NETFLIX

The Future of Television

Julien Lin | 2019

NETFLIX

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Group 306: Pitch Presentation
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NETFLIX

Problem Overview

Netflix's market is significantly more saturated

Surface-level issues

More Competitors

More direct competitors entering the market

.

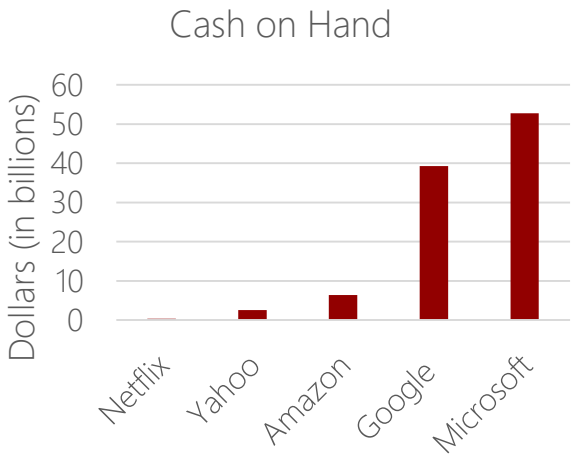
Most have similar prices, content, and more cash to spend when compared to Netflix (CNN)

Licensing Concerns

Studios that are wary of Netflix may refuse to licence their media

.

Some media groups have created their own streaming services with rights to their shows



NBC

21ST CENTURY FOX

hulu

https://money.cnn.com/2011/09/19/technology/netflix_cash/index.html

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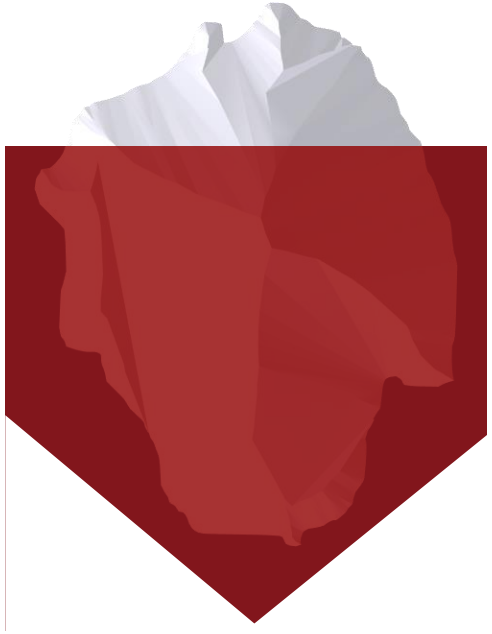


