

Research on the business operation and profit model of large global film and television companies: A case study of Home Box Office (HBO) and Netflix

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Abstract:

This essay delves into the intricate business operations and profit models of two titans in the global film and television industry: Home Box Office (HBO) and Netflix. Each company has carved out a unique niche through their distinct strategies for content creation, distribution, and monetization. HBO, with its roots in premium cable television, has long relied on a subscription-based model, offering a curated selection of high-quality content to its subscribers. In contrast, Netflix has revolutionized the industry with its innovative streaming service, which provides a vast library of content accessible on-demand, often with a focus on original programming. The research meticulously examines these contrasting approaches, shedding light on the strategic nuances that have propelled both companies to the forefront of the entertainment landscape. By analyzing their business models, the essay uncovers the key factors that have contributed to their respective successes and offers a glimpse into the evolving dynamics of the entertainment sector. It also provides a forward-looking perspective on how digital transformation and the ever-changing consumer preferences are shaping the future of film and television, suggesting that the industry is on the cusp of significant shifts that will redefine the way content is consumed and valued.

Keywords: Film industry; Netflix; HBO; Data analysis.

1. Introduction

From an overall perspective, the large global film and television companies are experiencing complex

landscapes, which marked by economic challenges, technological improvements and varying market dynamics. Take two distinctive outstanding companies, which are Netflix and HBO, as examples. In this es-

say, several changes that the two companies undergoing, reasons caused and possible advice would be provided. The purpose for this research is to further understand the two major film and television firms and also figure out their profit-making strategies. By analyzing their financial data, market strategies, and content offerings, this study aims to provide a comprehensive understanding of how these companies maintain profitability in a highly competitive and rapidly evolving industry.

2. Literature Review

2.1 The Major Trend

The macro trend of the major large film and television companies can be discussed into several parts. Firstly, audiences have been changed their viewing habits since the rapid rise of streaming services such as Netflix and Amazon. More companies are focusing on capturing stable subscription revenue instead of traditional TV and theatrical films. Secondly, IP (intellectual property) and brand loyalty would be significantly considered by audiences. Well-known IPs, like Marvel and Harry Potter, can generate large and continuous revenue compared to single series or film. Thirdly, since the globalization and the advance of technology, there will be more attention to diversity and inclusion and more expressions of race, gender, culture and other aspects of film and television productions.

2.2 The Development Status of Large Film and Television Companies

The traditional “logic of promise” is being challenged by the “logic of convenience” of streaming platforms, which is shifting from box office-centric to subscriber growth. Since the rapid rise of streaming services, traditional film production companies had to get used to new market dynamics. This shift has led to a fundamental change to the production content and distribution strategy of film studios [1].

What’s more, the pandemic has accelerated changes in audiences’ consuming habits, which driven more people switch to streaming services. This switch also forced major film companies to reevaluate their business models and consider to pay more attention on online content production and promotion [2].

2.3 Global Trends in the Film and Television Market

The current global trends in the film and television market basically revolve around technological innovation, sustainability and the widespread use of artificial intelligence

in the production process.

Immersive storytelling has evolved from traditional passive consumption to interactive, personalized experiences. By leveraging technologies such as virtual reality and augmented reality, filmmakers can now create narratives that adapt to the viewer’s preferences, resulting in a unique and engaging viewing experience for each individual [3]. Moreover, Artificial Intelligence is revolutionizing the film production process by automating tasks that were once time-consuming and prone to human error. From script analysis to post-production, AI tools are enhancing efficiency, reducing costs, and opening up new creative possibilities [4].

The technological innovation has played a crucial role in film and television industry. By using 360-degree cameras and virtual reality technology, filmmakers are able to create more immersive experience for audiences.

2.4 Introduction of HBO and Netflix

HBO (Home Box Office) and Netflix are two of the outstanding leading American film and television companies that have world-wide subscribers even though they have different business models and historical backgrounds.

HBO was founded in 1972. It is known for its high-quality original contents, especially in TV series and film production. For example, classic shows “Game of Thrones”, “Euphoria” and “Industry”. Except the original contents, HBO also broadcasts movies, documentaries and sporting events purchased from Hollywood.

In order to cope with the rise of the streaming media, HBO introduced their own streaming services—HBO Max, which conclude not only all the contents of HBO and also programs and films from other studios.

