

Problem Statement

Netflix, the American subscription streaming service and production company is facing a sudden loss of subscribers and a drop in its stock prices in 2022 Q1. The task at hand is to identify the reasons behind the said phenomenon, predict the conditions for the next quarter as well as to provide recommendations to reverse or at least reduce the decline in subscribers and stock prices.

AGENDA

- INTRODUCTION
- DATA USED
- DATA VISUALIZATION AND
INSIGHT GENERATION
- SWOT ANALYSIS
- RECOMMENDATIONS
- BIBLIOGRAPHY

INTRODUCTION



NETFLIX, INC. IS AN AMERICAN SUBSCRIPTION STREAMING SERVICE AND PRODUCTION COMPANY. LAUNCHED ON AUGUST 29, 1997, IT OFFERS A FILM AND TELEVISION SERIES LIBRARY THROUGH DISTRIBUTION DEALS AS WELL AS ITS OWN PRODUCTIONS, KNOWN AS NETFLIX ORIGINALS.

IN THIS PRESENTATION, WE AIM TO ANALYZE THE PERFORMANCE OF THIS COMPANY, FORECAST IT'S IMMEDIATE FUTURE AND OFFER INSIGHTS FOR THE BETTERMENT OF THE COMPANY.

DATA USED FOR ANALYSIS

The dataset being used for this analysis has been extracted from multiple sources(1,2) and is composed of two tables - the first dealing with financial data related to Netflix as well as number of subscribers on a quarterly basis.

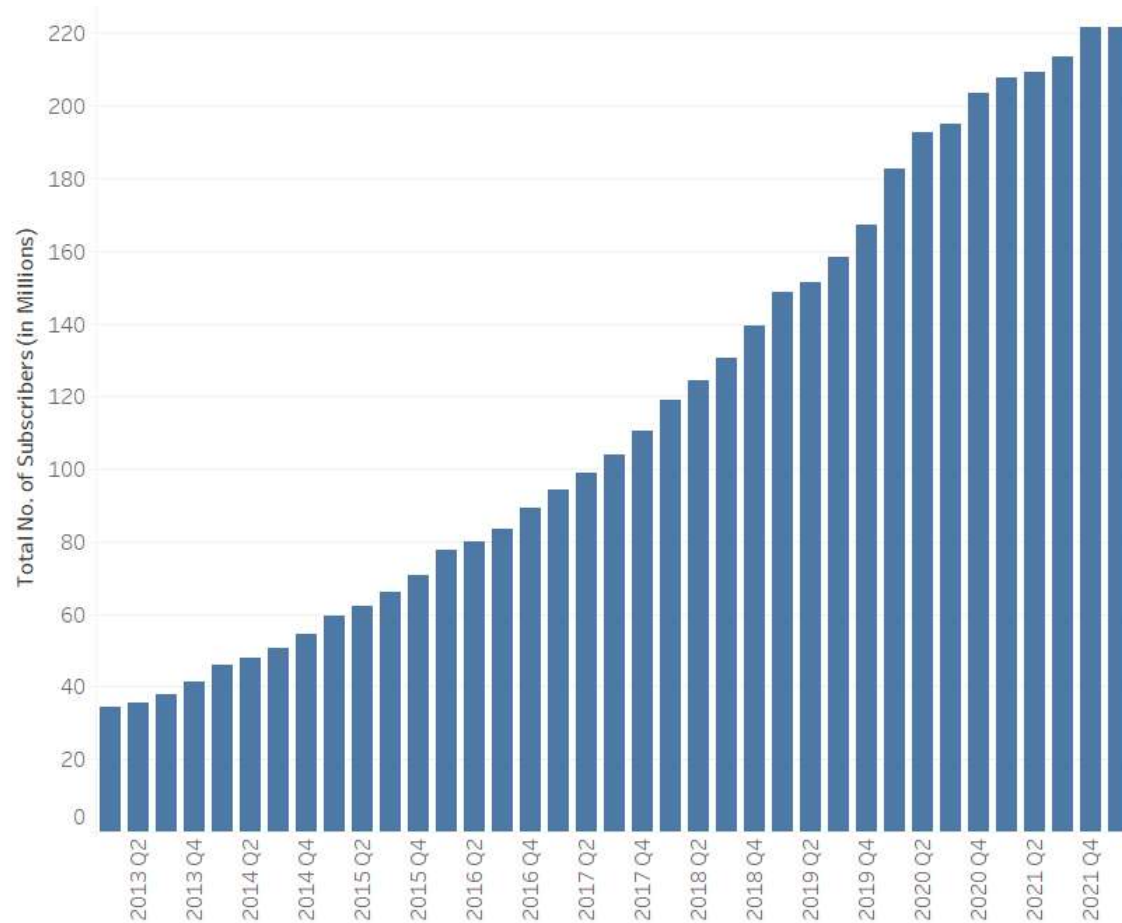
Date	Quarter	Revenue (In Million USD)	Net Income	Cost of Goods (in Million USD)	Price(Basic)	Price(Standard)	Price(Premium)	Total No. of Subscribers (in Millions)
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The second dataset deals with average opening, high, low and closing values of the stocks traded as well as the volume of trades, on a yearly basis.

