The specificity of online entertainment services. Case study: Netflix

Abstrakt
Specyfika internetowych serwisów. Studium przypadku: Netflix
Serwis Netflix to jeden z największych na świecie internetowych serwisów rozrywkowych, dostępny w ponad 190 krajach dla ponad 130 milionów zarejestrowanych użytkowników. Platforma oferuje dostęp do globalnej biblioteki materiałów wideo zawierającej Netflix Originals, filmy pełnometrażowe i dokumentalne, seriale, programy i nie tylko. Materiały dostępne w serwisie mogą być różne dla poszczególnych rejonów i mogą ulegać zmianom na przestrzeni czasu. W artykule przeanalizowano historię Netflixa oraz jego usytuowanie na rynku na przestrzeni ostatnich lat (ilości subskrybentów) przez pryzmat konkurencyjnych serwisów i zawartości merytorycznej.

Słowa kluczowe: Netflix, rozrywkowe serwisy internetowe, wideo

Netflix has become a significant provider of television content through its streaming platform. This provision of television content – ranging from drama series to reality television – has been concomitant with an increase in digital and online viewing.

Not only does it distribute content, but Netflix has also entered the field of production. This situates Netflix within the same institutional landscape of television and makes it a competitor with the television industries for television viewers. A broader paradoxical discourse has emerged, one that imagines Netflix as television
but also as the company that will sound the death knell of television. Reviewers, business analysts, audience measurement agencies, and the public more broadly have continued to both align Netflix with television and to perceive it as a challenge to television, distinguishing between linear and new, internet-based television.

There are some obvious and fundamental differences between Netflix and linear television. Netflix is not transmitted live and refrains from streaming content that depends on the experience of liveness such as chat shows, news, and sports. Netflix’s provision of content remains largely post-broadcast, although release windows are narrowing. Netflix identifies itself as distinct from linear television, claiming that internet television is not simply a competitor of linear television but that it will eventually replace it.

**Viewers/ Subscribers**

Content providers such as Netflix endeavor to understand their audiences. The business model of both linear and internet television is dependent on capturing the largest audience market for any content. As Napoli suggests, media industries are not simply producers of content; they are at the same time producers of audiences. The financial model of the linear television industry works by initially offering a predicted audience to advertisers, then costing advertising in relation to the measured audience as determined by measurement companies such as Nielsen. For Napoli, content providers do not simply deal in audiences; they more specifically deal in audience attention: “human attention resists the type of exact verification and quantification that typify the transactions that take place in most other industries. Steel is weighed, insurance is expressed in specific dollar amounts of coverage, and legal advice generally is measured in terms of the amount of time spent producing and delivering it. Thus, when measurement is in pounds, dollars, or hours, reasonably precise and stable measurement systems facilitate these transactions, and the products of them are reasonable tangible.”

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5 P. M. Napoli, op.cit., p. 5.
Television organizations are perhaps more closely associated with audience measurement given that the business model largely depends on the relationship between viewer engagement and content. Barrie Gunter suggests, “within the television industry, audience measurement is important to judge the performance of programs, to guide decisions about program scheduling, and for advertising planning and trading.”

This knowledge is sometimes pursued by the media companies as a way of confirming the success of particular programming. More often, the generation of knowledge about an audience is part of the commercial process of advertising. In this case, separate audience measurement companies such as Nielsen sell data to television organizations so that the latter can more effectively price its advertising space. Subscription-based television operators such as HBO and Netflix do not depend on advertising revenue, but they still retain an investment in audience measurement, since continuous audience engagement secures subscriptions. Audience measurement systems and organizations have historically tried to negotiate between volume and value. In other words, they were tasked with generating data on overall audience size and demographic as well as personal and individual engagements with media. In the early years of audience measurement, sampling was used in order to overcome the issue of volume. Since it was impossible to assess exactly how many people were listening at a given time, representative samples were used to determine or estimate overall audience listenership. As Webster, Phalen, and Lichty note, telephone sampling was used in the 1930s, whereby listeners were asked to recall what they had engaged with the previous day. From data generated through user interactions, Netflix gains insights on, and develops recommendation models for, individual subscribers. In addition, it acquires insights on overall, total audience patterns and behaviors. It can assess the performance of individual assets (TV shows or films) much more closely and with much greater accuracy. With large amounts of data on overall user engagement with individual shows, films, or genres, it can more quickly act (to purchase or remove content). It can, in theory, target content to users more effectively, based on the way in which such data can be used to predict viewing patterns. Thus, Netflix overcomes many of the pitfalls of traditional audience measurement. It solves the issue of sample size since it can measure all its subscribers in real time. It can assess individual user engagement with great detail, measuring how users engaged (through interactions

