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Team 3 Case Study – Netflix

Introduction:

Netflix is a company known and used by many. Dating back to 1997, Netflix has offered families ways to entertain themselves with TV shows and movies. In a time of uncertainty stemming from the COVID-19 pandemic that started in March 2020, Netflix has made a couple of big decisions and changes that have brought them to the spotlight recently.

Let's take a minute and talk about history. Netflix was started by Reed Hastings and Marc Randolph in 1997. They had a genius idea to rent DVDs by mail. They tested this idea by mailing themselves a DVD which did, in fact, arrive intact. By the end of 1998 and early 1999, Netflix launched Netflix.com, the internet's first DVD rental and sales site. Users would order the DVDs from Netflix's website and then pay a surcharge to have the DVD's delivered to their house. The user would receive the DVD and then when they were done watching, it would be mailed back to Netflix. In 1999, Netflix rolled out their subscription service offering, which led to more of a personalized movie recommendation system.

In 2002, Netflix turned into a publicly traded company. Netflix's subscription sales took off and were remarkably successful after its few initial years of startup. By 2006, Netflix already had a subscriber base of around 5 million. Fast forward to 2007, Netflix offered its first online

streaming service to customers so that they could instantly watch movies and series on their home internet. Around 2008 and 2009, Netflix started to partner with consumer electronics brands in order to offer its streaming services on a wider variety of devices. By 2010 and 2011, Netflix branched outside of the United States (US) and started offering its streaming services to those in Canada, Latin America, and many more countries. In 2012 Netflix hit another major milestone by having over 25 million subscribers. Soon after this milestone, in 2013, Netflix released its first slate of “original series programming” with shows like House of Cards. By 2017, Netflix has reached 100 million subscribers and was accessible in over 190 countries. In August of 2022, Netflix celebrated its 25th anniversary and has a subscription base of about 200 million subscribers.

Problem Identification:

While doing research on Netflix, our team had a challenging time picking out an issue to focus on. So far, in the first quarter of 2023, Netflix has had some great performances. Most notably, they increased subscriptions by 2.4 million in Q1 according to the New York Times. One area of Netflix that we identified as a potential issue was overall subscriptions. This issue was found when you take a step back and look at Netflix’s overall performance in 2022. Around April/May of 2022, Netflix saw a huge loss of subscribers during this time. The company took several big losses early in 2022 and slowly rebounded throughout the year. Netflix is now showing a strong forecast again as we enter the early stages in 2023.

There are several different problems that could have caused this main problem of subscriber loss for Netflix. In the early months of 2022, Netflix, like most companies, pulled out

of Russia with the tensions caused by the ongoing battle with Ukraine. Canceling service in Russia was the start of Netflix's subscription issue. Alongside of this problem, Netflix also raised its prices in the US and Canada. Some subscribers canceled their accounts due to the increase in price of the streaming service. Netflix also lost tons of content from various major networks across the US. Some of the major TV networks, like FOX and HBO, have pulled their shows from Netflix and moved them to their own streaming services. Lastly, Netflix now competes in an extremely competitive market with a sea of streaming services to choose from. They have struggled to keep up with some of the offers from their competitors and this has caused them to lose subscribers.

Background

The problems currently being experienced at Netflix might be caused by the communication strategies the company uses to engage users and potential customers, leadership within the organization, and financial sustainability. Netflix seems to have fantastic communication amongst its users and potential customers. For example, Netflix has an extraordinarily strong social media presence for a streaming service. It constantly engages with its users, who are on social media. Not only does Netflix respond to users and answer questions but they also post funny and thought-provoking posts across all forms of social media. Netflix posts at least once a day on all social media like Instagram and Twitter. On top of this, the company has also run tons of ad campaigns related to the content on their site.

As far as leadership evaluation, Netflix has very strong leadership. Not only have they retained their first CEO for over two decades, but they have also been able to hire and retain top

talent. They strive to hire top performers and allow these top performers to have a lot of transparency and freedom. All these items put together have allowed Netflix leadership to prevail as one of the best in the business.

