

The Netflix logo is centered on a solid red rectangular background. The word "NETFLIX" is written in a bold, white, sans-serif font. Each letter has a black drop shadow that is offset downwards and to the right, giving the text a three-dimensional appearance.

NETFLIX

Netflix Account Plan

April 2012

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Contents

- Introduction..... 1
- The Strategy Development..... 2
 - Business Problem..... 2
 - Marketing Mix 2
 - Product..... 2
 - Price 2
 - Distribution 3
 - Packaging 3
 - Promotion..... 3
 - Marketing Situation 3
 - The Environment 3
 - The Customers..... 3
 - The Competitors..... 4
- Consumer Relationship..... 4
 - What does Netflix offer consumers? 4
 - How do consumers choose Netflix?..... 5
 - How has consumers’ perception of the brand changed over time? 5
- The Role of Advertising 5
 - Advertising Objectives and Strategies 5
- Gathering of Consumer Insights 6
 - Relaxing and unwinding..... 6
 - A void 6
 - “Background noise” media..... 6
 - Social vs. Individual..... 6
 - Flexibility matters..... 6
 - The pull of nostalgia..... 7
 - The value of learning..... 7
 - The appeal of the movie theater..... 7
- The Creative Brief..... 7
 - Why are we advertising?..... 7

Who are we talking to?.....	7
What do we want people to think or feel?	8
What justification are we providing as support?	8
Mood and tone.....	8
Practical considerations.....	8
Testing Creative Ideas	8
Objectives	8
Methodology.....	9
Limitations	9
Main Findings.....	9
To be entertained means to feel	9
Entertainment is a reward	9
Multitasking and entertainment.....	10
The movie theater is their ideal media consumption setting.....	10
Tablets are considered the worst devices for watching media content	10
Netflix is considered a service to stream older TV shows and watch movies.....	10
Netflix and Hulu complement one another	10
Ads that reflect immersion in the movie resonate better with the Netflix brand	11
Ads should show, not tell.....	11
The price at the end of the ad is unappealing	11
Conclusion and Recommendations.....	11
References.....	13

Introduction

Netflix was founded in 1997 offering online movie rentals. The company became successful with their innovative DVD-by-mail service which allowed users to keep movies as long as they needed without late fees. In 2007, Netflix also began offering streaming, which allowed users to watch content directly on their computers and later other devices. Netflix recorded positive growth in their subscriber base every year until 2010.¹

In July 2011, Netflix announced that starting September 1, 2011, their pricing scheme would change. Previously, subscribers received unlimited streaming and one DVD at a time for \$9.99 a month. Netflix decided to split these services and charge \$7.99 a month for unlimited streaming and \$7.99 a month for one DVD-by-mail at a time, a 60% price increase.² The announcement left users angered and taking to the Netflix blog and Facebook page to express their discontent.³ Netflix had anticipated losing subscribers due to the change, but in a note to shareholders sent 2 weeks after the price change revealed that Netflix would lose more subscribers than they had previously thought. Netflix's stock also dropped by 14%.⁴ In the midst of the storm, Netflix announced yet another change: the DVD-by-mail service would be handled by a new company, Qwikster. This caused another wave of discontent from subscribers, who would now need to subscribe to two websites if they wished to retain both services.⁵

Netflix retracted the brand split in October 2011, announcing that Netflix would continue to handle both DVD and streaming subscriptions. By this point, Netflix's stock had fallen by more than 60% and critics had begun to wonder whether Netflix CEO Reed Hastings had lost touch with his customers.⁶ In July 2011, Netflix's stock was at \$305; as of April 5, 2012, Netflix's stock is at

¹ Company Timeline. Retrieved April 8, 2012 from <https://signup.netflix.com/MediaCenter/Timeline>

² Liedtke, M. Preparing for the Netflix Price Increase. *USA Today*. August 31, 2011. Retrieved April 8, 2012 from <http://www.usatoday.com/tech/news/story/2011-08-31/Preparing-for-the-Netflix-price-increase/50205346/1>

³ Suarez, P. Netflix Users Protest Proposed Price Increases With Social Media Firestorm. *PC World*. July 12, 2011. Retrieved April 8, 2012 from http://www.pcworld.com/article/235627/netflix_users_protest_proposed_price_increases_with_social_media_firestorm.html