Year	Open	High	Low	Close	Volume
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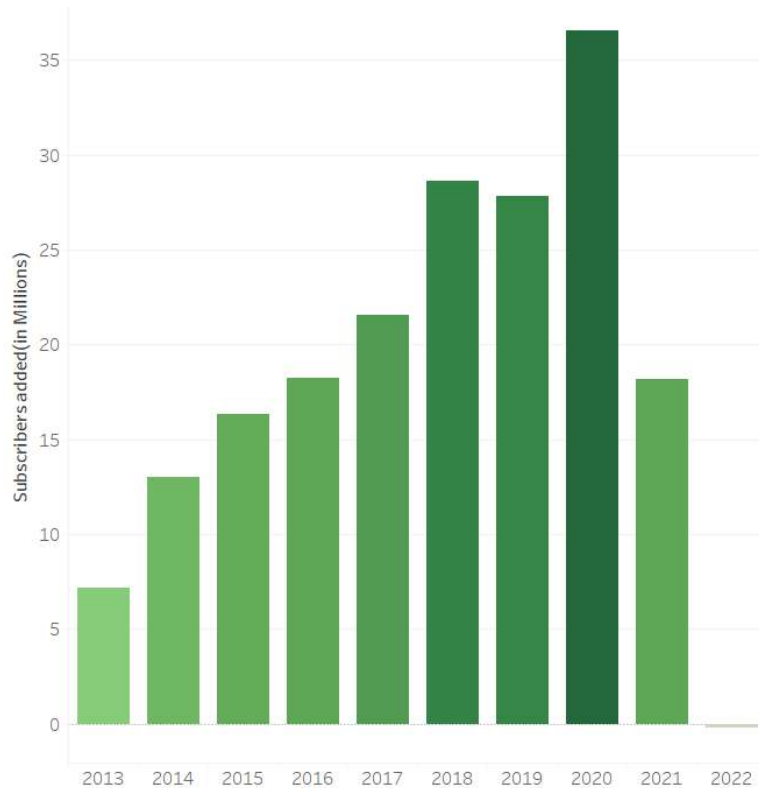
Due to unavailability of data on certain matters, graphs and charts from other sources have been used as applicable., Sources of which are listed in the bibliography at the end of the presentation.

TOTAL SUBSCRIBERS BY QUARTER



- Netflix saw a constant increase in the number of subscribers, especially after 2020 as can be seen from the graph owing to the pandemic.

