

# ***Business Model Analysis of Netflix***

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**Abstract:** Netflix does user behaviour analysis with the use of data analytics in order to direct content strategy and increase customer engagement. An in-depth analysis has shown that Netflix employs sophisticated algorithms to assess viewing trends and preferences in order to create information that may be used. Netflix can provide personalized suggestions, recognize popular content categories, and constantly improve its platform as a result of the data-driven insights it obtains. In the end, the use of data analytics by netflix helps the corporation to acquire and develop highly relevant content, improve the user experience, and increase customer retention rates. This study makes a contribution to the existing body of literature on data analytics and media platforms. In addition to this, it has a number of important practical consequences for businesses who want to compete in the era of digital streaming.

**Keywords:** Netflix, Business Model, Marketing Analytics, Content Strategy, Customer Engagement

## **1. INTRODUCTION**

Netflix is a prominent media platform that offers its subscribers access to a vast library of television shows and movies produced by various creators. The platform has disrupted the traditional media industry by providing consumers with the ability to stream content on-demand, without the need for cable subscriptions or physical media. Netflix's business model centers around a subscription-based model, where users pay a monthly fee to access its content library. The company's success is attributed to its strategic content creation and acquisition, which allows it to offer a diverse range of content to its users.

One of the critical aspects of Netflix's success is its use of data analytics. The platform leverages customer data to gain insights into user preferences and consumption patterns, which allows it to make data-driven decisions about its content provision strategies. Netflix's data analytics capabilities enable it to create personalized recommendations for its users, based on their viewing history and preferences. This personalized approach to content recommendations has been instrumental in driving user engagement and retention on the platform.

Netflix's data analytics capabilities also allow it to make informed decisions about content creation and acquisition. The platform uses data to identify popular genres and themes, which informs its content creation and acquisition strategies. By using data analytics, Netflix can identify content that is likely to be successful with its audience, reducing the risk associated with content production and acquisition.

In addition to content provision, Netflix uses data analytics to enhance customer engagement. The platform's user interface and recommendation algorithms are designed to provide a seamless experience for its users, encouraging them to spend more time on the platform. By continuously analyzing user data, Netflix can identify areas for improvement and make changes to its platform to enhance the user experience.

This paper aims to examine Netflix's business model, with a specific focus on how its data analytics capabilities influence its content provision strategies and customer engagement. The following research questions guide our study:

- 1) How does Netflix leverage data analytics to understand user behavior and preferences?
- 2) How do these insights from data analytics inform Netflix's content provision strategies?
- 3) What impact do these strategies have on customer engagement and subscription retention?

The structure of this paper is as follows: Following this introduction, Section 2 provides a review of the relevant literature on media platform strategies, data analytics, and customer engagement. Section 3 presents the methodology employed to analyze Netflix's data analytics-driven business model. Section 4 discusses the findings of this analysis, and finally, Section 5 concludes the paper with a summary of insights and future research directions.

## 2. REVIEW

The existing body of literature on media platforms and the strategic approaches they take is directly relevant to our research in a number of ways. The importance of exclusive content and advertising contracts inside these platforms has been highlighted by previous research. The research demonstrates that the offer of exclusive advertising contracts can provide broadcasters with several benefits [1]. These contracts help to reduce the level of competition within the product market and make it possible for advertisers to accumulate more revenues; as a result, broadcasters are given the authority to impose increased costs on advertising. The availability of advertisements by competing platforms can differ based on the degree to which customers view advertisements as an annoyance [2].

In the field of data analytics, Bughin highlights the significance of data-driven efforts in strengthening the performance of a firm and increasing its edge over its competitors [3]. This viewpoint is in agreement with the findings that Manyika came to, which provide proof of the potential of big data to generate value for businesses. This viewpoint is consistent with the results obtained by Manyika.[4]

Between businesses and customers. Recent research endeavors highlight the importance of data analytics in comprehending consumer behavior and improving customer engagement. Data analytics may increase customer engagement and loyalty by tailoring products and services to each individual [5]. This might increase business profits. Data analytics may assist businesses understand their customers' actions and preferences [6].

