“Look at the Bigger Picture”

An Analysis of Netflix’s Business Model and Strategy

From CEO Reed Hastings’ Long-Term View

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Dedication

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Abstract

“Look at the Bigger Picture”: An Analysis of Netflix’s Business Model and Strategy From CEO Reed Hastings’ Long-Term View
Amanda Ramsaran

This thesis is more of a case study, aiming to explore the potential impact of Netflix’ business model and strategy on the traditional television and film ecosystem. It is a forward-looking examination, derived from CEO Reed Hastings’ Long-Term View for Netflix as declared through the company’s Investor Relations website in February 2014. This outlook was presented the same time the company’s 10-K was filed for Fiscal Year [FY] 2013 with the Securities and Exchange Commission.

Reed Hastings’ Long-Term View for Netflix is written like a manifesto, declaring the revolutionary power that the company holds with regards to the television and film industry, primarily as a distributor of content. Netflix’s power lies within its proprietary system and application technology that offers its subscribers suggestions and recommendations on what next to watch based on their viewing preferences and history. This collection of data has allowed Netflix to make decisions on content licensing and acquisition and, within the last few years, investment in original content. The Internet TV network’s platform is available to subscribers for a no-commitment low monthly fee. Content is widely accessible, from any Internet connection and across a multitude of devices, from smartphones to large-format Smart TVs.
Hastings declares that “the linear TV channel model is ripe for replacement” because of new time-shifting capabilities and technological advancements, including Netflix’s own, that have given audiences advanced screen proliferation, and new choices in how they consume television and film, primarily through the Internet. This case study aims to present the ways in which Netflix is challenging that linear television model and theatrical film release model alike through their business model and strategy, as outlined particularly in the company’s long-term view, outlook in their financial documents to investors, and releases about future endeavors.
Introduction

“Studios and networks who ignore either shift - whether the increasing sophistication of storytelling, or the constantly shifting sands of technological advancement - will be left behind. And if they fail to hear these warnings, audiences will evolve faster than they will. They will seek the stories and content providers who give them what they demand… Netflix and other similar services have succeeded because they have married good content with a forward-thinking approach to viewing habits and appetites” (Spacey).

The revolution will not be televised. Rather, it will be available for unlimited, on-demand streaming through an Internet TV network across a multitude of devices for a commitment-free monthly fee. This is happening through Netflix, Inc. and the television and film ecosystems, from pre-production to distribution, are beginning to understand the company’s power as it champions for its rapidly-increasing membership domestically and internationally. The Los Gatos, California-based company possesses the first-mover advantage as “the world’s leading Internet television network with more than 50 million streaming members in over 40 countries enjoying more than one billion hours of TV shows and movies per month, including original series” (Netflix, Inc. 2014).

Upon Netflix releasing its financial data to the Securities and Exchange Commission [SEC] for Fiscal Year 2013 [FY 2013] at the beginning of 2014, CEO Reed Hastings also took to the company’s Investor Relations page with an outlook of his own.
He shared a manifesto titled “Netflix Long-Term View” and is an outline of his prospects for the company.

The document is a broad look at what Hastings sees for Netflix, as a framework of the vision, mission statement, and values that the company has adopted and operated on since defining its core competence as an “increasingly global Internet TV network” (Hastings, April 2014).

It starts out declaring to be a model for the future as audiences turn to Internet TV after their disappointments with the linear TV experience. There is still a bit of chaos as those linear TV outlets have started to offer applications [“apps”] on Internet-based platforms as a slight transition to the Internet TV model and confusion among audiences trying to access it and still required to have a linear TV service, either via a cable or satellite provider. Netflix aims to be the activity of choice for its members who are fed up with such complications and underwhelmed by the lack of freedom, choice, and availability of programming from their traditional television service. Its proprietary platform of determining viewer habits and offering suggestions of what members will enjoy is a far more intelligent system for audiences over mindlessly waiting for television seasons to come and go with executives determining what stays and what goes based on seemingly archaic Nielsen ratings and performance. Furthermore, Netflix curates its library with the most relevant titles. The company’s ventures into producing original content has been a vastly successful, adding value to the Netflix brand and also providing
a revolutionary economic model by committing to full seasons rather than order pilots and subsequently testing them. Also contributing to the growth of the Netflix brand are its endeavors in international expansion since 2010. The company has also identified its place in the market relative to its competition and highlights Time Warner’s premium cable network HBO as its “biggest long-term competitor-for-content” (Hastings, April 2014). On another front, Netflix covers the complicated relationship it has been having with some Internet service providers [ISPs] domestically, and is actively championing for net neutrality to prevail from the Federal Communications Commission [FCC] in a future ruling in order to best serve its members, as well as seeking to block a merger between Comcast Corp. and Time Warner Cable Inc., two cable Internet providers whose relationship with Netflix has become complicated in their interconnectivity infrastructure. Financially, the company highlights its margin structure and growth coming primarily out of revenue from the domestic sector and using it to fund international expansion and content acquisition. Membership growth is immediately tied to revenue potential and how expenditures are influenced as the primary measure of Netflix’s success.

Once Mr. Hastings has closed out the document, there is a disclosure that the “forward-looking statements…are subject to risks and uncertainties” that are outlined in detail in Netflix’s Annual Report within Form 10-K filed with the SEC on February 3, 2014 for FY 2013 (Hastings, April 2014). Furthermore, Netflix sees “no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this document” (Hastings, April 2014). Despite this notice, Netflix is at the
forefront of a revolution in the distribution of television and film content via the Internet
to its members. In addition to outlining what is in store for the company in the future,
Hastings offers insight on what he sees for the industry as an Internet TV network and the
technological landscape surrounding it. It is the definition of a model and strategy that is
embraced and challenged by everyone from independent content creators to major
entertainment conglomerates.
Literature Review

Netflix’s Long-Term View, as written by CEO Reed Hastings on the company’s Investor Relations website will serve as the primary source and offer the framework of this thesis. The document aims to present the ways in which “Netflix is leading the way around the world” as an Internet television network (Hastings, April 2014).

On the topic of Netflix’s forward-looking statements and strategies, financial data and statements on the nature of the business coming directly from the company itself have been used as primary sources. The most recent data was released on July 21, 2014 for Q2 2014, and includes their letter to shareholders and an edited transcript of their earnings call with Thomson Reuters. Prior to this, data for Q1 2014 was made available on April 21, 2014. The most recent complete financial data set is Netflix’s Form 10-K filed with the SEC on February 3, 2014 for FY 2013, also used as a source for this thesis. These documents not only contain facts and figures of the company’s financial performance, but also outline the nature of the business, its organization structure, some strategic insight, and risk factors in the operation of the business.

Netflix is very tight-lipped about its internal workings, especially regarding its collection of “big data” on subscribers’ viewing habits and personalization preferences. The company does not provide much insight on its metrics other than to plainly say what is working and what isn’t. Literature that does exist on the subject is either speculative or originates from Netflix’s press releases. There are a few exceptions; for example, the
Associated Press was invited to the company’s headquarters for the launch of the first season of *Orange is the New Black* to observe the technical aspects of the process (Liedtke, 2013).

While Netflix itself keeps its proprietary information to itself, CEO Reed Hastings, CFO David Wells, and Chief Content Officer Ted Sarandos are not entirely elusive. All three key personnel have contributed to not only matters involving investor relations and press releases directly from the company; they have made appearances in everything from print media to cable news in order to put a human face to the recommendation and personalization engine that determines what its subscribers want next. Netflix’s company blog is perhaps the most pro-consumer link to current and future subscribers; it primarily features posts from its communications and technology teams on what’s new and available for the service but on occasion even Hastings has contributed. In March 2014, he wrote about the importance of “strong net neutrality” to the service and how subscribers can help take action in understanding how it works and making appeals to the Federal Communications Commission and their respective Internet service providers on better access (Hastings, March 2014). Wells leads the investor calls on Netflix’s side every quarter and they have been made available to the public on YouTube. Meanwhile, Sarandos spoke about fighting a convention of traditional television, “waiting”, to CNN’s Brian Stelter on the heels of the release of season 2 of *Orange is the New Black* (2014). Some of Netflix’s engineers have shed some light on their inner workings without being too transparent; Engineering Director Xavier Amatriain and Vice
President of Product Innovation, Personalization Algorithms Carlos Gomez-Uribe shared with Wired magazine how the algorithms and technology that power Netflix’s platform work (Vanderbilt, 2014). Just outside of Netflix’s immediate camp is Kevin Spacey, who plays Senator Francis Underwood in *House of Cards*, Netflix’s first domestic venture into original programming. He spoke at the Edinburgh Television Festival, not only as an actor, but as a producer of the series, and the differences in being involved with a business model so far removed from the industry norm: “Frankly… I wouldn’t have been up here lecturing you because my agent would have never even allowed me to even consider being on a television series after winning an Oscar, much less something ‘streaming’” (Spacey). The literature available between all those involved in and out of Netflix’s operations is very positive, forward-thinking, and maintains an air of confidence regarding the success of the service. Despite keeping the actual data and other proprietary information to itself, the company presents itself candidly, especially to its subscribers, to further explore their relationship with the network.