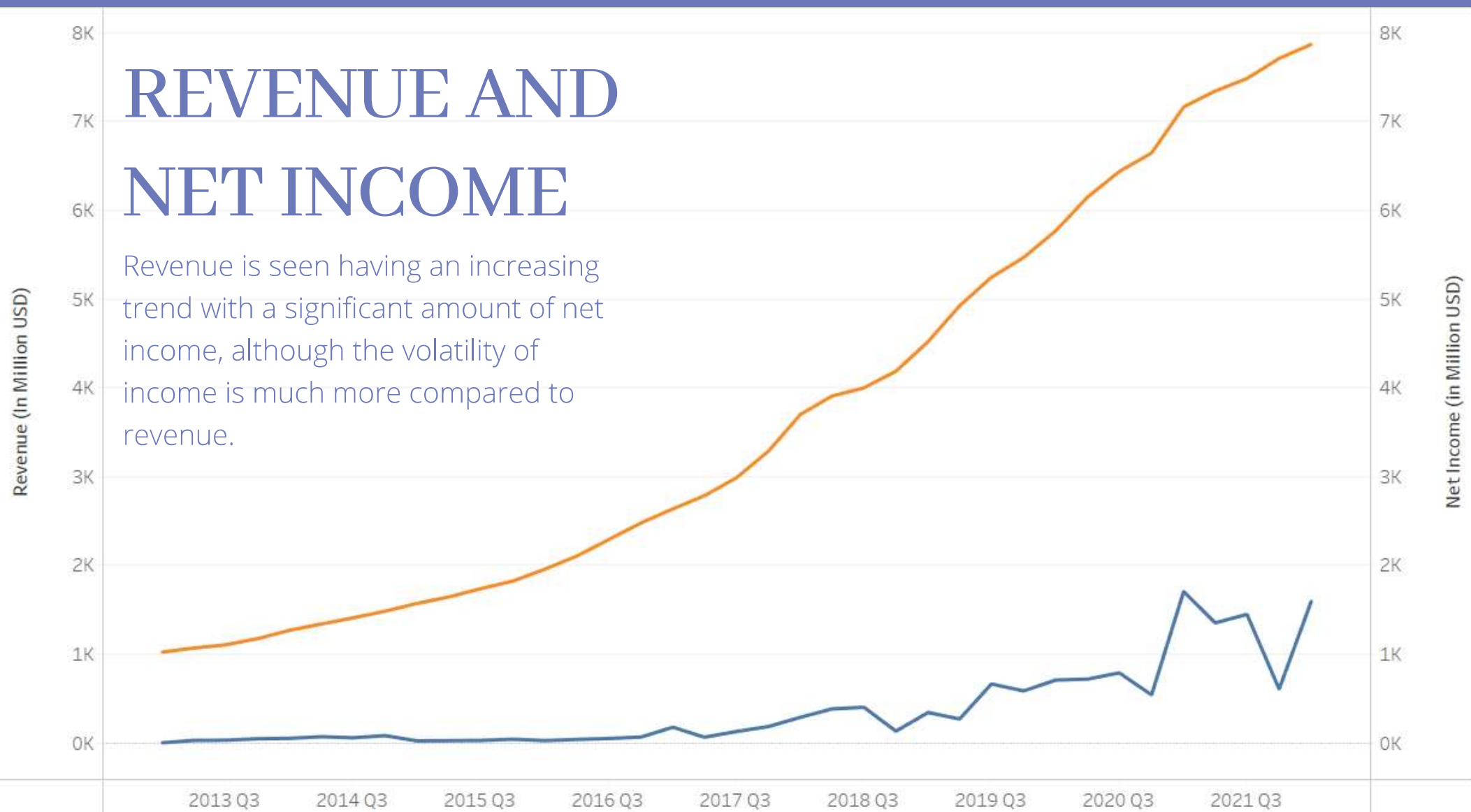
SUBSCRIBERS ADDED BY YEAR



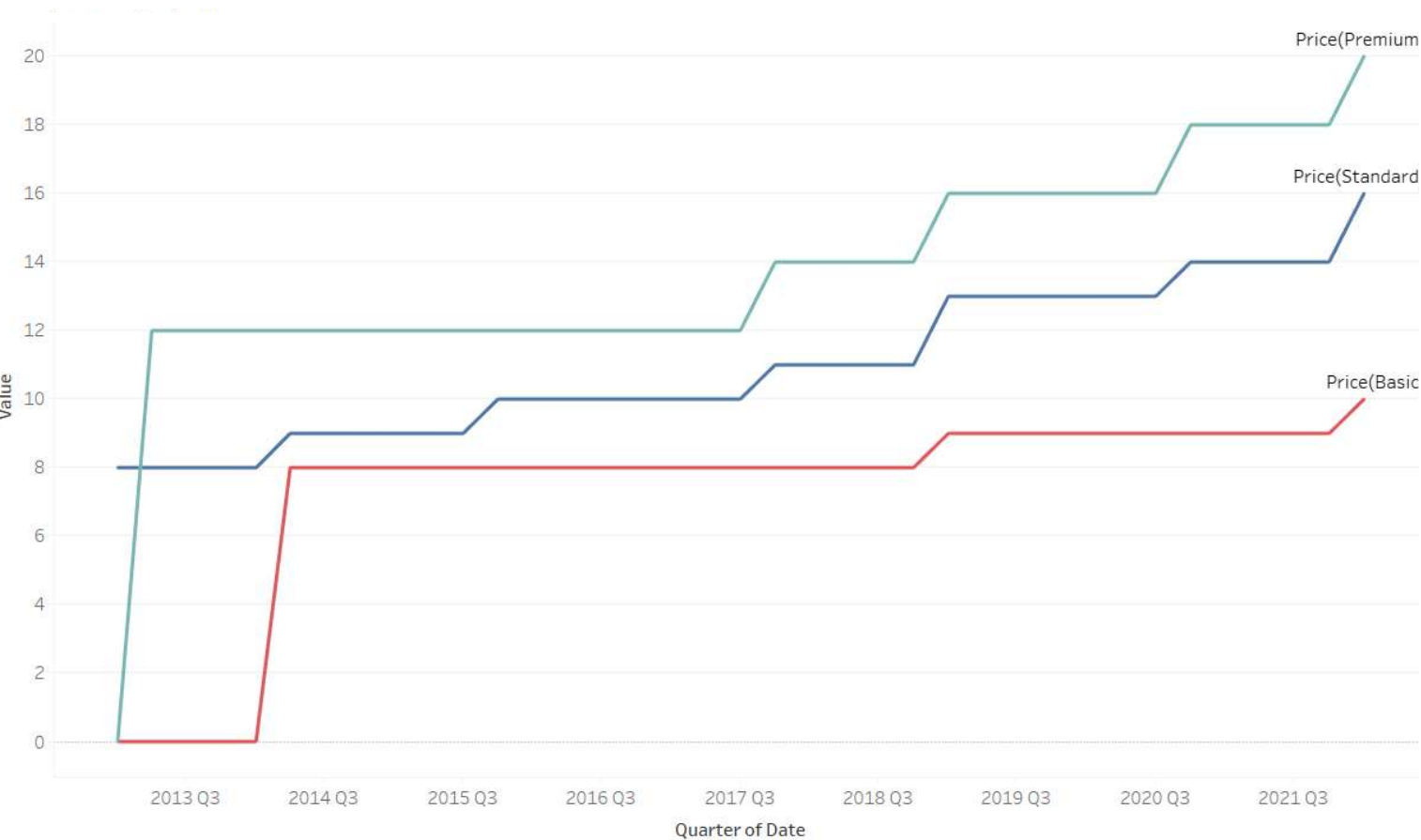
- Largest addition in subscribers occurred in 2020, in pandemic times.
- It reported its first loss in subscribers in 2022 Q1, of around 200,000 subscribers. We shall look into its possible reasons on reaching further into the presentation.

REVENUE AND NET INCOME

Revenue is seen having an increasing trend with a significant amount of net income, although the volatility of income is much more compared to revenue.



PLAN PRICES

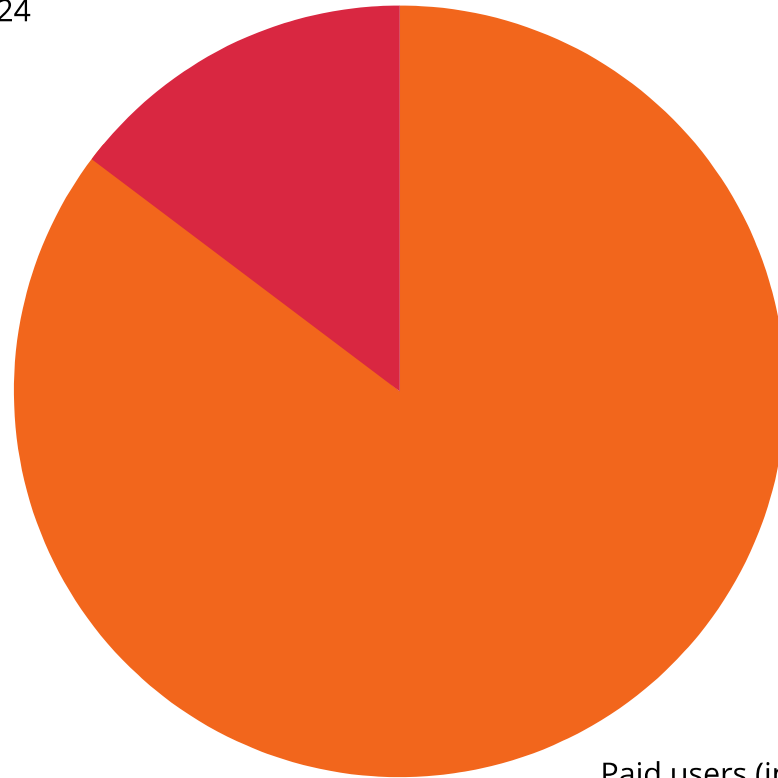


- The standard plan was introduced the earliest- in 2013, followed by premium and then standard plans.
- Plan prices have consistently increased to the point that the price of the basic plan now is more than the standard plan in 2013.

