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Strategy Management and Market Breakthrough of Netflix

Han Yao

College of Foreign Languages, Northeastern University, Shenyang, China

Corresponding author: 20220577@stu.neu.edu.cn

Abstract:

This study looks into Netflix's strategic management within the global streaming media market. 5G technology and shifting media consumption habits fuel the streaming market's exponential growth. In 2023, global users surpassed 1.6 billion. As a pioneer, Netflix evolved from a DVD - by - mail service to a streaming giant, now boasting over 230 million subscribers. The research hones in on why Netflix stands dominant in the media and entertainment industry. It employs the 4P theory to break down the company's business model, financial performance, and marketing strategies. The study spotlights Netflix's competitive advantages, achieved through heavy content investment, constant technological innovation, and flexible adaptive strategies. Moreover, it tackles pressing challenges, including high subscription costs that may deter budget - conscious users, content mismatches where offerings fail to align with diverse viewer tastes, and fierce competition from rival platforms. To combat these, it explores countermeasures like introducing ad - supported tiers to attract cost - sensitive audiences and implementing local content strategies to better resonate with regional viewers. This in - depth analysis offers valuable insights into Netflix's potential for continued future dominance. It also serves as practical guidance for strategic management across the broader streaming industry, helping other players navigate the competitive landscape.

Keywords: Netflix; 4P marketing theory; strategic management; streaming media; case analysis

1. Introduction

The global streaming media market is experiencing exponential growth, driven by the popularization of 5G technology and shifting media consumption habits. According to Statista, the number of global streaming users exceeded 1.6 billion in 2023, with a compound annual growth rate of 11.3%. This rapid expansion has reshaped the entertainment industry, creating new opportunities and challenges for companies operating in the space.

As a pioneer in the streaming sector, Netflix has

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played a pivotal role in transforming how people consume media. Founded in 1997, the company initially operated as a DVD-by-mail service, disrupting traditional video rental models. Its strategic shift to streaming in 2007 marked a revolutionary moment, enabling on-demand content access and establishing Netflix as an industry leader. Today, the platform serves over 230 million paid subscribers across 190+ countries, offering a diverse range of films, series, documentaries, and interactive content.

This study focuses on Netflix‘s strategic management practices to address a core question: why is Netflix positioned to become one of the dominant media and entertainment enterprises in the future? By analyzing its business model, financial performance, and marketing strategies, the research aims to provide insights into the company‘s competitive edge.

2. Background and Financial Analysis of Netflix

2.1 . Background

Netflix was established in 1997 by Reed Hastings and Marc Randolph. The story of Netflix began with its operation as a DVD - by - mail service, which started in 1988. This was a time when traditional video rental stores dominated the market. People would have to physically visit these stores, browse through limited selections, and deal with late fees if they did not return the DVDs on time. Netflix, however, introduced a revolutionary concept with its red envelope mailing system. Instead of going to a store, customers could simply choose the DVDs they wanted online. The company would then send these DVDs to their homes in distinctive red envelopes. This not only offered unparalleled convenience but also disrupted the long-standing traditional video rental models. It marked the beginning of a new era in how people consumed video content, eliminating many of the inconveniences associated with the old-fashioned rental methods.

The company‘s strategic shift to streaming in 2007 marked a revolutionary transformation in media consumption, enabling on-demand access to content and establishing Netflix as a pioneer in the streaming industry. The current streaming landscape, where key competitors like Disney+, Amazon Prime Video, and HBO Max operate, was fundamentally shaped by Netflix‘s 2007 streaming transition. It is a shift that not only redefined content delivery but also set the standard for subscription-based media consumption. It also has a diverse portfolio covering films, series, documentaries, and interactive content.