Other literature that exists on giving forward-looking insight into Netflix’s business model and strategy includes company history and background, interviews with key personnel, and some academic research. Ken Aulettta of *The New Yorker* wrote a cover story on the company’s history and the direction where it is headed, relative to other prospects in the film and television industry (2014). Tim Wu of Columbia Law School wrote in *New Republic* of the bold new direction Netflix is headed into as it began to self-identity as a “network”, as opposed to “new media venture” or “tech
“startup” (2013). Although members of Netflix’s technology and engineering camps have
gone on record to talk about how the service works, there are some speculative reports on
how it all comes together. Alexis Madrigal of The Atlantic mapped out all 76,897
microgenres within its personalization engine, interviewed Vice President of Product
Innovation Todd Yellin to match how close he came, and spoke of the potential that the
game has in further determining original programming decisions (2014). SNL Kagan’s
research has focused more on finance, marketing, and valuations of Netflix’s endeavors.
The source has covered their prospects for the company in their most recent Economics of
Mobile Programming, Media Trends, and State of Online Video Delivery publications. In
addition to analyzing the market relative to Netflix as first-mover, there are projections
made with regard to the state of over-the-top [OTT] subscriber activity trajectories
relative to multichannel video program distributors, cable and satellite alike (SNL Kagan,
December 2013).

This thesis aims to cover all of the forward-looking prospects for Netflix for their
business model and strategy as outlined in Hastings’ Long-Term View and put them into
perspective through analysis of financial data, subscriber data relative to its “biggest
long-term competitor-for-content” HBO (Hastings, April 2014), statements made by key
personnel involved either directly or in cooperation with the company, and research
completed by third-parties. While Netflix is known for keeping its proprietary data to
itself, this thesis aims to add a dimension of transparency to the company's operations and
present the ways it will secure its success as it proceeds to revolutionize the way people
experience receiving television and film content for their entertainment at any time and any place, on [almost] any device.
Methodology

Derived from prospects that Reed Hastings outlined in Netflix’s Long-Term View, data was collected primarily through Netflix’s financial and subscriber releases. The company is very tight-lipped about other data and only makes it available internally. Specifics related to their service’s performance and success measures are inaccessible. That data that was obtained successfully was then converted into timeline-based charts, graphs, and tables throughout this document to add context to Hastings’ forward-looking statements. Historical data for Netflix was taken from the company’s financial statements, available on their Investor Relations site, starting with FY 2007 [the first year the company began their streaming service over the Internet (Auletta)] through FY 2013.

With regard to the projections for Netflix’s domestic subscriber growth for 2014 and beyond, the source data is inaccessible externally. A forecasting model was applied for the number of domestic year-end subscribers from 2014 to 2018 and percentage growth rate of domestic subscribers from 2014 to 2018. It was converted into a timeline graph and compared against HBO’s projections for domestic year-end subscribers and percentage growth/decline of domestic subscribers, as predicted by SNL Kagan. The calculations for Netflix are included in the Appendix to this thesis.

Data from HBO, which Netflix considers its “biggest long-term competitor-for-content” HBO (Hastings, April 2014), was taken from SNL Kagan’s dataset: total number of domestic subscribers and domestic subscriber percentage growth/loss rate. Historical
data is included for FY 1995 [the earliest year data is available] to FY 2013. These numbers were also translated to a timeline-based bar graph and compared against Netflix’s historical data from FY 2007 to FY 2013.

Table B is a listing of series that the company has lined up as “Netflix Originals” for the coming year and beyond. Renewed series *House of Cards* and *Orange is the New Black* have been included as they are distinguished as “Netflix brand advertising” as flagship series for the “Originals” brand. These originals are “in production” and were outlined in the Q2 Letter to Shareholders (Netflix, Inc., July 2014). Additional insight on production details was gathered from their respective Internet Movie Database [IMDb] pages.

Figure 4 features a map of all the regions that Netflix has expanded to internationally. The company does not have an official listing of the availability of its international streaming service; however, one was compiled from Andrew Wallenstein’s coverage on European expansion in Variety (2014). Regions where service is available are in varying shades of red and increasingly into purple for later markets. Regions in blue are prospects for the company within the next year or two.

The methodology is timeline-based and derives primarily from Netflix’s historical figures and company releases; however, it provides insight into futures, prospects, and opportunities where the data is kept proprietary for the company alone to analyze and
further expand their service. Relative to the already-existing data for HBO, actuals and projections alike, there is a seemingly unstoppable trajectory of success for Netflix’s business model and strategy, namely with their first-mover advantage as “the world’s leading Internet television network” (Netflix, Inc. 2014).
“Linear TV is popular but ripe for replacement”

Despite the popularity of linear TV, users are becoming more and more frustrated with the navigation and complexity of the medium. It is time-restrictive, it cannot adapt to all screens without the additional installation and learning curve that comes with ported apps, and its economics always have to account for price increases for infrastructure, additional features, and other upgrades over time.

“Netflix’s gambit…is to replace the traditional TV model with one dictated by the behaviors and values of the Internet generation. Instead of feeding a collective identity with broadly appealing content, the streamers imagine a culture united by shared tastes rather than arbitrary time slots” (Wu). Deciding what to watch on television has long been determined by a programming grid, the availability of shows and movies within each network’s respective schedule. Major cable and satellite television providers have tried to reinvent their subscription models, endeavors of which include TV Everywhere, a model to give their subscribers access to their respective networks’ live and on-demand content over the Internet. This authentication requirement is to hinder “cable cutting” efforts, growing in popularity as disgruntled cable and satellite subscribers turn to canceling their service and replacing it with combinations of over-the-air [OTA] broadcast channels, over-the-top [OTT] services like Netflix, rentals and purchases of online video, and piracy (Hastings, April 2014).
SNL Kagan’s research has identified three major scenarios, with data current as of September 2013, with regard to the future of OTT substitutes relative to the traditional cable/satellite multichannel package. Their forecasts present the ends of the spectrum for both markets as they see change over the next several years (SNL Kagan, December 2013).

**Figure 1: SNL Kagan Media Trends, Disintermediation Scenario (December 2013)**

- The first presents OTT substitutes as a mass disruption to the cable/satellite multichannel ecosystem. Changes leading to this forecast include “consumer dissatisfaction with the current offerings as well as signs of wear around the service provider and content owner relationship” (SNL Kagan, December 2013). For Netflix, this would mean consumers are seeing services like it more as a substitute for their
multichannel cable or satellite subscription and would turn to “cord-cutting” rather than continue to be dissatisfied.

Figure 2: SNL Kagan Media Trends, Return-to-Growth Scenario (December 2013)

- The second scenario predicted for the cable/satellite multichannel market against OTT substitutes is a return-to-growth model. “The multichannel segment will be able to attract more customers to the big subscription package and content providers will work to further secure the dual-revenue stream with exclusivity” (SNL Kagan, December 2013). The end result would be a rise in cable/satellite multichannel penetration and more reliable yearly subscriber growth. Netflix would potentially see the service peaking now, but within a year multichannel cable and satellite providers would be able
to turn around their service, for example, with better implementation and access to TV Everywhere for subscribers, leading to a drop in OTT substitutions.

Figure 3: SNL Kagan Media Trends, OTT Substitution Forecast (December 2013)

The third forecast is marked by “the continued prevalence of the multichannel subscription, assuming it remains the avenue for the majority of U.S. households to access high-value content in the immediate release window, including sports and other live programming” (SNL Kagan, December 2013). The cable/satellite multichannel providers barely escape major declines in customer subscriptions but may miss further expansion opportunities due to growth in OTT substitutes’ content libraries, exclusive deals, and programming of originals. Under this forecast, Netflix and OTT services like
it would see gains but would be seen as complementary to multichannel cable and satellite service instead of a replacement. OTT services could instead potentially be seen as a replacement for premium cable channels, like HBO/Cinemax, Showtime, and Starz/Encore, as more network-specific content becomes the output.

“Clearly the success of the Netflix model…has proved one thing - the audience wants the control. They want freedom. If they want to binge…then we should let them binge… Give people what they want - when they want it - in the form they want it in - at a reasonable price - and they’ll more likely pay for it rather than steal it… I believe this new model can take a bite out of piracy” (Spacey).
“The evolution to Internet TV apps has begun”

Part of Netflix’s first-mover advantage is that it was always an Internet TV network from the time it introduced its streaming service in 2007. Now, broadcast and cable networks and cable and satellite TV providers are shifting into Internet TV. There is a conundrum with how the linear network expects to keep up when its respective Internet TV app is so much more accessible, such as the case with HBO and its HBOGO app. Another conflict occurs in the case between ESPN’s app, which provides real-time sports content and news, while it would need to keep up with Major League Baseball’s [MLB] app and its respective Internet TV content.

In the Long-Term View, Hastings outlines how “Internet TV is better than linear TV in ways consumers care about” and is positive that “it will grow to replace linear TV” (April 2014). He is also hopeful that an increasingly drastic shift will take place in the future, where “as linear TV is viewed less, the spectrum it now uses on cable, fiber, and over-the-air will be reallocated to expand Internet data transmission,” while satellite television subscribers will be fewer and in more rural locations (Hastings, April 2014).

Apart from its ISP relationships and overseeing regulation, Netflix recognizes that Internet is “getting faster, more reliable and more available,” making accessibility to Internet TV networks like itself that much more prevalent. Technological advancements outside of what Netflix has developed for its own platform is helping to guide the
transition to a more Internet-based TV ecosystem that will come to rely on more internal
data and tailored metrics, rather than program grids and Nielsen ratings.