Lastly, financially speaking, Netflix is a very sustainable company. They have been in business over 25 years and have continued to grow as time goes on. In the early months of 2023, they increased revenues and seem to be on the right track again. They had a slight hiccup in 2022 (as seen in the subscriber and stock decreases), but overall have sustained themselves over the 25 years they have been in business.

Literature Review:

Above in this paper we discussed some issues Netflix experienced in 2022. There was a noticeable trend in the articles as the articles discussed total subscribers and stock prices. The articles that were dated 2022 showed a common theme of how subscribers and stock was down. Then, reading articles from 2023, stories turn more positive with the rebound in subscribers and stock prices.

Article one, entitled “Here’s Netflix’s Subscriber Count By Quarter” was posted in the Wall Street Journal and was written by Candice Choi. This article was written in January of 2023 and describes the subscriber issues Netflix experienced in 2022. Choi stated that “Netflix gained 7.7 million new paying subscribers during the final three months of last year,” (pg. x). Choi then stated that “the bump comes after the streaming giant in November in November introduced a cheaper subscription plan with ads for \$6.99 a month,” (Choi). The article explains the solution

to the decreasing subscription problems Netflix was battling in 2022 (lost subscribers due to price) and how Netflix has worked to solve this.

Another article titled, “Netflix Cuts About 150 Staffers In Another Round of Layoffs,” was written in May of 2022 by Allison Prang and Joe Flint. This article talked about overall subscriber loss and how this translated into revenue loss that resulted in job loss. “The company lost 200,000 subscribers in the first quarter. It had expected to add 2.5 million,” (Prang and Flint). This article continues to show the issues Netflix experienced in 2022. The article also goes on to talk about stock prices and how stock fell in the company almost 68%.

Article three is titled, “Netflix Stock Price Drops 35%, Posting Biggest Fall Since 2004”. This article was written in April of 2022 by Caitlin Ostroff and Gunjan Banerji. This article further adds to the stock decreasing theme we read while researching Netflix. “Investors had expected that the company would add new users in the quarter. Instead, Netflix said it ended the first three months of the year with 200,000 fewer subscribers than it had in the fourth quarter and said it expected to lose two million global subscribers in the current quarter,” stated Ostroff and Banerji. Rising subscription prices and a loss of certain TV shows are to blame for the major loss of subscribers in early 2022. The decrease in shows was a huge problem for the streaming giant. Netflix also admitted that lots of its investors were not happy with the unpredicted stock drop the company experienced.

“Netflix Ends Subscriber Addiction Phase on a High Note” discusses some of the disadvantages Netflix faces since they do possess such a large number of subscribers. Gallagher reminds that “a streaming service with more than 220 million paying subscribers can no longer count on easily signing up lots of new ones consistently.” Investors cannot attempt to predict Netflix’s growth based on subscribers but should rather go off the revenue from them. It is also

important to realize that “Netflix is going where its big media competitors will need to land eventually—with streaming businesses that are profitable and cash-generating in their own right. The company’s harsh comeuppance this year already has helped investors recalibrate their views of the sector” (Gallagher). In a company of Netflix’s behemoth size, there are no longer incredible areas for growth like there are for the many younger streaming services that are emerging.

Article five is titled, “Netflix Loses Nearly 1 Million Subscribers, Vows Rebound”. This article was written in July of 2022 by Sarah Krouse. More loss and disappointment carried on in 2022 with two consecutive quarters of losses for Netflix, a first for them. Krouse states that “The company lost 970,000 paid subscribers in the June quarter.” This was a rather large loss for Netflix; however, they had expected to lose closer to two million subscribers. With tougher economic times, the streaming service expects to have customers tighten up on how they are spending their money.

