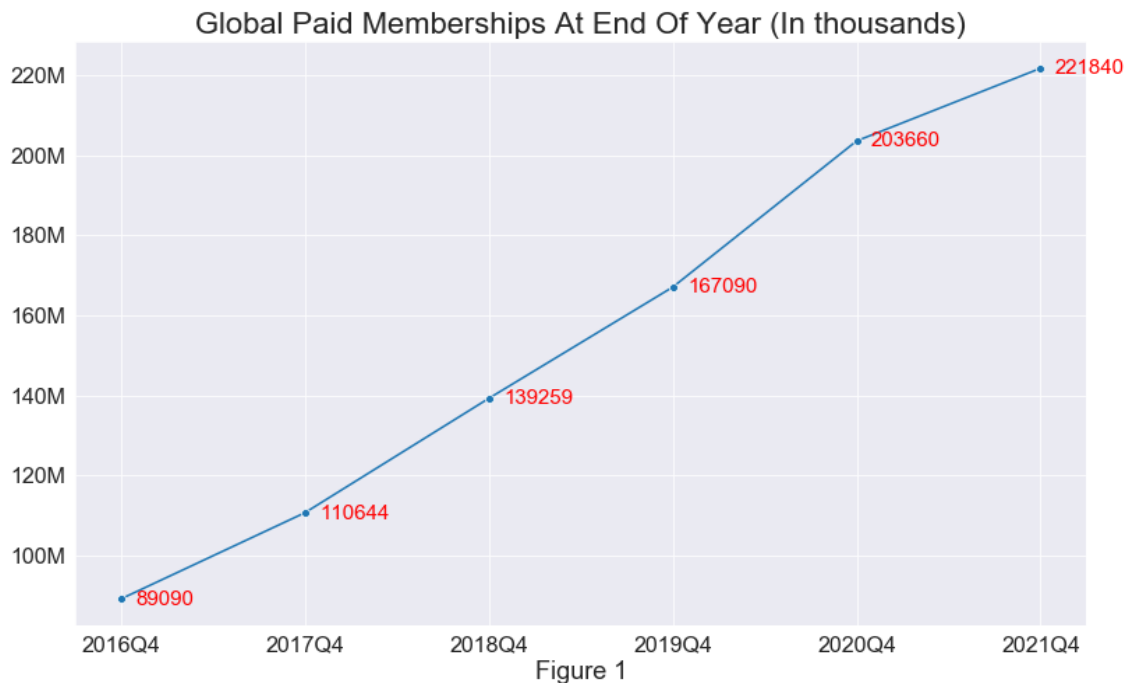


## Netflix Membership Analysis Report

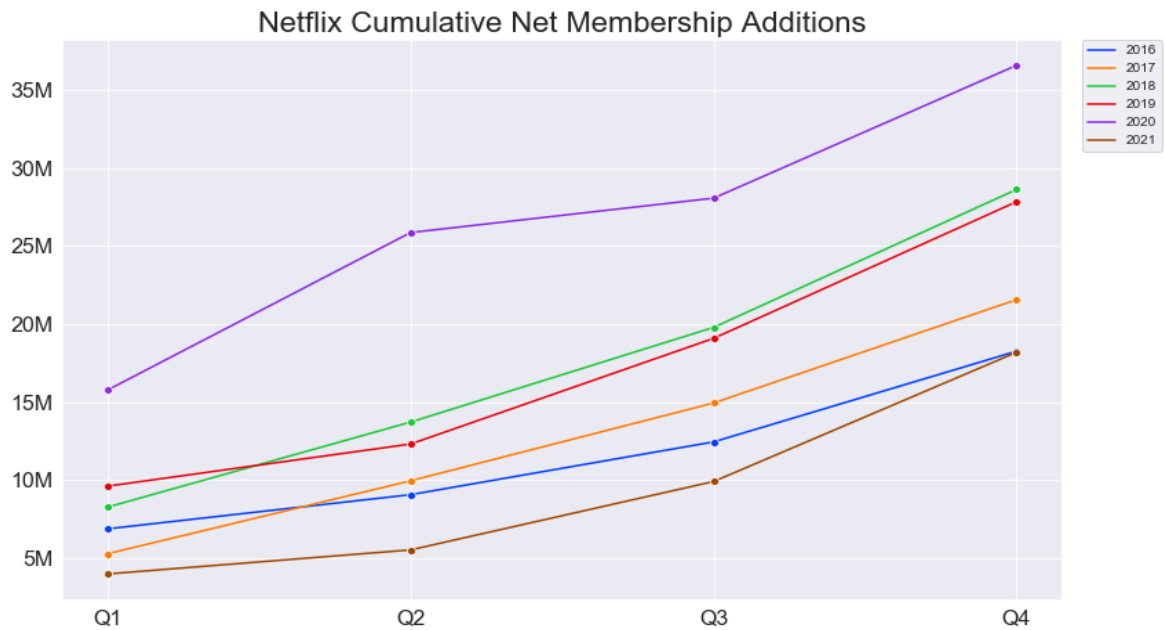
- Netflix, Inc.: A Software as a Service (SaaS) company that provides software to watch TV shows and movies.
- Streaming service: Launched at 2007
- Core strategy: Increase revenue and net income through growing streaming membership
- 3 reportable segments: Domestic streaming, International streaming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

### Member Growth



Netflix's paid memberships has reached 221 million at the end of the fourth quarter, 2021. The graph above demonstrates Netflix yearly increasing trend on the global paid membership (Figure 1). But it is obvious that this trend is slowing down. The growth rate from 2020 to 2021 is only 8.9%.

In fact, if we look into the paid net membership additions from the financial report 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 had overdrawn the future net membership addition in the first two quarters at 2020. As a result, we can see that the cumulative net membership addition of 2021 is lower than the previous 5 years (See Figure 2).



Besides seeing slowest growth in years, Netflix's biggest market - US and Canada (UCAN), has reached saturation. Below is the table extracted from Netflix's 2021 Fourth Quarter – Letter to Shareholders. The growth from Q3'21 to Q4'21 is only 1%, but the growth of average revenue per membership is 9%. This indicates that Netflix can only increase the revenue by raising the price of membership. Raising the price of membership can help Netflix to increase the revenue, but it may also increase member churn.