“Connected devices are proliferating and broadband pipelines are growing, but
both remain cogs in a machine that is ultimately subservient to content availability” and
one estimate of “core video devices connected to the Internet in U.S. households” to
reach 400 million at the end of 2013 (SNL Kagan, December 2013). Smart TVs with
Internet connectivity via Wi-Fi are predicted to become the standard. For peripherals,
Smart TV adapters like Google’s Chromecast and streaming media players like Apple TV
are improving continuously much like the apps and software used within the respective
device, highlight connectivity to Netflix in their product, and “as the category with the
lowest price point, consumer entry into the market is easy and could have the most direct
impact in the long-term” for this market (SNL Kagan, December 2013). Despite data caps
from wireless providers, tablet and smartphone viewing is also increasing due to greater
Wi-Fi connectivity on those devices. Including game consoles, Blu-Ray players, and
home theatre systems, Netflix is available on about 800 different devices (Liedtke, 2013).

“Streaming is the leading source for 4K Ultra-HD video” and the conversion to
this format is “being led by Internet video because Internet services can efficiently serve
just the homes with 4K televisions, while linear would have to convert entire markets
channel by channel” (Hastings, April 2014). Netflix offered the second season of House
of Cards in 4K Ultra-HD format, plus the Breaking Bad series, and has committed to
offering future original programming in 4K, all for their same low monthly subscriber fee.

Netflix highlights TV Everywhere being the catalyst for the “economic transition to Internet TV… If a consumer continues to subscribe to linear TV from a multi-channel video program distributor [MVPD], they will get a password to use the Internet apps for the networks to which they subscribe on linear TV” (Hastings, April 2014). Additionally, there are some MVPD providers like DIRECTV, Xfinity, and Sky Go with their own multi-channel app; however, consumers prefer the network apps because they are more tailored to suit the user. Apart from linear networks, Internet TV has enabled services like YouTube, Hulu, and Amazon Prime “to build large-scale direct-to-consumer services that are independent of the existing MVPD bundle” (Hastings, April 2014). It has become a very clustered marketplace but Netflix maintains its high market share through its first-mover advantage in the Internet TV space apart from the linear TV ecosystem that is finding ways to adapt now. Netflix is driving its own improvements and innovation, far ahead of the traditional system looking to keep up.
“Netflix singular focus”

Netflix was founded in 1997 by now-CEO Reed Hastings and Marc Randolph of Pure Software, Hastings’ previous startup centered around a platform to find software bugs. Mathematician Neil Hunt, one of Hastings’ former colleagues, was the first recruit for the company, and he helped “create a ‘personalization’ engine that would decipher what each subscriber liked to watch, based on what the subscriber has watched before, and suggest what he or she might want to see next” (Auletta). This algorithm would serve as a blueprint for Netflix’s targeting platform in the years to follow. Two years later, Ted Sarandos from West Coast Video, a local chain that operated similarly to Blockbuster, was hired as Chief Content Officer, given his deep knowledge of movies and TV shows. He was delegated to “broaden the range of material that Netflix made available” (Auletta).

In 2002, Netflix went public and finally evolved into a profitable venture. Hastings was adamant about differentiating the service from other film and TV distribution outlets in shifting to streaming content over the Internet. This became quite a struggle since most of the major film and TV studios already had long-term deals in place with existing premium cable channels like HBO, Showtime, and Starz. In 2008, Starz made a deal with Netflix to stream the movies it had acquired. “Starz and other content providers realized that Netflix offered not only a new source of revenue but also a way to build audiences for current broadcast and cable shows, by allowing Netflix subscribers to watch prior seasons” (Auletta). Notably, AMC Networks’ most recent successes in
original programming including *Mad Men, Breaking Bad, and The Walking Dead* have seen major gains in ratings, progressively each season because of their full availability through an on-demand network such as Netflix. Meanwhile, other broadcast and cable networks reached licensing agreements for the company to air previous seasons of their respective series; however, broadcast giants ABC, NBC, and Fox made current seasons explicitly off-limits. This was reserved for their answer to Netflix, a subscription-based ad-supported Internet TV network called Hulu, launched in 2008.

In addition to expanding their content library, Netflix worked to make itself more widely available across a plethora of platforms: streaming devices like Apple TV and Roku, video game consoles, smartphones, tablets, Smart TVs, and more. The company also began rolling out internationally in 2010, starting with availability of the service in Canada. At the beginning of 2011, Netflix announced that it would be developing its own original programming, starting with two seasons of political thriller *House of Cards*, created by Oscar-nominated screenwriter Beau Willimon and adapted from a 1990 BBC miniseries based on a Michael Dobbs novel, executive produced by David Fincher, and starring Kevin Spacey.

Towards the end of 2011, Netflix made a grave misstep. The company spun off its DVD-by-mail rental service as Qwikster in September, splitting its subscription service apart from its growing streaming platform. Instead of charging subscribers $8 per month to be able to stream from its library and rent DVDs through the mail, it now cost them
$16. There was a mass exodus of 800,000 subscribers and the company’s stock price fell sharply. Within a month; however, Netflix reversed plans for Qwikster but maintained the separation of the streaming subscriptions and the DVD rental business. Of the strategic move, Hastings recognized that the number of rentals were dropping, and likened it to following the opposite of AOL, Kodak, and Blockbuster’s stubbornness and eventual failures in replacing and updating their flagship product or service: “We would say, ‘Every business we could think of died because they were too cautious’” (Auletta).

After the Qwikster fallout, Netflix turned its attention to its original programming and gained some traction ahead of schedule at the beginning of 2012 with the acquisition of its first exclusive series, *Lilyhammer* starring Steve Van Zandt as an American Mafioso relocated by the FBI to Lillehammer, Norway. The show was originally produced for Norway’s NRK1 network but was postponed from its January 1, 2012 air date due to conflicts in product placement content that was illegal under Norwegian law during production (Bryne, 2012). It began streaming on Netflix on February 6, 2012.

A year later, *House of Cards* premiered on February 1, 2013 and Netflix made all 13 episodes available at once. The first season was lauded with critical acclaim, receiving nine Emmy nominations and winning three later in the year: Outstanding Directing for a Drama Series [David Fincher, “Chapter 1”], Outstanding Casting for a Drama Series [Laray Mayfield, Julie Schubert], and Outstanding Cinematography for a Single-Camera Series [Eigil Bryld, “Chapter 1”], marking “the first time a non-traditional television
show had won the award” (Auletta). Netflix garnered 14 nominations in total for its original programming at the 65th Primetime Emmy Awards in 2013 (Netflix, Inc., July 2014). *Hemlock Grove*, executive produced by Eli Roth, was the second Netflix Original to premiere in 2013, and all 13 episodes of its first season were made available on April 19. Netflix’s first comedy Original was the revival of FOX’s *Arrested Development*, with 15 episodes launching on May 26, 2013. “The most watched series in every Netflix territory” became comedy-drama Original from *Weeds* creator Jenji Kohan *Orange is the New Black* premiering on July 11, 2013 (Netflix, Inc., July 2014). The show’s first season was ineligible for nominations at the 65th Primetime Emmy Awards in 2013, but earned 12 nominations at the 66th Primetime Emmy Awards in 2014, more than any other comedy series, and won three: Outstanding Guest Actress in a Comedy Series [Uzo Aduba], Outstanding Casting for a Comedy Series [Jennifer Euston], and Outstanding Single-Camera Picture Editing for a Comedy Series [William Turro, “Tit Punch”]. Additionally, for the 66th Primetime Emmy Awards, “Netflix original series and documentaries received 31 Emmy nominations,” more than double of the previous year (Netflix, Inc., July 2014). 2014 also saw Netflix becoming a film distributor, acquiring Jehane Noujaim’s *The Square*, a documentary on the 2011 Egyptian Revolution coming out of Tahrir Square, after screening at the 2013 Sundance Film Festival and 2013 Toronto International Film Festival. The film, in addition to winning three awards out of four nominations at the 66th Primetime Emmy Awards, was nominated for the Academy Award for Best Documentary Feature at the 86th Academy Awards, presented by the Academy of Motion Picture Arts and Sciences (Netflix, Inc., July 2014).
Netflix self-identifies as “an increasingly global Internet TV network offering movies and TV shows commercial-free, with unlimited viewing on any Internet-connected screen for an affordable no-commitment monthly fee…extensive exclusive content is key, as is the ability for members to have control over their viewing experience” (Hastings, April 2014). While its core competency would appear to be content delivery, it has expanded to offering strong original content as well, with creative direction guided from its recommendation algorithm and platform. "When we start taking creative risks - that is, reading a script and guessing if it was going to be a big hit and who might be good to cast in it - it’s not something that fundamentally as a tech company or a company run by a tech CEO like myself is likely to build a distinctive organizational competence in,” Hastings said in 2011, hesitant to acknowledge crossing over its core competency (Carr, 2013).

