

NETFLIX

# Consulting Report

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# Executive Summary

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Recommendations: Localized Pricing Models., Expanding into VR & Gaming Market.

## SUBSCRIPTION

According to Netflix subscription data and 2023 10K, there exists enormous potential in the APAC region, depicting a sizeable potential user base.

## SWOT ANALYSIS

According to the SWOT analysis, Netflix can capture new opportunities by expanding into the gaming and VR industry to provide more value and better user experience for the consumer.

## INDUSTRY ANALYSIS

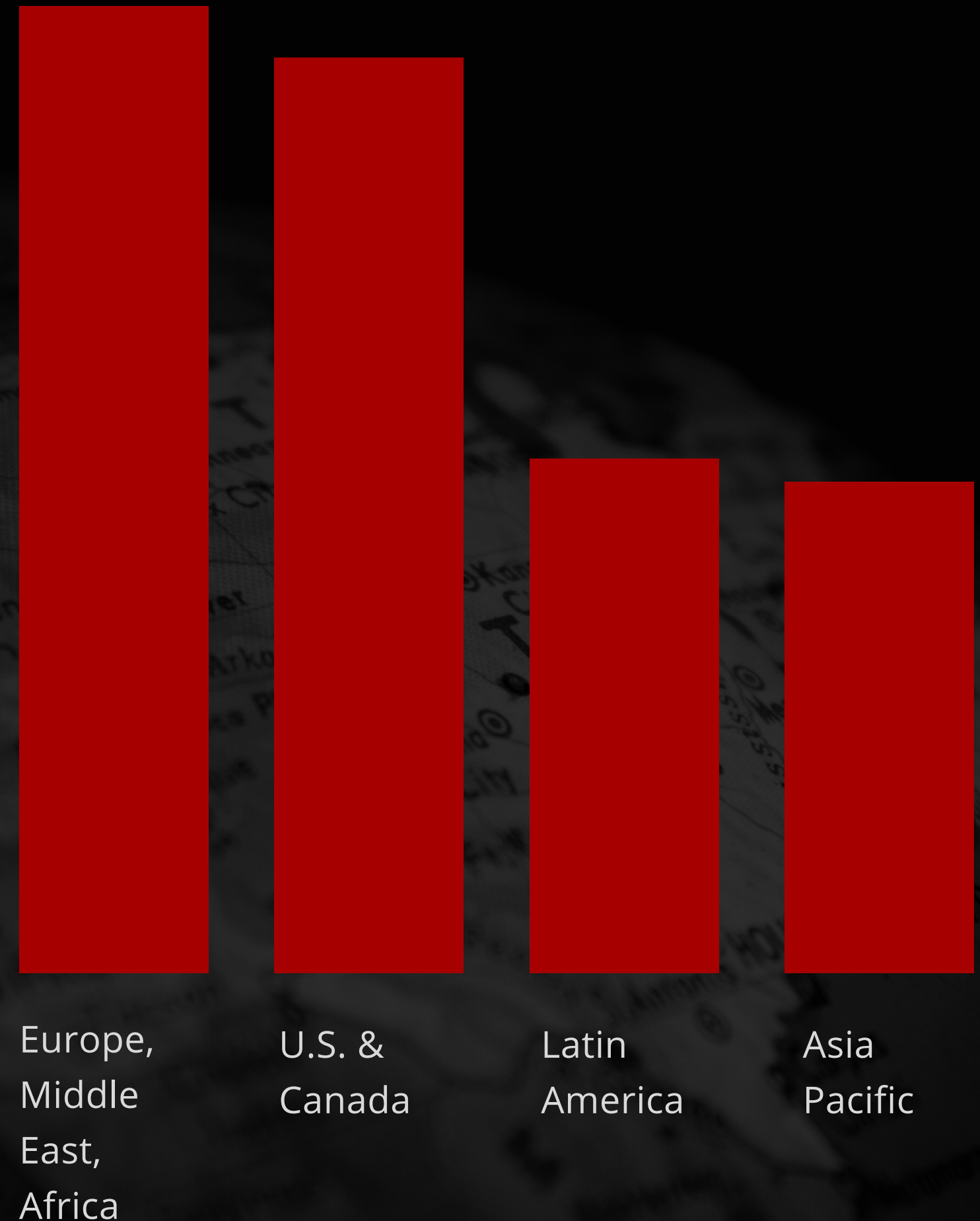
Five forces analysis reveals we must focus on decreasing buyer's power and threat of substitution to gain a stronger position in the industry.