UNPAID AND PAID USERS

With some 139 million paid users at the end of 2018, 24 million were unpaid users as well.(3)

Unpaid Users (in millions)
24

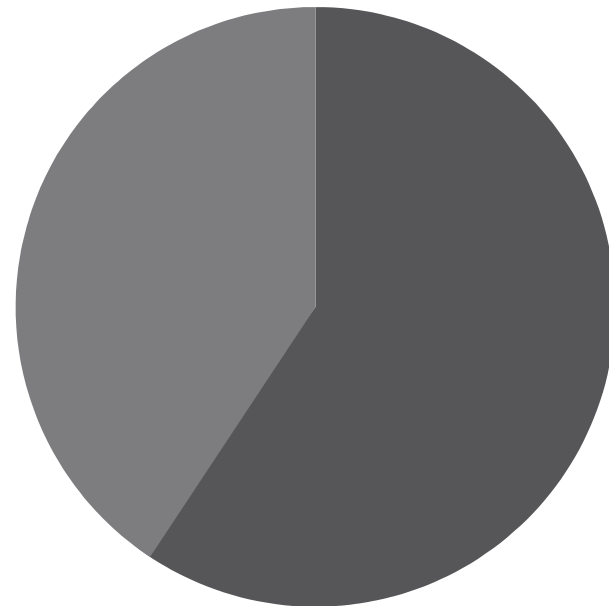


Paid users (in millions)
139

ANALYSIS OF UNPAID USERS

59.3% of unpaid users are willing to pay if they are cut off from their current account - translating to about 14.2 million new users(4)

Unpaid users not willing to pay
40.7%

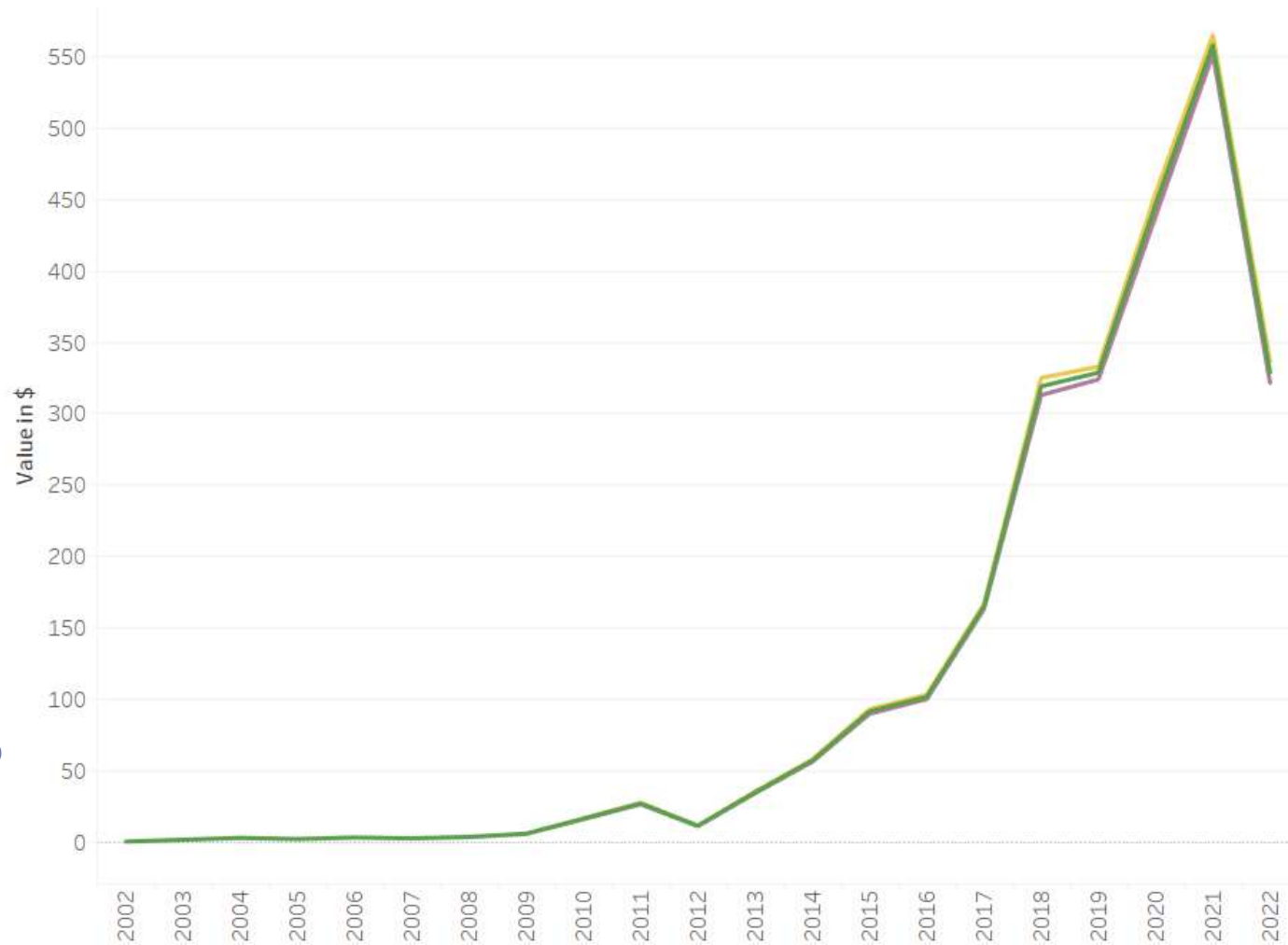


Unpaid users willing to pay
59.3%

AVERAGE STOCK PRICE BY YEAR

As it can be seen, Netflix's stock price generally showed an upward trend, especially after 2020 due to the pandemic, but it has recently started to drop.