Netflix currently offers its service to domestic subscribers at $8.99 a month, following a $1 price increase [up from $7.99 per month] in May 2014. Existing members were extended a grandfathered pricing period, where they may enjoy the service at the same $7.99 rate for two years so long as they remain a subscriber. Members may use the service on up to two screens at a time, with high-definition content included. Netflix expects that average revenue per user to “rise slowly as member at the new prices grow as a percentage of total membership” and adds that there has been little to no effect on membership growth due to the price increase (Netflix, Inc., July 2014).
In the Long-Term View, Hastings acknowledges a commitment of $500 million in marketing to attract people worldwide to Netflix (April 2014). The company has had a strong presence on social media, including from third parties just claiming to be fans of the service and its content. Hastings himself is no stranger to the world of social media and its interconnectedness with Netflix; he sits on the board of directors for Facebook and has integrated Facebook’s API with Netflix for subscribers to share their viewing history, should they opt-in. Meanwhile, Netflix has had a strong Twitter presence, especially in regards to Originals and connecting subscribers and fans directly to the cast and crew. For *Orange is the New Black*, Netflix has hosted #AskOrange on several occasions, a question-and-answer session between the cast and fans of the show on Twitter. Netflix also developed an app completely apart from its platform, Orange Is The New App, for fans of the show to create fan art and edit their photos, virtually joining their favorite Litchfield inmates. “Our Netflix brand advertising continues to resonate with consumers, highlighting the fun ways people’s lives are enriched when they watch something great” (Netlix, Inc., July 2014). After recognizing the strength that Netflix Originals contributed to the overall brand over the last year, it was determined that they “represent a tremendous opportunity to raise awareness… and build customer enthusiasm” marking a shift in direct-response advertising pushing the free month trial period to marketing their exclusive content (Netlix, Inc., April 2014). Internationally, Netflix is pushing campaigns to make connections to local consumers gain subscribers and win moments of truth.
“Winning more moments of truth”

Hastings defines a “moment of truth” as when a subscriber faces the decision of how to spend his or her free time. His hope is that he or she ultimately finds watching a film or TV show on Netflix to be the most enjoyable activity, and turns to the service for their entertainment (Hastings, April 2014). A lot of trust is placed into Netflix’s personalization engine for subscribers’ preferences and viewing history to be recorded and offer suggestions of what to watch next on Netflix, as opposed to needless surfing through a channel guide or programming grid through a cable or satellite television provider that in Netflix’s view, is a waste of time. From the time a subscriber opens Netflix on their respective device, they see a “personalized ranking of what…will be the most relevant content for that specific member” (Hastings, April 2014). Netflix uses an analysis of data that includes keeping track of clicks, views, repeat views, early abandons, page views, and other data within their platform. The company also aims to fine tune their algorithm “to generate higher satisfaction, viewing and retention” (Hastings, April 2014). Hastings has pledged to invest over $400 million in 2014 on further developing Netflix’s technologies to improve its overall service and support across the extensive range of devices that the Netflix platform operates on.

All that aside, Netflix is still very tight-lipped on how their algorithm and platform actually work. Netflix has not shared any detailed information on their metrics other than the optimism and faith that they have placed in it. There is a science to the company’s operation and despite the silence on their proprietary information, there is
some insight available from Netflix’s own engineers that will help subscribers and even competitors learn how they have the upper hand over the increasingly archaic Nielsen ratings system that broadcast and cable networks are still relying on. The company argues that because it does not sell advertising, it sees no reason to share viewership data, especially in regards to original programming: “…There’s no real reason…to engage Nielsen and report…ratings to other folks” (Sarandos, 2014). Engineering Director Xavier Amatrian spoke to *Wired* magazine on what data is used to keep track of subscribers’ viewing, regardless of the device being used to access the service: “We know what you played, searched for, or rated, as well as the time, date, and device. We even track user interactions such as browsing or scrolling behavior. All that data is fed into several algorithms, each optimized for a different purpose. In a broad sense, most of our algorithms are based on the assumption that similar viewing patterns represent similar user tastes. We can use the behavior of similar users to infer your preferences… We have been working for some time on introducing context into recommendations. We have data that suggests there is different viewing behavior depending on the day of the week, the time of day, the device, and sometimes even the location. But implementing contextual recommendations has practical challenges that we are currently working on. We hope to be using it in the near future.” (Vanderbilt, 2013). This can be further divided as subscribers now have the option to create up to five individual profiles per member account, with each of those users’ data tracked as they use the service. There are 800 engineers working with the personalization platform. There is a team of freelancers, analysts to an extent, who manually tag films and TV shows within Netflix’s content
library. The company trains them to be objective, despite their own tastes and preferences. Netflix estimates that 75 percent of subscriber activity is guided by the personalization algorithm (Vanderbilt, 2013).

Alexis Madrigal of *The Atlantic* has taken his quest for understanding how the personalization algorithm works and concluded that “Netflix has meticulously analyzed and tagged every movie and TV show imaginable. They possess a stockpile of data about Hollywood entertainment that is absolutely unprecedented” (2014). The company’s deconstruction of Hollywood involved using teams of taggers trained to watch the content and tag them with metadata. Movies and TV shows are rated in terms of sexual content, gore, romance, and “even narrative elements like plot conclusiveness” (Madrigal, 2014). Netflix’s goal is to obtain and retain subscribers, and the better that the service can show that it knows the member, the more likely he or she will commit to their subscription. Additionally, Netflix’s data has furthered their advantages as a content producer: “The data can't tell them how to make a TV show, but it can tell them what they should be making. When they create a show like *House of Cards*, they aren't guessing at what people want” (Madrigal, 2014). Using a program called UBot Studio, Madrigal ran a script and discovered that Netflix’s genres would form out of this hierarchy of details:

- “Region + Adjective[s] + Noun Genre + Based On… + Set In… + From the… + About… + For Age X to Y”
- [and notwithstanding, random categories like “With a Strong Female Lead”] (2014)
The script churned out 76,897 “altgenres”, a term that Netflix uses internally to mean personalized genres. Another program was used, AntConc, used in linguistics to turn text into data. The question left to answer was “What algorithm converted this mass of tags into precisely 76,897 genres?” (Madrigal, 2014). Todd Yellin, Netflix’s VP of Product who created the system of tagging films and TV shows, met with Madrigal, curious about his findings as someone with no internal access to Netflix but still able to compile this data. In 2006, he developed “Netflix Quantum Theory”, a document that tagged dozens of film and TV show details on a scale, including plots, character occupations, and production locations. Madrigal and Yellin related this to Pandora’s Music Genome Project but it was so much more “foregrounded… It's not just that Netflix can show you things you might like, but that it can tell you what kinds of things those are,” a more introspective insight (2014). Yellin’s model was more limited: the UI only wanted to display 50 characters of the microgenre, there needed to be a “critical mass” of content to match micro genre descriptions, and the microgenres had to make “syntactic sense” (Madrigal, 2014). One additional detail was shared regarding the system: “the underlying tagging data isn't just used to create genres, but also to increase the level of personalization in all the movies a user is shown” (Madrigal, 2014). Where Netflix could have just went with mere computation for its personalization algorithm, the combination of human and computer intelligence makes the company’s power and trust in their system so much more impressive. It harkens back to Netflix’s roots as a tech company with the computer science, mathematics, statistics, and psychology involved in its content delivery.
“You don’t have to have a reservation, an appointment. It’s at your whims. That is what society has become today. We want it when we want it, all of it, now. I’m paying for that program. Let me choose how I want it” - Taylor Schilling, star of Orange is the New Black (Bloom, 2014).
“Content people love”

Because Netflix doesn’t rely on archaic Nielsen and Rentrak numbers, the company instead harnesses the power of the Internet as well as their recommendation algorithms to determine what films and television series to acquire for their library. Hastings says that $3 billion will be spent on content for FY 2014; however, he does not specify whether or not this figure includes original content spending (April 2014).

Netflix’s strategy in content acquisition apart from its original programming, is to “license content from multiple suppliers, mirroring the fragmentation of the content industry” in each market, and actively curate the service through the data collected from its subscribers’ viewing habits and recommendations (Hastings, April 2014). The focus is on quality over quantity and the library aims to have the best in film and television in each category and genre. An additional strategy, according to Vice President of Content Acquisition Kelly Merryman, is to assess the popularity of particular films and television series on piracy services over the Internet like BitTorrent: “With the purchase of series, we look at what does well on piracy sites,” noting that FOX’s Prison Break was licensed to Netflix in the Netherlands when the service launched there in 2013 for that same reason (Schellevis, 2013).

Netflix has become a lot more aggressive in 2014 for streaming deals exclusive to its network, especially for current broadcast programming. The company paid $2 million per episode for the rights to Sony Pictures TV’s The Blacklist, currently airing on NBC
(Kastrenakes, 2014). Days later, Netflix obtained the streaming rights for *Gotham*, a Batman prequel series from Warner Bros. Television and will air on FOX starting September 22 (Miller, 2014). This is direct hit to ad-based Internet TV network Hulu, owned in part by NBC and FOX, and taking away from its potential share of next-day programming and the ad revenue to come with it.

On August 20, 2013, Netflix announced one of the largest output deals, securing the first-run rights of a studio's production output, to take away from premium cable for distribution via their streaming platform. The company reached an agreement with Weinstein Co. LLC to begin in 2016 to make their theatrical-release films available on the service (SNL Kagan, December 2013). “Weinstein is currently under agreement at Showtime, and the passage will leave the network with just DreamWorks Studios, IFC Films, and CBS movies come 2016” since they did not renew studio output deals with Paramount, Metro-Goldwyn-Mayer [MGM], and Lions Gate in 2008, leading to the 2009 launch of the EPIX premium network, and Summit Entertainment was lost to HBO starting with films releasing in 2013 (SNL Kagan, December 2013).

Meanwhile, EPIX, shared between Viacom, Inc. [parent company of Paramount], MGM, and Lions Gate, found an alternative in carriage via a subscription online deal with Netflix in 2010 worth an estimated $800 million (SNL Kagan, December 2013). It was not the first of its kind; Starz was the first premium network to make a deal with Netflix in 2008, worth $100 million over 3.5 years. The deal with EPIX led to a quick
turnaround in profitability, thanks to the Netflix deal contributing to about half of their revenues.

