

Netflix Inc.

*Addressing diminishing effectiveness
of original content strategy*



Team 12

11.30.2019

Xinzhi He, Mingrui Zhou, Jiaxin Du, Shihan Wang

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
INTRODUCTION	3
METHODOLOGY	4
- Research Design	4
- Focus Group	4
- Survey	5
FINDINGS AND RECOMMENDATIONS	7
FUTURE RESEARCH	8
APPENDICES	9

EXECUTIVE SUMMARY

Netflix, the giant in the U.S. streaming market, is facing the biggest threat ever. Increasing saturated streaming market and the diminishing growth rate of subscribers are making Netflix hard to meet the expectation of shareholders on net subscribers addition. Meanwhile, the diminishing effect of original content strategy and huge spending on new content led Netflix miss increasing amount of returns on content investment.

This project is conducted to:

- Advise on how to maintain Netflix's current subscribers and acquire new potential users
- Assist Netflix in optimizing the content structure to boost the return on content investment

We applied focus group and survey to collect data and help us address the managerial problem. The focus group indicates that current subscribers are not very price sensitive and they are overwhelmed by large quantity of Netflix's original content. Holding these findings, we conducted an online survey, from which we found out that respondents do not have specific watching preference but they expect to have more international content and interactive content on Netflix.

Recommendations:

- Licensing or producing more international content, especially movies, that caters to subscribers' needs as well as acquires potential international users.
- Optimize the investment in original content by allocating resources to TV shows, distributing budget to create more interactive content, and shrinking the production of animation.

INTRODUCTION

After years' rapid user growth of Netflix, the company is drying up the pool of new subscribers in the domestic market. The effectiveness of Netflix's original content strategy is seemingly diminishing and the company is hard to meet investors' high expectations on net subscriber additions. As saturation of the streaming market, huge original content spending, and slowing subscriber growth, the managerial positions need to take action to reverse the trends or Netflix will be killed by market saturation.

In order to better approach the managerial problem of Netflix, we first use SWOT analysis to identify all the external and internal elements which could potentially affect the organization's performance.

SWOT analysis

Strength <ul style="list-style-type: none">● Leading online streaming site in the U.S● Massive diversified subscribers from each generation● Offering high-quality movies, tv-series, reality shows, and documentaries● User-friendly interface and precise recommender system	Weakness <ul style="list-style-type: none">● Imitable business model causing intense competition● Overinvestment on original content● Vulnerable to the impact of licensed content producers
Opportunity <ul style="list-style-type: none">● Strong renewal rate	Threat <ul style="list-style-type: none">● Streaming market is saturating

<ul style="list-style-type: none"> ● Penetrate into the international market ● Establish a product mix expansion by opening brick and mortar stores 	<ul style="list-style-type: none"> ● Zero switch cost in this market ● Strong competitors(Apple TV/Disney+) are entering the market ● License content may be pulled off once licensing companies launch streaming service
---	--

After identifying the managerial problem and business environment of Netflix, we intend to research to find out whether the original content strategy of Netflix is still working and how to optimize the content structure of Netflix to increase the return of investment. Besides, facing the close-to saturation market, how to maintain Netflix's current subscribers and acquire new potential users is also a critical topic that we urge to find out the answer through this research.

METHODOLOGY

Research Design

To ensure the evidence obtained from the research enables us to effectively address the research problem, we divide the research into four components in a logical manner. Firstly, we identified research objectives and based on known information, we made few hypotheses such as cooperating with other industries helps Netflix lower prices and therefore attract more users. Holding the hypotheses, we conducted a focus group to obtain consumer perceptions and reactions towards the hypotheses. Next, the hypotheses are revised on the basis of the preliminary findings from the focus group. In the following, a well-designed online survey was carried out to further collect data regarding existed findings and research objectives. Lastly, we analyzed the data from the survey and combined with further research, several recommendations were being made to Netflix.

Focus Group

As mentioned in the design of the research above, we conducted a focus group to get an initial understanding of user experience and attitudes. The focus group was conducted with six attendees, consisting of four females and two males. Attendees come from diverse backgrounds but are all active users or were previous users of Netflix. From the focus group, several major findings were discovered. In the first place, we found that subscribers not only share their accounts with household members but also with friends or even friends' friends. As a result, they were not very price sensitive and the drop in the price will not make existing users more inclined. Secondly, participants were satisfied with the overall quality of Netflix's original content but indicated that the quantity of the original TV series was too overwhelming that they did not know how to choose. Then, they claimed that they enjoyed watching the interactive content and it was a successful move in building up the content structure for Netflix. In the following, subscribers expressed that the limited collection of international content and licensed movies are one of the primary reasons for them to switch to other streaming services. Lastly, more than half of the participants believed that other competitors such as Disney+ could be real threats to Netflix.

Survey

After summarizing the feedback from the focus group, further revisions were made on our hypotheses. In terms of general user experience, we want to find out the preferences and usage habits of customers and locate the aspects needed to be improved for Netflix. Simultaneously, we'd like to identify the current rivals.

Major goals of questionnaires:

- **Identify current competitors**

Indicate which online streaming services you currently use: (check all that apply)

- **Identify user preference for streaming service**

Indicate the decisive factor in your selection of a streaming service? (check all that apply)

- **User pattern/habits**

How long have you been subscribing to Netflix? / Which plan do you use? / How many people are you sharing your Netflix account subscriptions with? / Indicate how many times during a given month you stream online content through Netflix? (includes streaming movies and TV show)

- **Customer's satisfaction level in terms of each aspect**

Assess your level of satisfaction with the following aspects of your watching experience on Netflix

- **Explore the reasons for non-subscribers**

Indicate factors that you are not subscribed to Netflix.

Since Netflix invests more on original content than on licensed content, we want to find out whether this strategy is effective and beneficial for the company in the following period and to determine which source of content that viewers are asking for more.

- **Identify content preference**

Rank following Netflix original content from most favorite to least favorite.