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such as scroll, select, pause, return to interface). It overcomes the limits of the people meter by incentivizing individual profiling, where use of the individual profile results in personalized recommendations. In addition, the Netflix subscriber is invited to participate by rating content according to their tastes and values. Where individual value judgments in traditional audience measurement systems had little impact on future scheduling, Netflix’s data algorithms will tailor content to the individual user. The company has developed a system that seems to resolve these issues might seem beneficial to viewers as well as media industries. Its model of prediction and recommendation does not depend on or draw from actual user demographics (at least, so far as can be ascertained).

Chart 1. Netflix subscribers 2012-2018

Source: https://www.statista.com/chart/10311/netflix-subscriptions-usa-international/

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9 S. Arnold, Kindle Locations 1458–1465.
10 Ibidem, Kindle Locations 1466–1469.
It can assess a comprehensive history of viewing behaviors at the level of the individual, including pleasures, interests, and dislikes. It is interactive in that it allows the user to “speak back” to the service through a ratings system. This mechanism for providing feedback recalls the use of previous audience research such as telephone polls and panels, but with the added advantage of being thoroughly representative of individual viewing preferences rather than a reflective sample of a given population. Netflix seems to have erased the ambiguities and guesswork of traditional audience measurement, producing more accurate, detailed, and specific data on individual users.\(^\text{12}\)

Netflix in 2018 is the world’s leading internet entertainment service with 130 million memberships in over 190 countries.\(^\text{13}\) The chart below shows the tendency since 2012.

**Brief history of Netflix**

Netflix was founded 29 August 1997 in Scotts Valley, California by Marc Randolph and Reed Hastings, who previously had worked together at Pure Software. The company was founded in order to provide movie rentals. The first DVD rental and sales site, netflix.com was launched a year later. In 1999 they offered a subscription service with unlimited DVD rentals for one low monthly price. However, what we call breakthrough was yet to come. In 2007 and 2008 the company started to provide streaming services and partnered with consumer electronics companies to stream on the Xbox 360, Blu-ray disc players and TV set-top boxes. By 2010 Netflix was available on PS3, Internet connected TVs the Apple iPad, iPhone and iPod Touch, the Nintendo Wii, and other Internet connected devices.\(^\text{14}\) The company’s expansion outside the US started in 2010 to Canada, in 2011 launched throughout Latin America and the Caribbean. In 2012 Netflix became available in Europe including the United Kingdom, Ireland and in the Nordic Countries. 2013-2015 the company expended to the Netherlands, Austria, Belgium, France, Germany, Luxembourg and Switzerland, Australia, New Zealand and Japan, with continued expansion across Europe in Italy, Spain and Portugal. Its worldwide availability except Mainland China, Syria, North Korea and Crimea was announced in 2016.

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\(^{12}\) S. Arnold, op.cit., Kindle Locations 1484–1489.


Netflix Mission

An organization’s mission and vision are its deepest statements of purpose, defining what it exists to accomplish and how it aims to do it. Well-defined mission and vision statements play a huge role in entire talent management process, from writing job descriptions to sourcing to onboarding and managing employees.

Netflix doesn’t have an “official” published mission statement, but at the Dublin Founders conference in October 2011, co-founder and CEO Reed Hastings expressed a clear vision for the future of Netflix which includes:

– Becoming the best global entertainment distribution service
– Licensing entertainment content around the world
– Creating markets that are accessible to filmmakers
– Helping content creators around the world to find a global audience\(^{15}\).