SWOT Analysis:

With a streaming giant such as Netflix, they are sure to have their own pros and cons both in and out of the company. It is important for such a large company to be able to evaluate its strengths, challenges, and find areas for growth. For a long-standing service of 25 years, Netflix has had plenty of time to develop their strengths and has adapted to the changing marketplace. In order to continue growing their customer base, they have created an ingenious way to develop customer loyalty. Since 2013, Netflix has produced over 1,500 original series and movies. It is important that a streaming service finds ways to hold on to their customers. The creative solution

Netflix turned to was making content that was specific to their own platform. They have had many hit series that keep subscribers maintaining their accounts to catch the next season or hit piece. Netflix has also joined many other streaming services by adding several different tiered plans to accommodate their customers' budgets and needs. Most recently, Netflix added a "Basic Plan with Ads" as their lowest tier.

In today's streaming market, one major challenge is that it can be difficult keeping up with the needs of everyone, from investors to employees, or customers. Investors no longer look at subscription numbers, but now looking at the profitability of the subscribers. Unfortunately, this has led to increasing prices for customers. Netflix has become one of the most expensive streaming platforms on the market when comparing standard plans. Through 2022, Netflix was faced with several rounds of employee layoffs. As with any company, layoffs affect many people outside of the employee, such as their families.

Even with such an expansive company, it is important to seek opportunities to grow and adapt to the modern consumer base. Netflix still has a lot of room to expand. After a tumultuous year in 2022, they ended their year on a high note with nearly 231 million subscribers. With such a large subscriber base, it will be difficult to continue forecasting subscriber growth. According to Dan Gallagher in his article "Netflix Ends Subscriber Addiction Phase on a High Note," "Netflix said ... that it will no longer provide subscriber forecasts with its quarterly reports, preferring instead to focus on revenue, earnings and cash-flow growth as its business model evolves to include things like advertising and paid account sharing." Netflix can still continue to market and attempt to gain followers through unique content.

In today's quick moving society, people are not necessarily loyal to one company: rather following good content and prices. There are countless streaming platforms on the market today.

Netflix, Disney+, HBO Max, Hulu, Amazon Prime, Apple TV, and countless others come to mind when people discuss where or how to watch a show or movie. Unfortunately for Netflix, they are not one of a kind. There is a constant threat of losing subscribers to another platform. Streaming services must compete to show they have the best content and prices, which can be difficult with how numerous they are. Coming out of the pandemic in 2022, many companies that gained great momentum struggled to keep up and began to slump. Within the first quarter of 2022, Netflix lost almost 200,000 subscribers. By mid-May 2022, Netflix's stock fell 68%.

Recommendations:

When trying to attract attention to your company, you must know how to properly market it. Netflix produces an incredible amount of original content only available on their platform. In order to gain subscribers, on any tier, Netflix should use the strength of their originality. If a person sees that the platform has unique content that they want to watch, it will motivate them to buy a subscription in order to watch the content.

Fortunately for Netflix, their stocks and subscribers have been on the rise since the end of 2022. By the end of the final quarter of 2022, they added 7.7 million new subscribers. Even though Netflix's prices have seemed as though they have been on the rise, they have also added a cheaper option to gain access to their content. This way subscribers still have access to content, but it is also better formatted to their needs or budget. Despite the numerous competitors, Netflix maintains and is growing viewership with many strong originals rolling out original series such as "Wednesday" and "Glass Onion". Even though it seems as though other streaming services are having larger gains, it must be kept in mind that Netflix is one of the first successful

streaming services and has been around for 25 years. Other streaming services have yet to catch up and boast the impressive numbers that Netflix has already accomplished.

Conclusion:

Our biggest challenge in completing this project was focusing on one specific issue. Despite all the issues stated in this case, Netflix is still one of the leading internet entertainment services worldwide with approximately 230 million subscribers with paid memberships in more than 190 countries. Netflix has also become the most influential brand not just in the U.S., but around the world when it comes to online streaming content. According to research, Netflix ranks 36th with its brand value at \$15.0 billion leaving its competitors to be Disney, Facebook, YouTube, and HBO.

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