5.43902439**	**38.58536585**
Exclusive	5.43902439	38.58536585
TV Show	**5.422177238**	**172.8540261**
Exclusive	5.054421769	108.4133463
Non-Exclusive	6.257542311	319.2325239
Grand Total	**5.5**	**122.7901408**

Figure 6. Ranks and Viewership Scores

The pivot table shows the average rand and average viewership score of the four types of content, including concert/performance, movie, stand-up comedy, and TV Show. In a comparison of movies and TV shows, the highest average rank is an exclusive movie, and the lowest average rank is a non-exclusive movie. There is a higher chance that the users can find the non-exclusive movies on the other platforms. In the case of TV Shows, the exclusive TV show's average rank was closer to "1" than the non-exclusive TV show.

The next column is about viewership score, which is the score assigned to each show based on its daily historical ranking, giving 10 points for each no. 1 ranking, 9 points for each no. 2 ranking, etc. The score is the sum of the total rank each show has been ranked. This data can be used for analyzing which shows acquired high ranks and stays longer in the daily top 10. This may lead to enhanced user experience, increased new subscribers, and revenues.

For movies, the exclusive movie tends to be ranked higher or stayed longer in the top 10 than the non-exclusive movie. For TV shows, non-exclusive TV shows tend to be ranked higher or stay longer than the exclusive TV show. The average viewership score of the non-exclusive TV shows is three times bigger than the score of the exclusive TV show. This analysis doesn't mean that Netflix should invest more in non-exclusive TV shows. There is a possibility that the market size of exclusive TV shows is growing or also the amount of investment in the shows is still not sufficient. It also means there is still space to grow for exclusive TV shows on Netflix.

Frequency of Viewership Score

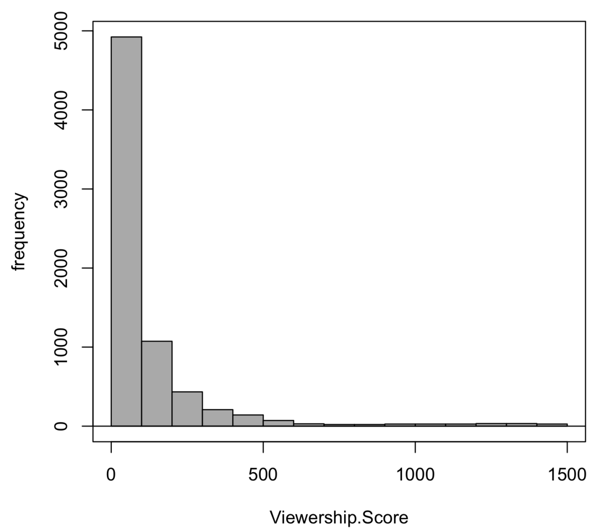


Figure 7. Frequency of Viewership Score

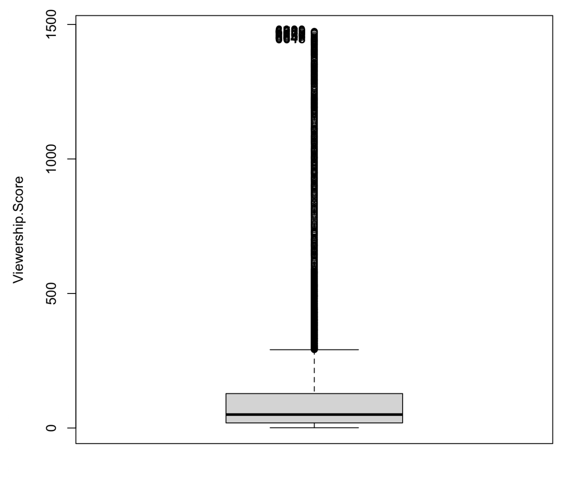


Figure 8. Box plot of Viewership Score

The viewership score data is distributed toward the lower quantiles, and the distribution is highly positively skewed. Most content ranked in the daily top 10 has a viewership score below 500. One way that Netflix could focus on releasing more content similar to the contents in zero to five hundred viewership scores. Another way is to invest more in creating content similar to titles with a score of over 500 by analyzing their unique reason for massive success.