# Diagnosis

Grow user base in APAC region

- Majority of Subscribers from Europe, Middle East, Africa, and North America.
- Accounting for 60% of the broader consumer market population, significant potential to grow into the market with initiatives like Take Ten, linguistic diversity emphasis.
- Meanwhile, diversity, culture, language, sensitivity, and geopolitical issues make for additional considerations.



# Limited success of Global Strategy on APAC

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## REVENUE

APAC Region lags behind other in revenue approximately \$3.57 Billion in 2022.

In Comparison, the U.S., Canada region leads with \$14.09 Billion followed by EMEA (Europe, Middle East, Africa) with \$9.74 Billion and LATAM (Latin America) with roughly \$4.07 Billion in the same year.

## WHY DO WE STRUGGLE TO GAIN MORE SUBSCRIPTIONS IN APAC?

- The pricing model of Netflix, while standard in Western countries, can be considered premium in many APAC countries. Local competitors often offer similar or even a fraction of our subscription price.
- Free-to-air TV Channels, & competitors offer a variety of popular content, reducing incentive for viewers to pay for a streaming service.
- Local competitors existing user base, foothold on market. Five Forces Analysis to identify the problem: Medium to High Buyer Power Internationally due to intense market competition.

# Five Forces Analysis; Global Strategy APAC

## SUPPLIERS

- **Significant Power** in negotiations with streaming platforms with people have to watch.
- Most of the suppliers have low power as they are **willing to lower prices** to reach a large audience.

## NEW ENTRANTS

- High threat due to **low barriers** in terms of technology.
- Competitive streaming services demand **significant investment** for new entrants in gaining trust and recognition.

## CUSTOMERS

- Customers have considerable power, given the abundance of streaming options available **including the local streaming players.**
- **Low switching costs** can move between platforms or cancel subscriptions.

## COMPETITIVE INTENSITY

- Intense competition and high industry concentration define the streaming industry.
- Several strong local players, make the market more competitive

## SUBSTITUTION

- Streaming services face threats from traditional cable TV & emerging technologies like virtual reality.
- **Video games** and specialized streaming services like **sports-focused ESPN+** & niche content.

- **Exclusive Content:** Enables us to distinguish ourselves further, attract user groups.
- **Wide Content Library**
- **Specialized in leveraging Algorithms:** Machine Learning, Data Analytics, catering to consumers, studying watch patterns.

Strength

Weakness

- **Regulatory Content Restrictions:** Cultural Sensitivity, Government policies, inhibit global operations.
- **High Financial Costs:** Licensing, Development, Marketing, Technology.
- **High cost of producing original content**

- **Expanding to New Markets, Gaming Industry:** Offering games as a part of its streaming services, virtual reality services. (Updates: Nov23 Expansion with GTA)
- **Strategic partnership with content creators:** Exclusive creator content, support to produce original content.