Netflix did, at one point, referred to its brand promise as a “quest,” which many would equate with a mission statement. The published that brand promise was:

We promise our customers stellar service, our suppliers a valuable partner, our investors the prospects of sustained profitable growth, and our employees the allure of huge impact\(^{16}\). Additionally, Netflix has published its company values, which provide further clarification about the principles which guided its employees in their daily decisions and activities. The Netflix Company Values were published as:

– Judgment
– Productivity
– Creativity
– Intelligence
– Honesty
– Communication
– Selflessness
– Reliability
– Passion\(^ {17}\).

The company strongly emphasizes its reputation as a highly innovative enterprise through public statements such as: “Innovation involves a lot of failure. If we’re never failing, we aren’t trying for something out on the edge from where we are today. In this regard, failure is perfectly acceptable at Netflix. (…) The only real failure that’s unacceptable at Netflix is the failure to innovate\(^ {18}\).”


\(^{16}\) Ibidem.

\(^{17}\) Ibidem.

Requirements for streaming

To use Netflix, it’s necessary to have a compatible internet-connected device and app. According to Netflix, the minimum required connection speed is 0.5 megabits per second however 5.0 Megabits per second is recommended for HD quality and 25 Megabits per second – recommended for Ultra HD quality\(^{19}\).

Netflix Competitors

The most popular providers of “Internet-delivered” television content are Netflix, HBO Now (but not HBO Go), Amazon Prime and Hulu\(^{20}\). HBO Go that was founded in 2010 is, in certain ways, different from the other mentioned digital services since it is a video-on-demand service offered by the American premium cable network Home Box Office (better known as HBO). In other words, viewers are required to subscribe to a pay television provider or to a premium package in order to use HBO Go. However, a significant change of HBO’s previous business model came in April 2015 – the company officially launched its new Internet-delivered video service HBO Now to better appeal to customers who primarily use digital media and prefer them over the necessity of subscribing to a satellite provider or a cable television. On the other hand, HBO Now is available only in the United States and certain U.S. territories. Amazon Prime is a costlier digital service that offers not only an extensive library of television products and films (including original and critically-acclaimed television dramas such as Mozart in the Jungle, Transparent or Alpha House), but also additional features such as cloud storage, access to a large variety of e-books and music. Hulu provides the majority of its content for free (mild presence of advertising is quite understandable here); premium services are bound to Hulu Plus monthly subscription and their biggest advantage lies in availability of the latest seasons and episodes of the most popular television series and serials (often in less than 24 hours after they air on broadcast television)\(^{21}\).


\(^{20}\) Hulu is not available to the users living outside the United States of America and Japan (author’s remark).

Table 1. Netflix and its competitors’ fees and device support comparison

<table>
<thead>
<tr>
<th>Service</th>
<th>Price</th>
<th>Device Support</th>
<th>Number of Subscribers</th>
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<tbody>
<tr>
<td></td>
<td>Cost for user</td>
<td>Android</td>
<td>Apple TV</td>
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<tr>
<td>Netflix</td>
<td>$8 one screen per month $11 two screens per month $14 per month / four screens per month Ultra HD</td>
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<tr>
<td>Hulu</td>
<td>$7.99 per month / one screen with ads $11.99 per month / one screen, no ads Live TV option $35 per month</td>
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<tr>
<td>Amazon Prime</td>
<td>$12.99 per month $119 per year Live TV option $35 per month</td>
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<tr>
<td>Instant Video²⁴</td>
<td>$14.99 per month for three simultaneous streams</td>
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<td>•</td>
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<tr>
<td>HBO NOW²⁶</td>
<td>Free of charge but there are ads</td>
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²⁴ The service is rolled into Amazon Prime, which also gets customers things like free shipping on Amazon, music streaming, discounts at Whole Foods (remark by author).
²⁶ It’s also available on Amazon Kindle. (remark by author).
Netflix is the world’s leading internet entertainment service with 130 million memberships in over 190 countries enjoying TV series, documentaries and feature films across a wide variety of genres and languages. Members can watch as much as they want, anytime, anywhere, on any internet-connected screen. Members can play, pause and resume watching, all without commercials or commitments.

Technology-research company Comparitech found that Japan is the most cost-effective country to use Netflix in. Japan has 6,000 movies and TV shows, the most of any of the 24 countries featured in the study. The cheapest country to use Netflix in is Turkey, where the service costs $3.27 a month. The most expensive country to use Netflix in is Denmark, and the least cost-effective country is Norway.

