

Netflix Rebooted

Example 1: Netflix

Netflix charges \$19.95 per month. Variable costs are about \$1.50 per account per month. With marketing spending of \$6 per year, their attrition is only 0.5% per month. At a monthly discount rate of 1%, what is the CLV of a customer?

Example 1: Netflix

- If Netflix cuts retention spending from \$6 to \$3 per year, they expect attrition will go up to 1% per month
 - Should they do it?
- To decide, we need to recalculate CLV under these new assumptions
 - If the new CLV is higher, we should do it
 - Otherwise, we should not

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