⁴ Gilbert, J. Netflix Price Increase Causes Bigger Subscriber Loss Than Expected. *The Huffington Post*. November 15, 2011. Retrieved April 8, 2012 from http://www.huffingtonpost.com/2011/09/15/netflix-price-increase-subscriber-loss_n_964026.html

⁵ Taylor, C. Qwikster from Netflix: The Worst Product Launch Since New Coke? *Mashable*. September 19, 2011. Retrieved April 8, 2012, from <http://mashable.com/2011/09/19/qwikster-netflix-fail/>

⁶ Woo, S. Under Fire, Netflix Rewinds DVD Plan. *The Wall Street Journal*. October 11, 2011. Retrieved April 8, 2011, from <http://online.wsj.com/article/SB10001424052970203499704576622674082410578.html>

\$110.50.⁷ The company that boasted continuous growth for over 10 years needs to focus on the customers to rebound from a bad year.

The Strategy Development

Using Leslie Butterfield's method, outlined in *How to Plan Advertising* 2nd Edition, we studied Netflix's business problem, interrogated their marketing mix, marketing situation, relationship with consumers, and determined the role of advertising before setting advertising objectives and strategy.

Business Problem

Since announcing price increases in July 2011, Netflix has lost more subscribers than anticipated and their stock has plummeted from a high of \$305. The problem was exacerbated by the short-lived split of the company into Netflix for streaming services and Qwikster for DVDs. In trying to prepare for a future when DVDs are obsolete and media consumption is done exclusively through streaming, Netflix made their customers feel that their satisfaction had been placed on the backburner. Netflix lost consumers' trust along with subscribers.

Marketing Mix

Netflix's marketing mix consists of the company's product, price, distribution, packaging, and promotion.

Product

Netflix began as a DVD-by-mail service in 1997. In 2007, Netflix incorporated streaming services which allowed subscribers to watch content on their computers and later on other devices such as gaming consoles and tablets. Netflix briefly tried to focus solely on streaming by splitting the DVD-by-mail service into a new brand, Qwikster.

Price

Netflix completely changed their pricing scheme in September 2011. Previously, subscribers received unlimited streaming and one DVD at a time for \$9.99 a month. Currently, subscribers pay \$7.99 a month for unlimited streaming and \$7.99 a month for one DVD at a time, marking a 60% price increase.

⁷ NASDAQ:NFLX. April 5, 2012.

Distribution

Netflix distributes movies and TV shows through the mail and through streaming. Subscribers who wish to receive DVDs by mail create a queue of the DVDs they want to rent on the Netflix website. Once each DVD is returned, a new DVD is mailed out automatically. Streaming allows subscribers to receive content instantly on their computers, gaming consoles, and tablets.

Packaging

Netflix has become known for the iconic red envelopes in which they mail their DVDs.

Promotion

Netflix offers a 1-month free trial of their services. Early advertisements focused on how convenient Netflix is, since the movies arrive at subscribers' homes and they never need to worry about late fees. Current advertisements focus on price, commonly ending with the phrase "just 8 bucks a month."

Marketing Situation

We examined three factors of Netflix's situation: the environment, the customers, and the competition.

The Environment

The **technological** environment is increasingly fast-paced, with high-speed Internet and gaming consoles becoming increasingly commonplace in households. This has contributed to Netflix's concentration on steaming and the prediction that DVDs are becoming obsolete.

The **sociocultural** climate is one of instant gratification. The current generation feels entitled to entertainment and expects entertainment to come quickly and easily.

The current recession has led to an **economic** environment where consumers have become thrifty and determined to find the best value for their money.

The distribution of entertainment is constrained by copyright law, leading Netflix to operate in a strict **regulatory** environment. Netflix needs to negotiate with studios for the rights to distribute their content.

The Customers

According to data estimated by Quantcast, the traffic to the Netflix website skews female (56% of visitors). Nearly half of visitors are between the ages of 25 and 44 (48%). Slightly over half

have no children (56%), and 74% have a household income of over \$50,000.⁸ Netflix has begun to target families with children more aggressively by adding the “Just For Kids” section to their website, making children the first demographic to have its own section on the website.⁹

The Competitors

Netflix competes with other paid streaming or DVD rental services: Hulu Plus, Amazon Prime, Red Box, and on-demand services.

Hulu Plus offers unlimited streaming for \$7.99 a month. Netflix offers entire previous seasons of television shows while Hulu Plus offers the past few episodes of current seasons. Despite being a paid service, Hulu Plus incorporates advertisements into its content.

