

# Analysis of Netflix's Strategy and Innovation in a Global Context Based on BCG Matrix

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**Abstract.** In the digital age, streaming is an emerging form of media expression that plays an integral role in mass entertainment due to its accessibility, convenience, and rich content catalog. Netflix, a leader in the streaming industry, has been innovative in its short 20+ year history of catering to market development and is typical in analyzing the streaming market. While there is no shortage of literature on Netflix, the content is often limited to case studies in specific geographical areas. This paper aims to analyze Netflix's strategy in a global context based on BCG Matrix and provide suggestions for Netflix's development in the post-epidemic era. The study finds that big data and the precise identification of "problem markets" have been key to Netflix's past success. The paper notes that Netflix needs to stabilize its global position by expanding quality content and feature innovation to achieve high levels of existing subscriber loyalty and expand its global subscriber base. The study finds that the economic instability caused by the epidemic triggered Netflix's first subscriber loss after raising subscription prices. This paper suggests that Netflix extends the retention of existing subscribers and attracts subscriptions from potential subscribers worldwide through the perspective of price positioning, localization, and a new field- gaming.

**Keywords:** Netflix; streaming; innovation; strategy; BCG Matrix.

## 1. Introduction

As technology advances, especially digitization, streaming media, a new form of media expression emerging from the Internet era, is beginning to enter the marketing and communication studies research landscape. Thanks to its accessibility, convenience, and its rich catalog of content, nowadays, streaming media plays an essential role in popular entertainment. In the era of convergence 3.0, the boundaries and barriers between TV, film, gaming, pay TV, and traditional media are blurring [1]. Companies that once provided only technology and distribution are entering the content space. In this era, business models are being reshaped, and companies are working to build relationships directly with consumers, i.e., competing for market share by effectively developing membership relationships with subscribers.

As a pioneer and leader in the streaming industry, Netflix has a typical role in analyzing the streaming market. Netflix has consistently recognized the need for the streaming industry to build a highly engaged user base through content and features and that user data can feed back to Netflix to better understand consumer behavior and market developments. In its short 20+ years of history, Netflix has been one of constant innovation, and the move from DVD rentals to content production is just the beginning of the emerging streaming platform breaking the mold.

While there is no shortage of literature on Netflix, the content is often limited to case studies in specific geographical areas. The Netflix report only analyses the current state of affairs in terms of the United States and Canada or international subscribers. It remains to be seen whether Netflix has the global leadership position it claims to have and can maintain. In 2022, Netflix announced a loss of subscribers that had not occurred in a decade. This paper examines the trigger for subscriber churn and what Netflix can do to expand its international market and maintain its position as a streaming leader in the post-epidemic era by examining its past innovations and current strategies.

This paper uses a BCG matrix to identify the potential for market growth at different stages by analyzing Netflix's strategy and tactics since the early days of its establishment. The paper suggests that in a highly competitive streaming industry, Netflix should continue increasing subscriber loyalty

and stickiness in content catalogs, localization, and innovation to establish its position as a global leader.

This paper analyses the business model in terms of a big data-driven business model, a subscription pricing strategy, and continuous product and service innovation, which gives Netflix feasibility recommendations for expanding its subscriber base and stabilizing its global position. In the history of product and service innovation, Netflix has undergone two massive transformations - from DVD to streaming, from distributor to content producer, and is now undergoing a third breakthrough - into gaming. Whether Netflix's progress in the gaming space will usher in a second "DVD era" is a challenge for Netflix.

## **2. The Streaming Leader: Netflix**

Since its inception in 1997, Netflix, a former United State DVD rental company, has become a global leader in the streaming industry. Netflix's service now reaches more than 190 countries worldwide and has 223 million paying subscribers [2]. Netflix is targeting streaming subscribers on a global scale. The largest share of current Netflix subscribers comes from the United States and Canada, with the Asia-Pacific region having the fewest, but it is continuing to grow [3].

As the digital age progresses, consumer habits are being changed. Enjoying services through websites or applications has become a trend, and streaming is becoming popular as a more accessible and convenient service [4]. In other words, the growth of digital media and the changing behavioral patterns of consumers have contributed to the rapid growth of the streaming industry.

In an era of rapid growth in the streaming industry, where every company is innovating to compete for market share, whether Netflix has the global status, it claims to have remained to be seen. After all, Netflix reports figures for the United States and Canada or "international" subscribers. Netflix's status, reach, and market share varies from region to region. Netflix has also been affected by COVID-19; the loss of a staggering number of subscribers in 2022 for the first time in a decade is certainly a wake-up call for Netflix [5].

## **3. Globalizing Netflix**

### **3.1 Big Data-driven Business Models**

The collection, analysis, and use of big data are crucial to Netflix's business success. Netflix collects information about what users browse and analyses their behavior to identify their preferences [6]. To keep users from being confused by the vast content catalog, Netflix uses the data to deliver precisely what they want. The information generated by the user's surfing data is strongly related to the subsequent piece of content created [7]. In producing content, Netflix puts the user at the center of the decision-making process, using big data to determine future content [6,7]. Big data influences Netflix's decision to continue with more sequels of the character or discontinue scenes with the character. Putting the user at the center of the decision-making helps to avoid the cancellation of subscriptions while attracting potential subscribers and maximizing customer loyalty. In this regard, having a selection of content based on the established preferences of the user is advantageous for making informed business decisions.