- **Identify attitudes towards movie availability**

In general, how satisfied or dissatisfied are you with Netflix movie collection in terms of availability? / Suppose Netflix improve its variety of movies available, would you be more inclined to watch Netflix?

Netflix is launching an increasing amount of interactive content and foreign-language content. We want to find out how this approach will boost the stickiness of domestic users and expand the international subscriber population base.

- **Identify attitudes towards interactive content**

On average, how engaged are you in watching Netflix interactive content? / Suppose Netflix launches more interactive content, would you be more inclined to watch Netflix?

- **Identify attitudes and preferences for international content.**

Would you like to see more international content on Netflix? / If you choose likely on the previous question, which category of international content do you prefer?

As legacy media companies pull these shows to launch their own streaming services, Netflix loses its license content and is dragged into intense competition. We want to find out how the loss of license content will impact the watching experience.

- **Identify the impact of the loss of license content**

Disney is going to launch its own streaming service, will that affect your decision of staying on Netflix?

FINDINGS AND RECOMMENDATIONS

To start with, among all the survey respondents, Netflix has the highest percentage of subscribers, which is 50%, and Amazon Prime has the second-highest, which is 44% (see Appendix A Fig. 1). Simply based on the numerical comparison, Netflix does have a relative advantage in the streaming market shares. However, because of the rising competition among streaming services brought by strong competitors such as Disney+, Netflix may experience further pressure. To investigate the potential effect of the launch of Disney+, we asked people whether they would choose to only subscribe to Netflix, keep both Netflix and Disney+ or switch to Disney+. The results are pretty optimistic. About 70% of the respondents choose to only use Netflix; 26% of the respondents chose to keep both; only 4% will switch to Disney+ (see Appendix A Fig. 10).

In recent years, Netflix annually invested over billions of dollars in producing original content. According to our survey, however, this strategy does not pay off. For the question that tested subscribers' attitudes towards original content and non-original content, 42% of respondents prefer watching original content and the same percent of respondents indicate that they do not have a preference(see Appendix Fig. 9). Also, we looked into corresponding watching frequency of the two groups and found that there is no statistical difference in terms of frequency of watching Netflix between people who prefer original content and people who prefer non-original content (p-value = 0.457). The prospect is not at all cheerful given the fact that Netflix has invested huge amounts of money into original content, more specifically, more than \$12 billion in 2018 (expected to reach \$15 billion in 2019)¹. One reason may be that when customers are presented with an overwhelming array of original content, they tend to retreat to their most familiar content, licensed content such as *Friends*.

Thirdly, we found that respondents who put more emphasis on content quality of Netflix are associated with higher overall satisfaction(see Appendix B Output.2). Thus, Netflix should not ignore the importance of improving the quality of content, which might reversely influence users' overall satisfaction. In addition, there is a significant relationship between overall satisfaction and watching frequency(Chi-squared = 19.2, p.value = 0.01). Subscribers who are more satisfied with overall watching experience on Netflix tend to have higher watching frequency. Consequently(see Appendix B Output.3), if Netflix wants to keep its user viscosity, maintaining the high quality of content and constantly striving to improve user experience, for example user interface and recommender system, could be good strategies.

In terms of the ranking of Netflix original content, the majority of survey takers rank TV shows and dramas as their most favorite category while animation as the least favorite(see Appendix A Fig.7). Also, the major age group that our survey captured is ranging from 18 to 34 years old, which is consistent with Netflix's actual age demographics. Based on this result and respondents' preference, we recommend that Netflix should allocate resources to original TV shows and

¹ <https://variety.com/2019/digital/news/netflix-content-spending-2019-15-billion-1203112090/>

shrink the production of animation.

Rationally distributing the investment on original content is extremely urgent for Netflix. In the financial report of 2019, it discloses that the cost to acquire a new subscriber is up to \$581. For a user paying the standard price of \$13/month in the U.S. market, it takes almost 4 years to pay back that acquisition cost. Given that Netflix's subscriber growth is now coming mainly from international markets, where subscription prices are lower than domestics, the payback period of content expenditure will be longer than expected. Hence, considering such high cost burden, Netflix should not pursue over-investment as a way to expand its business. Instead, wisely choosing what content to produce is more practical ².

Specifically, Netflix can put more emphasis on the production of interactive content since over 50% of respondents show their willingness to watch more Netflix if launching more interactive content(see Appendix A Fig.12). There is no doubt that interactive content made a huge splash among viewers while it also costs substantial money to create a high-quality interactive shows. Netflix can move the budget from other unpopular original content production to interactive content, ultimately leading an investment optimization.

We also investigated the people's attitudes towards Netflix availability of movie collections. Results show that in general, people are satisfied with the availability of movie collections. More than 75% of people are very satisfied or somewhat satisfied while only 2.04% of people are somewhat dissatisfied(see Appendix A Fig. 8). For those who are neutral towards the availability of movie collections, 80% of the people indicate that if Netflix improve its variety in this regard, they will be more inclined to watch Netflix.

The majority of focus group attendees indicated that the availability of international content is still limited on Netflix. This is in line with what we have found in the survey-- about 95% of

2

<https://www.forbes.com/sites/greatspeculations/2019/07/19/netflixs-original-content-strategy-is-failing/#638f5a723607>

people would like to see more international content on Netflix, especially international movies, and 20% of the survey respondents who haven't subscribed to Netflix attributed it to unavailability in their region (see Appendix A Fig. 6). This marks a strong potential demand in international content. In fact, overseas market is getting increasingly important. In the 4th quarter of 2018, there were about 7.3 million new paid international customers, accounting for 83% of total new customers³. Therefore, we suggest that Netflix should continue to increase its footprint in international territories.