Netflix’s biggest deal to date in content acquisition is the programming agreement it entered into with Walt Disney Co. Studios in December 2012. “Netflix had to float an irresistible offer to Disney for the company to take a chance on a pure [OTT] distributor. Some reports estimate that Netflix could be paying $300 million to $400 million per year” (SNL Kagan, December 2013). Starz still has a deal in place with Disney for films released through the end of 2015, and will potentially include *The Avengers: Age of Ultron*, and the first film in the new Star Wars trilogy. Come 2016, Netflix will see exclusive access to the third Avengers film, the second and third film in the new Star Wars series, and *Finding Dory*, Disney and Pixar’s much-awaited sequel to 2003’s *Finding Nemo*. In a separate arrangement, Netflix has access to older films in Disney’s catalog, including *Pocahontas*, *Mulan*, and *Alice in Wonderland*. This could very well be a deal to secure subscriber growth over the next few years thanks to the output of franchise films and family-friendly content. “The deal plants the company firmly in competition with cable pay TV channels…something Netflix has said in the past was a target (SNL Kagan, December 2013).
Table A: List of Current and Future Output Deals Exclusive to Netflix

<table>
<thead>
<tr>
<th>Studio</th>
<th>Films Released Through</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relativity</td>
<td>December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>DreamWorks Animation</td>
<td>December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>Walt Disney</td>
<td>December 31, 2018</td>
<td>• Currently with Starz, for films released through December 31, 2015</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Starts with films released in 2016</td>
</tr>
<tr>
<td>The Weinstein Company</td>
<td>December 31, 2018</td>
<td>• Currently with Showtime; for films released through December 31, 2015</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Starts with films released in 2016</td>
</tr>
</tbody>
</table>
“Original content”

The success of Netflix’s original programming starts with the economic structure of its content production. Despite the production costs being “cash-intensive” and “front loaded relative to the P&L [profit and loss]”, the company stands behind its commitment to originals (Hastings, April 2014). Netflix “will raise capital as needed to fund the growth of original content” as it continues to learn more of what its subscribers want “with a large opportunity to promote…original content…one that’s effectively unlimited in duration” (Hastings, April 2014).

One major advantage that Netflix has over traditional broadcast and cable original programming is that shows are not in competition for prime-time slots, a scarce commodity in linear television. Because of the freedom that the audience has in whether or not or how much of an original series, or any series for that matter, Netflix is willing to wait for a show to find its audience. The company trusts the numbers and data that it has on every subscriber in determining whether or not to go all-in on attaching the brand to a television-format series as a Netflix Original. On the development of House of Cards, Kevin Spacey spoke to how Netflix responded to the series pitch, relative to other networks interested in the project: “It wasn’t out of arrogance that David Fincher, Beau Willimon, and I were not interested in having to audition the idea; it was that we wanted to start to tell a story that would take a long time to tell. We were creating a sophisticated, multi-layered story with complex characters who would reveal themselves over time and relationships that would take space to play out…Netflix was the only network that said,
‘We believe in you. We’ve run our data and it tells us that our audience would watch this series. We don’t need you to do a pilot. How many episodes do you want to do?’ And we said… ‘Two seasons?’” (2013).

On the side of creative producers, the broadcast and cable-definitive rules for what television is are out the window. Run times vary; for example, where all episodes in the second season of *Orange is the New Black* ran at about 50-60 minutes per episode, the last one was stretched to 90 minutes. The number of episodes per season vary; for example, *Hemlock Grove*’s first season has 13 episodes and the second season has 10 episodes. There are no recaps or cliffhangers to include. No concessions have to be made to allocate for commercials. “Increasingly, show creators can work without executives’ notes, focus groups, concerns about ratings, and anxieties about whether advertisers will resist having their products slotted after a nude scene or one laced with obscenity” (Auletta). Scott Meslow has noted that Netflix Originals have the potential to deviate further from conventional television: “Someone could create a show where one episode is 75 minutes long, and the next episode is 15 minutes long. Someone could decide to release one episode every week, or every month, or every holiday - or at random, turning every new installment into a welcome surprise. Someone could release every episode of a series but the finale, then hold that finale back for six months - turning its premiere into a buzzy event that will simultaneously be shared by all of its viewers… Netflix has thrived, in part, by embracing what separates its service from conventional
television. If they keep pushing those boundaries - in a way that their conventional rivals never could - who knows what kinds of stories could emerge?” (2014).

For the launch of *Orange is the New Black*, Netflix invited the Associated Press to its headquarters to observe the technical preparations leading to the release as one of its Originals (Liedtke, 2013). At midnight Pacific Standard Time on July 11, 2013, all 13 episodes were available. “The mission is to ensure each installment…has been properly coded so the series can be watched on any of the 800 Internet-connected devices compatible… It’s a complex task because Netflix has to account for viewers who have different Internet connection speeds, various screen sizes and different technologies running the devices” (Liedtke, 2013). 120 variations of code were programmed into the series for it to be streamed in every Netflix-available region, and additional engineers were on-hand to account for foreign-language subtitles and dubbing for international users. The company must go through these steps for its original programming where the work is already done for them in the case of licensed content. “The stakes and anticipation surrounding Netflix’s original series are much higher than with non-original programming…” (Liedtke, 2013).

On the sustainability of Netflix Originals and the company’s extension of their core competency into developing their own programming, Chief Content Officer Ted Sarandos spoke on the shows’ impact, namely of *House of Cards* and *Orange is the New Black*, after both series’ second seasons released in 2014: “…It would have taken several
years to get to the level of original programming that we’ve achieved in our first year, both in terms of size of the audience; to the critical reception of the shows; to the importance that they’ve played in the culture” (2014). The appeal of the shows combined with the member data used in their development and Netflix’s strategy of releasing entire seasons at once, across domestic and international locales, available for viewing on any device is a transformative experience for audiences where programming within the traditional television ecosystem, broadcast and cable networks alike, operated at the whims of Nielsen ratings, dependent on appeasing advertisers over consumers.

Table B is a listing of the series that Netflix has in production and will distribute in its first run. This information was derived from their Q2 2014 letter to shareholders and further details were taken from each series’ respective IMDb page. There was little mention of their one-off specials, with the exception of Chelsea Handler’s Uganda Be Kidding Me special coming in October and additional docu-series specials leading up to her new show on the network coming in 2016. Additionally, there was no mention of the following announced Originals in the quarterly statement:

- **Hemlock Grove**’s third/final season [cancellation announced September 2, 2014 (Travers, September 2014)]
- **Lilyhammer**’s third season
- **BoJack Horseman** [first season released August 22, 2014 and second season announced August 26, 2014 (Travers, August 2014)]
- **Arrested Development**’s fifth season [CCO Ted Sarandos is “positive” it will go into production: “It’s just a matter of when,” (Welch, 2014)]
- **The Crown** [announced May 22, 2014 (Plunkett, 2014)]
- **The Magic School Bus 360** [announced June 11, 2014 (Fingas, 2014)]
- **Marseille** [announced August 28, 2014 (Solsman, 2014)]
• DreamWorks series *Turbo FAST* [additional 5 episodes to fit the 26-episode order], *King Julien, Puss in Boots, Veggie Tales in the House*, [announced March 13, 2014 (Spangler, 2014)], and

• Marvel series *Jessica Jones, Luke Cage, Iron Fist* leading up to their *Defenders* special with the currently in-production *Daredevil* [announced November 7, 2013 (Kastrenakes, 2013)]

It can be assumed that Netflix has not actively added these series to their slate through Q3 2014 at minimum, but it does have the talent and the hype surrounding them, especially the franchise projects, when it comes time to enter actual production.
<table>
<thead>
<tr>
<th>Program Name</th>
<th>Release Date</th>
<th>Production Company</th>
<th>Key Personnel</th>
<th>Production Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marco Polo</td>
<td>December 12, 2014 [10 episodes]</td>
<td>The Weinstein Company, Electus</td>
<td>Cast: Lorenzo Richelmy, Benedict Wong, John Fusco, Dave Erickson</td>
<td>Completed; filmed in Italy, Kazakhstan and Malaysia; originally produced for Starz</td>
</tr>
<tr>
<td>House of Cards</td>
<td>Q1 2015</td>
<td>Media Rights Capital, Trigger Street Productions, Panic Pictures</td>
<td>Cast: Kevin Spacey, Robin Wright, Crew: Beau Willimon, David Fincher</td>
<td>Currently filming in Baltimore, MD</td>
</tr>
<tr>
<td>[Season 3]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orange is the New Black</td>
<td>Q2 2015</td>
<td>Lionsgate Television, Tilted Productions</td>
<td>Cast: Taylor Schilling, Laura Prepon, Crew: Jenji Kohan</td>
<td>Currently filming in New York, NY</td>
</tr>
<tr>
<td>[Season 3]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marvel’s</td>
<td>Q2 2015</td>
<td>Marvel Television, ABC Studios</td>
<td>Cast: Charlie Cox, Vincent D’Onofrio, Crew: Drew Goddard, Steven S. DeKnight</td>
<td>Currently filming in New York, NY</td>
</tr>
<tr>
<td>Daredevil</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Narcos</td>
<td>TBA 2015</td>
<td>Gaumont International Television</td>
<td>Cast: Wagner Moura, Pedro Pascal, Crew: Jose Padilha</td>
<td>Currently filming in Colombia</td>
</tr>
<tr>
<td>Program Name</td>
<td>Release Date</td>
<td>Production Company</td>
<td>Key Personnel</td>
<td>Production Status</td>
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</tr>
<tr>
<td>Grace and Frankie</td>
<td>TBA 2015</td>
<td>Skydance Productions</td>
<td>Cast: Jane Fonda, Lily Tomlin, Martin Sheen, Sam Waterson</td>
<td>Currently filming in Los Angeles, CA</td>
</tr>
<tr>
<td>Untitled Chelsea Handler Talk Show</td>
<td>TBA 2016</td>
<td>Borderline Amazing Productions</td>
<td>Cast: Chelsea Handler</td>
<td></td>
</tr>
</tbody>
</table>
“International”

At the start of Q3 2014, the company announced serving “over 50 million members enjoying Netflix in over 40 countries” (Netflix, Inc., July 2014). Netflix offers streaming of film and television content in international markets and started with Canada in 2010. In licensing films and television series, the company’s market structure is either national or multinational [e.g. the Caribbean] depending on the region. This distribution architecture is applied to all international markets and content is licensed at prevailing prices (Hastings, April 2014).