The recent drop is much bigger than the last drop which happened in 2011.



Analysis of sectors of concern

Although revenue shows an increasing trend and the company is still profitable, there are certain sectors which are of concern i.e. the recent decline in the total subscriber count, declining stock prices as well as the issue of unpaid subscribers.

The decline in stock prices was observed after the company made its 2022 Q1 report public. Hence we can say that the decline in stock prices was caused by the loss of 200,000 subscribers. Let's have a look at some probable reasons behind the loss of subscribers.

PROBABLE REASONS BEHIND RECENT DECLINE IN SUBSCRIBERS

- 1 Hike in Subscription Fees
- 2 Pandemic Bubble
- 3 Competition and decline in quality
- 4 Russo-Ukraine Conflict
- 5 Unaffordability, Use of Piracy

Hike in Subscription Fees

As we saw on the slide relating to plan prices, Netflix has constantly increased the prices of its plans over a period of time. On first glance, this may seem to be a reason behind a large number of people quitting the platform.

Yet on a closer look, we notice that if this were the case, this trend would have been visible on the charts from quite a long time before. Hence we can say that the continuous hikes in prices isn't a reason for the observed decline, atleast not in isolation.

Pandemic Bubble

On observing the charts, we can deduce that a large portion of the gains made were due to the effect of the pandemic when people had to quarantine at their homes and turned to OTT for entertainment. That is, the pandemic caused a bubble of growth which would cause losses when the threat from the pandemic reduced and institutions of employment and education reopened, with less time remaining to spare for entertainment.

Hence a certain amount of loss is to be expected in the post pandemic situation until and unless the company is willing to revise its revenue policy.

Competition

Although the company is highly profitable, one of the major concerns regarding it is that the business model is highly replicable i.e. it can be easily understood, replicated and co-opted by the competition, as is the case for Netflix.

There are multiple competitors to Netflix in the OTT space, some of them being Amazon Prime, HBO Max, Hulu etc. in USA as well as companies like Hotstar based in India.

The reason behind subscribers who quit Netflix and joined other OTT platforms could be better pricing or better quality of shows offered.

Analysis of Netflix's Original Content

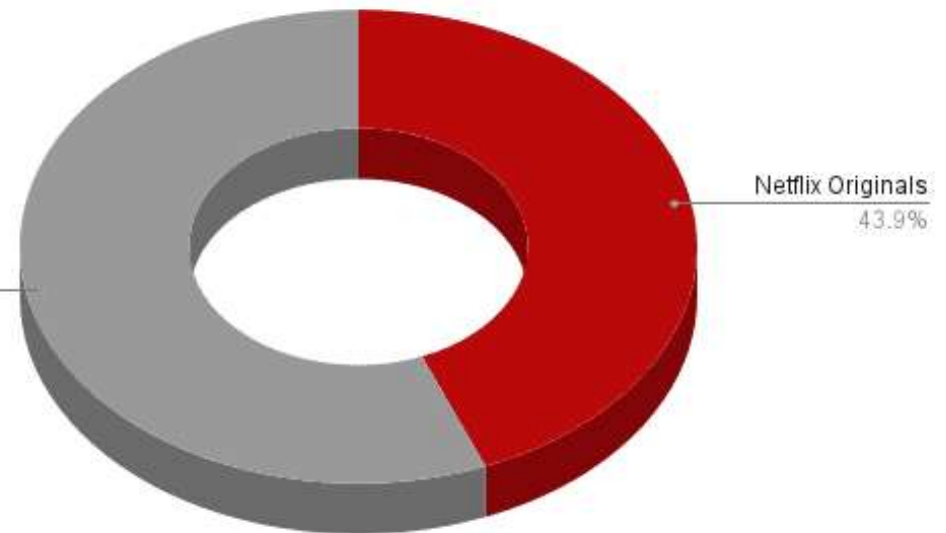
Apart from the usual films and television series which the OTT platforms acquire the right to broadcast, often a large difference is made by the original programming of the platform, the effect of the licensed content being more or less the same across all the platforms.

Here we will attempt to analyze the quality and quantity of Netflix's original content.