FUTURE RESEARCH

After concluding the findings from the survey, deep insights need to be obtained by conducting further research. Since we recommend Netflix to reallocate the investment in original content according to users' preferences and licensed more international content, we need to know whether this strategy is realizable and whether this cost of this recommendation will exceed the benefits. Furthermore, we acknowledge that interactive content is a huge success for Netflix, but we have to require the exact cost of producing each episode of interactive content to evaluate the return on investment. To address this point, more financial information regarding the breakdown of investment spending in each category should be obtained. Considering that the ethnicity demographics of our survey sample is not diverse enough, we also need to test if generating more responses from other ethnicity groups would affect our suggestion towards international content. In a nutshell, we would be more confident to draw our conclusions and recommend Netflix about how to take the next step with these data.

3

<https://www.fool.com/investing/2019/01/17/netflix-added-88-million-paid-subscribers-in-q4-of.aspx>

APPENDICES A

Fig. 1 Distribution of Online Streaming Service Subscription

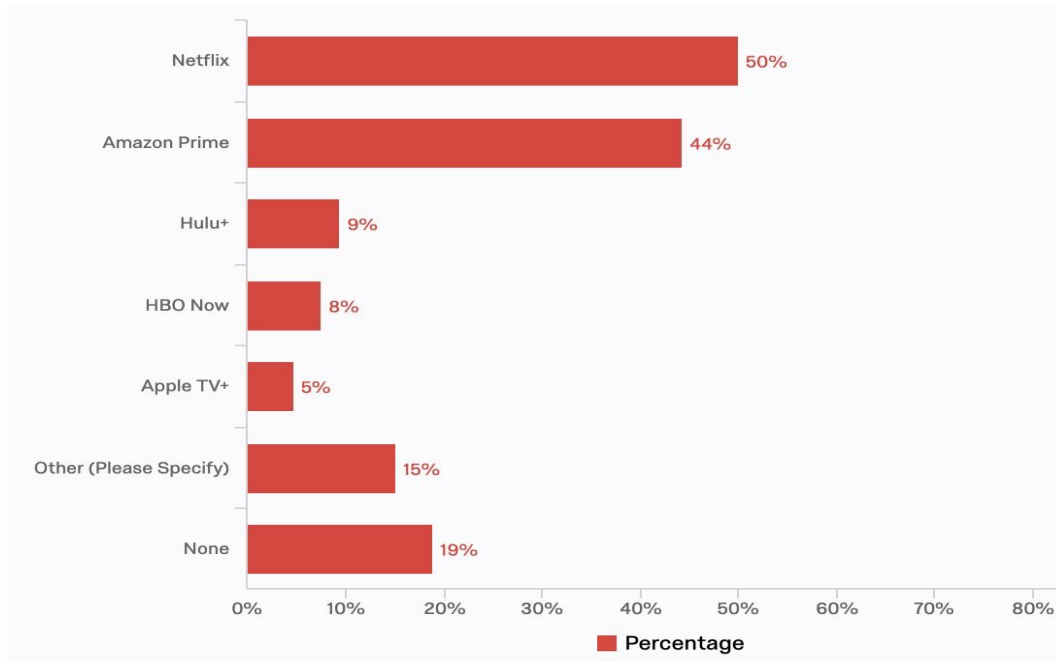


Fig. 2 Decisive Factor in the Selection of a Streaming Service

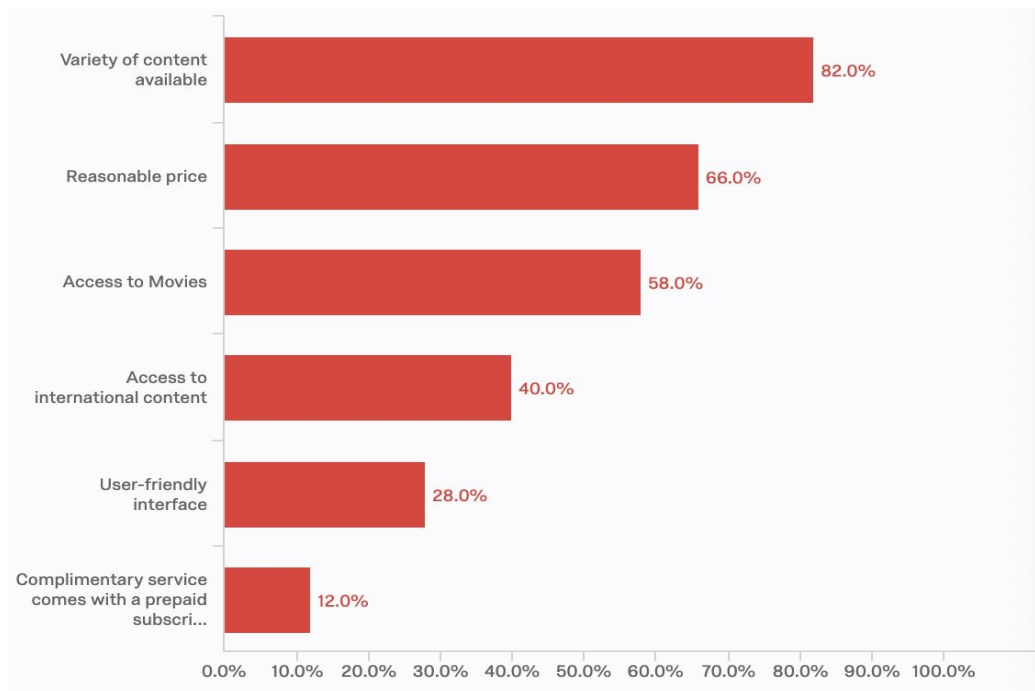


Fig. 3 Subscription Time to Netflix

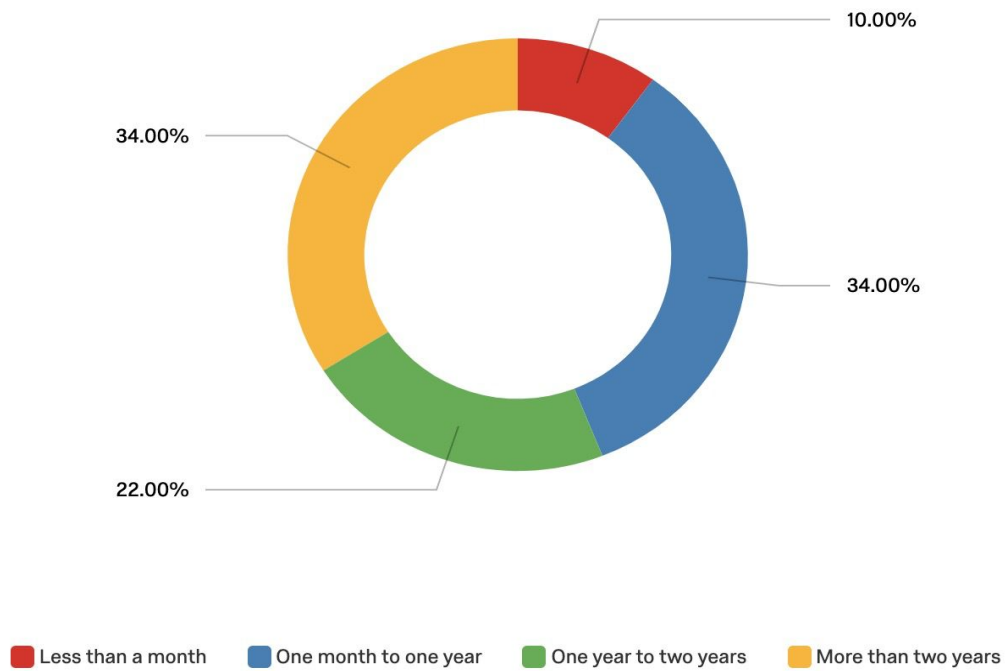


Fig. 4 Frequency of Using Streaming

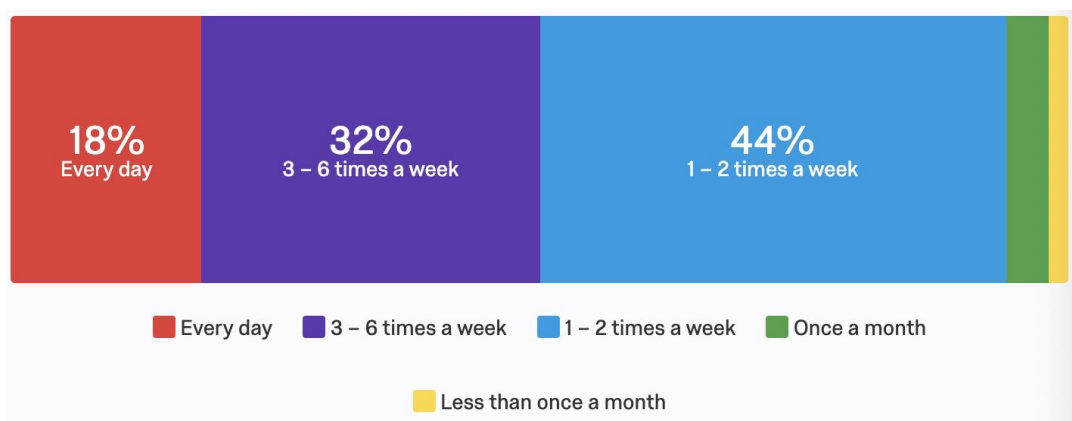


Fig. 5 Customer's satisfaction level in terms of each aspect.