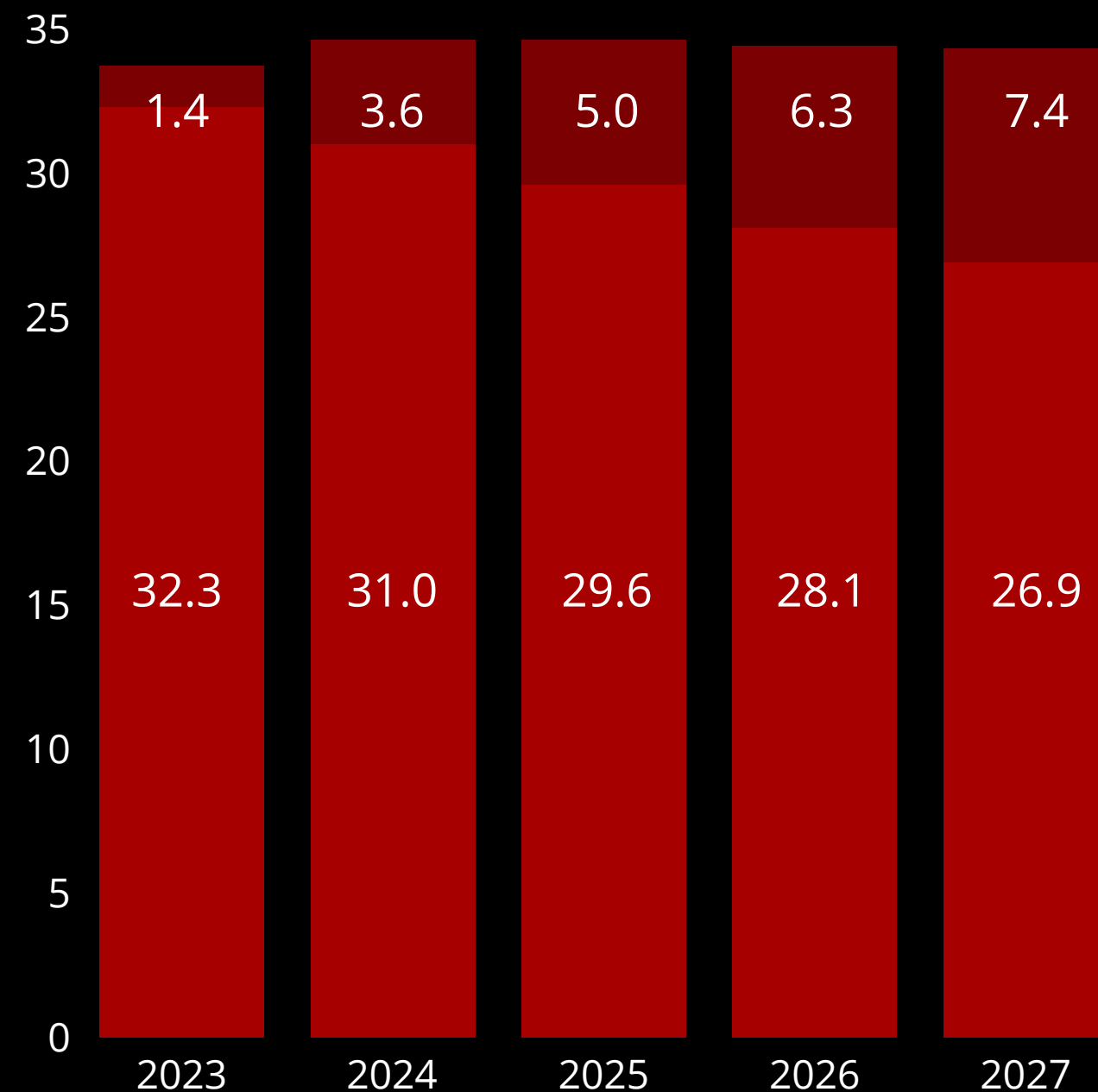
Opportunity

Threat

- **Illegal Distribution of Content:** Unauthorized sharing, copyrights, piracy are major causes for lost revenue.
- **Severe Competition in Global Market:** Tough competition from established pay television operators, subscription video-on-demand services.

# Localized Pricing Model

## REVENUE FORECASTING



## KEY APPROACH

### Freemium Model:

- Increased User Base: A limited time period freemium model can attract users who are hesitant to pay upfront. This can significantly boost the platform's user base, especially in regions where paying for online content isn't the norm.
- Conversion Opportunities.

### Partnering with Local Cellular Providers:

- Data Bundling: Offer a special subscription tier that comes with a certain amount of cellular data exclusively for streaming Netflix content.
- Joint Market Campaigns: Co-branding and joint marketing campaigns can increase brand visibility and user trust in regions where Netflix is still trying to establish a foothold.