Netflix was set up in 1997. It started as a DVD rental service, offering films and TV shows to subscribers by mails. With the popularity of the Internet, Netflix switched to streaming industry in 2007 and gradually ended DVD rentals. Then it has grown rapidly by subscription models and introduced its original contents around the world, including TV series, movies, documentaries and more. Notable shows, like Never Have I Ever, The Crown, and Stranger Things.

3. Analysis of Commercial Operation and Marketing Strategy of Netflix

Netflix operates on a subscription basis, providing access to all content on its online platform at any time for subscribers. It also recommends personalized content by analyzing viewing data.

3.1 Profit Models

There are several parts of the main profit model of Netflix. Netflix's globalization strategy, which is also the prime factor of the growth of revenue. The way they earn by original contents and buying copyrights through the global market has also been discussed in the essay, which is one of the keys for Netflix keeping competitive advantaged [5]. It is obvious that Netflix has attracted and successfully kept loads of subscribers by its high-quality original programs and purchasing exclusive copyrights and even further enhance the income flux. These original contents not only promote audiences' brand loyalty and, also help Netflix solidify its position as a world-leading streaming service provider.

Another profit model, subscription model, that Netflix focuses on the function of investments on original contents and global expansion. These strategies help Netflix keep competitiveness and provide continuous subscription revenue [6].

What's more, Netflix also invests in bringing diversity to the media business in the market, especially its difference from the traditional media [7].

3.2 Marketing Strategies

There are several strategies of Netflix, including content innovation, global expansion, and the use of data analytics to personalize the user experience [8]. This personalized experience, which can be defined as market segmentation, can provide suitable contents for people around all year groups. For example, It can provide cartoons for children or youth dramas for young adults. Netflix also use big data to analyze user behaviors and take this as foundations to recommend personal contents in order to increase user stickiness. To be more specific, Netflix can directly recommend audiences with programs and films they may like potentially by analyzing viewing history, rating and flavors.

Moreover, Netflix focuses on several marketing tactics, such as the use of social media and strategies entry into the international markets, which have contributed to its global success. This can be shown by bilingual subtitles and dubbing systems, and investments on local content productions. By this localized strategy, Netflix has attracted audiences from all over the world [9].

3.3 Presentation and Analysis of Financial Data

There are 5 prime index showing the financial situation of Netflix, which are Revenue, Net Income, EPS, Free Cash Flow, and Subscriber Count.

Based on the data given by Macrotrends, even If go through the past five years, there has been always an in-

creasing trend for the rate of revenue gained year-over-year. Specifically, in 2023, the revenue of Netflix has already reached \$33.536B, which has successfully shown that the subscription model and globalization strategy has been well executed.

For Net Income, Macrotrends shows that although the net profit in 2021 was higher which even reaching \$5.16 billion, it fell back to \$4.494 billion in 2022 and rebounded to \$5.512 billion in 2023. This indicates that the company faced some challenges in 2022, but still maintained its overall profitability.

Netflix's annual and quarterly EPS (earnings per share) history from 2010 to 2024 shows that the EPS peaked in 2021, then declined in 2022, but grew again in 2023. The changes in EPS reflect Netflix's profitability and shareholder returns.

According to the data, Netflix's cash flow from operations has continued to grow since 2019, indicating that Netflix's core business is generating more and more cash. However, free cash flow was negative in 2019, which may mainly due to high content production costs, but it then turned positive from 2020, showing improvement in the Netflix's financial management.

User growth of Netflix has slowed year by year, but overall it continues to grow, reaching \$239.91 million subscribers in 2023. The slowdown in user growth is likely due to increased market saturation and increased competition.

In conclusion, Netflix has continued to gain revenue and cash flow over the past five years, even though there were challenges in subscriber growth and margins. The improvement in free cash flow and the rebound in profits show the resilience of the company facing intensive competitions.

3.4 Example of Work

Never Have I Ever is an American youth comedy series produced by Netflix about an Indian-American girl Devi coming of age in high school. The series was created by Mindy Kaling and Lang Fisher and was inspired in part by Kaling's own childhood experiences.

The main character is an Indian high school student living in California who is struggling to adjust to the challenges of adolescence, including problems with friends, family, and relationships. After the death of her father, she experienced a brief period of paralysis, which further complicated her life. She tries to change her social status at school and pursue the boys she likes, while also dealing with her mother's high expectations and her family's traditional culture.