Netflix further advanced its service innovation in 2022 by introducing a low-cost ad-supported subscription tier ($6.99 per month), complemented by an AI-driven recommendation system and adaptive streaming technology to expand market reach. This strategy continued its long-standing investment in original content—with a budget exceeding $17 billion in 2023 alone—yielding hits like Squid Game, which generated 1.65 billion viewing hours globally and highlighted the universal appeal of localized content. Its business model innovations also include tiered subscriptions (such as 4K premium options) and a 2023 „household sharing fee“ to address account sharing.

Technologically, Netflix has maintained its dominance through algorithms optimizing user engagement and a global distribution network ensuring seamless streaming. By 2023, the platform had evolved into a global subscription-based leader, boasting over 230 million paid subscribers across more than 190 countries.

2.2 . Financial analysis of Netflix

The more users engage with the platform, the greater its value [1]. Table 1 shows Netflix‘s financial data from Q2 2023 to Q2 2024, measured in billions of US dollars. From Q2 2023 to Q2 2024, Netflix‘s income shows an upward trend. It starts at 81.87 billion US dollars and reaches 95.59 billion. Profit-related metrics like gross profit rate, operating profit margin, etc., fluctuate across quarters. The proportion of marketing expenses to revenue stays relatively stable, mostly between 7% - 10%. Overall, Netflix‘s income is growing, but profitability has ups and downs. The company needs to balance costs, like making content and marketing, to keep making more profit. As users engage more, Netflix‘s value might rise, but it also has to handle these financial changes smartly.

Table 1. Netflix Financial Metrics(Q2 2023-Q2 2024) [2-5]

Billions of US dollars	Q2 2023	Q3 2023	Q1 2024	Q2 2024
Income	81.87	85.42	9.37	95.59
gross profit rate%	43%	42%	47%	46%
earned profit	18.27	19.16	26.33	26.03
Operating profit margin%	22%	22%	28%	27%

Net profit	14.88	16.77	23.32	21.47
Net margin	18%	20%	25%	22%
The proportion of marketing expenses to revenue	8%	7%	7%	7%

3. The 4P Marketing Theory

The 4P marketing theory, which was proposed by Jerome McCarthy in the 1960s, has long served as a fundamental framework for businesses to develop and execute marketing strategies. It encompasses four essential elements: product, price, place, and promotion. For Netflix, a global leader in the streaming industry, the 4P framework provides a structured approach to analyzing and optimizing its marketing efforts in a highly competitive environment.

3.1 . Product Strategy

The Product element is concerned with creating goods or services that meet the specific needs and wants of target consumers. This involves continuous innovation, quality improvement, and feature enhancements to ensure that the offerings remain competitive and relevant in the market [6].

Netflix‘s product strategy is a crucial aspect of its success. Netflix’s content has been significantly enhanced by integrating elements from its strategic edge. The company invests over $17 billion annually in content, a staggering figure that reflects its commitment to providing a diverse and high-quality product offering [7]. By sourcing 40% of its content from outside the U.S., Netflix caters to a global audience, recognizing the importance of cultural diversity in its programming [8]. This approach not only helps in attracting a wider user base but also in building a more inclusive and engaging platform.

The „20 - 80 rule“, where 20% of content is sourced locally to ensure cultural relevance and 80% adheres to Hollywood-style production standards, further demonstrates Netflix‘s strategic thinking in product development [7]. Additionally, the non-linear release model, which allows users to binge-watch entire seasons at their convenience, has revolutionized the way people consume media [7]. This model not only enhances user control over their entertainment experience but also aligns with the modern consumer‘s preference for on-demand and flexible viewing options. By integrating these elements from its strategic edge, Netflix has been able to continuously innovate its product, staying ahead of the competition and maintaining high levels of user satisfaction.

3.2 . Price Strategy

The Price element focuses on determining the optimal pricing strategy. This requires a careful balance between production costs, market demand, and competitor pricing. A well-designed pricing strategy can not only influence consumer purchasing decisions but also impact a company‘s profitability and market share.

