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Research on Netflix's Sustainable Development and Challenges

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Abstract:
With the development of the Internet and modern technology, the streaming media industry is gradually appearing in front of the public, and people's entertainment is no longer limited to traditional live TV, radio, and so on. Now, people can use any mobile phone, or computer and click on any video-based entertainment website to choose movies according to their preferences. Therefore, at this point, entertainment websites have become the hot spot of people's Internet entertainment, and the famous streaming media entertainment company Netflix is one of them. Netflix, as the world's leading streaming entertainment service platform, has been committed to providing users with a wide variety of high-quality film and television content since its inception. However, with the intensification of market competition and the constant change in consumer demand, Netflix is also facing the challenge of sustainable development. This article will take a look at Netflix's continued growth and explore the factors that have contributed to its success and the challenges it faces.

Keywords: Netflix; Entertainment; Streaming industry; Original content.

1. Introduction

With the rapid development of information society, streaming media technology plays a leading role in Internet media communication. Among them, video-on-demand, distance education, video conferencing, Internet live broadcast, online news releases, online advertising, and other aspects of the application are unprecedentedly wide, which facilitates people's information and emotional exchange on a global scale. There is no doubt that information technology is changing our lives in many ways. Therefore, many enterprises have also found business opportunities in the information service industry and developed into famous large enterprises. These companies are also based on the needs of customers, slowly rising in the streaming media industry, and finally becoming a well-known large enterprise. Netflix is one of them and maintains an absolute position in the streaming media industry.

Prior to this, many researchers have carried out a detailed analysis of Netflix. Among them, Mr. Hao has analyzed Netflix's strategic model in many aspects, and by analyzing Netflix's development history, its business model innovation and the innovative tech-

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nology that Netflix has, he has come to the conclusion that Netflix has so far achieved success in the streaming media industry and is on the road to sustainable innovation and development [1]. Fouladirad et al used Netflix as the background, they demonstrated the importance of big data in business analytics by studying all aspects of Netflix. For example, big data can help organizations gain insight, improve forecasts, identify risks, etc., which is more conducive to the development of enterprises to rise to a higher level [2]. In addition, Oat used Netflix as a background to research vod technology. The close connection between Netflix and vod technology services is a testament to the quality of Netflix's services in providing video resources to customers, that is, Netflix users can freely choose their favorite video content, not just limited to traditional live TV shows. From here, users can feel the influence of Netflix's services around the world, reflecting Netflix's excellent ability in technological innovation, content production, and marketing [3]. While comprehensively analyzing how Netflix is developing, Mr. Sun is also paying attention to the competition of Netflix in the market, learning that Netflix has many competitors in the streaming media industry, such as Disney, Amazon and other giants, and then suggesting that Netflix should continue to pay attention to the development of The Times, strengthen innovation, seize opportunities, and continue to find their shortcomings and improve in the operation [4]. Finally, Yu and Yang concluded that the Netflix economy has an important effect on consumer behavior [5]. The specific performance is that Netflix's economy runs through all stages of consumer purchasing behavior, making consumer purchasing behavior more complex and diverse, in addition to the discovery of the phenomenon of Internet celebrities with goods in Netflix's economy [5]. Through live streams or short videos, Internet celebrities use their influence and fan base to convert traffic into purchasing power and achieve economic benefits [5]. However, in further exploration, Yu and Yang found and pointed out problems in the Netflix economy, such as product quality being difficult to guarantee, and product efficacy being exaggerated. These problems can damage the reputation of influencers and even affect the health of Netflix's economy [5]. In the end, Yu and Yang also mentioned the implications of the Netflix economy for e-commerce platforms, live streaming platforms, and merchants. These platforms need to pay attention to the factors that influence consumer purchase decisions, improve marketing strategies, and improve the quality of goods to build content ecological strategies and promote the healthy development of Netflix's economy [5]. Through the investigation and research of other researchers on Netflix, it has also laid the foundation for this paper to continue to study the development of Netflix.

2. Development History of the Company

Reviewing the development of Netflix, since its establishment in 1997, the company has successfully seized the dividends of the mobile internet industry and the development trends of the streaming media industry multiple times. It has undergone three significant strategic transformations, ultimately becoming a global streaming media giant [6-8]. Specifically:

2.1 The Transition from DVD to Streaming Media

Netflix started as a DVD rental business, ventured into online rental and sales in 2000, and transitioned from DVD rental to streaming media in 2007. Combining cost-effective monthly subscription plans with recommendation algorithms successfully attracted a large number of subscribers. In 2010, the number of subscribers exceeded 20 million, making it the largest streaming media traffic source during U.S. nighttime hours. In the same year, Netflix forward-looking began its international strategic layout, with Canada as the first stop in its globalization process, gradually expanding into Latin America and Europe.