In the data-driven age, the academic literature on machine learning and artificial intelligence in consumer contact has substantially advanced. Predictive analytics, a critical component of data analytics, has the potential to improve consumer experiences by personalizing products and services [7]. According to Davenport and Harris (2007), firms may obtain a competitive edge by improving their analytical abilities. This advantage is provided by effective data analysis [8].

Unlike traditional media channels, Netflix depends significantly on advertising revenue. As a result, it provides a unique framework for examining the value of data analytics in content distribution and client engagement. Data-driven decision making is seen to be critical to the success of digital platforms [2,5]. This tendency is shown by Netflix's content distribution approach, which is based on data analytics.

Netflix has taken a strategy that is data-centric, which is in line with studies that suggests that using user data may lead to improved decision-making and more favourable financial results. In a

similar vein, Jarvinen and Karjaluo (2015) highlight the significance of digital analytics in terms of its ability to influence strategic marketing decisions and improve consumer connection [9].

As a result, the findings that we uncovered from our investigation will not only constitute a significant contribution to the existing body of knowledge on media platform strategies and data analytics, but they will also provide insightful information for those who are employed in the media industry.

### 3. ANALYSIS

Netflix earned 31,62 billion dollars in the latest report. Netflix's biggest market is the US and Canada, which account for 44.55% of its revenue, or \$14.4 billion. European, Middle Eastern, and African (EMEA) is the second biggest market, accounting for 30.82 percent of \$9.745 billion in sales. Sales from Latin America and Asia Pacific were \$4.06997 billion and \$3.57022 billion, respectively, accounting for 12.87% and 11.29%. DVDs contributed 0.46 percent of revenue, or \$0.1457 billion.

The latest statistics shows Netflix's UCAN income rose 8.58 percent to \$14.4 billion. APAC average revenue per member fell 11.09% to \$8.5. Netflix's primary geographies and Asia-Pacific user revenue are shown below.

Netflix is the most valued at \$186.9 billion. The corporation is worth more than Disney, Activision Blizzard, and Electronic Arts combined. Netflix's revenue CAGR over the last three and five years was 12.39% and 18.28%, indicating growth potential.

Netflix's external business model components will be analyzed using PESTEL in the following phase.