Viewership Score and Rank

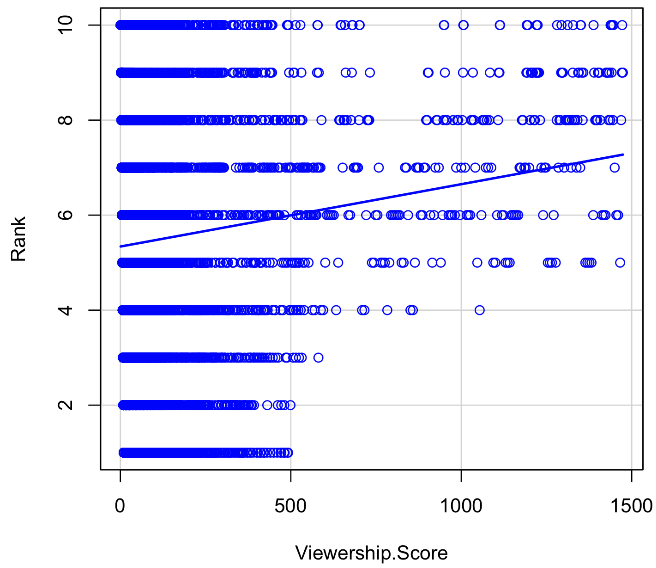


Figure 9. Viewership Score and Rank

The scatter plot shows a positive correlation between rank and viewership score. This result is interesting since rank "1" is the top rank, and rank "10" is the least rank in this chart. However, for the viewership score, 10 points are assigned for the number "1" rank, and 1 point is assigned for the number "10" rank. This plot shows that the program that was ranked higher, which is closer to "1," is likely to have a lower viewership score.

Viewership Score and Days in Top 10

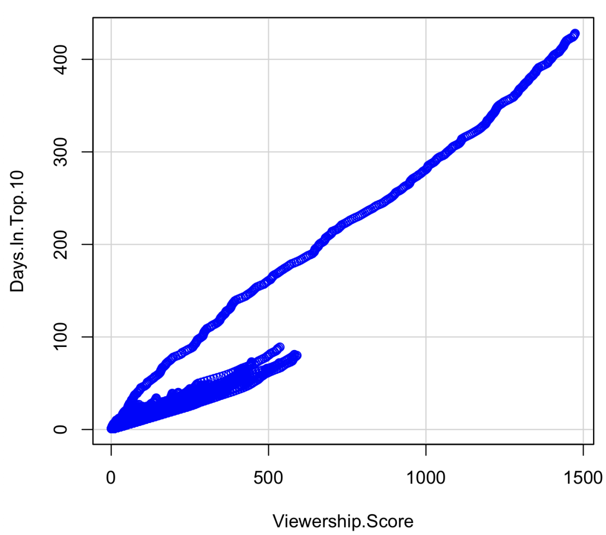


Figure 10. Viewership Score and Days In Top 10

```
                  Days.In.Top.10 Last.Week.Rank Netflix.Exclusive       Rank        Type
Days.In.Top.10         1.0000000      0.4639554        -0.2791789  0.15617877 -0.23973544
Last.Week.Rank         0.4639554      1.0000000        -0.1970661  0.31561866 -0.23578008
Netflix.Exclusive     -0.2791789     -0.1970661         1.0000000 -0.22805038 -0.12622776
Rank                   0.1561788      0.3156187        -0.2280504  1.00000000  0.03506824
Type                  -0.2397354     -0.2357801        -0.1262278  0.03506824  1.00000000
Viewership.Score       0.9624136      0.4789839        -0.2163981  0.09776897 -0.30300968
                  Viewership.Score
Days.In.Top.10          0.96241359
Last.Week.Rank          0.47898388
Netflix.Exclusive      -0.21639811
Rank                    0.09776897
Type                   -0.30300968
Viewership.Score        1.00000000
```

Figure 11. Correlation Matrix

The scatter plot and the correlation matrix show the correlation between “viewership score” and “days in top 10”, which indicates that they’re strongly positively correlated. A higher viewership score is strongly related to longer days in the top 10. It means that the viewership score represents the performance of the content by reflecting how long the content was ranked in the daily top.10. However, the content with a higher viewership score doesn’t guarantee that the average or the highest rank is higher than the content having a lower viewership score.