2.2 The Shift from Content Acquisition to Content Production

Netflix deepened its streaming media transformation layout and began to develop original content in 2011. After the successful pilot of its first original series "House of Cards" in 2013, it firmly committed to producing high-end original dramas, retaining old users and attracting new ones with high-quality content. In 2012, it entered the content production industry with its first original crime comedy "Lilyhammer".

2.3 Accelerated Globalization and Commercialization

Netflix accelerated its international market expansion and global layout. After announcing its international market expansion plan in 2016, it quickly entered uncovered countries and regions worldwide, accelerating market development in Asia-Pacific and other regions. Currently, its services cover 190 countries globally. Meanwhile, with Disney, Amazon, and others entering the market in early 2020, as the post-pandemic online dividend faded and streaming media competition intensified, Netflix accelerated its globalization process and explored diversified commercialization. Deciding to crack down on shared accounts and introduce advertising packages accelerated the conversion of subscription members. At the same time, Netflix began to expand into the gaming sector and launched an online retail platform, accelerating its diversified commercialization process globally.

3. The Current Situation of Netflix

3.1 Revenue

The profitability of the group has been steadily improved, the group's cash flow has achieved a positive cycle, the operating performance has been improving, and the profitability has been continuously released. On the revenue side, from 2016 to 2022, Netflix's revenue level has steadily increased, and in 2022, the company achieved a total revenue of 31.616 billion US dollars, +6.5% year-on-year; 23Q3 achieved a total revenue of 24.89 billion US dollars, +4.74% year-on-year. With the fading of the impact of the epidemic and the expansion of the company's commercialization model, the overall revenue of the company has maintained a good growth momentum since 2022; On the cost side, the growth rate of the company's operating cost gradually decreased from 2016 to 2022, and the operating cost in 2022 was 19.168 billion US dollars, +10.59% year-on-year, mainly because the company increased content investment and committed to improving user experience. While achieving steady revenue growth, Netflix maintained good operating cost control, which contributed to the continuous improvement of profitability.

3.2 Gross Profit

In terms of gross profit margin, the company's gross profit margin in 2022 was 39.4%, a significant increase compared with 29.14% in 2016, and the company's gross profit margin in 23Q3 was 42.1%, an increase of +6.8% compared with 2022. The main reason is that the company's content production capacity and content quality continue to rise under the firm content investment, and the growth of the content library promotes the increase of gross profit margin. In terms of net interest rate, the company's net interest rate in 2022 is 14.21%, which is slightly lower than the 17.23% in 2021, mainly due to the slowdown in membership growth and increased content investment after the normalization of the epidemic. As of 23Q3, the company's net interest rate has increased again to 17.95%, +1.8% year-on-year, reflecting the initial results of the company's globalization and exploration of new business models. New growth has been fully launched.

3.3 The Expense End

At the expense end, Netflix's investment in original content has attracted a large number of subscribers and led to an increase in user revenue, and the scale effect has begun to show at the expense end. In 2022, the company's marketing expenses were $2.531 billion, down 0.57% year-on-year, research and development expenses were $2.711 billion, up 19.23% year-on-year, and administrative expenses were $1.573 billion, down 16.37% year-on-year. At the expense ratio, the company's marketing expense ratio in 2022 will be 8.00%, down 6.65% year-on-year. R&d expense ratio was 8.58%, up 12.01% year-on-year; The overhead ratio was 4.98%, an increase of 9.45%. On the other hand, 23Q3 company marketing expenses were $1.741 billion, research and development expenses were $2.002 billion, and administrative expenses were $1.281 billion. The company's marketing expense ratio, R&D expense ratio and management expense ratio were 7.0%, 8.0% and 5.1%, respectively, compared with -2.38%, -3.79% and +9.29%, among which the sales expense ratio declined steadily and the R&D expense ratio was also significantly optimized. In general, it can be seen that the company continues to increase content investment to improve content self-control ability, the Netflix brand effect is displayed, the R & D expense rate is stable, the sales expense rate continues to decline, and the profitability continues to improve.

3.4 Cash Flow

When the operating cash flow is positive, the positive cash flow promotes ecological positive circulation. In terms of cash flow, the company's growth model is driven by content cash input, and positive cash flow has become the key to sustainable ecological growth. At the end of the year, Netflix's net cash at the end of the year was 5.171 billion US dollars, down 14.61% year-on-year, mainly because the company continued to increase content cash input to cope with the pressure of member growth and industry competition. Net cash at the end of Q3 was 7.356 billion US dollars, up 19.81% year-on-year, and cash on hand returned to positive growth. In terms of three cash flows, in 2022, Netflix's cash flow from operating activities was $2.026 billion, cash flow from investment activities was $2.076 billion, and cash flow from financing activities was $664 million. In Q3, the cash flow provided by operating activities was 5.611 billion US dollars, the cash flow provided by investment activities was 130 million US dollars, and the cash flow used by financing activities was 3.499 billion US dollars, among which the cash flow from operating activities has been positive since 20 years ago, and the company has achieved free cash flow of 1.9 billion US dollars in Q3. Netflix's cash flow fluctuates due to content input in the short term. As content is launched one after another and positive cash flow achieves a good

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positive cycle under commercial income generation, it drives steady growth of operating performance.