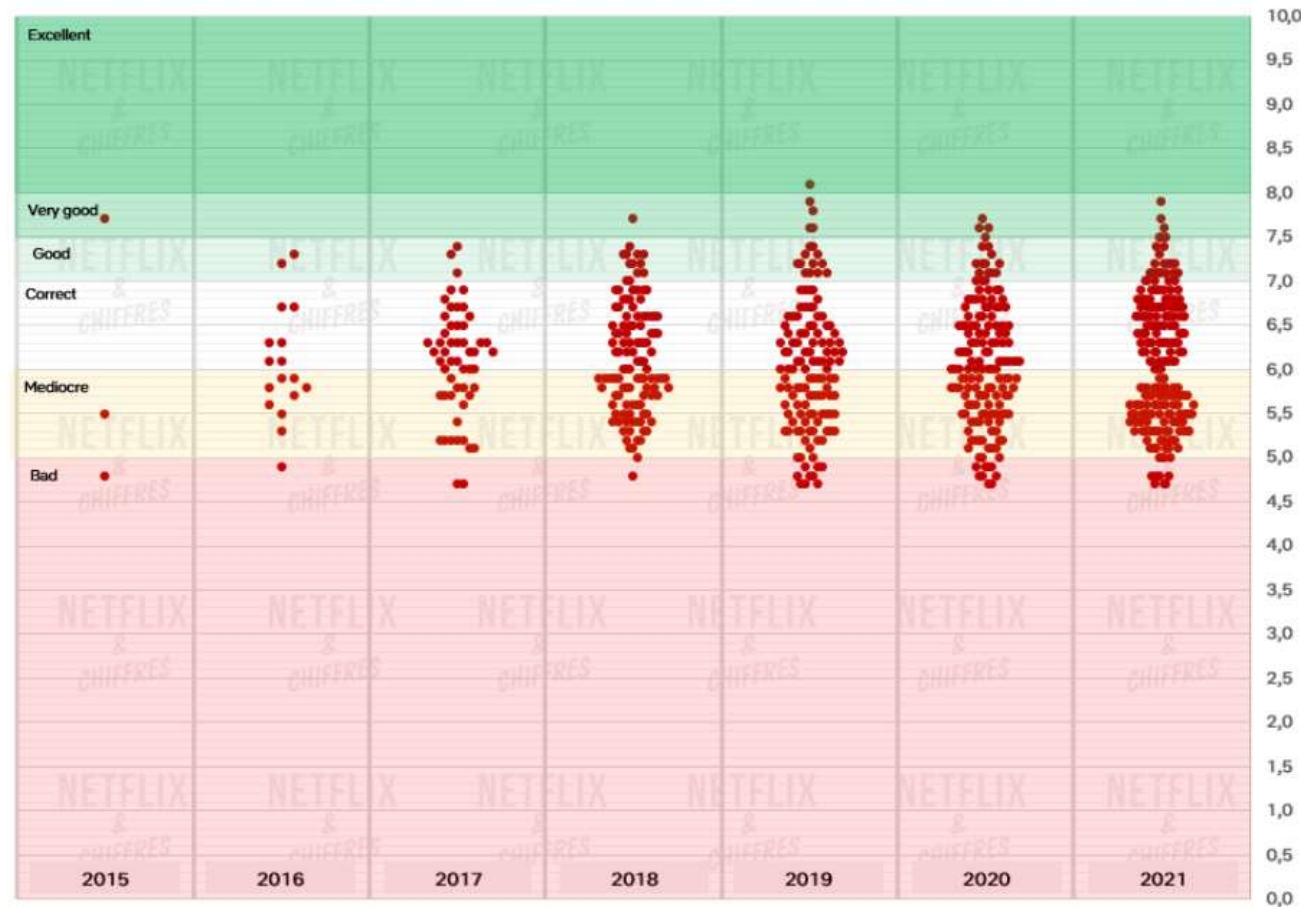
Quantity of Original Content

Original Content accounts for about 43.9% of it's content, which is a substantial portion(5).

Licensed Titles
56.1%



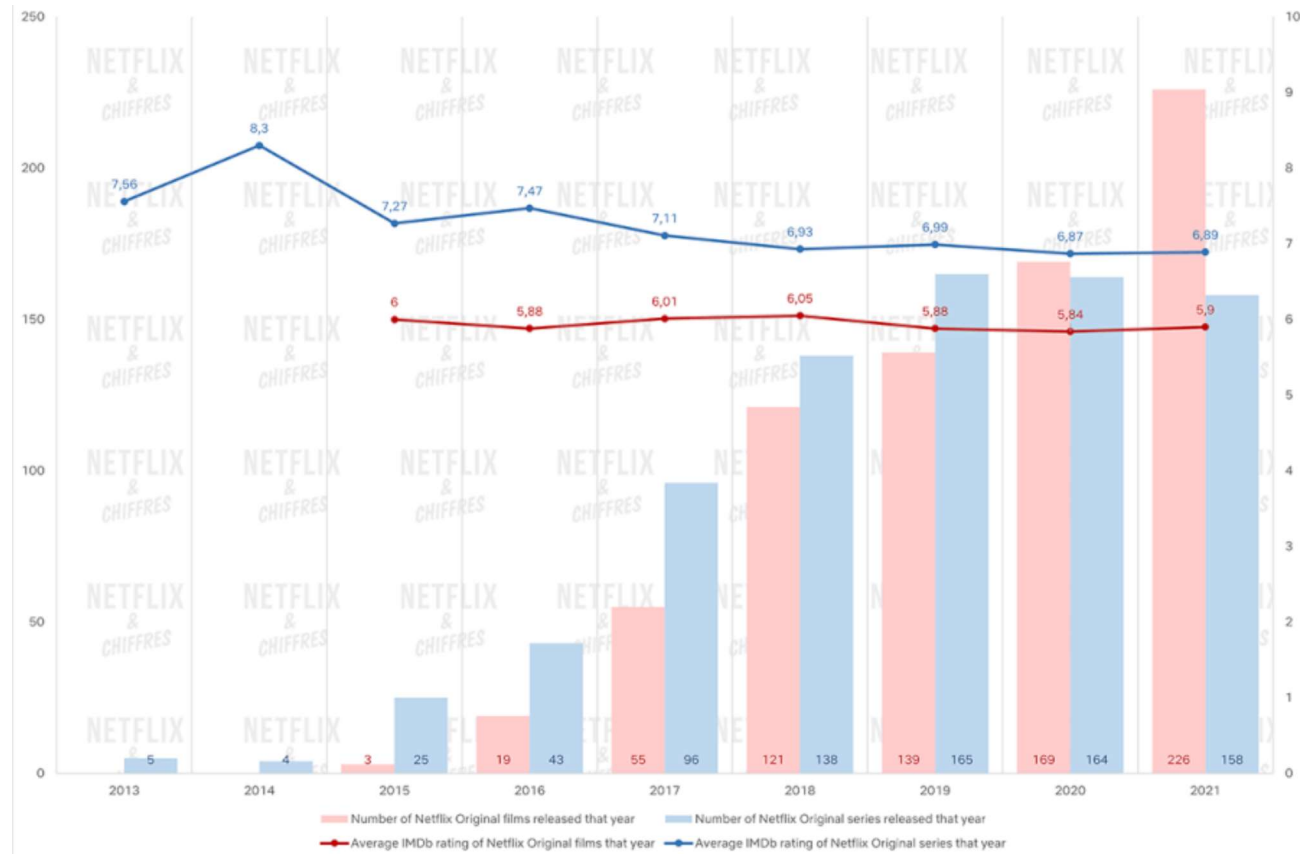
A majority of Netflix Original films have an IMDB score between 5 and 7, signaling that a majority of the original film content is rather mediocre.(5)