Infographics 1. Netflix library sizes and monthly costs

Source: https://www.comparitech.com/blog/vpn-privacy/countries-netflix-cost/

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28 Comparitech found this by looking at how many movies and TV shows are available on Netflix in 24 countries, based on figures from the unofficial Netflix Online Global Search (uNoGS), and dividing that number by the cost per month of Netflix in each count. See more: https://www.comparitech.com/blog/vpn-privacy/countries-netflix-cost/ [accessed: 11 October 2018].
In its 2018 Internet Phenomena Report, Sandvine notes that Netflix accounted for 15 percent of all global downstream traffic volume in 2017. The Sandvine report also notes that Netflix also accounted for around 3 percent of all global upstream traffic. The Netflix domination looks different across different regions of the world. In the Americas, Netflix accounts for around 19 percent of all downstream traffic and over 5 percent of upstream traffic. In the EMEA region of the world, Netflix only  

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30 EMEA is a shorthand designation meaning Europe, the Middle East and Africa (author’s remark).
accounted for around 12 percent of downstream traffic, bested by YouTube which took the top spot at around 16 percent of the volume\textsuperscript{31}. In the APAC region\textsuperscript{32}, Netflix fell to third, with only 6 percent of all downstream traffic, edged out slightly by Facebook Video and more nominally by the generic “HTTP Media Stream”\textsuperscript{33}. When only considering video streaming, Netflix accounts for about 26 percent of the world’s total volume of downstream traffic, with competitor Amazon Prime Video at a distant 5th place as it consumed just under 6 percent of that volume\textsuperscript{34}.

Infographics 3. Global application traffic share.


\textsuperscript{31} Sandvine, op.cit.

\textsuperscript{32} APAC region is Asia Pacific – the part of the world in or near the Western Pacific Ocean (author’s remark).

\textsuperscript{33} Sandvine, op.cit.

\textsuperscript{34} Ibidem.
Content is the key

Netflix announces new and upcoming shows on its website every month. Some of the programs are available only on Netflix, while some are available on other similar services. Netflix original content is available exclusively on Netflix.

In 2013, Netflix launched its first three original series, “House of Cards”, “Hemlock Grove”, and “Orange is the New Black”. The streaming service pulled in 31 primetime Emmy nominations for its original shows.35

In January 2018, Netflix had nearly 15,400 titles across all of its regional libraries.36 Despite years of library size decline, Netflix’s U.S. library size is slightly larger in 2018 than in past years. As of January 2018, Netflix had 5,599 titles. In March 2016, the service had 5,532. The 2018 number is still a large decrease from 2014, when Netflix had over 8,000 titles in the U.S. content library.37 Thanks to its HERMES translation platform, Netflix is able to offer content in over 20 languages.38

Netflix offers hundreds of TV programs and movie titles – definitely too many to list in this article – and additions (and subtractions) are made on a monthly basis. However, to give an idea of what to expect, here are some examples (as of 2018; subject to change at any time):

**ABC TV Shows** – “Lost”, Marvel’s “Agents of Shield”, “Once Upon A Time”.

**CBS TV Shows** – “How I Met Your Mother”, “Hawaii Five-0 (Classic Series)”, “Hawaii Five-0” (Current Series),” Mash”, “Star Trek – The Original Series” (Originally Aired on NBC, but now owned by CBS).


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37  Ibidem.

Netflix Original Shows

In addition to streaming its vast library of TV series and movies, Netflix has produced a wide range of original content, which is available for streaming.

**Drama series** include e.g.: “Daredevil”, “Bloodline”, “Hemlock Grove”, “House of Cards”, “Jessica Jones”, “Orange is the New Black”, “ Stranger Things”, Marvel’s “Luke Cage”.

**Documentaries** include e.g.: Keith Richards: Under the Influence, “Making a Murderer”, “Mission Blue”, “Chelsea Does”, “Cooked”, “Chef’s Table”, “E-Team”.