Linear Regression Model

```
Coefficients:
                    Estimate  Std. Error t value   Pr(>|t|)    
(Intercept)      -10.8503137   0.5658740 -19.174    < 2e-16 ***
Last.Week.Rank    -0.3737098   0.0815361  -4.583 0.00000465 ***
Netflix.Exclusive -6.9253959   0.3956259 -17.505    < 2e-16 ***
Rank               1.0750936   0.0661526  16.252    < 2e-16 ***
Type               4.8037197   0.3951544  12.157    < 2e-16 ***
Viewership.Score   0.2638687   0.0009835 268.300    < 2e-16 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 14.85 on 7094 degrees of freedom
Multiple R-squared:  0.9355, Adjusted R-squared:  0.9355 
F-statistic: 2.059e+04 on 5 and 7094 DF,  p-value: < 2.2e-16
```

Figure 12. Linear Regression

To make the values in the “Type” column into numeric values in the data, we put “0” for TV shows and “1” for movies, and “0” for non-exclusive and “1” for Netflix exclusive.

The estimated change of “Type” on “Days In Top 10” is 4.8, while the estimated effect of “Netflix Exclusive” on it is -6.9. It means that for every increase by one in type, the correlation is to 4.8 points increase in the days in the top 10. If the type is movies, the days in the top 10 are likely to increase by 4.8 days. If the video is Netflix exclusive rather than non-exclusive, the days in the top 10 are likely to decrease by 6.9 days. When it is a movie or non-Netflix-exclusive, the days in the top 10 tend to increase.

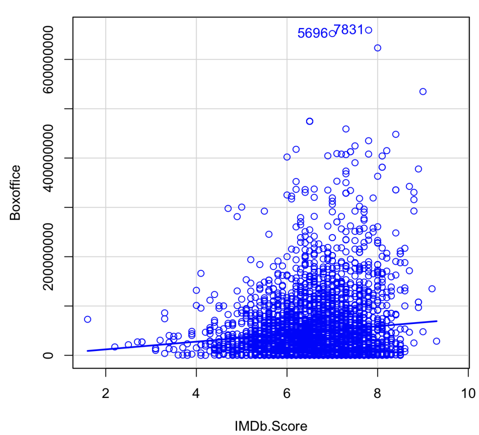
The p-values are significantly low, indicating the overall model is significant. Also, the adjusted R-squared is 0.93, which means our model would fit the data very well, although the adjusted R-squared cannot solely decide it.

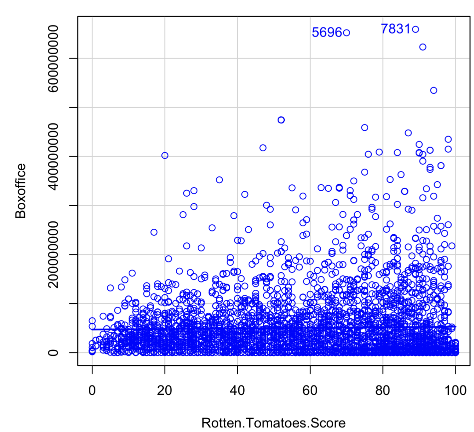
Scoring Systems Comparison

There are many types of scoring systems evaluating the programs to recommend movies or shows for audiences suitably. In this part, we analyzed four scoring systems' data to find which scoring system would be suitable to advertise specific programs.

First, IMDb measures registered users' votes on titles, and then the votes are aggregated and summarized as a rating. Second, the Rotten Tomatoes score calculates the percentage of positive reviews that exceed negative reviews and assigns a fresh or rotten rating to the film. Third, the Hidden Gem Score is a method of highlighting less popular content but well-rated. Last, Metacritic Score converts each review into a percentage, either mathematically from the mark given or what the site decides subjectively from a qualitative review.