*Figure 4: Map of Netflix International Streaming Service Availability and Expansion*

**Key**

*Red - 2008 and before*
*Violet/Purple - 2010 to 2013*
*Indigo - Projected by end of 2014*
*Blue - 2015 and beyond*
As of September 1, 2014, Netflix’s streaming service is available in the following countries and multinational regions outside of the United States:

- Canada
- The Caribbean, Mexico, Central, and South America
- United Kingdom
- Nordic countries Norway, Denmark, Sweden, and Finland
- The Netherlands

Additionally, the company is looking to expand to the following countries and multinational regions by the end of 2014 and beyond:

- Germany
- Austria
- Switzerland
- France
- Belgium
- Luxembourg
- Australia and New Zealand [“…planning to launch…next year {2015}, according to a report from an Australian film industry magazine” (ONE News, 2014).]

Netflix ended 2013 with just under 10 million international subscribers across the 40 countries in which their service is available. International business accounted for 21% of their revenues from streaming; however, the sector faced a loss of $274.3 million (Wallenstein, 2014). The company has been funding its international endeavors via domestic streaming revenues (Hastings, April 2014). Despite the losses, Netflix maintains that its plan “remains to run at about global break-even to fund investment in global expansion” (Netflix, Inc., July 2014).

September 2014 will see Netflix’s launch in Germany, France, Austria, Switzerland, Belgium, and Luxembourg. “This launch into markets with over 60 million
broadband households will significantly increase…European presence and raise…current
addressable market to over 180 million broadband households, or two times the number
of current U.S. broadband households” (Netflix, Inc., July 2014). One of the forces
pushing Netflix to enter the German market is LoveFilm, a streaming video-on-demand
service, acquired by Amazon in 2011 and its rebranding as Prime Instant Video this year,
a strong first-mover play in the space where Netflix typically had that advantage
(Wallenstein, 2014). Meanwhile in France, there is a government policy called “cultural
exception” and would require Netflix to fund particular local productions and pay taxes
on their business (Wells, July 2014). The company has commissioned its first French
original series in response to this requirement, *Marseille*, “an eight-episode tale of power,
corruption and redemption set against the rich backdrop of the French port city” to
launch in 2015 (Solsman, 2014). “We want to invest in French society and in French
content, and we want to give an avenue for French content to get out around the world…
Think of what we’re trying to do as connecting the world, as some of the world’s best
content brought to the world’s citizens, and that’s really motivating… And so, we
definitely got to work with French society, and with the assumptions and beliefs that they
have”, Hastings said in their Q2 2014 earnings’ call (Wells, July 2014).
“Competition”

Netflix identifies a broad range of competitors in not only recognizing immediately similar Internet TV networks like Amazon Prime, Hulu, and Redbox Instant, but any service or activity that demand a share in its subscribers’ time and money that would otherwise be spent on them. In the Long-Term View, Hastings has divided them into “competitors-for-time” and a narrower group called “competitors-for-content” (April 2014).

Table C: Selected Competition for Netflix, U.S. Market

<table>
<thead>
<tr>
<th>“Competitors-for-Time”</th>
<th>“Competitors-for-Content”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linear cable/satellite multichannel TV</td>
<td>Amazon Prime, Instant Video</td>
</tr>
<tr>
<td>Live events</td>
<td>Blockbuster @Home</td>
</tr>
<tr>
<td>Multichannel on-demand video</td>
<td>Google Play</td>
</tr>
<tr>
<td>Internet surfing</td>
<td>HBO, HBOGo</td>
</tr>
<tr>
<td>Video games</td>
<td>Hulu, Hulu Plus</td>
</tr>
<tr>
<td>Multichannel pay-per-view video</td>
<td>iTunes</td>
</tr>
<tr>
<td>Video piracy</td>
<td>Redbox Instant</td>
</tr>
<tr>
<td>Reading books, magazines, etc.</td>
<td>Showtime, SHO Anywhere</td>
</tr>
<tr>
<td>Social media</td>
<td>Starz, Starz Play</td>
</tr>
<tr>
<td>Theatrical releases</td>
<td>Target Ticket</td>
</tr>
<tr>
<td>Listening to music</td>
<td>Warner Instant</td>
</tr>
<tr>
<td>Apps</td>
<td>Yahoo! Screen</td>
</tr>
<tr>
<td>Blu-Ray and DVD home releases</td>
<td>YouTube</td>
</tr>
</tbody>
</table>
HBO is explicitly named as Netflix’s “biggest long-term competitor-for-content” as they bid against each other for original content (Hastings, April 2014). While the competition is acknowledged for its existing global reach and self-sufficient technology capabilities, Netflix is looking to match and exceed them in subscriber numbers and revenues as they continue to advance their business model as more superior for the Internet generation, despite HBO having made some adaptations, like their HBO Go app and distributing some of their older original content through Amazon Prime. HBO has over 114 million subscribers worldwide; well over twice as many as Netflix’s 50 million subscribers (Auletta). HBO is mentioned repeatedly throughout the Long-Term View, as Netflix aims to overtake the Time Warner-owned premium cable network by 2 or 3 times the number of domestic HBO subscribers in the future with more content, more viewing-per-subscriber, a greater brand proposition, on-demand multi-platform availability, and a lower monthly no-commitment fee, although HBO currently has the upper hand on more film and TV originals, plus first-window rights on theatrical releases (Hastings, April 2014). Where Netflix has relied on its own metrics to determine content and originals for its service, HBO is still largely using the seemingly archaic Nielsen ratings figures to determine successes [plus, to some extent, piracy trends and metrics from their HBOGO app]. Netflix should be paying homage to HBO, as it paved the way of the subscription-fee model and the development of original programming as a signature of the network adding to its brand identity (Wu). Nonetheless, access to HBO still requires a subscription through a cable or satellite television provider and is not offered “unbundled” although the idea has been toyed with by parent company Time Warner on occasion.
Figure 5: Operating Revenues between Netflix and HBO, FY 1995 to FY 2013 (in $ billions)

Figure 6: Domestic Subscribers, Netflix and HBO, FY 1995 to FY 2013 (in millions)

Figure 7: Domestic Subscribers, Netflix and HBO, Forecast for FY 2014 to FY 2018 (in millions)
Figure 8: Domestic Percentage Change in Subscribers, Netflix and HBO, FY 1995 to FY 2013

Figure 9: Domestic Percentage Change in Subscribers, Netflix and HBO, Forecast for FY 2014 to FY 2018

Amazon Prime Instant Video, with its over 20 million subscribers, are also discussed in the Long-Term View as competitors of Netflix; however, that relationship seems a bit complicated. Netflix treads carefully in this identification because Amazon
Web Services “provides a distributed computing infrastructure platform for business operations,” the cloud servers that Netflix’s platform and content library functions on (Form 10-K 2013). Amazon Prime Instant Video began service in early 2011, to the company’s Prime members who pay $79 [now $99] per year for free 2-day shipping on goods bought from Amazon (SNL Kagan, July 2013). Prime Instant Video has expanded to over 7,000 movies and TV seasons, including original offerings commissioned by Amazon Studios with production decisions guided by its own metrics [unavailable to the public, much like Netflix], member votes, and reviews of whether or not to continue a series past its pilot episode. “Amazon reports very little information on its Amazon Prime program as far as members or usage rates” (SNL Kagan, July 2013). Netflix’s app is available on their proprietary Android-based Kindle devices, Fire TV, and the Fire Phone but Amazon users looking to watch House of Cards, for example, are directed to purchasing individual episodes from Amazon Instant Video [as a secondary distributor after Netflix’s first-run exclusivity], rather than streaming it through Netflix. Hastings has admitted to working out those kinks by the end of 2014 which will include more of Netflix needing to give Amazon access to its application programming interface [API] in order to get to their respective content library through to their voice search technology. Furthermore, Hastings recognized that he and most of his employees are members of Amazon Prime, seeing the service as complementary to Netflix: “It’s very much not a zero-sum game, and we’re building this ecosystem together that’s about Internet video. And the more players there are in Internet video, the bigger that ecosystem gets. And the big theme is: Internet video is taking share away from linear video. And so, we’re all
participating in that transformation” (Wells, April 2014). Roy Price, Director of Amazon Studios, shared a similarly cooperative sentiment, preferring to focus on the needs of the audience in ordering original programming as an Internet TV network, rather than becoming fixated on what competitors like Netflix and even traditional broadcast and cable outlets are doing: “I would say that it doesn’t really serve you too well to spend a lot of time thinking mainly about the competitors and what they’re doing… Right now, it’s a much more diverse ecosystem, and if you just focused on one or two…competing sources of content - I don’t know how that could be productive. You really just have to focus on who’s the audience and what is the best show that we can create for them, and how can we make this the best show that it can possibly be” (Lynch, 2014).