The success of this TV series relied not only by its origi-

nal content, but, specifically, also by its way of marketing and distribution.

Firstly, with original content like *Never Have I Ever*, Netflix increases its platform's appeal, encouraging renewals and attracting new subscribers. The exclusivity of the original content makes it impossible for viewers to watch the show through other channels, thus increasing the subscription revenue. Moreover, Netflix increases its subscription base by making *Never Have I Ever* available to global audiences. The diverse cultural backgrounds it reflects has successfully attracted viewers from different countries. This global content strategy helps increase subscribers in international markets, which can boost the profitable growth in the future.

Secondly, *Never Have I Ever* is a show aimed at teens and young adults, and with a diverse cast of characters and story lines, Netflix has managed to appeal to this specific audience. Netflix has also leveraged social media and viral marketing in its marketing efforts. Also, through interaction and promotion on social media platforms, *Never Have I Ever* was able to generate widespread discussions among its target audience. In addition, Netflix has leveraged the actors' personal influence and interactions on social media platforms to promote episodes. For example, the main actors and actress would post their stage photos into their Instagram account.

For its financial situation, in its 2023 financial report, Netflix reported that it costed billions of dollars in content spending, including original content like *Never Have I Ever*. These investments are aimed at maintaining and increasing the number of subscribers.

To sum up, Netflix has succeeded in running the show *Never Have I Ever* through its original content strategy, global expansion, and data-driven marketing. This model has not only promoted growth in subscription revenue, but also helped Netflix maintain its leading position in the streaming industry.

4. Analysis of Commercial Operation and Marketing Strategy of HBO

HBO (Home Box Office), as a leading premium cable and streaming service, has developed a robust commercial operation and marketing strategy that has evolved over the decades.

4.1 Commercial Operation

There are various aspects of the subscription-based business models of HBO, including those used by media streaming platforms like HBO. HBO primarily operates on a subscription-based model, which offering premium

content that is able only to paying subscribers. This model has been highly successful, generating consistent revenue streams through monthly fees.

HBO's role in shaping contemporary television culture through its original programming. HBO has also managed to maintain a reputation for quality, which has been central to its brand identity. HBO's investment in high-quality original programming has been a cornerstone of its commercial strategy. Iconic series like *Game of Thrones*, *Euphoria*, and *Succession* have driven subscriptions [10]. The launch of HBO Max marked HBO's expansion into the streaming market. This not only includes HBO's original content but also provide a large library of films, TV shows, and content from WarnerMedia, which better allowing HBO to compete directly with other streaming giants like Netflix [11].

4.2 Marketing Strategy

HBO positions itself as a premium brand, focusing on the quality of its content. The tagline "It's not TV. It's HBO" reflects its strategy to differentiate itself from traditional television through groundbreaking content.

HBO heavily invests in marketing its original series, using trailers, and behind-the-scenes content to build anticipation. The network leverages social media, digital campaigns, and fan engagement to create popularity and heat. HBO often collaborates with other WarnerMedia properties for cross-promotion, leveraging synergies within the parent company. Bundling HBO with other services or offering it as part of a package with telecom providers has also been a key strategy to drive subscriptions. One paper that dives deep into bundling strategies is "The Dynamic Effects of Bundling as a Product Strategy" by Timothy Dardenger and Vineet Kumar. This paper explores how bundling influences consumer decisions and the effectiveness of different bundling strategies. Although the paper focuses on the video game market, many of the insights are also available to media companies like HBO, where bundling and cross-promotion are critical for maximizing revenue and consumer loyalty.

4.3 Presentation and Analysis of Financial Data of HBO

To present and analyze the financial data of HBO, several key areas have to be examined.

Firstly, in 2019, HBO generated approximately \$7.7 billion in revenue, mainly from subscription fees. This revenue was primarily driven by the success of its traditional cable offerings and the early stages of HBO Max's launch. Over the years, the transition to streaming has increased its revenue, but also added significant costs.

The launch of HBO Max in 2020 marked a major shift for HBO, as it transitioned from a premium cable channel to a major streaming service. This expanded its audience base and revenue streams but also brought about substantial investment in content and technology. In 2021, HBO and HBO Max combined had around 74 million subscribers globally.

The costs associated with producing high-quality, exclusive content like *Game of Thrones* and the technological infrastructure for streaming have been extremely substantial. These expenditures have negatively influenced operating margins, particularly as the company increased investments to compete with other streaming giants.