Amazon Prime is Amazon.com’s free two-day shipping service. Prime members also have access to Amazon’s streaming library and e-book rentals. Prime membership costs \$79 a year, which amounts to \$6.58 a month.

Red Box operates through kiosks placed outside of grocery stores, gas stations, and similar locations. Red Box offers DVDs of recent movies which customers can rent for \$1 a day.

Cable providers offer **on-demand services** which allow customers to watch movies on demand on their television set.

Consumer Relationship

We evaluated Netflix’s relationship with consumers by considering what the brand offers consumers, how consumers decide to purchase, and consumers’ changing perception of the brand.

What does Netflix offer consumers?

Netflix offers **convenience** since content is delivered to the mailbox or to streaming device. Subscribers have access to the content they want without having to leave their homes. Subscribers can also keep the content for however long they want since Netflix has no late fees. Netflix’s **variety** gives subscribers access to content that cannot be found in mass media.

Subscribers are also able to experience **instant gratification** through Netflix’s streaming service since they can watch instantly.

Netflix is also **user-friendly**. Using the queue to order DVDs is simple since movies are sent automatically, and instant streaming only requires clicking the play button.

⁸ Netflix.com Demographics. *Quantcast*. March 2012. Retrieved April 8, 2012 from <http://www.quantcast.com/netflix.com>

⁹ Fritz, B. Netflix targets the family demographic. *Los Angeles Times*. August 16, 2011. Retrieved April 8, 2012 from <http://latimesblogs.latimes.com/entertainmentnewsbuzz/2011/08/netflix-family-demographic.html>

How do consumers choose Netflix?

Netflix offers a 1-month free trial. Consumers who are interested in a service that offers both DVDs and streaming can take advantage of this free trial to test Netflix's selection, the quality of the streaming, and the speed of receiving the DVDs by mail. Consumers who are satisfied by the trial then opt to purchase either unlimited streaming or DVDs by mail, or both.

How has consumers' perception of the brand changed over time?

Netflix prompted the demise of the video store with their DVD-by-mail service. Netflix monopolized the DVD rental business, but with the advent of instant streaming viable competitors have emerged.

Nowadays, readily available media content is no longer considered a luxury. It is considered a necessity thanks to Netflix and similar services that made it easy and affordable. Consumers feel that they *need* media entertainment in their lives, and Netflix's price increase sparked anger as though the price of milk had dramatically increased. Attempting to split the company into Netflix and Qwikster fueled these feelings, and consumer trust and loyalty has declined since July 2011.

The Role of Advertising

Netflix needs to use advertising to turn the tide of consumer trust back in Netflix's favor. Advertising needs to show consumers that their satisfaction is Netflix's priority, and that Netflix will continue to offer the experience that subscribers want.

Advertising should reflect the reasons why consumers want to watch media entertainment, and how Netflix can bring consumers this experience. Price-focused advertising will not work since the price increase is still fresh in consumers' minds. Instead, advertising needs to show consumers the value they get from Netflix.

Advertising Objectives and Strategies

1. To regain consumers' trust by showing them that Netflix understands what they want and need in their entertainment experience.
2. To recreate the perception that Netflix is a consumer-centered company by focusing on the value that Netflix provides consumers.

Gathering of Consumer Insights

We conducted two qualitative studies to gather consumer insights on the ways consumers consume media entertainment and their perceptions of Netflix. Our first study consisted of three ethnographies, in which we visited the homes of three Netflix users to understand why they watched television and movies at home, and to observe their behaviors related to media consumption. Our second study consisted of a creative activity conducted with three Netflix users and three non-users. We used images and word association to understand their habits regarding watching television and movies and their perceptions of Netflix. We found the following consumer insights:

Relaxing and unwinding

Watching television and movies is done after all responsibilities are completed. It is not used as a means to procrastinate, but instead as a relaxing activity. The words relaxing, calming, and rewarding were used in relation to watching television and movies.

A void

Without access to watching television and movies, respondents said they would feel bored. They would feel there was a void in their lives that they needed to fill with other activities.

“Background noise” media

Respondents distinguished between media that required their full attention and media that they used as “background noise” while completing other tasks. Movies were identified as more engaging media content that required their full attention.

Social vs. Individual

Respondents distinguished between media content they would watch in the common areas and media they would watch privately. They considered that some media is best watched in a social setting, such as movies or TV shows of common interests that could be discussed as a group, but content that requires quiet and focus is best watched alone in a private area.