The ad-based service Hulu and its premium subscription tier, Hulu Plus, are also considered competition to Netflix in the Long-Term View. Hulu, owned by News Corp., NBCUniversal Media, and Walt Disney Co., has access to those networks’ respective TV shows as soon as the day after its original airing and does not have to license its own TV content, saving itself from acquisition costs. Its movie selection, the other part of its content library, grew about 42 percent between April 2012 and April 2013, to 4,000 titles up from 2,800 the year before (SNL Kagan, July 2013). Paid subscribers with Hulu Plus were up to more than 40 million during Q1 2013. “Hulu expects subscription revenue to continue to outpace ad revenues, eventually accounting for more than half of overall revenue” as in 2012, its subscription revenue was 30 percent of its total (SNL Kagan, July 2013). Relative to Netflix, Hulu now costs a dollar less per month at $7.99.
“ISP relationships”

“We have productive relationships with most ISPs, given our joint interest in making broadband work well for people,” Hastings says in the section, returning Netflix to its DNA as a tech company (April 2014). The key word here; however, is most. Netflix has cooperated with ISPs domestically and internationally in allowing direct interconnectivity to Open Connect, their “single purpose…content delivery network” built and deployed themselves (Form 10-K 2013). There are fears on both ends of the spectrum, where either Netflix will charge ISPs for content delivery via Open Connect or ISPs will charge Netflix for supplying video data to broadband subscribers. This existential standoff has led to some ISPs like Verizon providing insufficient connectivity and constraining the performance of the Netflix platform to subscribers on the distribution end.

“In the long-term, we think Netflix and consumers are best served by strong network neutrality…across all networks, including wireless” Hastings declares at the end of the section (April 2014). The CEO has taken an adamant stand in the case for strong net neutrality and against the possibility of needing to pay Internet tolls for Netflix to reach subscribers in the future. In March 2014, Hastings contributed a post to the company’s blog in an effort to be transparent to subscribers on how net neutrality works and what the lack thereof would potentially mean for Netflix. In the short-term; however, Netflix has conceded to ISPs Comcast, AT&T, Verizon, and Time Warner Cable, paying for mere interconnection so that its subscribers can access their film and television
content. Comcast is recognized in the post as “an industry leader in supporting weak net neutrality” although Hastings hopes the ISP will turn a new cheek (March 2014).

The catalyst for Netflix to take such a firm stance on net neutrality was the D.C. Court of Appeals decision in January 2014 striking down the FCC’s Open Internet Order, designed so ISPs could not interfere with specific types of Internet data transmission (Etherington, 2014). Since then, Netflix has been on watch from the FCC and domestic ISPs for further developments on an official decision on net neutrality, particularly on how it affects their service reaching subscribers. The most recent 10-K filing accounts for this threat to Netflix’s operations: “Recently, the U.S. Court of Appeals for the District of Columbia struck down the FCC’s net neutrality rules and it is currently uncertain how the FCC will respond to this decision. To the extent network operators attempt to use this ruling to extract fees from us to deliver our traffic or otherwise engage in discriminatory practices, our business could be adversely impacted. As we expand internationally, government regulation concerning the Internet, and in particular, network neutrality, may be nascent or non-existent” (Form 10-K 2013).

Netflix submitted its own comments to the FCC on the decision of net neutrality, to be ruled on at a later date in 2014. It is a far-reaching expansion of transparency and the comments that Reed Hastings made in his post to the company blog. It goes into further detail on the decision to “buy their way out of congestion” from Comcast, including making a point of the ISP refusing to deploy Open Connect for free on their
network: “While it had promised its customers ‘blazing fast’ Internet speeds, Comcast simultaneously was preventing those customers from receiving their content at the speeds that Comcast had promised. Comcast customers experienced this degraded network performance regardless of the service tier they purchased” (“Comments of Netflix, Inc. Before the Federal Communications Commission…”, 2014). Netflix attributes much of its success and advancement, including offering 4K resolution content to subscribers, to the strong net neutrality rules that were in place as early as 2007, when it launched its streaming service. Paid prioritization is another concept that Netflix is strongly against: “The Commission’s proposed rules arguably turn the objective of Internet openness on its head - allowing the Internet to look more like a closed platform, such as a cable television service…” (“Comments of Netflix, Inc. Before the Federal Communications Commission…”, 2014). Netflix also took this opportunity to address the FCC on implementation of rules to include three major components:

1. “terminating ISPs cannot degrade or impede particular data sources, or charge data sources to avoid degradation;
2. terminating ISPs cannot favor particular data sources, for a fee or otherwise; and
3. terminating ISPs cannot charge data sources for interconnection and must provide adequate no-fee interconnection to wholesalers and Internet services so consumers experience the broadband speeds for which they have paid” (“Comments of Netflix, Inc. Before the Federal Communications Commission…”, 2014).

Netflix also called for more transparency in degraded Internet transmission speeds. ISPs should disclose in real-time the status of their network. The document also reminds the FCC that they distinguish the Internet in two sections: as general access, the transmission component regulated as a telecommunications component, and advanced content and application components that are not under the FCC’s regulation. Netflix
considers the possibility of regarding the telecommunications component of broadband as a separate entity, to remove those connections out of Title II of the Communications Act. The company suggests that it “would better reflect the service that consumers buy and expect from broadband providers” (“Comments of Netflix, Inc. Before the Federal Communications Commission…”, 2014). Should there be little to no favor on Netflix’s part, the company disagrees with the FCC’s paid prioritization and codification regulation if it were to pass: “No rule is better than a bad or ineffectual rule” (“Comments of Netflix, Inc. Before the Federal Communications Commission…”, 2014).

Netflix has also been very vocal in its opposition to the proposed merger of Comcast and Time Warner Cable since the deal was announced in February 2014. Hastings told investors, “…We’re really concerned about what happens when the combined entity, if the merger were to go through, would have, with over 60% of the U.S. homes passed, and eventually over 50% of U.S. homes subscribing to cable internet, and that’s a worrisome factor. So, we think it’s more in the public interest to either not have them merge, or, if the government goes ahead with it, to at least put some significant merger… statements in there” (Wells, April 2014).

Just as they responded to the FCC’s pending decision on net neutrality, Netflix submitted another document to the commission in August 2014; however, this time it was a 256-page-long Petition to Deny, calling on the FCC to block the merger of Comcast and Time Warner Cable. Similar to their comments on the net neutrality matter, Netflix
maintains that “Applicants” Comcast and Time Warner Cable have engaged in “degradation strategies” that have harmed Netflix subscribers, resulting in their need to pay for interconnection earlier this year (“Petition to Deny of Netflix, Inc. Before the Federal Communications Commission…”, 2014). There are two non-mutually exclusive outcomes that Netflix outlines in the document. The first is a reiteration of statements made in their comments to the FCC on net neutrality but more specific to their dealings with Comcast and Time Warner Cable on interconnectivity: “The proposed merger… would give Applicants the ability to turn a consumer's Internet experience into something that more closely resembles cable television. It would set up an ecosystem that calls into question what we to date have taken for granted: that a consumer who pays for connectivity to the Internet will be able to get the content she requests. The combined entity would have the incentive and ability-through access fees charged at interconnection points and by other means-to harm Internet companies, such as online video distributors [‘OVDs’], which Applicants view as competitors. The transaction would give Applicants control of a dominant share of the nation's residential high-speed broadband customers at a time when those customers increasingly engage with more content-rich applications that require high-speed broadband to work properly, such as Internet-delivered video” (“Petition to Deny of Netflix, Inc. Before the Federal Communications Commission…”, 2014). The second potential outcome speaks to the merger being a threat to the entire OVD business model: “…The proposed merger would significantly strengthen the harms to consumers and to Internet content distributors, such as OVDs. The business models employed by several OVDs necessarily depend on having access to
a ‘critical mass’ of consumers to operate profitably. Achieving and maintaining this
critical mass allows OVDs to purchase programming and develop products more cheaply,
but it also goes to the heart of an OVD's ability to retain subscribers and invest in new
content. Particularly for fixed-cost OVDs the sudden loss of access to a significant
number of customers could immediately throw the OVD into financial peril” (“Petition to
Deny of Netflix, Inc. Before the Federal Communications Commission…”, 2014). As of
September 1, 2014, Comcast Corp. and Time Warner Cable Inc. are still awaiting
decisions on permission from the FCC and U.S. Department of Justice on completing the
merger.
“Netflix margin structure and growth”

Hastings is very straightforward in identifying Netflix’s margin structure and growth to shareholders and non-investors alike in the Long-Term View. He describes its arrangement for domestic operations as he had already spoke of the company’s plan for investment in international growth in previous sections. The margin structure is set top-down, with goals set from the company’s leadership and then cascades down to the sub-levels. “For any given future period, we estimate revenue, and decide what we want to spend, and how much margin we want in that period”, the CEO shares (Hastings, April 2014). The one variable that influences spending choices in sectors like content and marketing is membership growth via revenues.