Netflix‘s Price strategy is carefully crafted, taking into account insights from its user-centric strategic edge. The company offers tiered pricing plans, such as the $6.99 ad - ad-supported tier and the $19.99 Premium tier, to cater to the diverse needs and budgets of its global user base [7]. The ad - ad-supported tier is designed for price-sensitive consumers who are willing to trade off some ad-free viewing for a lower cost, while the Premium tier appeals to users who value high-definition quality, multiple simultaneous streams, and an ad-free experience. This tiered approach recognizes that different users have different preferences and willingness to pay.

The pricing model also operates as a „social currency framework,“ where higher tiers serve as status symbols, enhancing user loyalty [7]. By understanding consumer psychological drivers, Netflix is able to optimize its pricing strategy to balance revenue generation and user accessibility. The price points are set in a way that not only maximizes revenue but also ensures that the service remains affordable for a wide range of consumers. This user-centric approach to pricing has been instrumental in Netflix‘s growth, allowing it to capture different market segments and maintain a competitive edge in the pricing landscape of the streaming industry.

3.3 . Place Strategy

The Place element is about ensuring that products are made available to consumers through efficient distribution channels, whether it is physical stores, online platforms, or a combination of both.

The Place strategy for Netflix is heavily reliant on technological innovations, which are drawn from its strategic edge. At the heart of its distribution system is the AI-driven Recommendation System (NRS). This sophisticated system analyzes over 3 billion daily user interactions, enabling it to deliver highly personalized content suggestions to each user [6]. By understanding user preferences, viewing habits, and historical data, the NRS ensures that relevant content reaches the right audience, optimizing the distribution process and enhancing user engagement [9].

Complementing the NRS is the adaptive streaming tech-

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nology, which is another key technological component [6]. This technology automatically adjusts the video quality based on the user's network conditions, ensuring seamless playback across 190 + markets worldwide. Whether a user is in a high-speed urban area or a region with limited bandwidth, Netflix can provide a consistent viewing experience. These technological innovations not only form the backbone of Netflix's global distribution but also support its data-driven approach to business. By leveraging these advanced technologies, Netflix can effectively reach and retain users across different geographical locations, strengthening its position as a leading global streaming service.

3.4 . Promotion Strategy

Finally, the Promotion element involves activities such as advertising, public relations, and sales promotions, which aim to increase brand awareness, attract new customers, and retain existing ones.

Netflix's Promotion strategy has been highly successful by leveraging the power of content-driven growth, which is a core part of its strategic edge. The company invests over $10 billion annually in original content, a significant portion of its overall content budget [10]. This investment in high-quality, exclusive content serves as a powerful promotional tool. For example, the global phenomenon Squid Game generated 1.65 billion viewing hours and led to 4.38 million new user sign-ups in a single quarter [10].

The success of Squid Game is not an isolated case. Netflix's commitment to producing diverse and engaging original content, comparable to North American theatrical investments, has helped in creating organic buzz and attracting new subscribers [10]. The broader content strategy, which spans different genres and caters to various cultural tastes, further supports its promotional efforts [8]. By focusing on content-driven promotion, Netflix reduces its reliance on traditional marketing tactics such as mass advertising. Instead, it allows its content to speak for itself, generating word - of - mouth, social media buzz, and media coverage. This approach not only saves costs but also builds a more loyal and engaged user base, as consumers are drawn to the platform by the promise of unique and high-quality entertainment.

4. Strategy Edge Components

While 4P theory helps a lot, other key components remain distinct yet equally crucial for the company's overall success. These elements operate in tandem with the 4P strategies, providing a more comprehensive approach to maintaining market dominance.

4.1 . Offline Initiatives for Community Building

Netflix's offline initiatives play a significant role in fostering a sense of community among subscribers [11]. These physical experiences bridge the gap between the digital and physical worlds, creating more immersive and engaging interactions. For example, pop-up stores can offer fans opportunities to engage with their favorite shows through themed installations, merchandise, and exclusive experiences. This not only generates excitement and buzz around specific content but also strengthens the emotional connection between the brand and its users. Additionally, two-way communication channels like voting posts and comment responses further enhance community engagement. By allowing users to share their opinions, vote on content preferences, and interact with each other, Netflix cultivates a loyal community that feels involved in the platform's ecosystem. These offline and interactive efforts contribute to a more well-rounded user experience that extends beyond the digital streaming service.