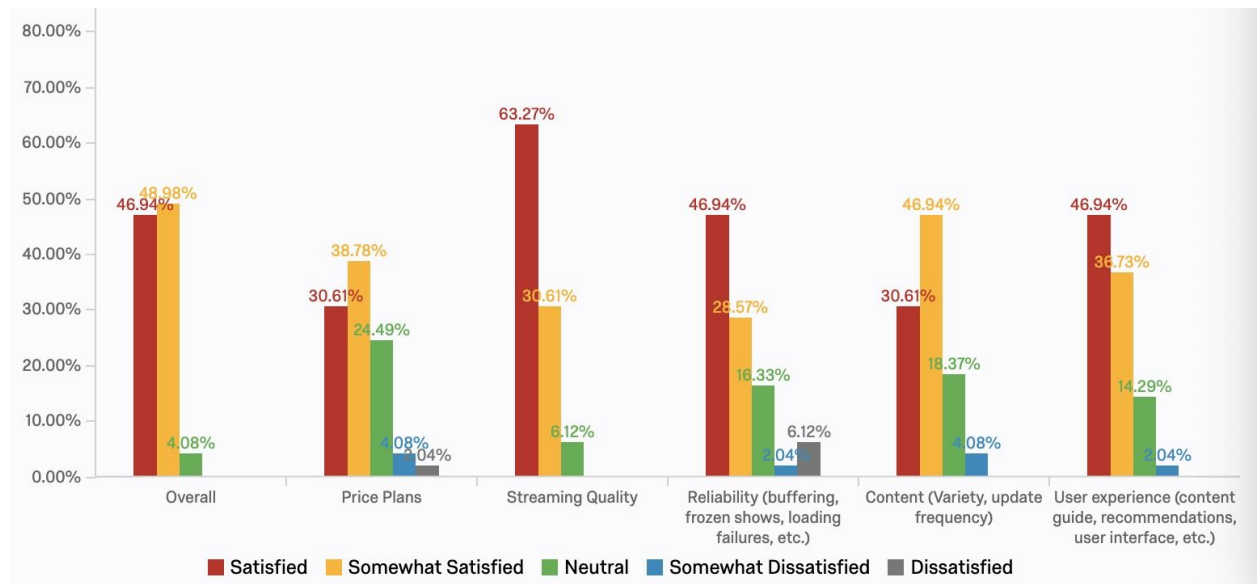


Fig. 6 Reasons not to Subscribe to Netflix

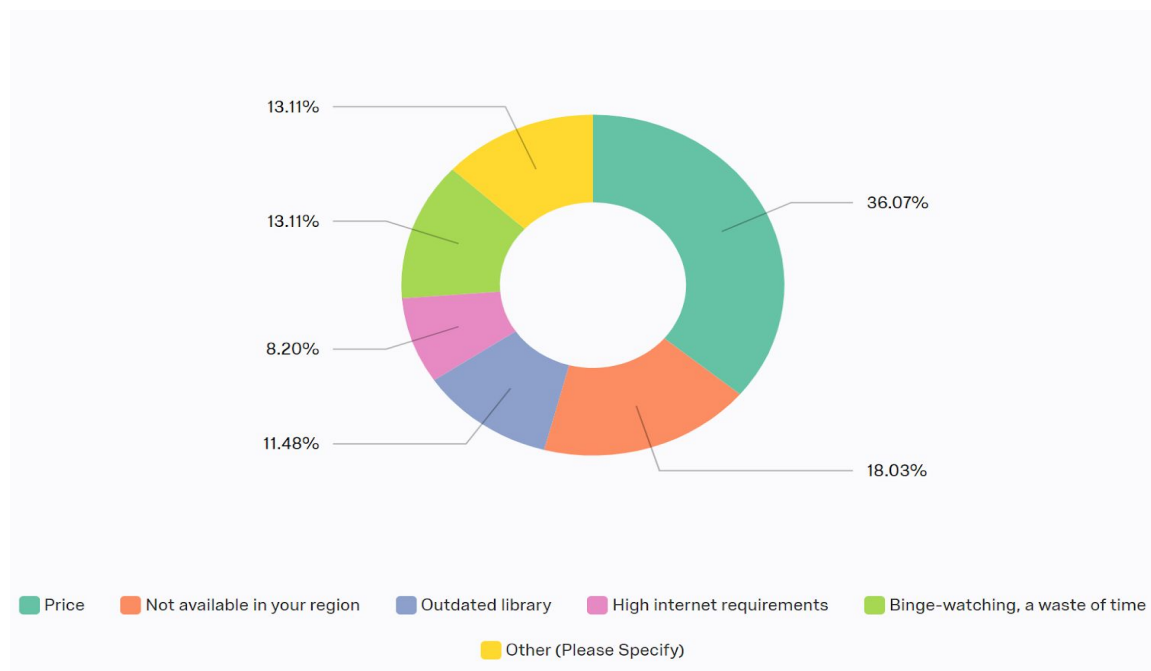


Fig. 7 Distribution of Netflix Original Content Rankings by Categories

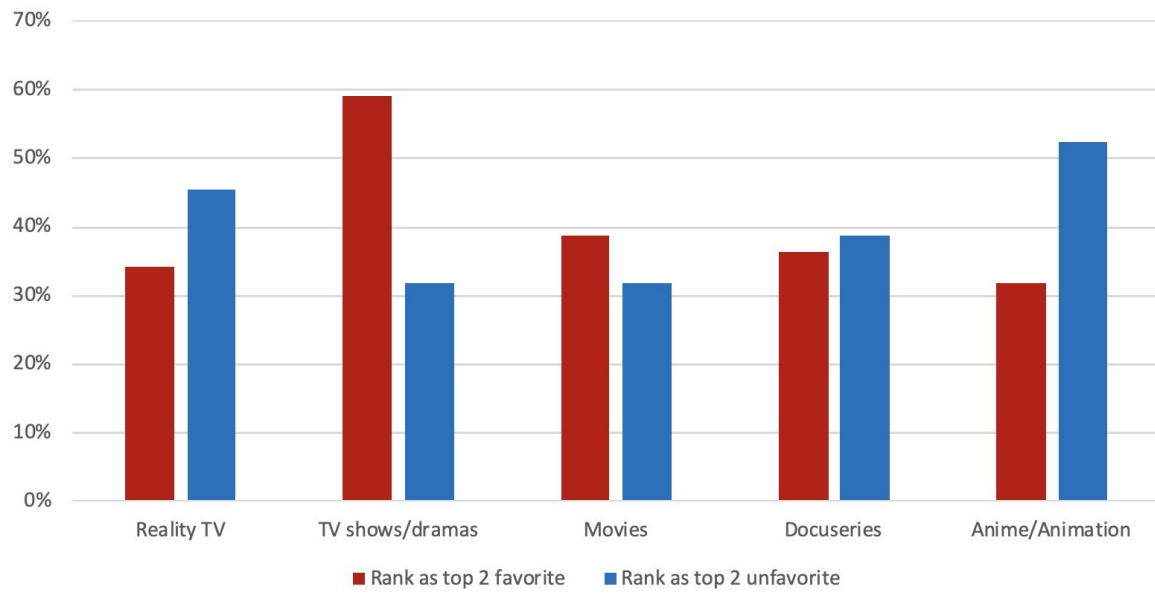


Fig. 8 Attitudes towards Movie Availability.