- **Box Office and Awards Nominations**





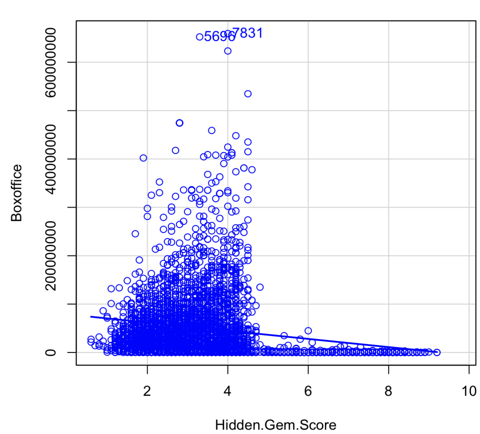


Figure 13. IMDb, Rotten Tomatoes & Hidden Gem with Box Office

Rotten Tomatoes reflects more on critics' reviews than popularity, and they're not essential for big streaming numbers or box office performances. Hidden gem score shows a negative correlation with box-office.

- **Rotten Tomatoes vs. Hidden Gem**

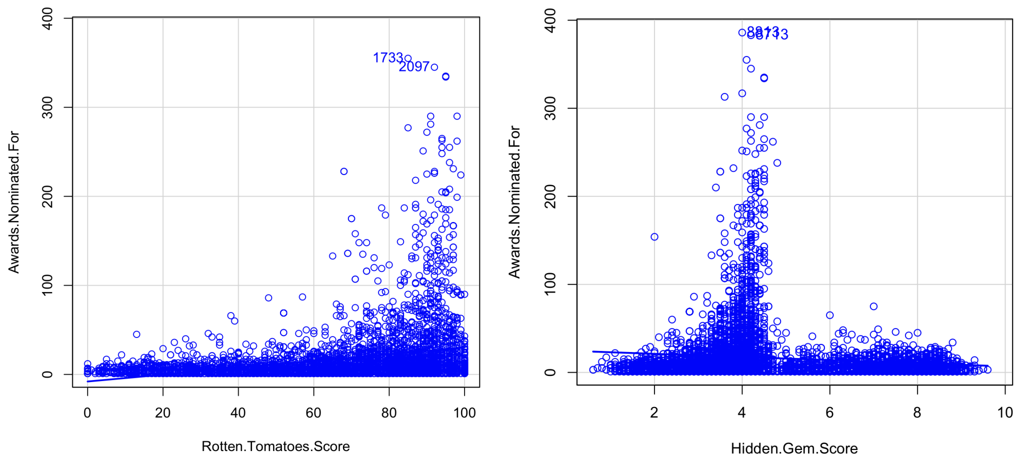


Figure 14. Rotten Tomatoes & Hidden Gem with Awards Nominations

There is a positive correlation between the number of awards nominated and the score of Rotten Tomatoes; however, a negative correlation is shown between that and the score of Hidden Gem. It indicates that the Hidden Gem score puts more value on the programs for other factors than how well awards recognized the program.