4.2 . Data-Driven Decision-Making Beyond 4P

Netflix's data-driven philosophy extends far beyond the 4P model, despite its integration into the Place strategy via the NRS [3]. The vast amount of user data collected, from viewing habits to search queries, serves as a goldmine for making informed business decisions. This data is used to anticipate trends, identify emerging content preferences, and inform content production strategies. For instance, analyzing user interactions can reveal the popularity of certain genres or themes, guiding the company in commissioning new original content [9]. Moreover, data-driven insights also play a crucial role in market expansion plans. By understanding the viewing behaviors and preferences of users in different regions, Netflix can tailor its content offerings, marketing strategies, and even pricing models to better suit local markets. This continuous analysis of user data allows Netflix to stay agile, adapt to changing market dynamics, and maintain its position as an industry leader in the highly competitive streaming landscape.

5. Challenges and Countermeasures

5.1 . Challenges

5.1.1 . High-cost subscription

In the fiercely competitive streaming landscape, Netflix faces the challenge of high-cost subscriptions as a monthly subscription-based service. Member satisfaction is intricately linked to user retention, which directly impacts the company's revenue. How satisfied members are strongly tied to their chance of continuing the service. This, in turn, has a direct effect on our revenue [11]. So, it can be gauged the worth of a recommender system by how much it boosts member retention [11]. It highlights the critical role of retaining users amid high subscription costs. Netflix‘s pricing in the U.S. ranges from $9.99 to $19.99 per month, creating significant barriers in emerging markets. So cheaper alternatives like Disney+ Hotstar ($1.99/month) flourish. In regions such as Southeast Asia and Africa, the basic plan often exceeds users‘ willingness to pay, risking the alienation of budget-conscious audiences who may opt for more affordable competitors. This pricing gap not only hinders market penetration but also threatens subscriber loyalty as cost-sensitive users seek cheaper alternatives.

5.1.2 . Content mismatch challenge

Netflix‘s content library presents a significant challenge in content-type mismatch. Although 40% of its content is non-U.S. in origin, English-language originals account for 58% of the library [12, 13]. This imbalance creates notable cultural gaps in non-Western markets. For example, in 2019, a Brazilian Christmas special on Netflix featured a gay character, which sparked strong backlash from certain segments of the local audience. As a result of the protests, the episode was removed [12,13]. This incident clearly illustrates how a lack of cultural sensitivity in content can lead to the alienation of local viewers.

Netflix attempts to address this issue through the „20-80 rule,“ which stipulates that 20% of content should be local, while 80% should follow Hollywood-style production [7]. However, the continued dominance of English-language content remains a hurdle, especially in markets where local languages and cultural nuances play a crucial role. This content-type mismatch not only curbs user engagement but also hinders Netflix‘s competitiveness against regional platforms that prioritize highly localized content. These platforms, by catering closely to local tastes and cultural sensitivities, are better positioned to attract and retain users in their respective markets, putting Netflix at a disadvantage.

5.1.3 . Intense streaming platform competition

Netflix confronts intense competition from rivals like Disney+ (92% U.S.-centric content) and Amazon Prime Video (bundled with e-commerce), while short-form platforms like TikTok and ad-supported models (e.g., HBO Max Ad-Lite) fragment user engagement [12]. Unlike Hulu (Black Friday deals at $1.99/month) or Disney+ (bundled services at $12.99/month for Disney+/Hulu/ESPN+), Netflix minimally uses pricing discounts, relying on a premium strategy [11]. However, a Deloitte survey shows 65% of users prefer ad-supported plans to lower costs [11]. What‘s more, Netflix lacks loyalty programs (e.g., discounted annual subscriptions) while 70% of Hulu subscribers choose ad-supported tiers [14]. This approach reinforces its premium brand but risks alienating cost-conscious consumers.