Flexibility matters

Respondents value the ability to watch TV shows and movies wherever and whenever they want. Portable devices are valued.

The pull of nostalgia

Respondents reported that they enjoyed using Netflix's backlog of past seasons of TV shows. They value the ability to watch a TV show from its first season and to relive the beginning of their favorite shows or shows that have been cancelled.

The value of learning

Respondents felt that Netflix gives them access to content they may not be able to get elsewhere, such as classic movies and content that is not mainstream. They value being able to find content that relates to their unique interests, and they seek out content that lets them delve deeper into their interests. They also value content that exposes them to entirely new interests.

The appeal of the movie theater

Respondents all selected the movie theater as the ideal way to consumer entertainment. The movie theater was selected since it allows watchers to become completely absorbed by the experience and feel as though they were part of the movie.

The Creative Brief

Why are we advertising?

We are advertising to undo the damage done to Netflix's reputation by the price changes announced in July 2012 and the subsequent splitting of the brand into Netflix and Qwikster. We want to move advertising away from a price-focus. Instead, advertising will be used to rebuild trust and to remind consumers of what the value of the brand is: the ease of using Netflix and the experience they can expect from using Netflix.

Who are we talking to?

We are talking to Millennials with high-speed Internet access and Netflix-enabled devices. This segment expects instant gratification, which includes being in control of what they watch, when they watch it, and how they watch it. They enjoy pursuing unique interest and creating their own niche communities. They value immersion in their media entertainment, and for this reason tend to favor the movie theater as their ideal viewing experience. However, their income does not allow frequent movie theater visits, nor does the theater cater to their unique interests.

What do we want people to think or feel?

We want people to feel that Netflix can provide them with a new ideal viewing experience, one where they can feel completely absorbed by the content and where they can also choose what they watch, when they watch it, and how they watch it.

What justification are we providing as support?

The private spaces that people create for themselves or with their niche communities are much more intimate and conducive to being absorbed in the content than the movie theater. In the movie theater, the big screen and the surround sound can be ruined by the crowd, but in their intimate spaces they are fully in control of the content, the setting, and the company.

Mood and tone

The advertisement should be **enthralling** to indicate that the audience is fully captivated by the movie at home, **whimsical** in portraying a playful or exaggerated scenario that captures the audience's imagination, and should convey the feeling of being completely **at ease** when watching a movie in a setting that we control entirely.

Practical considerations

The advertisement should not mention the competition, either directly or by implication, since this would detract from the purpose of boosting the Netflix brand. The advertisement should not focus on the price since this may remind consumers of their discontent with the price changes.

Testing Creative Ideas

We conducted a focus group to corroborate our insights on entertainment and perceptions of Netflix and to find consumers' perceptions of Netflix advertising.

Objectives

1. Understand what entertainment means to consumers.
2. Understand usage, habits, routines, etc. for watching TV shows and movies.
3. Determine Netflix's position in the consumers' minds.
4. Test marketing concepts.

Methodology

A focus group was conducted with a group of 8 participants on April 3, 2012, at Florida State University. Seven participants had been previously screened and an additional participant accidentally arrived at the focus group. The group consisted of:

- Five women and three men
- Ages 21-23 and 40
- All subscribers to Netflix or a similar service

A discussion guide was prepared for the focus group with probes for each objective, but the co-facilitators were free to probe further or condense activities due to time constraints. Three Netflix advertisements were chosen to show at the focus group: a 2007 advertisement showing a man sending out movie characters to subscribers' houses and emphasizing no late fees; a 2011 advertisement showing a woman interacting with a movie character and emphasizing that movies can be watched on gaming consoles; and a current advertisement showing a beaver talking about Netflix and emphasizing the price.

Limitations

As with all qualitative research, the findings from this focus group cannot be generalized to the entire population. Also, only one focus group was conducted so we were unable to find patterns that persisted across focus groups. Finally, time constraints forced us to shorten the probes related to the final two objectives.

Main Findings

To be entertained means to feel

Respondents said that for something to be considered entertaining, it has to evoke a feeling. An emotion has to be brought out. The emotion does not necessarily have to be happiness, since they felt entertained by movies that made them feel something else, like anger or sadness. They also said that entertainment can bring feelings of satisfaction, but it can also bring feelings of dissatisfaction. For example, even if a movie does not offer closure they feel entertained if the end leaves them thinking.

Entertainment is a reward

Entertainment gives participants a means to escape from the stresses of their daily lives. Even if the content makes them think, at least they can be thinking about something different than their

responsibilities. Entertainment gives them a window into someone else's life, it helps them avoid being one-dimensional.

