

Netflix And The Increasing Focus On Streaming Services

Contributed by eMarketer
Thursday, 13 October 2011
Last Updated Friday, 14 October 2011

Company has ridden a rocky road toward a more cloud-based service

After announcing in September that its DVD-by-mail service would be known as Qwikster, Netflix reversed course on the separate brand in October.

The company's overall plan and pricing changes—most notably turning the popular combined DVD-and-streaming option into two separate plans costing consumers much more—are still in effect, but the company's decision highlights how much consumers were upset by the changes.

“We underestimated the appeal of the single web site and a single service,” Steve Swasey, a Netflix spokesman, told The New York Times about the changes. “We greatly underestimated it.”

Prior to the reversal, Credit Suisse analyzed the situation and forecast that user numbers for Netflix's streaming-only service would reach about 24.96 million in 2012 and earn \$2.49 billion in revenue.

This is expected to grow to 29.72 million subscribers and \$3.07 billion in revenue in 2013 and 34.22 million subscribers and \$3.68 revenue billion in 2014.

Going forward, Netflix will be putting effort into getting customers to purchase the streaming options, rather than the DVD-by-mail options, which are less cost-effective for the company. Netflix is also dealing with increased competition. DISH Network, which acquired Blockbuster earlier in 2011, introduced its own TV and movie streaming option and is also in the running to purchase Hulu, one of Netflix's biggest competitors in the streaming space.

“This move will help Netflix stop bleeding customers and refocus on growing its streaming operation,” said Paul Verna, eMarketer senior analyst. “But pricing remains one of the company's vulnerabilities, particularly at a time when its brand damaged and competition is intensifying. As rival services ramp up, Netflix will need to seriously consider pricing concessions to win back the favor of its once loyal customer base.”

In August, after the price and service change announcements, Frank N. Magid Associates surveyed current Netflix subscribers, lapsed subscribers and people who had never subscribed to the service. The company found that current subscribers still saw value in Netflix, with 25% reporting it as excellent value and 40% reporting good value. Only 3% said Netflix provided poor value.

Lapsed subscribers highlighted several reasons why they left the service, including that they didn't watch enough DVDs (33%) and that the service was too expensive (31%).

For those who had never subscribed to Netflix, the least expensive account options were, not surprisingly, the most appealing. The survey found that 26% of those who had never subscribed thought the 1 DVD plan for \$7.99 was the most appealing and 19% highlighted the unlimited streaming plan for \$7.99. Also, 30% reported that none of the plans were appealing to them.

Netflix learned a valuable lesson about making drastic changes to its company and brand with the announcement and subsequent shut-down of Qwikster. But as online streaming becomes a more popular way to consume entertainment content, the plans currently in place and recent streaming deals with companies such as AMC and DreamWorks will position Netflix to move away from the DVD service and grow via its streaming plans.

12 October 2011