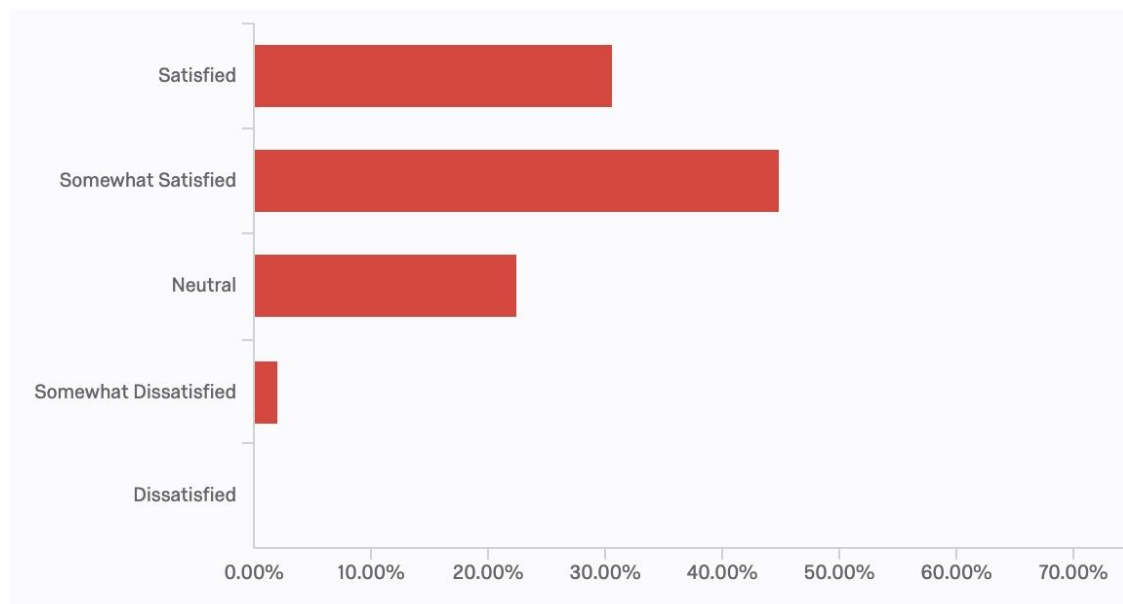


Fig. 9 Watching Preference on Original Content v.s. Non-original Content

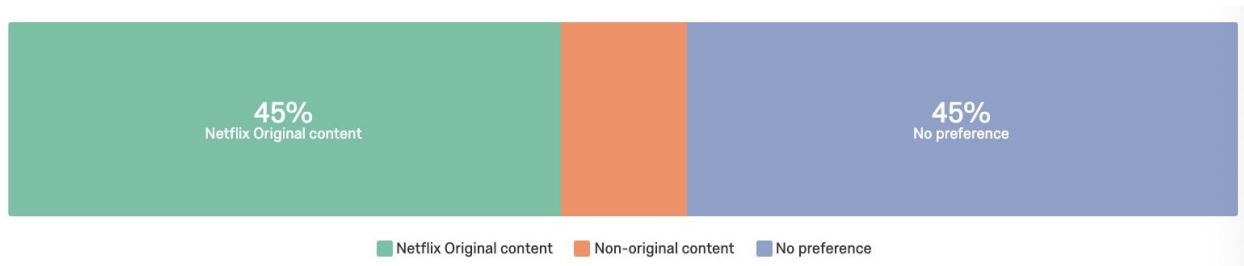


Fig. 10 Categories of International Content Customers Would Like to See

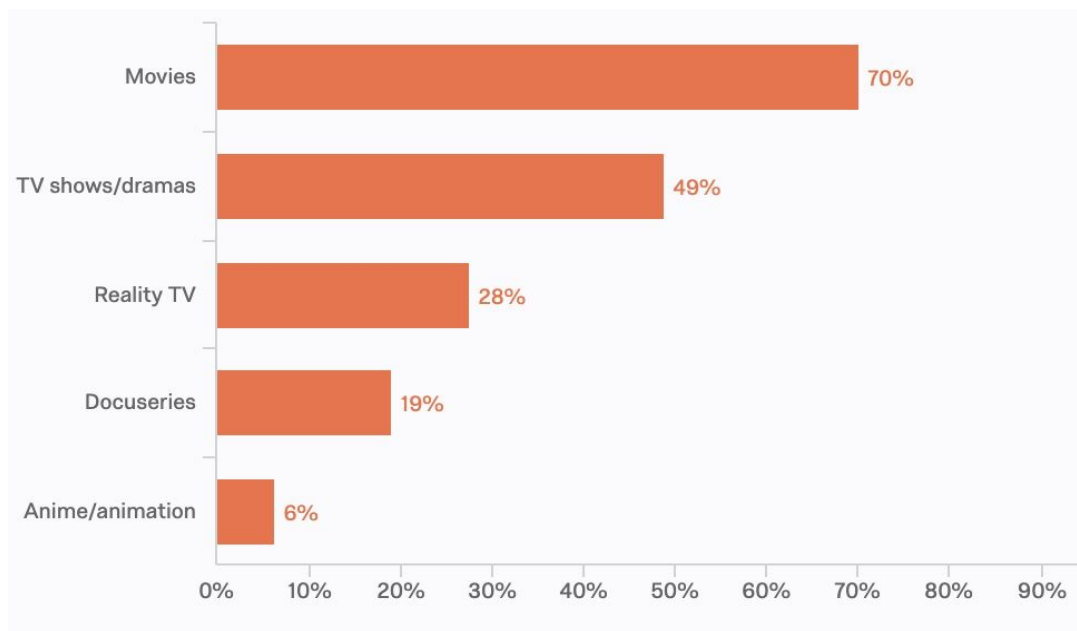


Fig. 11 Attitudes towards the Launch of Disney+

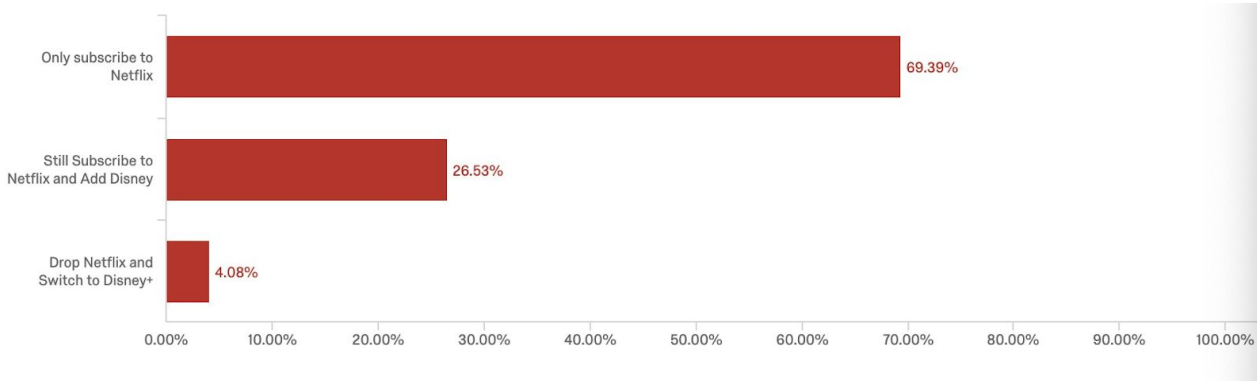
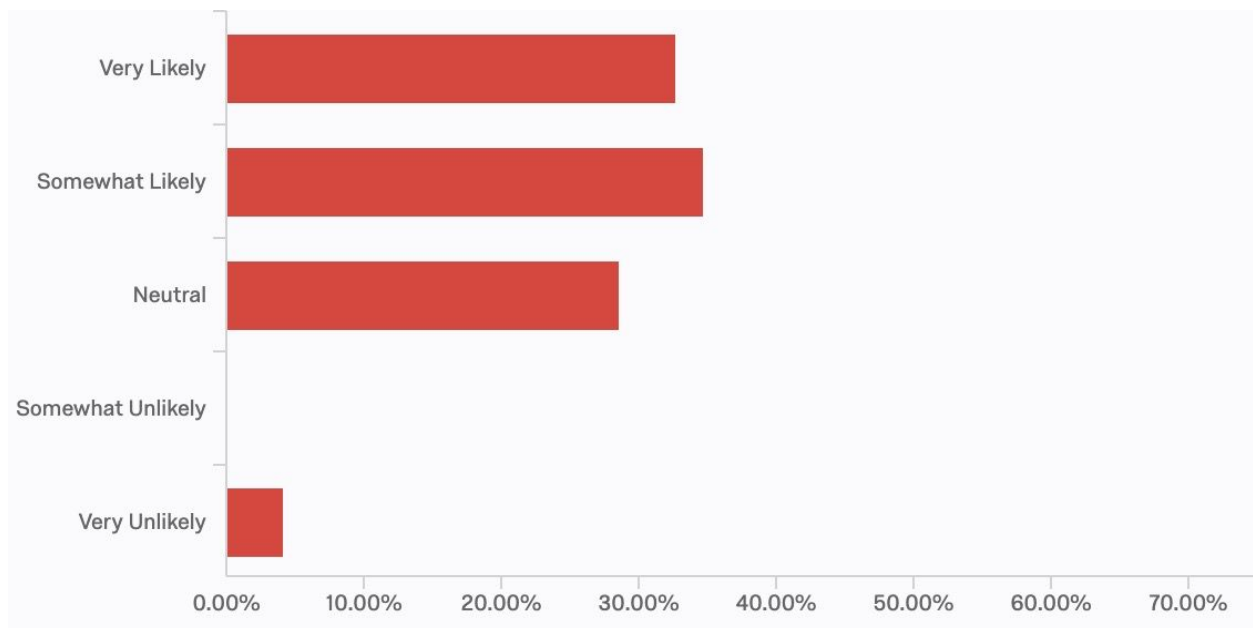


Fig. 12 The Attitude Towards Launching More Interactive Content



APPENDICES B

Output. 1 Mean Comparisons Between Primarily Watching Original Content and No Preference

```

Pairwise mean comparisons (t-test)
Data      : df
Filter    : 1:n() > 1 & watching_preference == 0 | watching_preference == 1
Variables : watching_preference, watching_frequency
Samples   : independent
Confidence: 0.95
Adjustment: None

watching_preference  mean  n    sd    se    me
                   0 16.364 22 9.510 2.027 4.216
                   1 16.048 21 9.447 2.062 4.300

Null hyp. Alt. hyp. diff  p.value
0 = 1      0 > 1      0.316 0.457

Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

```

Output. 2 Relationship Between Content & Overall Satisfaction

		Content Satisfaction Level					
		Satisfied	Somewhat Satisfied	Neutral	Somewhat Dissatisfied	Dissatisfied	Total
Total Satisfaction Level	Satisfied	60.0%	34.8%	66.7%	0.0%	0.0%	46.9%
	Somewhat Satisfied	33.3%	60.9%	33.3%	100.0%	0.0%	49.0%
	Neutral	6.7%	4.3%	0.0%	0.0%	0.0%	4.1%
	Somewhat Dissatisfied	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Dissatisfied	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Output. 3 Chi-square Analysis for Overall Satisfaction and watching Frequency

APPENDICES C

Focus Group Summary

- 1) The discussion starts with attendees' watching frequency and preferences. How many of you used Netflix? (6 out of 6). Now still use? (4 out of 6). How often do they watch Netflix? (Per month: 3, Daily: 1, 1-2 times per week: 2). Which genres do they usually watch on Netflix? (3 people watch original show, one person watch K drama, one person watch old movies and new Netflix shows, and one person watch documentaries). Which subscription plans are they currently using? (5 out of 6 use share account).
