

# Digital Transformation Strategy of Netflix

By,

## Group 25

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Netflix is one of the biggest online streaming platforms in the world. Netflix has grown tremendously from a DVD mailing service to now an industry leader in online streaming. They entered the market as a disruptive innovator **with** traditional video stores like Blockbuster. It has been able to achieve this by **constantly** adapting to new technologies and updating their current business model with the help of insights derived from the **data collected**.

Netflix currently has the **best recommendation** that presents in the market **however hyper-customization and improved interface and recommendations**. Netflix has technologies that can **anticipate trends based on previous data of streams and predict hits**. They have also **integrated with AWS** to improve infrastructure.

Our **proposed** business proposal is that by the end of 2025, we hope to achieve 20% growth in earnings under the leadership of our vice-president of strategy, planning and analysis, Mr. Pablo Perez De Rosso. As we know, even after being the first entrant in the market and having the best technologies, with the introduction of new streaming platforms, Netflix started losing its market share. To restore its market position and gain its audience back, **Netflix needs to work on improving its content and streaming experience for its users**.

To do so, Netflix needs to include and improve the following business processes. **Firstly, we start by creating a dedicated blockchain to clamp down password sharing**. We know that password sharing is a major issue faced by Netflix. Netflix loses around \$6B in revenue every year due to password sharing. To overcome this, Netflix would implement blockchain technology to create a unique biometrically encrypted digital ID for individual users. We can implement this by establishing a dedicated team to fully leverage the blockchain technology.

Next, to differentiate itself from its competitors Netflix should explore different domains and provide different services along with streaming. Currently, Netflix only has a presence in the movie and TV show streaming space. There is a huge scope for expanding its services into new markets like virtual reality experiences, gaming, music and much more. For this, Netflix needs to carefully evaluate its potential domains and form strategic alliances with the top companies in these markets.

Further, Netflix has a solid recommendation system, however it has a few drawbacks. Netflix's 'Are you watching' feature recommends content based on watch history without any new suggestions. Netflix needs to improve its recommendation system by introducing advanced AI to provide an enhanced user experience. This will also help in improving the drawback the current recommendation system has and provide a hyper-customization.

### **Technological architecture of Netflix**

This includes how Netflix can leverage the below more advanced and disruptive technologies in achieving their final business outcomes.

#### **Block Chain:**

The distributed ledger technology, which is now expanding its horizon into the business as supply chain, cryptocurrencies and famous for its security and transparency could be made use of in Netflix too. We observed that the main reason why Netflix is falling behind on revenue is because of password sharing between its subscribers. It was reported that one out of five are using someone else's account. Though this cannot be mitigated, Block chain can offer a solution to this problem. How? By incorporating a verified ID based solution which would increase privatization and security for its subscribers in accessing their accounts. This verified Id based solution is used to authorize and authenticate each user with their public key, this information of the users can be accessed by the management. Due to increase in transparency of subscribers and their access to the accounts to the management of Netflix can regain control over its users accounts and compel users to opt for their individual subscription if any unauthorized or improper access is determined. Which can in turn raise the profits.

#### **Bigdata and cloud:**

Currently Netflix is leveraging AWS Cloud Computing for almost everything such as online storage, recommendations engine, video transcoding, databases and analytics. But what we think it can further work

on is to better control the rising cloud computing costs and reduce the copies of content and data that it stores around the globe. Which in turn is to reduce data redundancy across its edge nodes. This can drastically reduce the storage costs and would reduce the amount it pays to the cloud providers. Also, this can be a favor to customers as it reduces their subscription costs as Netflix has more margin of profit, which it could in turn use for its advertising, marketing to attract the customer base.

#### Artificial intelligence and Machine Learning:

At present, Netflix is leveraging Artificial Intelligence and Machine Learning technologies to recommend content to its viewers based on their interests. It also uses these technologies to improve the quality of the video. This digital strategy has been the heart of Netflix's business plan and catalyst for its growth since its inception in 1997.

Furthermore, these technologies can also be implemented in Netflix's new model of ad support (launched in November 2022), which is forecasted to generate 500,000 subscribers by the end of this year. In this model, advertisers can run 15- 30 sec ads before and during its shows. Using AI and ML, Netflix can improve its business not only through the recommendation of content but also through the recommendation of featured ads.

On another note, it can also expand its AI and ML integration to determine what visuals are likely to captivate each viewer, such as determining the most captivating scene of the show and displaying it as a "thumbnail" on its interface. This application would attract more subscribers to watch that particular show and help Netflix increase its engagement and customer growth.

#### Virtual reality:

Netflix can implement Virtual Reality technology in its TV shows and movies in such a manner that its subscribers can not just watch the movie but also experience it. Netflix can incorporate this by introducing VR-compatible shows. By working on this technology with the content providers and letting its subscribers gain this new experience, Netflix could boost its revenues drastically as it will attract a new base of customers.

On another note, this technology can also be integrated with game development. As a result, Netflix could further strengthen its base in this disruptive technology of augmented and virtual reality.

## **RoadMap**

Digitization has affected every company and that is a fact. Netflix must evolve, develop new services, goals, and organization changes. It must build or keep adapting their business model that acknowledges the ever-changing market, reach new customers, and improve its products because transformation comes into play when companies fail to evolve.

In order for Netflix to transform itself from Current state to Transformed state, it could achieve following milestones on a quarterly basis. By the end of second quarter 2023, it can tackle the issue of password sharing and multiple logins by using blockchain technology. Digital IDs could be used which would be encrypted and also biometrical verified. Because of these IDs, users will no longer have to angst over forgetting passwords, security checks and verification. Also when payment is tied to that digital ID, Netflix can ensure that payment is coming from a verified account owner and is not shared by anyone.

Furthermore, by the end of fourth quarter 2023, Netflix can focus on redesigning its recommendation system. Using advanced AI and Machine learning technologies, it can encourage users to watch something more interesting based on their likings, ratings and historical content instead of leaving the platform with the aim of completing the show or movie later. This improved feature could result in increased on-screen time which in turn will help discover more content users did not know about and had never even thought of watching.

By the end of second quarter 2024, Netflix can focus on launching a community engagement platform where users can discuss their favorite genres, shows, movies and many more things. They can review the content and also share their Watching lists with each other. Further, they can also rate other users' suggestions about content and start discussion forums. This would help the firm gain insights into audience opinions which would further help enhance the platform. Adding to this feature of improving user interaction, Netflix can enable users to communicate preferences personally with each other. Also, focusing on adding the ability to get a more immersive experience for members using VR.

Finally, by the end of last quarter in 2024, Netflix could form mergers with different ventures in order to increase its revenue and also its scope in other industries. It could create content for such industries which would be exclusively available only on Netflix. It has already started its venture in the gaming industry with the aim to see gaming across TV and films as games have the potential to develop content which can become series or movies in future.

This is how Netflix is planning to integrate different technologies into their already existing ones. A lot of these elements might suggest that Netflix does not have any business in such areas, but the streaming giant is here to prove otherwise. It might even adopt completely new strategies depending on the new digital shifts. The analysis of their customers is also their main focus since people in the yellow circle are the most integral element for a business to function.