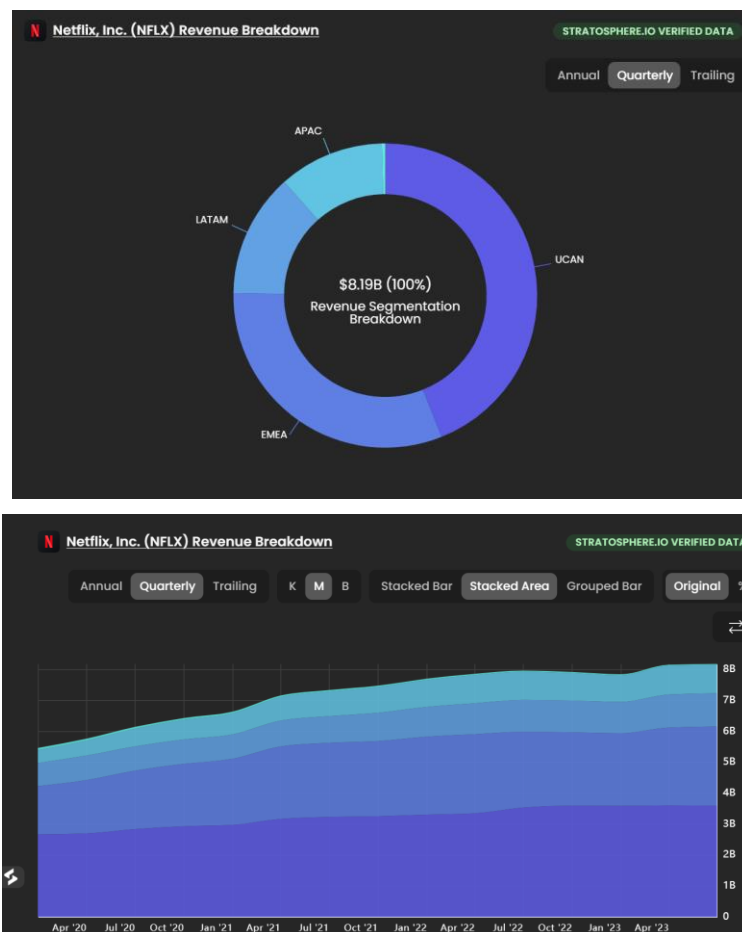


Figure 1: Revenue Quarterly

### 3.1. Politic

Modern global firms like Netflix operate in numerous geographical environments with varied political and legal frameworks. Netflix has new chances and difficulties from the EU's digital single market agenda. Netflix may now provide its services throughout the 28 EU member states without regulatory impediments according to the strategy, which seeks to establish a single market environment for all digital products and services. The policy also requires digital service providers to preserve customers' data privacy, thus Netflix must spend extra to comply with data processing and storage requirements.

Various factors such as content strategy and global availability can have a significant impact on an organization. Policy restrictions play an important role in Netflix's operations. The existence of programming restrictions may limit Netflix's ability to offer certain programming content in certain locations. Netflix needed to modify its content portfolio to comply with censorship and broadcast regulations in multiple geographic regions. Netflix faces political challenges related to tax policy. To remain profitable, Netflix must effectively navigate and comply with the many tax regulations in place in various countries. Netflix's cost structure has been affected by the imposition of digital services taxes in certain European countries. Trade policy also has an impact on Netflix's operations. The phenomenon of digital globalization has led to increased trade agreements and tensions over data flows and digital services. The shift's potential impact on Netflix's global expansion. The importance of political stability cannot be underestimated. Netflix's market entry and exit decisions may be influenced by an unstable political environment. Potential impacts on Netflix could come from rapid changes in legislation, uncertainty in the regulatory framework, or political instability within the country [10]. The political tricks Netflix uses play a key role in determining its level of success. The company needs to keep a close eye on political affairs and adjust its strategy to maintain efficient and economically viable service delivery.

### 3.2. Economy

Netflix is reliant on consumer spending, which fuels the economy. Netflix's revenue is dependent on user disposable income due to its subscription strategy. Netflix may be able to boost membership prices in countries with more disposable income [11].

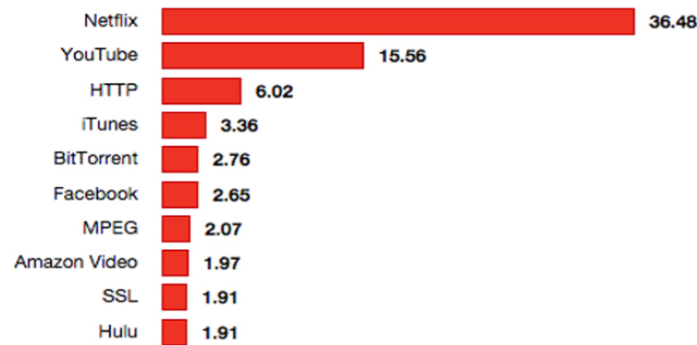
Economic cycles are also important. In a difficult economy, people spend less on non-essentials like Netflix. This may have an impact on corporate subscriptions and profits. However, when the economy improves, people spend more money on Netflix. According to Johnson and Turner, this might improve Netflix's performance in 2021.

Netflix is also affected by economic issues such as the exchange rate. Netflix generates revenue in a variety of currencies. Currency rates have an impact on Netflix's sales and profitability [12].

Netflix's costs should take inflation into consideration. This includes operational and content production costs. If inflation rises, Netflix may pay more [11]. This may have an impact on the company's profitability unless they boost prices to offset these costs.