### **3.2 A Reminder of Price Position**

Price plays an essential role in user stickiness and loyalty. In April 2022, Netflix reported its first subscriber loss of 200,000 in decades, which had to be brought to Netflix's attention [5]. The United States and Canada experienced the most significant subscriber losses. Tracing the reasons for Netflix's loss of subscribers, one of the most significant triggers for Netflix subscribers to leave is its price positioning. The average monthly cost of Netflix's subscription service has increased significantly in recent years, nearly twice as much in the United States and Canada compared to Asia [3]. Increasing

monthly fees have led users to switch to more affordable streaming options or cut their subscriptions altogether.

### 3.3 Product Transformation and Innovation

As a leader in the streaming industry, Netflix has undergone several product and service innovations in its short 20+ year history. Using the BCG Matrix, it is possible to identify the priority of products and their market potential [8]. In the beginning, Netflix's only product and service was the rental of DVDs, which had just been introduced [9]. This was the first challenge and innovation for Netflix in the era of the "cash cow" videotape. Within the next few years, DVDs would become a "star" product, helping Netflix to make its first profit, and opening the United States market for Netflix [9]. Immediately afterward, the 9·11, like the COVID-19 epidemic, kept Americans at home most of the time, and DVDs became one of the best options for home entertainment. Subscriptions with no minimum subscription period and no late fees allowed Netflix to reach 600,000 subscriptions during the IPO, giving Netflix a place in the entertainment market [9, 10].

At the beginning of the 21st century, as technology evolved, Netflix realized that DVDs were at a "cash cow" stage and would eventually be replaced by streaming, which would be the "star" service of the future [11]. With the money generated from DVD rentals, Netflix would innovate a second time, completing the transition from DVD rentals to streaming [12].

#### 3.3.1 A streaming platform where content is king

Despite its first loss of subscribers in 2022, Netflix remains the world's leading subscription video-on-demand (SVOD) service, outperforming other international streaming powerhouses and local providers [5]. Netflix's competitive edge in holding onto its leadership position lies in its content [4]. Netflix continues to expand its territories while, through content innovation, it continues to produce more original content that appeals to a diverse subscriber base.

In 2006, Disney acquired the Hollywood animation company Pixar and, in the coming years, turned classic IPs into breakout hits that drew money in the movie market [13]. This was followed by the launch of Amazon Prime Video and Hulu [11, 13]. The intense competition in the streaming industry put Netflix under unprecedented pressure. Disney's success in the movie industry made Netflix realize that original content would be the future of the "star" market. In 2011, Netflix announced its involvement in the production of House of Cards [10,12]. Rigorous content with excellent audiovisuals and the first full-season broadcast format led to Netflix's first success in original content, adding 2.05 million subscribers [14]. Netflix's shift from channel to content provider touched off interests in the content provider space, with many studios abandoning Netflix in favor of its competitors for a time. Netflix realized that the only way to continue to attract subscribers was to have a constant flow of quality content. Since then, Netflix has launched films and TV drama series such as Stranger Things, Beasts of No Nation, and Mudbound, which have established a favorable brand image for Netflix, gaining the attention of potential users and increasing user stickiness. Having opened the market for original content, Netflix's investment in content has grown from \$13 billion in 2019 to \$17 billion by 2020 [10, 15]. Despite the considerable investment in these films and TV drama series, but consider in the long term, the cost of the content can be leveled out if there are enough subscribers, which in turn has a sustainable economic effect. Indeed, the number of subscribers has been directly proportional to the amount invested over the last decade.

#### 3.3.2 The development of localized content

User demand determines market development. In the era of streaming, where content is crucial, Netflix has been engaging in localized content production, aiming to provide quality content while offering local users more preferred content to attract more potential subscribers. This comes at a time when the relative market share of the United States and Canada is becoming saturated with lower growth rates and becoming "cash cow" markets [3]. Netflix's Asia-Pacific and African markets have strong growth potential with low relative market share, and Netflix's localized content may go a long way to transforming the "problem" markets with low market share into "star" markets in the future

[3]. Netflix's content in all global geographies has some local cultural and political relevance, for example, language translation modifications. In general, Netflix's video content in target countries follows the "two-eight rule," where 15-20% of the content is local and 80-85% is from the US [16]. The most contentious concern is the platform's relative dearth of local programming in comparison to the quantity of American programming, despite having up to 20% localized content. In other words, Netflix's global expansion is a process of trying to localize content in different geographies all the time but creating an appropriate and rich content catalog for users based on their preferences is a long-term challenge for Netflix.

