

# **Netflix Membership Analysis Report**

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**Data Sources: Netflix's Financial Statement**

**Link to Sources: <https://ir.netflix.net/financials/quarterly-earnings/default.aspx>**

## **Business Overview**

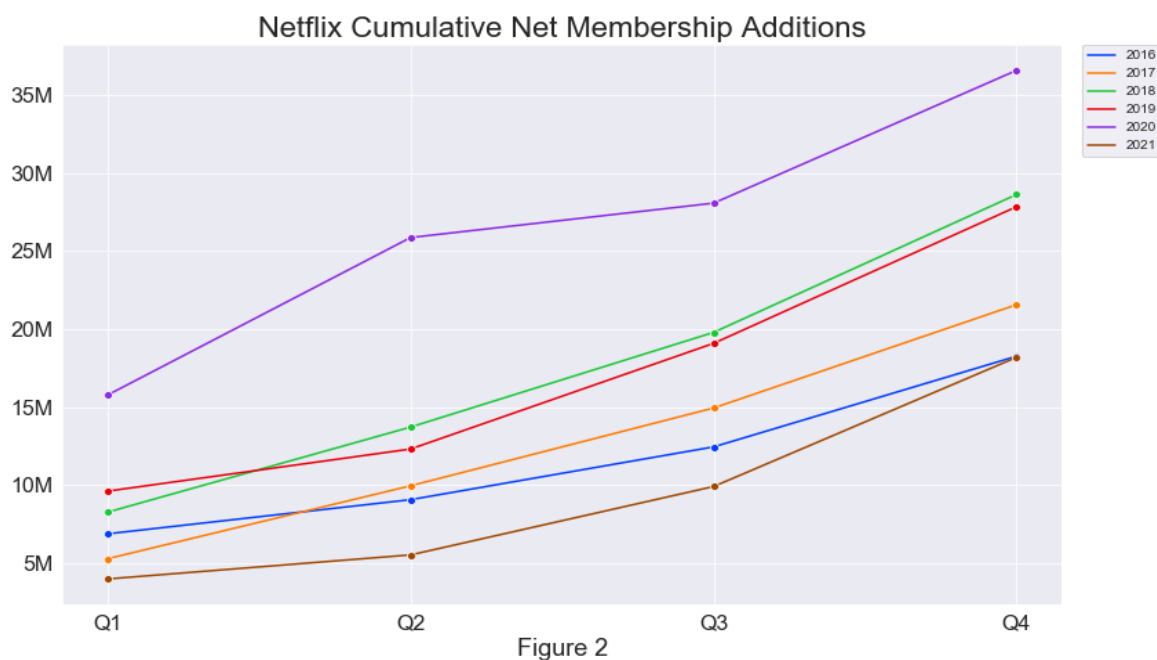
- **Netflix, Inc.:** A Software as a Service (SaaS) company that provides software to watch TV shows and movies
- **Steaming service:** Launched at 2007
- **Core strategy:** Increase revenue and net income through growing steaming membership
- **3 reportable segments:** Domestic steaming, International streaming and Domestic DVD
- **Main revenue source:** Monthly membership fees

## Total Global Paid Membership Growth



Netflix's paid memberships has reached 221 million by the end of the fourth quarter, 2021. The graph above demonstrates Netflix yearly increasing trend on the global paid membership (Figure 1), however the rate of yearly increasing trend is slowing down. The growth rate dropped from 21.9% to 8.9% in 2020 to 2021 respectively.

## Net Membership Additions From 2016 To 2021



In fact, if we look into the paid net membership additions data provided by Netflix, we are able to see a 15.77 million net membership growth in the first quarter of 2020, and 10.09 million net membership additions in the second quarter of 2020. Two quarters' growth were much higher than any previous quarters because people are required to follow the stay-at-home order so they only had limited options to spend their spare time.

Netflix overwrote the future net membership additions in the first two quarters of 2020. As a result, we can see that 2021 had the **lowest** cumulative paid net membership additions in 5 years (See Figure 2).

## Paid Membership in US and Canada (UCAN) Region

Besides seeing slowest growth in years, the total amount of paid membership in Netflix's biggest market - US and Canada (UCAN), has reached saturation.

Below is the table extracted from Netflix's financial statement. The paid membership growth rate from Q3'21 to Q4'21 is only 1%, but the growth rate of average revenue per membership is 9%. This indicates that Netflix's revenue increment relied on raising the price of monthly membership. Although this strategy can help Netflix to increase the revenue in short-term, it may cause the increment on member churn rate.

(in millions)	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21
<b>UCAN Streaming:</b>					
Revenue	\$ 2,980	\$ 3,171	\$ 3,235	\$ 3,258	\$ 3,309
Paid Memberships	73.94	74.38	73.95	74.02	75.22
Paid Net Additions	0.86	0.45	-0.43	0.07	1.19
Average Revenue per Membership	\$ 13.51	\$ 14.25	\$ 14.54	\$ 14.68	\$ 14.78
Y/Y % Growth	2%	9%	10%	10%	9%

The paid memberships growth in 2021 US and Canada (UCAN) market also indicates that the growth in subscribers is closely tied to the content on Netflix.

The trend of paid memberships from Q1 to Q3 was decreasing, but then it increased 1.6% from Q3 to Q4. This 1.6% growth was mainly due to the impact of Netflix's popular and high-quality content. On September 17<sup>th</sup>, Netflix released its original TV series – 'Squid Game', then it went viral gradually, which helped to boost the membership growth in Q4. Hence, investing sources to create and release high-quality content is one of the major and essential factors for Netflix to gain more subscribers.

## **Final conclusion**

- Netflix's membership growth rate began to slow down as it dropped from 21.9% to 8.9% in 2020 to 2021 respectively
- 2021 had the lowest cumulative paid net membership additions in 5 years
- In regard to Netflix's biggest region - United States and Canada (UCAN), statistic shown that from Q3'21 to Q4'21, the growth rate of Netflix's membership is 1% but the average revenue per membership is 9% which indicated the total amount of paid membership has almost reached saturation in the region and raising the price for monthly subscription plan was the main way to increase revenue
- The popularity of the Netflix's original TV series - 'Squid Game' has successfully boosted the membership growth for Netflix in Q3 & Q4'21 where it showed that high-quality content is one of the key and essential factors which helped Netflix to increase the number of subscriptions and generate more revenue

## **Potential ideas for assisting Netflix to increase revenue gradually**

- Netflix can implement account sharing restrictions in order to restrict multiple people share the same account and encourage people to join membership.
- Investing more sources on creating new, various, and high-quality original contents, meanwhile, it will also help to increase the inventory of Netflix's Intellectual Property.
- Continue to invent and develop mobile/video games with Netflix's original IPs. Netflix just added mobile games to their service in November 2021. This is one way to increase member stickiness. Daily active member engagement rate and virality rate can help to measure the success of a game.