Table D: Analyst Estimates for Netflix Revenue, Projected

Future Average Third-Party Revenue Estimates for Netflix (in $ millions)

<table>
<thead>
<tr>
<th>Source</th>
<th>Q3 2014</th>
<th>Q4 2014</th>
<th>FY 2014</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg Businessweek</td>
<td>1400</td>
<td>1500</td>
<td>5500</td>
<td>6800</td>
</tr>
<tr>
<td>CNN Money</td>
<td>1400</td>
<td>1500</td>
<td>5500</td>
<td>6900</td>
</tr>
<tr>
<td>Financial Times</td>
<td>1408.56</td>
<td>1490.63</td>
<td>5508.84</td>
<td>6857.91</td>
</tr>
<tr>
<td>Reuters</td>
<td>1408.57</td>
<td>1490.63</td>
<td>5508.84</td>
<td>6857.91</td>
</tr>
<tr>
<td>Yahoo! Finance</td>
<td>1410</td>
<td>1490</td>
<td>5510</td>
<td>6860</td>
</tr>
</tbody>
</table>

“The market structure we have chosen is to grow content spending plus marketing slightly more slowly than we grow revenue”, Hastings shares, now that Netflix has a solid footing in its operating revenues ahead of its primary competitor HBO (April 2014).
Another major goal is reaching a quarterly contribution margin of 30%. Since Q1 2013, the company saw it go from 20.6% to, most recently, 27.1% for Q2 2014 (Netflix, Inc., July 2014). It is projected that the quarterly contribution margin will reach 30% starting in 2015, and from there it will be re-evaluated for the next growth target (Hastings, April 2014).

There are forces propelling and impeding Netflix’s growth at the same time. The company’s growth is advanced thanks to the strength of its service, content, marketing improvements, and technological improvements in Internet networks and the devices on which the platform may serve. Growth is impeded; however, by market saturation and “the broad set of competitors-for-time all improving their offerings” (Hastings, April 2014). Relative to HBO’s margin structure and growth, Netflix reverts back to a model that was identified in 2011, where the company sees itself growing to become “2 to 3 times larger than domestic HBO” as long as it maintains an annual domestic subscriber growth of 5 or 6 million members (Wells, April 2014). Its content offerings, original and licensed alike, and service will strive for improvement continuously.
Conclusion

“Netflix did it right and focused on all of the things that have replaced the dumb, raw numbers of Nielsen world - they embraced targeted marketing and ‘brand’ as a virtue higher than ratings” (Spacey).

Ken Auletta of The New Yorker identified two threats to television in his “Outside the Box” feature on Netflix. The first is the advertising model that broadcast and cable television has relied on since the inception of the industry. Everyone who uses a DVR to skip the ads or switches to Netflix or some other ad-free content service is accountable to a shift in advertising expenditures amounting to $18 billion towards digital media and away from linear TV. The second is “existential” and highlights the opportunities for cord-cutting and getting television content streamed over the Internet. “The future of television, Hastings says, is in airing more live events, which attract higher advertising rates” (Auletta). “Eventually… people won’t be able to imagine having their options defined by a programming grid” (Wu).

Netflix offers a viewing experience that is “more immersive and sustained” (Auletta). Members have the freedom to choose everything, from whether or not they want to commit to the service, to what they want to watch, from how they want to watch it, to how much of it they want to experience in one sitting. Ted Sarandos spoke to the amount of freedom the service offers, relative to linear TV: “Human beings like control… To make all of America do the same thing at the same time is enormously
inefficient, ridiculously expensive, and… not a very satisfying experience” (Wu). The future of television on Netflix’s terms lies with the company and its subscribers asking for the service “to just work - flawlessly” (Hastings, April 2014).

Netflix’s Long-Term View is Reed Hastings’ broad outlook for the company that he founded in 1997. The metrics related to his vision are not far from coming to fruition, as has been witnessed in the months immediately after the document went live on Netflix’s Investor Relations site. Approaching 20 years in business, he sees half of television content to be delivered to audiences via the Internet and is determined to keep his company at the forefront of it. “Netflix’s strategy - grab the market first, worry about profits later - is common among Internet startups…” and it is working, so long as the company continues to make the most informed risks, derived from its personalization algorithm and the data it collects from its members and their sustained usage.

“The risk at this juncture is becoming too institutionalized, too schematic - thinking that something which is working now will necessarily work a year from now. The curse of success is that the stakes get higher. Careers are made, salaries increase, and people have reputations and track records to protect. The end result is a shift towards conservatism, away from risk-taking. And if there is one thing that overlaps between business and art, it’s that in the long run, the risk-takers are rewarded” (Spacey).
References


Comments of Netflix, Inc. Before the Federal Communications Commission In the Matter of Protecting and Promoting the Open Internet Framework for Broadband Internet Services, (July 15, 2014).


Appendix

Forecasts for Netflix, Inc.

- Forecasted data that used this model is included in graphs and figures with an asterisk (*) in the legend
- Netflix does not provide these metrics outside of their financial statements, so they must be inferred from historical data

Calculations for Netflix Subscriber Projections

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Domestic Subscribers</th>
<th>Source [Historical] OR Calculation [Projected]</th>
<th>Year-to-Year Percentage Change</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6,316,000</td>
<td>Netflix 2009 Annual Report [includes domestic streaming and domestic DVD subscribers]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Total Domestic Subscribers</td>
<td>Source [Historical] OR Calculation [Projected]</td>
<td>Year-to-Year Percentage Change</td>
<td>Calculation</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------</td>
<td>-----------------------------------------------</td>
<td>-----------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>2008</td>
<td>9,390,000</td>
<td>Netflix 2009 Annual Report [includes domestic streaming and domestic DVD subscribers]</td>
<td>25.55%</td>
<td></td>
</tr>
</tbody>
</table>

"=(Total Domestic Subscribers 2008−Total Domestic Subscribers 2007)/Total Domestic Subscribers 2007"

| 2009 | 12,268,000                | Netflix 2009 Annual Report [includes domestic streaming and domestic DVD subscribers] | 30.65% |  

"=(Total Domestic Subscribers 2009−Total Domestic Subscribers 2008)/Total Domestic Subscribers 2008"

| 2010 | 22,800,000                | Q1 2011 Letter to Shareholders, “Domestic Subscribers” [includes domestic streaming and domestic DVD subscribers] | 85.85% |  

"=(Total Domestic Subscribers 2010−Total Domestic Subscribers 2009)/Total Domestic Subscribers 2009"
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Domestic Subscribers</th>
<th>Source [Historical] OR Calculation [Projected]</th>
<th>Year-to-Year Percentage Change</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>35,674,000</td>
<td>Q1 2014 Letter to Shareholders, “Total Members, Domestic Streaming”</td>
<td>22.28%</td>
<td>&quot;=(Total Domestic Subscribers 2013–Total Domestic Subscribers 2012)÷Total Domestic Subscribers 2012”</td>
</tr>
<tr>
<td>Year</td>
<td>Total Domestic Subscribers</td>
<td>Source [Historical] OR Calculation [Projected]</td>
<td>Year-to-Year Percentage Change</td>
<td>Calculation</td>
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<td>------</td>
<td>---------------------------</td>
<td>-----------------------------------------------</td>
<td>--------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>2014</td>
<td>45,534,747</td>
<td>&quot;=Total Domestic Subscribers 2013×(1+'Year-to-Year Percentage Change' 2014)&quot;</td>
<td>27.64%</td>
<td>&quot;FORECAST(A2,Netflix Historical Data::C3:C9,Netflix Historical Data::B3:B9)&quot;</td>
</tr>
<tr>
<td>2015</td>
<td>58,831,713</td>
<td>&quot;=Total Domestic Subscribers 2014×(1+'Year-to-Year Percentage Change' 2015)&quot;</td>
<td>29.2%</td>
<td>&quot;FORECAST(A2,Netflix Historical Data::C3:C10,Netflix Historical Data::B3:B10)&quot;</td>
</tr>
<tr>
<td>2016</td>
<td>76,201,979</td>
<td>&quot;=Total Domestic Subscribers 2015×(1+'Year-to-Year Percentage Change' 2016)&quot;</td>
<td>29.53%</td>
<td>&quot;FORECAST(A2,Netflix Historical Data::C3:C11,Netflix Historical Data::B3:B11)&quot;</td>
</tr>
<tr>
<td>2017</td>
<td>98,759,050</td>
<td>&quot;=Total Domestic Subscribers 2016×(1+'Year-to-Year Percentage Change' 2017)&quot;</td>
<td>29.6%</td>
<td>&quot;FORECAST(A2,Netflix Historical Data::C3:C12,Netflix Historical Data::B3:B12)&quot;</td>
</tr>
<tr>
<td>Year</td>
<td>Total Domestic Subscribers</td>
<td>Source [Historical] OR Calculation [Projected]</td>
<td>Year-to-Year Percentage Change</td>
<td>Calculation</td>
</tr>
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</tr>
<tr>
<td>2018</td>
<td>128,014,734</td>
<td>&quot;=Total Domestic Subscribers 2017 × (1 + 'Year-to-Year Percentage Change' 2018)&quot;</td>
<td>29.62%</td>
<td>&quot;FORECAST(A2, Netflix Historical Data::C3:C13, Netflix Historical Data::B3:B13)&quot;</td>
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