Anime, which is hugely popular in the West, became a new original series at Netflix in 2016. **Initial anime** series entries include AJIN: “Demi-Human”, “Glitter Force”, “The Seven Deadly Sins”, Magi: “The Adventures of Sinbad”, “Knights of Sidonia” and “Kuromukuro”.

Comedy series, although Netflix offers plenty of comedy shows, it also produces its own. Netflix original **comedy shows** include e.g.: “Bojack Horseman”, “Master of None”, “Grace and Frankie”, “Real Rob”, “Unbreakable Kimmy Schmidt”, “Fuller House”.

**Kids series** – Netflix has a dedicated kids area on Netflix that already has lots of original programming. The service has partnered with Dreamworks to develop even more original children’s series. Current titles include: “Care Bears and Cousins”, “Dinotrux”, H2O: “Mermaid Adventures”, “Inspector Gadget”, “Popples”, “Project Mc2”, “Richie Rich”.

In each country, Netflix offers different shows and movies. Studios enforce copyright by country, as different markets have different demands for specific content. For example, a movie that was very popular in the United States might be uninteresting in Brazil, and a hit British comedy might not be so funny to American audiences. The studios charge more for Netflix to offer streaming of specific titles in some countries compared to others. Because the content deals are country specific, Netflix may choose to pay the studio-demanded price to stream a title in one country, while negotiations in other regions fall flat.

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Map 1. Most Popular Netflix shows by country 2018.

Despite huge profits, Netflix’s spending strategy is resulting in negative cash flow. The company’s 2017 free cash flow was minus $2.0 billion. The majority of
that is due to the company’s aggressive spending on new original content, which it hopes to make up for in new subscriptions\(^{40}\). 

According to multiple sources, Netflix plans to spend $8 billion on new content in 2018. The company also plans to spend $2 billion to market its service and content\(^{42}\).

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\(^{40}\) S. Cook, op.cit. [accessed: 6 October 2018].


2018 is going to be Netflix’s biggest year yet for original content. The company is set to release 700 original TV shows as well as 80 original films in 2018\footnote{T. Spangler, Netflix plans to release 80 original films in 2018 — and some huge names are on board, https://www.businessinsider.com/netflix-plans-to-release-80-original-films-in-2018-2017-10?IR=T [accessed: 18 August 2018].}.

Netflix’s original programming has received over 430 award nominations and 72 awards given. “House of Cards” holds 29 of those awards. Netflix earned fourteen Primetime Emmy nominations for original online-only web television programs\footnote{B. Stelter, Netflix Does Well in 2013 Primetime Emmy Nominations, “New York Times”, 18 July 2013, https://artsbeatblogs.nytimes.com/2013/07/18/watching-for-the-2013-primetime-emmy-nominations/ [accessed: 10 October 2018].}. “House of Cards” pilot episode “Chapter 1” was awarded the Primetime Emmy Award for Outstanding Directing for a Drama Series, becoming the first webisode of a television series to win an Emmy\footnote{See more: http://www.emmys.com/shows/house-cards [accessed: 10 October 2018].}.
According to PwC surveyed exclusive content – including original content – is a key component of creating a successful streaming service, but it’s not enough. When selecting streaming services, respondents are more drawn to having a wide variety of content available (37%) than having access to exclusive content (27%). Just 35% of respondents indicate that original programming is “very important” in influencing their decision to subscribe. Focus group respondents are unenthusiastic about original content produced by providers without an established reputation for it. In fact, exclusive or original content might draw consumers to free trials or temporary subscriptions but won’t necessarily garner loyalty. Services that focus on long-term brand building alongside content development can avoid situations like this. Viewers are most eager to watch – and pay for – a streaming service from a brand that already has an established presence with unique content. This reinforces the idea that powerful branding can drive success in a sea of clutter.

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Conclusions

Netflix is a worldwide streaming service that allows customers to watch a wide variety of award-winning TV shows, movies, documentaries, and more on thousands of internet-connected devices. It has built a business model of spending immense amounts on content, using it to attract new subscribers, and then using those new subscribers as its pathway to market value. For better or worse the company has change not only the entertainment business, but also the way we watch television. The way people experience watching platforms like Netflix is the key here – subscribers specifically select those shows that best suits their entertainment preferences and individual expectations, viewing content without having to watch a single commercial.

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