The economy has a significant impact on Netflix's operations and strategy. By identifying and resolving these variables, Netflix may improve its chances of success in the competitive media platform sector.

TOP SITE BY PERCENTAGE OF DOWNSTREAM INTERNET TRAFFIC IN NORTH AMERICA



Source: Sandvine

Figure 2: Popular sites in north america

### 3.3. Sociocultural

Netflix's success is influenced by sociocultural factors. As a global streaming service, Netflix caters to a diverse audience with diverse cultural interests. Understanding cultural variations and tailoring material to them is critical for company success and customer retention.

Cultural differences may have a significant impact on content selections across regions and people. Because of its cultural themes and languages, Bollywood films and programming may be favoured in India over Western fare. Western viewers, on the other hand, may favour Hollywood or British dramas.[13] To fulfil these various interests, Netflix must engage in local content production or licence local content producers. Viewer preferences might be influenced by social ideals and trends. Diversity and inclusiveness-promoting content is in high demand. To counteract this trend, Netflix develops and promotes programmes and films with diverse casts and societal issues [14].

Netflix use data analytics to learn about cultural and socioeconomic preferences. The company monitors what, when, and how long consumers watch video. Viewer interactions that have been rated and evaluated are also recorded. Data is evaluated to anticipate future viewing activity and ascertain viewer preferences [15].

Netflix may tailor its content strategy to customer preferences using this data-driven manner. It may make investments in genres or themes that are popular in the area. It may also decide to remove underperforming things from its inventory. Netflix uses data analytics to steer its content strategy and ensure that it remains relevant to its diverse audience.

### 3.4. Technology

Netflix's business strategy is driven by technology. From content distribution to user interface design, Netflix employs technology to enhance its streaming experience.

To begin, Netflix takes judgements based on data analytics. The company gathers a lot of information about people's watching habits. Netflix analyses this data using powerful algorithms to drive its content strategy, marketing, and user interface design [16].

Netflix delivers material using technology. The organization provides high-quality video to subscribers worldwide using cutting-edge technologies. For a seamless viewing experience, adaptive streaming technology changes video quality in real time dependent on network circumstances. Netflix invests in technology to improve its interface and consumer experience. Machine learning algorithms help the firm propose material to viewers. It evaluates and enhances its user interface to make it easier [17].

Finally, Netflix protects user data and content using technology. Data security and video stream

encryption prevent illegal access [18].

Netflix relies significantly on technology. Technology offers the organization an edge and improves customer service. Netflix's ability to adapt and innovate as technology advances is crucial.

### 3.5. Environment

Even though Netflix is primarily a digital streaming service, environmental factors still play a key role in its operations. This section will assess Netflix's environmental footprint, primarily its energy consumption in data centers, and the potential influence of these factors on its reputation and operational strategies.

Data centers, which are critically important for streaming services like Netflix, are known for their high energy consumption. These centers operate 24/7 and require substantial electricity not just to power servers, but also to cool the equipment and maintain optimal operating conditions [19]. Hence, Netflix, like other digital services, contributes to energy consumption and, consequently, carbon emissions.

Consumers, investors, and regulatory bodies are increasingly demanding greener practices and transparency in environmental reporting. Therefore, Netflix faces pressure to lessen its environmental impact and demonstrate its commitment to sustainability.

This environmental consideration impacts Netflix's operational strategies. For instance, the company might decide to invest in energy-efficient technologies or renewable energy for its data centers. It may also consider environmental factors when choosing data center locations, like access to renewable energy sources or natural cooling options.[20]

In conclusion, while the environmental impact of digital services like Netflix may seem less visible compared to other industries, it is a significant consideration both in terms of operational sustainability and corporate reputation. It is essential for Netflix to manage its environmental footprint effectively to meet stakeholder expectations and maintain its market position.

### 3.6. Legal

The final subsection will delve into the legal aspects affecting Netflix's operations. These encompass various legal frameworks, including copyright laws, data protection regulations, and censorship rules, across different geographical markets.

