# NETFLIX EXECUTIVE BREFIENG

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**EXECUTIVE SUMMARY**

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Hello Marisa,

This document is an outline of the entire discussion we had during our Executive briefing with Mr. Amit Patel. We made a proposal to extend Netflix's capability by building a gaming platform which would be implemented in a way that works as an extension of the flywheel model that forms the core of the entire recommendation. Our discussion revolved around the reasoning for a gaming platform in Netflix's ecosystem which is based on the current scenario and competitive landscape, the implementations details and the cost of project execution, 3-year projections of revenue and ROI, the risks associated with the project aided by our plans for mitigation and feedback from Amit.

## Current Scenario

Gaming industry and its popularity is growing at a rapid pace. 45% of gaming industry constitutes of mobile gaming. The market size of US mobile gaming industry is 156 million users. Revenue in the Mobile Games segment is projected to reach US$152.5 Billion in 2022. Revenue is expected to show an annual growth rate (CAGR 2022-2027) of 7.77%, resulting in a projected market volume of US$221.70bn by 2027. (Statistica, 2022). With all the future possibilities in gaming industry along with companies like Meta building up metaverse which will basically be an augmented reality gaming environment, this seems like the right time to tap in to the market and deploy resources to establish Netflix's presence in the gaming world.

Netflix currently incurs huge amortization expenses related to the COGS on content spends. Netflix's 90% of intellectual property(IP) is amortized in a span of 4 years, in simple words on an average the content reaches its saturation and stops serving as an asset in a span of 4 years and in order to keep building assets which in Netflix's case is content we have to spend more. The idea behind including a gaming platform for Netflix is that the mobile games have a high longevity. This could have a drastic impact on reducing the amortization pace and increasing longevity of Netflix's overall content. The idea is to smartly invest in resources and build mobile games based on upcoming flagship Netflix original series which not only brings in revenue but also help in increasing number of subscribers for the upcoming show, works as a marketing stint, increases engagement and help build longevity for the new releases.

## Competitive Landscape and Netflix's USP

Netflix has competition is this segment from corporations like Microsoft and Apple who are leading players is developing a multi-tier mobile games contributing to market segment of 10.1% and 8.34% respectively (based on revenue) (Business-standard, 2022). Other players are games like PUBG, DOTA, Minecraft, etc which are popular and ranked amongst top games every year. The way Netflix is going to set itself apart from these competitors is, we will build games based on story line of an upcoming Netflix original series which will have a story line characterization similar to the series but in various aspects would also be very different. These games will be released before the series which will work as a great marketing strategy to create the buzz about the upcoming series and its characters as well as generate revenue through in app purchases and ads. The game versions will be released similar to the timeline of the series with different versions corresponding to different seasons, thus keeping the audience hooked. This strategy exactly aligns with our flywheel model which stresses on driving new users and building user engagement

**Execution Details & ROI**

The various phases of implementation to execution of the gaming platform project consists of Game development, Building an architecture of gaming in Netflix's ecosystem, Marketing and Advertising and Strategies to generate future revenue.

Netflix has already acquired two great start-ups - Texas based game developer Boss Flight and a Finland based Next Games, to bring in the expertise and manpower for game development. (TechCrunch, 2022)

We suggested integrating the entire proposal for a gaming platform in coherence with the already existing architecture of Netflix. Netflix works on AWS architecture using services like AWS EC2, S3, etc which allows for on-demand autoscaling. The best part being, as and when the number of users increases the cost of maintenance per user decreases because of the nature of AWS system. To implement a gaming platform in Netflix's architecture we will plan to acquire one more service from AWS called Amazon Game lift which will seamlessly integrate with the existing architecture. Amazon Game Lift is a gaming engine compatible with all the AWS services and the beauty that it serves is, whenever the user starts a gaming session it takes the space on EC2 servers and once the session is over, the space is freed up. This enables saving cost of server usage by not using up the server space when not required. (AWS, 2022).

We estimated marketing and advertising cost based on Netflix's and competitor annual spending to draw estimates on cost of acquisition along with the technology cost, to identify the overall investment. The investment for the first year would be ~$2Billion. We took in account two revenue streams – In-app purchases and Advertisements. Based on estimation we projected a revenue of $2.84 Billion, $3.63 Billion and $4.83 Billion for the years 2023, 2024 and 2025. Our ROI projections stand at 51%, 54% and 57% for the years 2023, 2024 and 2025 respectively.

**Future plan, Risk and Mitigation**

The future scope of developing a gaming platform for Netflix is to build a gaming ecosystem in Netflix's ecosystem with live-streaming services for gamers. The idea is to build a harmony amongst various content services right from traditional Netflix content, to live streaming (covered in our BOD presentation) and now with gaming. This harmony will strengthen Netflix's flywheel and drive user growth and engagement from one platform to another.

One of the inherent risk that comes with such an ambitious project is the quality and the success of game will greatly impact the upcoming series. Not being able to deliver a good gaming experience may have implications on the performance of the upcoming series. To ensure that the entire pipeline of execution is smooth we need to make sure we deliver a high quality game covering every front, right from graphics, UI, storyline, etc and make sure it is well received by audience. We need to make sure the storyline of the game does not give away the storyline of actual series. We will ensure this by making sure story line are unique for game and series but the theme and characterization is somewhat similar. We will make sure to deliver a high quality game by laying stress on the entire game development process and going through various iterations of A/B testing during the process and Beta-testing before the game release.

**Feedback from Mr. Amit Patel**

Amit was very impressed by the entire execution plan right from the flywheel concept talking about the storyline of game to execution. He was looking for technical details of implementation and when we explained him the entire architecture with AWS cloud computing system, he really appreciated our effort. We also had discussion about the future of this project apart from the revenue and ROI. He pointed out that we should think of a contingency plan to re-vamp the entire setup in case things go sideways, since a huge corporation like Netflix we should be prepared with a plan B. He suggested us to think of strategies to keep building up the gaming library and what can be the implication of a live streaming service along with a gaming platform. He also stressed about focusing on customer support, since success of such a huge project will definitely depend on customer support and customers across the entire globe would expect a top class service from a company like Netflix and we should be prepared to deliver beyond expectation. The entire discussion with Amit helped used to envision the Netflix gaming platform as a whole, considering every aspect before and after service and backup plans. This feedback will really serves us to be very helpful to work on our project and also touch these points in our future projects.

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