4. Factors for the Rapid Growth of the Company

4.1 Team Construction

The core team has rich experience in management and operation, which provides an important talent base for the company. As for the board of directors, the company's board of directors integrates talents from the fields of media, communications, technology, investment, and management. Reed Hastings, the executive Chairman of the Board, is a co-founder of Netflix and has served as the co-CEO and President of Netflix for more than 25 years. He has a deep understanding of Netflix's technology and business. Holds a master's degree in artificial Intelligence from Stanford University with unique strategic and industry insights; TedSarandos, the company's co-chief Executive Officer, President and director, previously served as Netflix's Chief Content Officer, with operational management experience as a video distributor and video rental retail, as well as a producer of award-winning and critically acclaimed documentaries; Lead Independent Director JayC.Hoag brings deep strategic and financial experience with unique insights into risk management, corporate governance, talent selection and management. In terms of the operation team, the company's chief content officer BelaBaja, vice president of engineering Deborah Black, chief talent officer SergioEzama, President of Global advertising Jeremi Gorman, Vice president of consumer product innovation Eunice Kim and other positions are clearly divided. With a wealth of relevant industry experience and management experience, the diverse and strong core international management team has provided important guidance for Netflix's successful strategic transformation and entering a new stage of growth [9].

4.2 Business Model

Based on membership subscription as the basis of commercialization, develop advertising AVOD and diversified commercialization. Netflix's business model has undergone major adjustments. In the early stage, Netflix insisted on putting user experience first, providing high-quality subscription content to attract users to subscribe, and refusing to add advertisements. With the slowdown of streaming media growth and the intensifying competition for industry members after the epidemic, Netflix began to actively explore new business models to enhance its commercialization capabilities [10].

4.2.1 Advertising subscription

On November 3, 22, Netflix officially launched Basicwith ads and upgraded AVOD user experience, officially launched various streaming media service packages in different regions and countries, and widened the price range to reach more price-sensitive users;

4.2.2 Interactive entertainment

Netflix actively explores other interactive entertainment models. In 2018, it tested interactive movies and launched Black Mirror: Pandasnikki. In 2019, Netflix began to expand into the game field and authorized external manufacturers to produce games. In October 2023, the mobile games adapted from Netflix's self-made love variety TooHot to Handle and LoveisBlind ranked third and fourth in the monthly downloads of visual novel mobile games in the world;

4.2.3 IP derivatives

In June 2021, the company launched its first online retail platform, Netflix.shop, which is not common with streaming media platform accounts, and non-Netflix subscribers can also purchase the products, which are mainly around popular IP works of movies and television, including clothing, daily necessities, and collectible gifts. Initially, merchandise on Netflix.shop will only be available in the United States, and officials promise to expand to other countries in the world in the future.

5. Competitor Analysis and Outlook

In the ever-evolving digital entertainment landscape, two giants stand tall, engaging in an epic battle for supremacy: Netflix Inc. (NFLX) and The Walt Disney Company (DIS). As these streaming titans compete for dominance, their strategies, financial performances, and market positions offer crucial insights for investors considering the booming streaming industry.

5.1 Market Position and User Growth

The streaming industry has become a fiercely competitive battleground, with Netflix and Disney emerging as the most prominent rivals. Their user bases and market capitalizations tell a compelling story of rapid growth and shifting market dynamics. Headquartered in Los Gatos, California, Netflix boasts a global subscriber count of 277.6 million, maintaining its leading position. This figure marks a significant milestone for a company that launched its streaming service in 2007. Netflix's first-mover advantage has granted it a notable lead in subscriber numbers, a key metric for investors assessing the company's market penetration and growth potential.

Table 1. Netflix and Disney markets and subscribers worldwide

Company	Global subscribers(Last Q)	Market CAP
Netflix	277.6 million	$270.45 billion
Disney	229.8 million	$152.37 billion

The rapid rise of The Walt Disney Company in the streaming realm is equally noteworthy. Since launching Disney+ in November 2019, the company's total subscriber count for its streaming services (Disney+, Hulu, and ESPN+) has swiftly reached 229.8 million in less than five years. This explosive growth underscores the strength of the Disney brand and its extensive library of beloved content, factors investors should consider when evaluating the company's long-term potential in the streaming market. In less than half a decade, Disney's streaming services have amassed 229.8 million users, attesting to the brand's power and its vast catalog of popular content.