Subscription Revenue



Adv. Revenue



# Localized Pricing Model

## Implementation of freemium model

### Emerging Markets:

- Countries with emerging digital markets, like Indonesia, parts of India, or Vietnam, where the willingness or ability to pay might be lower.

### Competitive Markets:

- In APAC regions where local or international competitors offer free or cheaper alternatives, a freemium model can help Netflix remain competitive.

**Content Limitations:** Offer a limited library of content for free users, with the full library available for premium subscribers.

**Streaming Quality:** Offer Standard definition for free users and HD/UHD for premium subscribers.

**Adv. Formats:** Use non-intrusive ad formats. Consider shorter ads, sponsored content or branded playlists.

The Freemium model with ads presents opportunities for Netflix, it's crucial to implement it strategically. Netflix's brand has been built on an ad-free experience, therefore introducing ads needs to be done thoughtfully to avoid alienating existing users. Specific ads relevant to entertainment, testing the model in select regions before a broader rollout can help gauge its effectiveness and make necessary adjustments.



# Expanding to VR & Gaming Market

Netflix's entry into the VR and gaming markets will be a strategy to attract subscribers beyond cultural barriers in the APAC region and further become competitive and profitable on a global scale.

## Enhancing Competitiveness:

- In a landscape where formidable competitors like Disney and Hulu are rapidly expanding in the streaming industry, entering the untapped markets of VR & Gaming can provide Netflix with a significant competitive advantage.
- As the market for gaming is particularly strong in the APAC region, where gaining strong competitiveness is crucial, this strategy aligns with Netflix's main approach for the global market.
- New content offerings like VR and Gaming have the potential not only to attract new subscribers but also to ensure stronger retention of existing ones.

## Content & Regional Preference:

- While it is essential for Netflix to consider regional content preferences, the fields of gaming is relatively immune to geographical constraints.
- Due to Netflix's foundation in the United States, cultural differences in content can sometimes pose challenges when entering the APAC market. However, VR and gaming present opportunities as they can be enjoyed in the APAC market without significant cultural barriers.

## Creating New Revenue Streams:

- Netflix's foray into VR, gaming provides the opportunity to create a new revenue streams.
- We face a slowing subscriber growth rate, this diversification is vital for reinforcing its financial stability and preparing for the company's future.

# Implementation Plan - VR & Gaming

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Exclusiveness	Netflix creates its own VR content & games, available exclusively on the Netflix Platform.
Content Integrity	Making games related to Netflix original series. This will allow users to become more immersed in Netflix content and will also be a reason to use Netflix compared to other platforms. For example, launching a game that allows subscribers to experience the game featured in "Squid Game" directly through VR
High Probabilty	The fact that 48% of the gaming industry's revenue is generated in the APAC region is an evidence of the significant demand for gaming in the APAC market. As a streaming platform, if Netflix were to create VR games related to its content, it will facilitate a faster and more robust penetration of the APAC market, leveraging the appeal of VR

# Key Takeaways

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## APAC Potential:

- Significant growth potential with a vast user base.
- Current subscriptions underrepresented, revenue at \$3.57 billion, lagging behind other regions.
- Diverse culture and geopolitical challenges to navigate

## Recommendations:

- Freemium Model: Target emerging markets, offering limited content with standard streaming. A gateway to attract hesitant users.
- Cellular Partnerships: Collaborate with providers in broadband-limited areas Bundle subscriptions with data plans, offering exclusive content and incentives.
- VR & Gaming Expansion: Leverage Netflix's original series, focusing on APAC's strong gaming interest. Introduce related games and VR experience

## Industry Position:

- Netflix faces severe competition globally.
- High threat from local competitor and substitutes.
- Need to strengthen position by reducing buyer's power and countering substitution threats

## Revenue Insights:

- Regulatory restrictions and illegal content distribution are major hurdles.
- Localized content preferences and pricing models are essential to address.

Netflix has untapped growth potential in the APAC region, facing industry competition and challenges, but can leverage strategies like a freemium model, cellular partnerships, and VR & gaming expansion to strengthen its market position .



# Citations

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