Multitasking and entertainment

Participants tend to watch television as they complete other chores that do not require their undivided attention, such as folding their laundry. Combining chores with media consumption makes them feel less guilty about taking time to watch television.

The movie theater is their ideal media consumption setting

Going to the movies is an event. Watching television at home is something they do to fill time, but going to the movies is something they make time for. It is also considered a social situation, since participants said they would watch a movie alone at home but they would not go to the movies alone. Participants feel more engaged with the content at the movie theater. The setting helps them feel as if they were part of the movie, which is one of the things they look for when consuming media content: to experience someone else's reality. Being surrounded by others can also heighten their emotions, since they experience these emotions in unison: if something surprising happens and everyone gasps, the feeling is magnified.

Tablets are considered the worst devices for watching media content

The screen on the tablet is small, and this causes several problems for the participants: they cannot get absorbed in what they are watching, they can be easily distracted, and they cannot watch the content with others. Also, it is uncomfortable since they would need to hold the tablet the entire time. The tablet is considered more of an on-the-go device than a device used to settle down to watch an entire movie or TV show.

Netflix is considered a service to stream older TV shows and watch movies

Participants like being able to watch entire seasons of TV shows on Netflix with no wait between episodes, but more recent seasons are not available. They also feel that Netflix has a larger selection of movies than other services.

Netflix and Hulu complement one another

Participants say Netflix and Hulu can be used in unison to watch TV shows since Netflix has a backlog of previous seasons and Hulu has the most recent episodes.

Ads that reflect immersion in the movie resonate better with the Netflix brand

Participants enjoyed the Netflix ads that reminded them of feeling absorbed by a movie. They liked the ad that showed movie characters being sent to subscribers' homes because it gave them the sense that they had any type of content they wanted at their fingertips and that the movie would come to life on their screen. They also liked the ad that showed a woman interacting with a movie character during movie night because it also showed them how engaged they could be with the content that they wanted and because the idea of a movie night resonated with their own experience.

Ads should show, not tell

Participants did not like Netflix's recent beaver ad because they felt the ad tried too hard to sell them something. It did not engage them with an experience like the previous two ads and instead hinged on a lot of talk. They felt that they had no way of knowing if the claims were true. The ad did not fit with their perception of Netflix either and they felt too distracted by the talking beaver to really absorb what it said.

The price at the end of the ad is unappealing

Participants felt like the price at the end of the ad is trying too hard to convince them that subscribing to Netflix is a good deal. They also feel like Netflix *used* to be a good deal.

Conclusion and Recommendations

Netflix's new advertising campaign should communicate two messages:

1. Netflix understand why consumers watch media entertainment and provides this experience.
2. Netflix can offer media content that is unique and meaningful to subscribers.

The consumption of media entertainment is ingrained in consumers' lives, and they use this entertainment for various purposes: background noise as they complete other tasks, an escape from the stress of their lives, a reward for dealing with the stressful portions of their life, and the backdrop for social events. In most cases, consumers want to feel engaged with the media content they are watching.

The more absorbed consumers can become in their media content, the better they rate the media consumption experience. The movie theater was consistently rated as the best media consumption experience because it makes viewers feel as though they are part of the movie. This is

consistent with their definition of what it means to be entertained: to be entertained means to feel, and the more absorbed they are in the content the stronger their feelings. Netflix needs to recreate this experience of complete absorption in media content. Commercials that showed Netflix in this light, as a service that could bring movies to life, were preferred by focus group participants since these ads *showed* what Netflix could offer them rather than telling. Advertisements should show consumers that Netflix can help them experience the strong emotions they want out of entertainment.

Netflix should position itself as a service that allows consumers to engage with the media content that is meaningful to them. Netflix offers content that is not available at the movie theater, on television, or on other similar services, and throughout our research participants consistently mentioned that they value access to this content. Advertising should highlight this unique content. Advertising should also show that Netflix can fit with any of the purposes that consumers have for entertainment: an indulgence, a way to bring friends together, an escape into a different reality.

Price should not be mentioned in advertising. The price change last summer is fresh in consumers' mind, and the purpose of the advertisement is not to tell consumers that Netflix is still cheap. It is to regain consumers' trust by showing them that Netflix has not forgotten what is important to them: access to content that is meaningful to them and an entertainment experience that absorbs them and makes them feel.

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