The difference in market capitalization between Netflix and Disney is particularly striking. Despite Disney's broader business portfolio, which includes theme parks, cruise lines, and traditional media networks, Netflix has a higher market cap. This valuation disparity reflects investors' optimism about Netflix's future growth potential and its leading position in the streaming market.

5.2 Revenue Streams and Business Models

Both companies generate billions of dollars in streaming revenue, but their overall financial profiles differ significantly due to their distinct business models.

Table 2. Netflix and Disney's third-quarter streaming revenue and third-quarter total revenue

Company	Streaming revenue(Q3 2024)	Total revenue(Q3 2024)
Netflix	$9.559 billion	$9.559 billion
Disney	$5.143 billion	$23.155 billion

Netflix's revenue figures reflect its pure-play status in the streaming market. The company's entire business revolves around its streaming service, allowing it to focus on generating revenue and managing costs. This specialization is attractive to investors seeking exposure to the pure streaming market.

Although it is impressive, Walt Disney‘s streaming revenue is just one part of this large entertainment empire. Its total revenue includes revenues of theme parks,cruise lines,consumer goods and the traditional streaming media network. This diversification provides Disney with a synergistic effect between businesses and various sources of incomes,which may attract investors to seek for a more balanced investment in the entertainment industry.

For investors, these distinct business models present different opportunities and challenges. Netflix's focused strategy offers a clear and concentrated investment in the streaming market, with revenue growth directly tied to its success in content creation and subscriber acquisition. This model may attract investors seeking high growth potential and direct exposure to streaming industry trends. Conversely, Disney's diversified approach provides a more balanced investment proposition. While streaming growth is crucial, investors also benefit from the stability and cash flow of its established entertainment businesses. The potential for cross-synergies between Disney's various business units, such as leveraging intellectual property across streaming, theme parks, and merchandise, offers unique value creation opportunities. However, it also necessitates considering a more complex set of factors when assessing the company's overall performance and growth prospects.

5.3 Content Investment Strategies

Content is the lifeblood of streaming services, and how Netflix and Disney effectively invest in and monetize their content libraries is crucial.

Table 3. Disney and Netflix Content spending in 2023 and projected spending in 2024

Company	2023 Content Spend	2024 Projected Spend
Netflix	$13 billion	$17 billion
Disney	$30-32 billion	$25 billion

Netflix's ongoing investment of $17 billion reflects its strategy to create a steady stream of original content to

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maintain subscriber engagement and drive high demand for its service. The company focuses on producing a variety of original programming across multiple genres and languages, launching global hits such as "Stranger Things," "The Witcher," and "Bridgerton."
Disney's extensive content budget covers a broader scope, including theatrical releases, television production, and various streaming content. The company possesses a wide portfolio of franchises, including Marvel, Star Wars, and Pixar, which require substantial investments to maintain and expand. However, Disney is tightening its belt, planning to reduce content spending to $25 billion in 2024, aiming to improve the profitability of its direct-to-consumer division.

5.4 Future Outlook and Potential Catalysts

As investors look to the future of the streaming industry, several factors could significantly impact the performance of NFLX and DIS:
Content Pipelines: Both companies possess robust content pipelines, but the success of major releases can drive user growth and engagement. Investors should pay attention to anticipated releases and their potential impact.
Technological Advancements: Innovations in AI-driven personalization, interactive content, and enhanced streaming quality can provide competitive advantages.
Regulatory Environment: Increased scrutiny from regulators, particularly in data privacy and market competition, may affect growth strategies in various markets.
Diversification: Disney's diversified business model presents both challenges and opportunities. The performance of its theme parks, cruise lines, and traditional media networks may impact its ability to invest in and develop its streaming services.
Industry Consolidation: Potential mergers, acquisitions, or strategic partnerships could reshape the competitive landscape.
Economic Factors: Consumers' disposable spending on entertainment subscriptions may be influenced by broader economic conditions, affecting the growth prospects of both companies.
As the streaming battle continues, both Netflix and Disney are poised to shape the future of digital entertainment. Their ongoing competition is likely to drive further innovation and content creation, ultimately benefiting consumers and investors in the long run.

6. Conclusion

Netflix continues to grow through content innovation, technology optimization, globalization, and data analytics. However, in the face of challenges such as market competition, content costs and user privacy protection, Netflix needs to constantly explore and innovate to maintain its leading position in the streaming market. In the future, under the leadership of the industry's first-class technology and first-class team, Netflix will continue to be committed to further improving product quality, shooting videos with a unique style, and then making their products into the best of the best, so as to provide users with more high-quality and convenient streaming media entertainment services and promote the sustainable development of the industry. As a result, this not only brings huge revenue and profits for Netflix but also provides a great entertainment experience for viewers.

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