- **Frequency of Rotten Tomatoes vs. Metacritic vs. Hidden Gem**

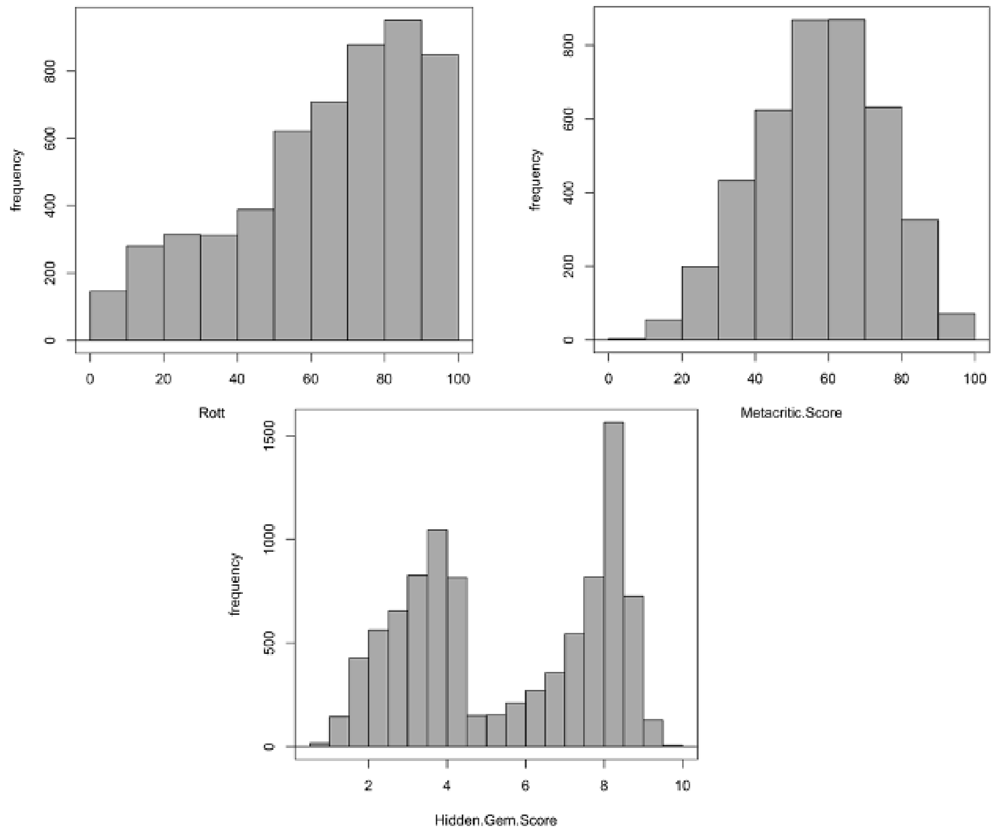


Figure 15. Rotten Tomatoes, Metacritic & Hidden Gem

Each scoring system has significantly different distributions of scores. While Rotten Tomatoes tend to give higher scores to the movies on Netflix, Metacritic puts more middle scores on movies. In the Hidden Gem scoring system, the scores of the films are distributed to either high or low scores.

Target Age Groups of Streaming Applications

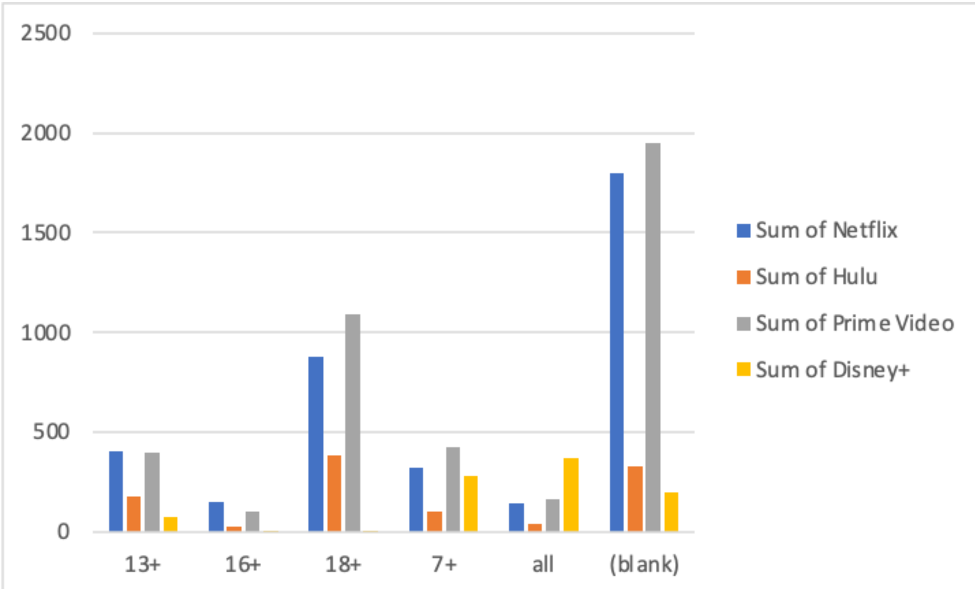


Figure 16. Age Ratings of Netflix, Hulu, Prime Video & Disney+

In this chart, age over eighteen is the most targeted of Netflix, Hulu, and Prime Video except Disney+. Disney+ has the most movies for all generations, and the next is age over seven. Among the competitors, Prime Video is the most similar platform to Netflix regarding the distribution of age ratings. There is a possibility that the target ages in both companies will be comparable.