(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 market also reflects that the increase in subscribers is closely tied to Netflix's content. The trend of paid memberships from Q1 to Q3 was decreasing, but then it increased 1% from Q3 to Q4. This 1% growth was the effect of Netflix's popular 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 growth. Hence, creating and releasing attractive content is one of the major factors for Netflix to win more subscribers.

In conclusion:

- Netflix is a SaaS company generate revenue from a monthly subscription. The growth rate of membership from 2018 to 2019 is around 20%, from 2019 to 2020 is around 22%, from 2020 to 2021 is only around 8.9%.
- From the cumulative net membership additions graph we are able to observe that the net membership addition of 2021 is lower than previous 5 years. The membership growth rate and cumulative net membership additions graph indicate that Netflix's membership growth begins slowing down.
- In US and Canada market, Netflix's membership growth from Q3'21 to Q4'21 is 1%, but the average revenue per membership grew 9%. The amount of paid membership in this market has reached saturation, Netflix increases the revenue by raising the price of membership.
- Netflix's original TV series – 'Squid Game' helped Netflix to attain a 1% paid membership growth from Q3 to Q4 in US and Canada market in 2021. Releasing attractive content is one of the key factors for Netflix to generate more membership and revenue.

Ideas for helping Netflix to increase revenue:

- Netflix can implement account sharing restrictions in order to restrict multiple people share the same account and encourage people to join membership.
- Investing more on creating new, various, and quality original contents.
- 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.