Copyright laws play a pivotal role in Netflix's content strategy. The company has to navigate the intricate landscape of copyright regulations when securing content rights for different regions. Infringement of these laws could lead to lawsuits, financial penalties, and harm to Netflix's reputation [21].

Netflix is also affected by data privacy laws. Netflix handles massive amounts of user data. The European General Data Protection Regulation (GDPR) requires strong data processing and privacy safeguards [22].

Censorship regulations also influence Netflix's content strategy. In certain countries, content regulations may limit what Netflix can offer, leading to a necessity for content adaptation or even removal in specific markets. Understanding and complying with these rules are critical to avoid legal problems and maintain access to different markets [23].

In conclusion, the legal environment significantly shapes Netflix's operations. The company must effectively navigate these diverse legal frameworks to ensure compliance and avoid potential legal pitfalls. This requires a thorough understanding of the laws in each of its markets and a robust legal strategy.

By carefully examining these six aspects, the PESTEL analysis will provide a comprehensive understanding of the macro-environmental factors influencing Netflix's strategic and operational



decisions. This analysis can guide Netflix in shaping its strategies to effectively navigate these factors and maintain its competitive edge.

Table 1: Summary of analysis

Factor	Key Points
Politic	<ul style="list-style-type: none"> <li>- Policy regulations shape content strategy and availability</li> <li>- Tax laws and trade policies affect profitability and service delivery</li> <li>- Political stability influences market entry or exit decisions</li> </ul>
Economy	<ul style="list-style-type: none"> <li>- Consumer spending power directly affects revenue</li> <li>- Economic cycles impact subscription numbers and revenue</li> <li>- Exchange rate fluctuations affect reported revenue and profitability</li> <li>- Inflation rates influence operational costs</li> </ul>
Sociocultural	<ul style="list-style-type: none"> <li>- Cultural differences and societal trends influence content preferences</li> <li>- Data analytics used to understand and cater to these preferences</li> </ul>
Technology	<ul style="list-style-type: none"> <li>- Data analytics used in decision-making process</li> <li>- Advanced streaming technology ensures high-quality content delivery</li> <li>- Machine learning algorithms used for personalized content recommendations</li> <li>- Technology used to secure content and user data</li> </ul>
Environment	<ul style="list-style-type: none"> <li>- Energy consumption in data centers contributes to environmental footprint</li> <li>- Pressure to reduce environmental impact and demonstrate commitment to sustainability</li> <li>- Environmental factors influence operational strategies, such as investments in energy-efficient technologies</li> </ul>
Legal	<ul style="list-style-type: none"> <li>- Compliance with copyright laws essential for content acquisition</li> <li>- Data protection regulations mandate stringent requirements for data handling &lt;</li> <li>- Censorship rules affect content strategy and availability in certain markets</li> </ul>

#### 4. CONCLUSION

This study has provided an in-depth examination of Netflix's business model with a primary focus on its utilization of data analytics in formulating content provision strategies and enhancing customer engagement. Through our exploration, we have highlighted the pivotal role data analytics play in Netflix's operations and its impact on the platform's success.

After found that Netflix's data-centric approach has significantly enabled it to understand user behavior and preferences. This understanding has, in turn, informed its content provision strategies, driving the platform's ability to create and acquire content that resonates with its audience. The result of these strategic decisions has had a profound impact on customer engagement and subscription retention.

Our results contribute to the literature on media platform strategy and data analytics. They also provide industry participants, notably media corporations, practical advise on how to handle the data-driven digital economy.

As digital platforms expand, they use data analytics. As a result, additional research is required to keep up with these changes and comprehend their consequences. Future research might look at data ethics, real-time analytics, and how changes in user behavior effect content strategy.

In conclusion, Netflix's data-driven business model serves as a powerful case study for other digital platforms. Its success underscores the transformative potential of data analytics when applied to strategic decision-making in media content provision and customer engagement.

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