Recommendations

Current Advertisement Revenue Strategy

Netflix is known for being the online streaming platform without advertisements; a model that is more customer-friendly than its competitors. In 2018, Netflix tested using ads and was met with heavy criticism. In fact, some users said that the only reason they pay for Netflix is because there were no ads. The tests used skippable video previews between episodes, unlike its competitors whose ads are often unskippable. At the time, the test only went to a few subscribers. Netflix is a big fan of A/B tests, which will be looked at in the "Advertisement Revenue Strategy Testing" section.

Since Netflix has no ads, they make no advertisement revenue. Instead, they depend on their no-ad model to attract customers:

Strategy 1 (No-ads) Product with no ads = ↑ subscribers + ↓ ad revenue = overall revenue

Whereas competitors use the following system:

Strategy 2 (Ads) Product with ads = ↓ subscribers + ↑ ad revenue = overall revenue

So how exactly are ad-using competitors doing? Taking a look at average revenue per user (ARPU), a method used to gauge how well streaming services are doing, and subscriber count (each numbers is as recent as possible):

Company	**ARPU**	**Subscribers (global)**
Netflix	$14.25	222 million
Disney+	$3.99	118 million
HBO	$11.72	73.8 million
Amazon Prime Video	$12.99	175 million
Roku	$41.03	60.1 million

Figure 17. Some of the top streaming service company's most recent (depends on company) Average Revenue per User (ARPU) and Subscribers (globally)

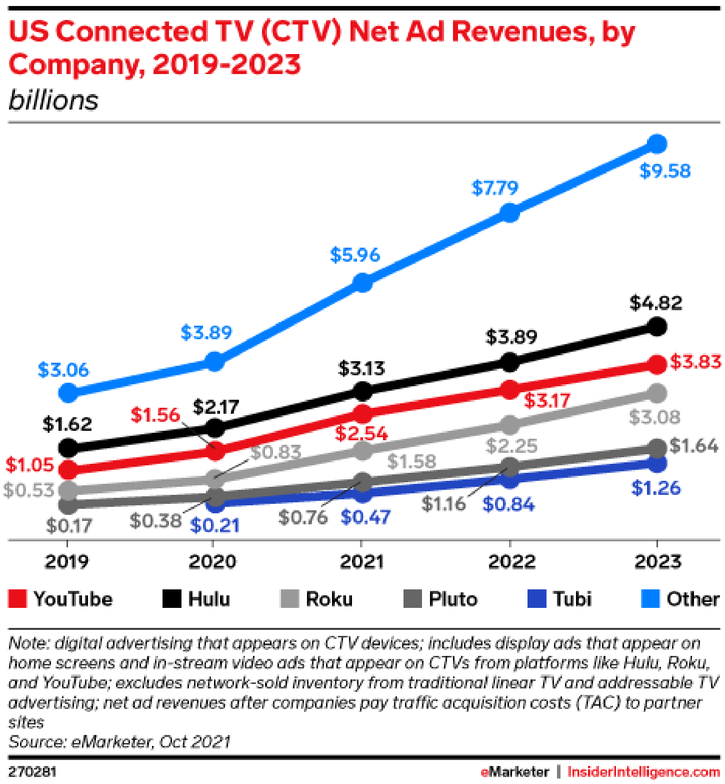


Figure 18. U.S. Connected TV (CTV) net ad revenues, by company, 2019-2023 in billions of dollars