- 2) Next, attendees called out several specific key attributes that they prefer Netflix over other streaming channels. These features include high video quality that can deliver the audience a desired watching experience, no interruptive ads, and powerful recommender system.
- 3) The most important topic we discussed is how they perceive Netflix's original content. Most of the participants have great interests in Netflix's recent interactive content. They commented that this advanced technology and their curiosity make them keep watching those contents. While there was a shared sentiment that they feel hard to determine what to watch when a mass amount of original programs are rolling on the screen.
- 4) Then we discussed how Netflix can improve on its original content. Several participants expressed that they want Netflix to produce more crime and mystery series, include more on-air movies, and keep producing original movies and TV shows. Regarding the effect of Disney+, when we asked whether they still use Netflix if it is not able to maintain some movies and TV shows, 2 out of 6 will abandon Netflix and one said it doesn't really matter as long as they can find a share account from friends.
- 5) The last part, we brought up some possible actions related to Netflix's future development, including opening offline pop-up stores and launching a \$5.99 with 15-seconds ads subscription plan. For both plans, only 1 out of 6 attendees showed huge interest. Regarding brick and mortar stores, Others expressed their concerns about Netflix's lack of loyal fans. Also given their insensitivity of the price and Netflix's current feature, they are more willing to pay for premium plans without ads rather than choose a lower-price plan.