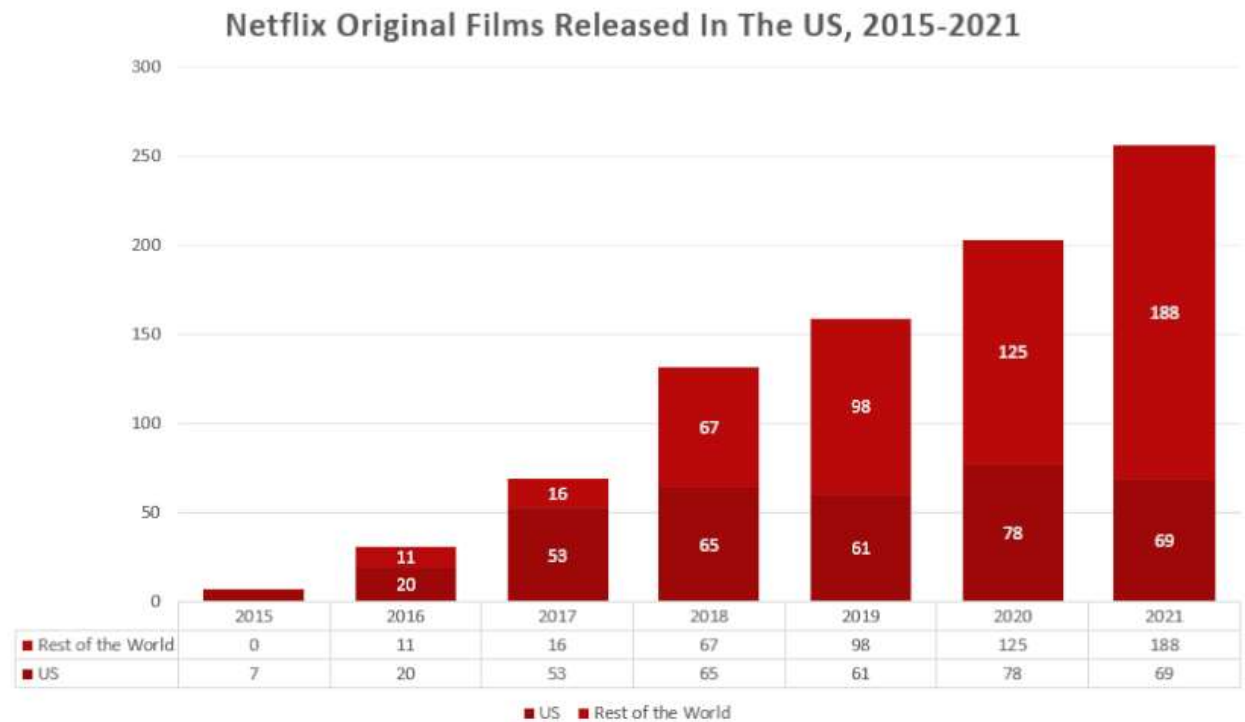
Scatter graph of IMDb ratings for Netflix Original movies released

This chart shows the quality as well as quantity of netflix original content with their ratings.

As we can see, while the quantity of both types of content show a general increasing trend, we see that the quality of films has either remained stagnant or decreased for the most part.(5)



We see here that the amount of netflix originals being released in US overshadows the content being released anywhere else in the world.(5)



Analysis of Netflix's Original Content- Conclusion

From the previous slides, we can clearly conclude that the company faces a quality vs quantity problem, especially in the United States and it can indeed explain the decline in customers who seek quality content for entertainment.

However, this also poses an opportunity, given the company's market share. If Netflix is able to produce content which is acclaimed by spectators, it can stem the tide of losses, or coupled with additional measures, can even reverse the trend.

Russo-Ukraine Conflict

Netflix had a substantial number subscribers in Russia in 2021 Q4 Yet, due to humanitarian concerns, the company pulled away from Russia, thereby, causing a significant loss in terms of subscribers.(6)