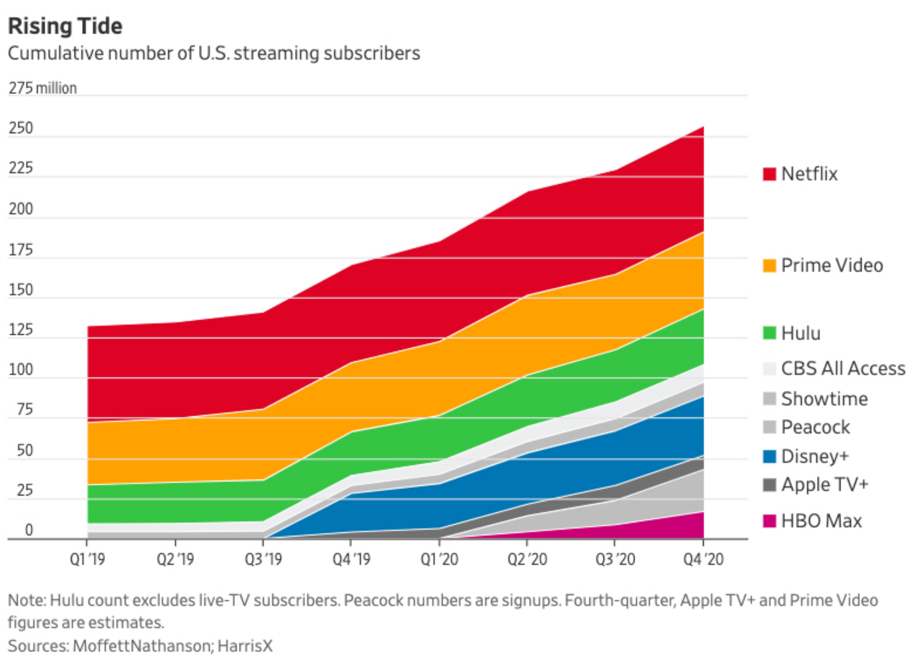


Figure 19. The cumulative number of U.S. streaming subscribers

First Profit Loss in a Decade

In April 2022, Netflix announced that they were losing subscribers for the first time in 10 years. Meanwhile, Youtube was up 63% ($2.54 billion in US ad revenue, 2021) and Roku up 92% ($1.58 billion in US ad revenue, 2021).

Figure 20. Netflix's recent share price dip in April 2022 following their announcement that their decade-long subscriber gains had ended.

Advertising revenue is increasing for Netflix's competitors while their subscriber counts also rise. Netflix should learn from them that ads do not deter subscribers in a way that is unprofitable. To make up for a subscriber loss, Netflix should use ad revenue to lower its subscription loss as an incentive for more subscribers. With a cheaper subscription price, users will, rather than password-share or buy a competitor's subscription to save money on Netflix, purchase Netflix. As discussed, Netflix has been known as a no-ad brand. However, its recent end to decade-long subscriber gains shows that something needs to change. No longer can Netflix keep doing what it has been doing. Now, with new competition that is attracting ad-tolerant subscribers with cheaper prices (see below), Netflix needs to follow their strategies.

Figure 21. Usual prices of a subscription to top streaming services (2019).

Advertisement Revenue Strategy Testing

“It's unclear if ads would be a hit on Netflix… or how many subscribers would sign up for a cheaper ad-supported model” (Adage). Netflix can predict the answer to this question using A/B testing. For this, Netflix often uses control and experimental groups, which they call cells. Netflix should use this since they are comfortable with it (have the resources and experienced employees necessary for it already). Yes, the reaction to Netflix testing ads before was negative, but that was years ago before Netflix had competitors with subscriptions made cheaper with ads. Now, it is a new era.

Additional Recommendations

Additionally, Netflix should lower its bounce rate, raise pages per visit, and visit duration. The graphs below show these issues :

Figure 22. The bounce rate, pages per visit, and visit duration between January and May 2021 of top online streaming websites.

Netflix should try to address these issues by including more engaging content on its web pages that links to other pages, with more captivating content that draws viewers in. Tests of this could also be done A/B-style, due to Netflix's extensive experience with it.

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