### **3.3.3 A new era of gaming**

Netflix is currently expanding its digital gaming market to expand its subscriber base. The global epidemic caused consumers to spend more time entertaining at home, which gave Netflix higher revenue growth during 2020. Still, this growth slowed after the epidemic subsided in the second quarter of 2021. Furthermore, the streaming industry is becoming more competitive with the emergence of new rivals such as Apple TV, HBO Max, and Disney+ [17]. To maintain its dominant position in the global market, Netflix must bring new content and formats to expand to more subscribers. The fast-growing digital gaming industry appears to be a global "problem" market for streaming platforms and is expected to grow into a new "star" market. However, whether digital gaming can be a second "DVD era" for Netflix remains a challenge.

Netflix's gaming model is a subscription proposition with unlimited participation once subscribed and without ad placements and in-app purchases [18]. Meanwhile, Netflix, having acquired three game studios, is creating its first game studio to reduce its reliance on third parties [19]. However, despite Netflix's experience in content production and streaming subscriptions being superior to rivals, it has always been a novice in gaming. The high investment and return reflected an imbalance between income and expenditure; less than 1% of Netflix's 223 million subscribers are playing games on the platform [19]. It is challenging for Netflix to expand the number of subscribers by expanding the digital gaming market.

## **4. Recommendations**

### **4.1 Stabilize the Pricing Strategy**

Netflix should stabilize its pricing strategy in the post-epidemic era, considering that subscribers may not be able to sustain the higher subscription fees during this period of economic recovery. In terms of pricing strategy, Netflix uses a monthly subscription, with a basic, a standard, and a premier plan to facilitate quick decisions by users. Netflix sets varying rates in different nations and regions, taking into account each region's unique price level and affordability per capita. Although the price increases that Netflix has experienced over its two decades have not reduced the number of subscribers, the loss of subscribers in 2022 must be considered. Due to the high value of the US dollar, Netflix's prices remain costly for local users in many developing nations. The higher pricing narrows the target consumers to those with stable incomes and higher wages. However, suppose it is to stabilize its global position, increase the brand's stickiness with existing users and attract new subscribers. In that case, Netflix could keep the premier plan prices but would need to consider aligning the base and standard plan prices to appeal to a broader subscriber base.

### **4.2 Refining Subtitle Selection and Dubbing**

Netflix is committed to localizing its content to cater to local user preferences and needs to improve local language subtitles, add multilingual subtitles, and provide multilingual dubbing services. From a linguistic point of view, subscribers prefer subtitles in their language. For international users, subtitles in local languages are easier to understand and reduce language and cultural barriers, thus improving users' comfort and increasing user stickiness. In content promotion, adding multilingual subtitles can effectively lower the cultural barriers to content distribution in international markets,

making it easier for users in different countries to accept content from other countries. For this reason, Netflix has chosen to translate each video into multiple languages as part of its internationalization process. To reach more non-English speaking subscribers, offering multilingual dubbing will enhance the user experience and thus reach more non-English speaking users.

### 4.3 Turning Games into Value-added Content

Netflix is currently in the early stage of expanding into digital gaming and now has over 40 mobile games, but only a few games have been extended through Netflix film and TV IPs. Suppose the games are targeted at casual gamers with a high interest in movies. In that case, Netflix, with its rich content library, should make the most of its movie IPs, especially the most popular ones, and turn them into a value-added service. In this way, if Netflix can handle such movie extensions, it can reduce the game's investment in character development, reducing costs and risks. It also can lengthen the retention time of existing subscribers and attract potential subscribers. In other words, Netflix's initial goal in adding a game service is to increase its ability to stickiness with its users.

## 5. Conclusion

Through an analysis of Netflix's past innovations and current strategies, this paper finds that the use of big data and the precise identification of "problem markets" have been key to Netflix's success in the past. The paper identifies the need for Netflix to achieve a high level of existing subscriber loyalty and an expanded global subscriber base through expanded quality content and feature innovation to stabilize its global position.

The study finds that home entertainment brought new subscribers and profits to Netflix during the epidemic. However, the economic instability caused by the epidemic triggered Netflix to experience a loss of subscribers for the first time after raising subscription prices, and Netflix needed to stabilize its global pricing to attract a broader subscriber base. Netflix could improve subtitle selection and dubbing to localize its content to suit local cultures and user preferences. In addition, in today's highly competitive streaming industry, new rivals and trends drive Netflix to bring new content and formats – gaming. Leveraging Netflix's vast library of content and investing popular IP characters and storylines into the production of games will minimize costs and risks while extending the retention of existing subscribers and attracting potential subscribers to subscribe.

The research in this paper complements the study by examining the current and proposed future direction of Netflix globally in the post-epidemic era, which gives proactive insights into the loss of Netflix subscribers for the first time in 2022. Beyond this research, some questions arise. After Netflix's high-profile entry into the gaming space, the high investment and R&D capital are not proportional to the results. Currently, the gaming market still relies on advertising or the purchase of gaming equipment to profit. It remains to be seen whether Netflix's ad-free, no in-apps purchase subscription to gaming could financially profit Netflix in the future and rewrite the business model of the gaming sector or disrupt the gaming market to retain subscribers. Future research could track and study this issue.

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