APPENDICES D

Netflix User Survey

Thank you for your participation in the following survey about your watching experience on streaming service. This survey should only take your 4-5 minutes to complete. We will be assured that all valuable answers you provide will be kept in the confidentiality. Upon completion, you will be entered into a lottery for a chance to win a \$10 Target gift card.

Q1 Indicate which online streaming services you currently use: (check all that apply)

- ☐ Netflix (1)
- ☐ Amazon Prime (2)
- ☐ Hulu+ (3)
- ☐ HBO Now (4)
- ☐ Apple TV+ (5)
- ☐ Other (Please Specify)
(6) _____
- ☐ None (7)

Skip To: Q19 If Indicate which online streaming services you currently use: (check all that apply) = None

Skip To: Q18 If Indicate which online streaming services you currently use: (check all that apply) != Netflix

Q2 Indicate the decisive factor in your selection of a streaming service : (check all that apply)

- ☐ Reasonable price (1)
- ☐ Variety of content available (2)
- ☐ Access to Movies (3)
- ☐ Access to international content (4)
- ☐ User-friendly interface (5)
- ☐ Complimentary service comes with a prepaid subscription (6)

Q3 How long have you been subscribing to Netflix?

- ☐ Less than a month (1)
- ☐ One month to one year (2)
- ☐ One year to two years (3)
- ☐ More than two years (4)

Q4 Which plan do you use?

- ☐ Basic (\$8.99) (1)
- ☐ Standard (\$12.99) (2)
- ☐ Premium (\$15.99) (3)
- ☐ Don't know (4)

Q5 How many people are you sharing your Netflix account subscriptions with?

- ☐ 0 (1)
- ☐ 1-2 (5)
- ☐ 3-5 (2)
- ☐ 5+ (3)
- ☐ Don't know (4)

Q6 Indicate how often do you watch content on Netflix per month. (includes streaming movies and TV show)

- ☐ Every day (1)
- ☐ 3 – 6 times a week (2)
- ☐ 1 – 2 times a week (3)

☐ Once a month (4)

☐ Less than once a month (5)

Q7 Please tick one box in each row to assess your level of satisfaction with the following aspects of your watching experience on Netflix.

	Satisfied (1)	Somewhat Satisfied (2)	Neutral (3)	Somewhat Dissatisfied (4)	Dissatisfied (5)
Overall (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Price Plans (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Streaming Quality (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reliability (buffering, frozen shows, loading failures, etc.) (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Content (Variety, update frequency) (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
User experience (content guide, recommendations, user interface, etc.) (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8 On Netflix, you primarily watch:

- ☐ Netflix Original content (1)
- ☐ Non-original content (2)
- ☐ No preference (4)

Skip To: Q11 If On Netflix, you primarily watch: = Non-original content

Q9 Rank following Netflix original content from most favorite to least favorite (1 stands for the most favorite and 5 stands for the least favorite).

- _____ Reality TV (1)
- _____ TV shows/dramas (2)
- _____ Movies (3)
- _____ Docuseries (4)
- _____ Anime/Animation (5)

Q10 The reason why you give this category the lowest rank.

Q11 Disney is going to launch its own streaming service, will that affect your decision of staying on Netflix?

- ☐ Only subscribe to Netflix (1)
- ☐ Drop Netflix and Switch to Disney+ (2)
- ☐ Still Subscribe to Netflix and Add Disney (3)

Q12 In general, are you satisfied with Netflix's current availability of movie collection?

- ☐ Satisfied (1)
- ☐ Somewhat Satisfied (2)
- ☐ Neutral (3)
- ☐ Somewhat Dissatisfied (4)
- ☐ Dissatisfied (5)

Q13 Suppose Netflix improves its variety of movies available, would you be more inclined to watch Netflix?

- ☐ Very Likely (1)
- ☐ Somewhat Likely (2)
- ☐ Neutral (3)
- ☐ Somewhat Unlikely (4)
- ☐ Very Unlikely (5)

Q14 On average, how engaged are you in watching Netflix interactive content?

- ☐ Very Engaged (1)
- ☐ Somewhat Engaged (2)

☐ Neutral (3)

☐ Somewhat Not Engaged (4)

☐ Very Not Engaged (5)

Q15 Suppose Netflix launches more interactive content, would you be more inclined to watch Netflix?

☐ Very Likely (1)

☐ Somewhat Likely (2)

☐ Neutral (3)

☐ Somewhat Unlikely (4)

☐ Very Unlikely (5)

Q16 Would you like to see more international content on Netflix?

☐ Yes (1)

☐ No (2)

Skip To: Q19 If Would you like to see more international content on Netflix? = No

Q17 If you choose Yes on the previous question, which of the following categories of international content would you like to see?

- ☐ Reality TV (1)
- ☐ TV shows/dramas (2)
- ☐ Movies (3)
- ☐ Docuseries (4)
- ☐ Anime/animation (5)

Display This Question: If Indicate which online streaming services you currently use:
(check all that apply) != Netflix

Q18 Indicate factors that you are not subscribed to Netflix:

- ☐ Price (1)
- ☐ Not available in your region (2)
- ☐ Outdated library (3)
- ☐ High internet requirements (4)
- ☐ Binge-watching, a waste of time (5)
- ☐ Other (Please Specify) (6)

Q19 To which gender identity do you most identify?

☐ Female (1)

☐ Male (2)

☐ Others (3)

Q20 Which of the following age groups best describe you?

☐ Under 17 (1)

☐ 18 – 24 (2)

☐ 25 – 34 (3)

☐ 35 – 44 (4)

☐ 45 – 54 (5)

☐ 55+ (6)

Q21 What is your highest degree or level of education you have completed?

☐ Some High school (1)

☐ High School (2)

☐ Bachelor's Degree (3)

☐ Master's Degree (4)

☐ Ph. D or higher (5)

☐ Prefer not to say (6)

Q22 What is your ethnicity? Check all that apply.

☐ Caucasian (1)

☐ African-American (2)

☐ Asian (3)

☐ Hispanic (4)

☐ Native American (5)

☐ Middle Eastern (6)

☐ Other (7)