5.2 . Countermeasures

5.2.1 . Addressing high-cost subscription deterrence

To address the high-cost subscription deterrence, Netflix should introduce ad-supported subscription tiers to cater to the 65% of users who prefer cost-reduced plans, leveraging its advanced recommendation system to deliver targeted ads without compromising the user experience [14]. Since this service operates on a monthly subscription basis, the level of satisfaction among the members is closely related to their decision to continue using our service. This, in turn, has a direct influence on our revenue, underscoring the need to balance affordability with retention [11]. Additionally, implementing loyalty programs such as discounted annual subscriptions can enhance user retention and differentiate Netflix from competitors that rely on short-term pricing discounts.

5.2.2 . Resolving content-type mismatch

Netflix can solve the content-type mismatch problem in two main ways. First, focus on the multi-task recommendation model. Analyze viewing data from each region. Understand local viewing trends, favorite genres, and peak watching hours [11]. Use these insights to adjust the machine learning models for homepage recommendations. For example, in Southeast Asia, if romantic comedies are popular, the model should highlight such shows. Also, collect user feedback regularly. Update the model based on this feedback to improve recommendations. Second, implement the „20-80 rule" [7]. Set up local content acquisition teams in important regions. These teams should find local talent, work with local production companies, and co-produce content. Before releasing any local content, conduct reviews. Involve local cultural experts and audience groups in these reviews. This can prevent cultural mistakes, avoiding problems like the 2019 Brazilian Christmas special incident [12, 14]. By taking these steps, Netflix can better fit local cultures, increase user engagement, and compete better in regional markets.

5.2.3 . Path to break through the competition

To counter intense competition, Netflix should invest in generative AI for personalized content creation, such as AI-generated episode variants, and expand into VR/AR experiences like Black Mirror: Bandersnatch to differentiate from short-form platforms [12]. Exploring blockchain

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for transparent content licensing and fan engagement through NFT collectibles can unlock new revenue streams and strengthen user loyalty in an increasingly fragmented market. The competitive landscape, including rivals like Disney+ (92% U.S.-centric content) and ad-supported models (e.g., HBO Max Ad-Lite), necessitates technological innovation to maintain market dominance [12]. The market is now fragmented, giving viewers many choices. If Netflix does not innovate, it will lose users and money. To stay on top, it needs to create unique experiences and find new ways to make money.

6. Conclusion

In conclusion, Netflix has established itself as a leading force in the global streaming industry through strategic innovation and adaptive strategies. The company‘s application of the 4P marketing framework—featuring diverse content, tiered pricing, tech-driven distribution, and content-led promotion—has reshaped media consumption patterns. Its massive investment in original content and global sourcing has enabled it to cater to diverse audiences, while technologies like the AI recommendation system and adaptive streaming enhance user experience worldwide.

Netflix is faced with challenges such as high subscription costs, content cultural mismatches, and fierce competition. However, it has shown agility in introducing ad-supported tiers, improving local content strategies, and exploring emerging tech like generative AI and VR. By leveraging data-driven insights to inform decisions beyond traditional marketing frameworks, the company continues to adapt to the evolving streaming landscape. With a massive user base and a commitment to innovation, Netflix is well-positioned to maintain its dominance in the media and entertainment sector, provided it balances premium positioning with market accessibility.

The study has limitations. It primarily relies on secondary data, which may lack real-time updates on market dynamics. The analysis focuses on Netflix‘s strategies but does not deeply compare regional market differences. Future research could incorporate primary data through user surveys or interviews to explore regional variations. It might also examine the long-term impact of emerging technologies like generative AI on Netflix‘s strategies, providing more forward-looking insights.

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