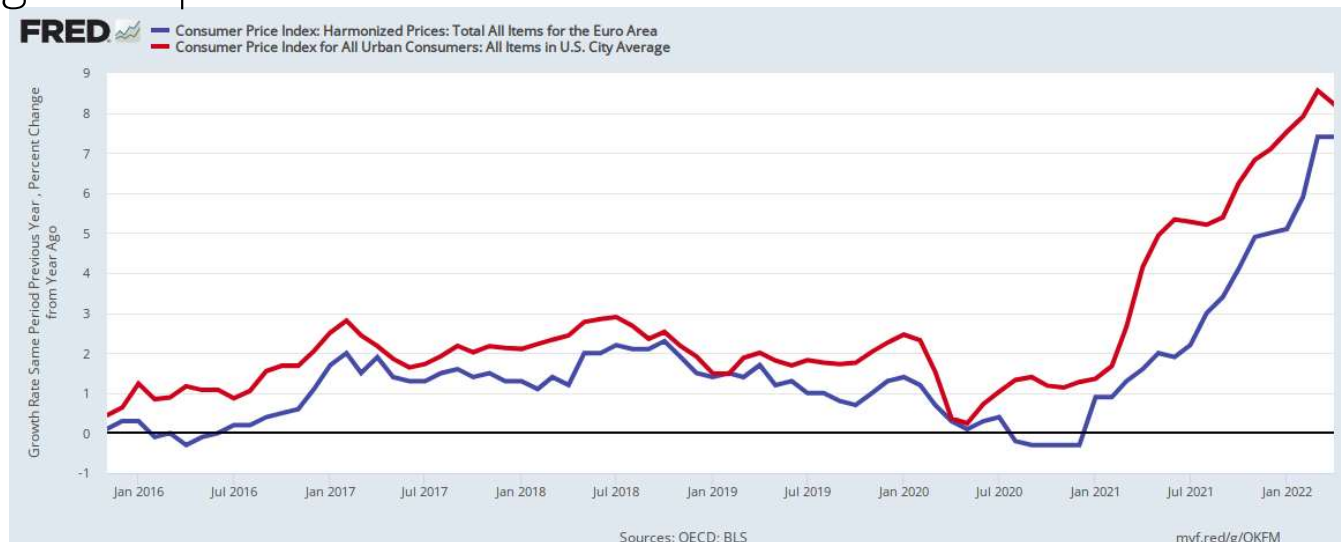


ALTHOUGH IT WOULD BE EASY TO BLAME THE RUSSO-UKRAINE SITUATION FOR THE CURRENT PROBLEMS, IT SHOULD BE UNDERSTOOD THAT THE COUNT OF SUBSCRIBERS GAINED/LOST IS A CUMULATIVE FIGURE, OBTAINED FROM THE DIFFERENCE OF THE NUMBER OF SUBSCRIBERS WHO JOINED IN A GIVEN QUARTER AND THE NUMBER OF SUBSCRIBERS WHO LEFT THAT QUARTER. HENCE THIS IS ONLY ONE OUT OF MULTIPLE REASONS BEHIND THE CURRENT OBSERVED DECLINE.

THE LOSSES IN RUSSIA CAN BE MITIGATED BY THE COMPANY THROUGH FORAYING INTO NEW NATIONS AND PRODUCING AND BROADCASTING QUALITY CONTENT THAT CAN ATTRACT MORE SUBSCRIBERS TO THE PLATFORM .

Unaffordability

As can be seen in the graph below, the inflation rate in 2022 is the highest in the past 7 years(7), occurring due to- among other reasons, global supply-chain problems, caused by the pandemic as well as the embargo on Russia, causing the prices of essential items to go up and making the current pricing of Netflix unaffordable for many. This can be mitigated by decreasing prices or introducing lower price tiers.



Piracy

Piracy of licensed content provides an easy way out of paying subscription fees to watch movies and web series, causing immense losses to the company in term of revenue.

The prospect of piracy is quite alluring, even to paying subscribers who may stop paying in favor of pirated content which is often freely available on platforms like Telegram and torrents.

According to a study in 2018, Netflix may be losing \$192 Million a month due to piracy. (4)
Hence all the more reason so as to prevent losses.

Predictions for the 2022 Q2:

As per the analysis in the previous slides-

- Number of subscribers as well as the stock prices are expected to fall further as the reasons mentioned before have not been dealt with and are still ongoing.
- Income and Revenue is also expected to be affected, the former being more affected than the latter.
- Number of unpaid subscribers is poised to increase.



SWOT ANALYSIS

STRENGTHS

- Large user base
- Brand Awareness
- Strong Recommendation System
- Good UI, Effective Search

WEAKNESSES

- Quality of Original Shows
- Restrictive pricing
- Number of unpaid users
- Region Locking

OPPORTUNITIES

- Revenue through ad supported tiers
 - Monetization of willing unpaid subscribers
- High Quality original content aimed at a diverse audience

THREATS

- Rising competition
- Piracy and Free to Watch content
- Govt. Regulations
- Unforeseen disruptions
- Rising Inflation rates
- Pandemic Bubble

Recommendations

- Revision of pricing.
- Introducing lower priced advertisement supported tiers for extra revenue and to reduce outflow of subscribers exiting due to affordability concerns.
- Seeing that around 60% of unpaid users are willing to pay , taking measures to realise the potential gains through conversion of unpaid users.
- Giving users the option to remove unknown viewers from their account.
- Investing more time and resources into ideation, scripting, screenplay and casting of Original content i.e. ensuring that original content is better received by the audience in terms of quality and to reduce the outflow of subscribers due to repetitive, uninteresting or otherwise lower quality content.
- Seeing that original films aimed at an American audience is more than all other nations combined, ensuring that high quality original content is aimed towards a much more diverse audience.
- Taking measures so that subscribers don't need to look for alternative options due to region locking.

Bibliography

- (1)<https://www.statista.com/topics/842/netflix/#dossierKeyfigures>
- (2)<https://www.macrotrends.net/stocks/charts/NFLX/netflix/stock-price-history>
- (3)<https://cordcutting.com/research/subscription-mooching/>
- (4)<https://techcrunch.com/2019/02/27/netflix-may-be-losing-192m-per-month-from-piracy-cord-cutting-study-claims/>
- (5)<https://www.whats-on-netflix.com/news/does-netflix-have-a-quantity-vs-quality-problem/>
- (6)<https://www.statista.com/statistics/1285054/netflix-subscriptions-russia/>
- (7)https://fred.stlouisfed.org/graph/?g=QKFM&utm_campaign=myfred_referrer&utm_medium=exported-chart&utm_source=direct

*Thank
you!*