The 2022 merger between WarnerMedia (HBO's parent) and Discovery Inc. formed Warner Bros. Discovery. This merger aimed to create a powerhouse in content production and distribution, but it also brought about restructuring costs and strategic realignments, impacting financials. Post-merger, the company focused on maximizing efficiencies, including content synergies between HBO Max and Discovery+.

By 2023, Warner Bros. Discovery, which includes HBO, faced challenges related to the integration of the two companies, leading to some volatility in financial performance. However, HBO's strong content lineup continues to be a significant revenue driver within the larger organization.

To conclude, HBO has seen stable revenue growth driven by the shift to streaming, but it has also faced rising costs and strategic challenges caused by its merger with Discovery. The ability of HBO to leverage its strong content portfolio will be significant for maintaining financial stability moving forward.

4.4 Example of Work

Euphoria is a television series created by Sam Levinson that premiered in 2019. The story revolves around a group of high school students who explore their lives, love, addiction, sex, and social pressures. The series is known for its straightforward style and stark visual style, presenting complex and multi-layered character relationships.

HBO's *Euphoria* is not only a compelling show, but also a brilliant demonstration of HBO's strategic approach to business operations and marketing.

In addition to subscriptions, HBO also gains revenue through advertising (shows released on non-subscription platforms or through partners), merchandise sales (such as *Euphoria*-themed cloths and accessories), international distribution rights, and streaming licenses. These channels further enrich HBO's revenue.

Moreover, the success of *Euphoria* is largely due to its targeting of Gen Z and millennials. By delving into the

preferences of this audience, HBO has created a series that explores growing pains, emotional confusion, teenage fevers and social issues among teenagers. Through deep teenage topics and engaging storytelling, HBO has managed to reach its target audience and generate widespread discussions on social media.

Also, Zendaya's star power was one of the key factors in the success of *Euphoria*. HBO took advantage of Zendaya's wide popularity, promoting it through her social media presence and partnering with other social media influencers to further expand *Euphoria*'s reach. The combination of the star's personal brand and the show's content has made the show more fascinating to younger audiences.

However, *Euphoria* was really expensive to produce, especially with its polished visuals, excellent cast, and complex narrative structure. Even though these investments are expensive, paid off in high-quality programming and ultimately paid off through increased subscription revenue and engagement.

Since the release of *Euphoria*, subscribers on the HBO Max platform have grown significantly. HBO Max reported a rapid increase in downloads and subscribers during the episode's run, showing the positive effectiveness of *Euphoria* in driving growth on the platform.

Euphoria did well not only in the US but also in other markets around the world. HBO further increased the profitability of *Euphoria* through international distribution and distribution rights sales. International success has further enhanced HBO's financial performance.

5. Future Development Proposals for Dilm and Television Companies

5.1 Digitalization and Technological Innovation

Film and Television studios can invest in virtual production technologies, such as virtual studios and real-time rendering, to reduce production costs and improve production efficiency. Netflix is also a great example of this action. It uses artificial intelligence and big data analysis a lot in content-making and recommendation systems. By analyzing the viewing habits of its subscribers, Netflix can anticipate which kinds of programs are popular. At the same time, virtual paper technology, which refers to digital systems that would stimulate the look, feel and function of traditional paper, allowing users to write, draw, and interact with documents in a digital format, can also improve the sense of finishing, so that the audience is more interested in watching.

5.2 Brand and IP Management

Studios can develop and manage strong intellectual property (IP) that can be extended to games, books, and merchandise to create multiple revenue streams. At the same time, they can also cooperate with other industries (such as fashion, sports, music) to launch cross-border products and enhance brand influence. Disney has served an outstanding leader of this action. There are many classic IPs like Mickey Mouse, Lion King and Frozen. Disney has enlarged these IPs into films, TV series, theme parks, toys, cloths and so on, to make its multi-angle brand development and boosting revenue come true.

In conclusion, based on the analysis of the two major film and television films, the whole industry still has plenty of potentials to develop with future technologies. However, this research has several limitations, such as the limited resources available to provide brief understanding of the whole business models. Anyway, In the future, film and television companies will not only need to remain competitive in a rapidly changing market and distinguish themselves from many options, but also actively explore ways to achieve sustainable development.

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