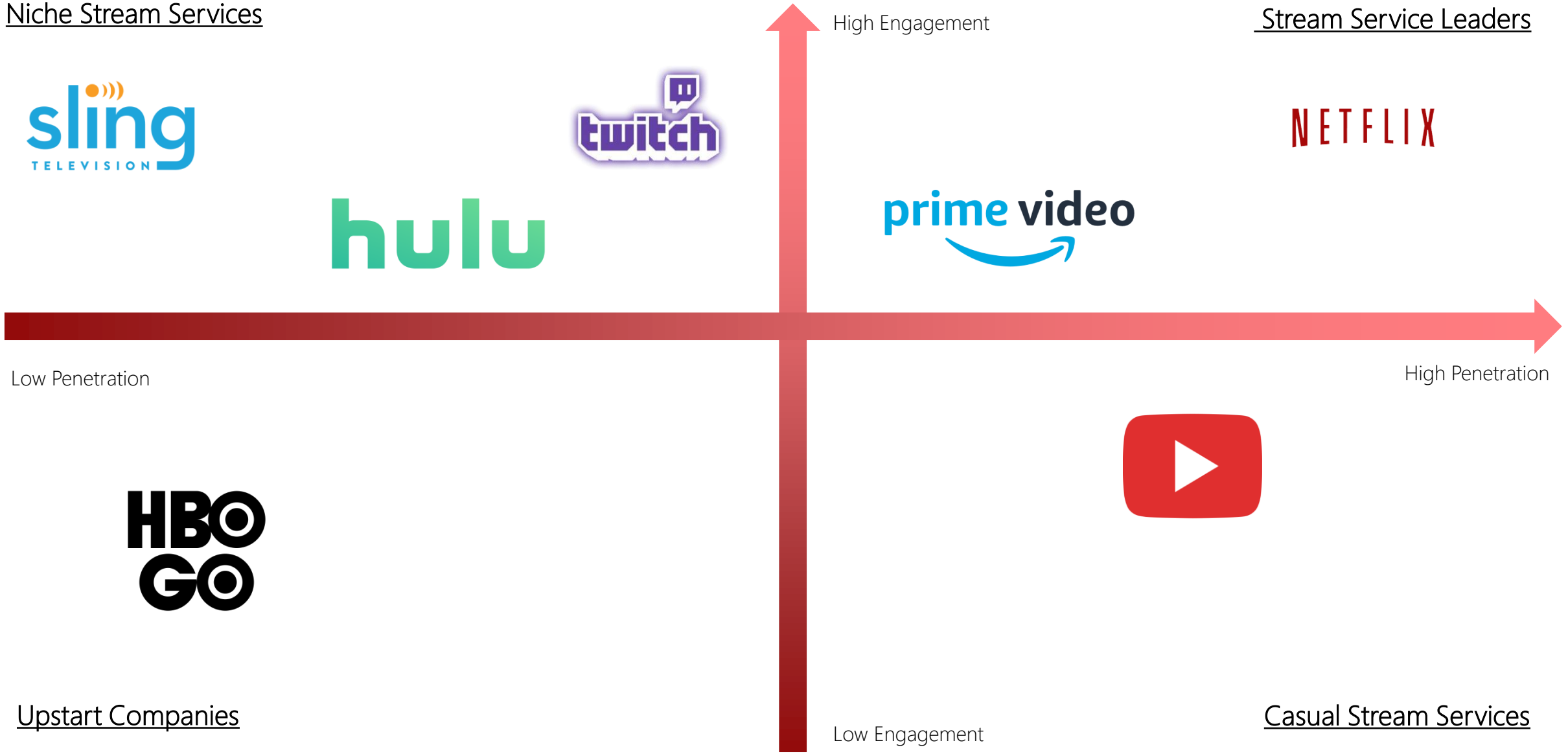
Deeper issues

Viewer Engagement

Netflix's viewer engagement (2.2 hours per day) is outmatched by that of smaller streaming services.

Problem Overview

Other companies are matching Netflix's engagement



https://www.comscore.com/Insights/Blog/OTT-Breaks-Out-of-Its-Netflix-Shell

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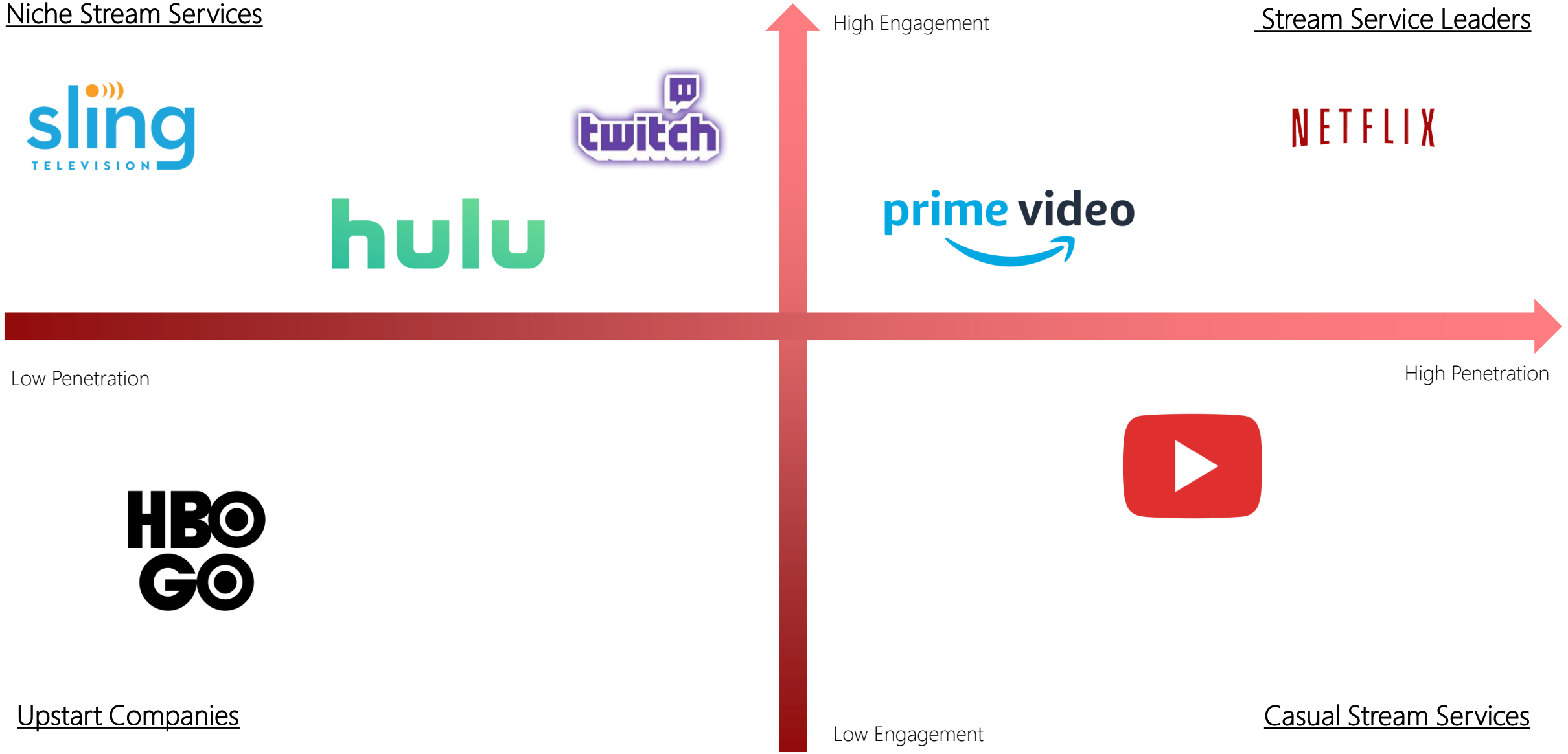
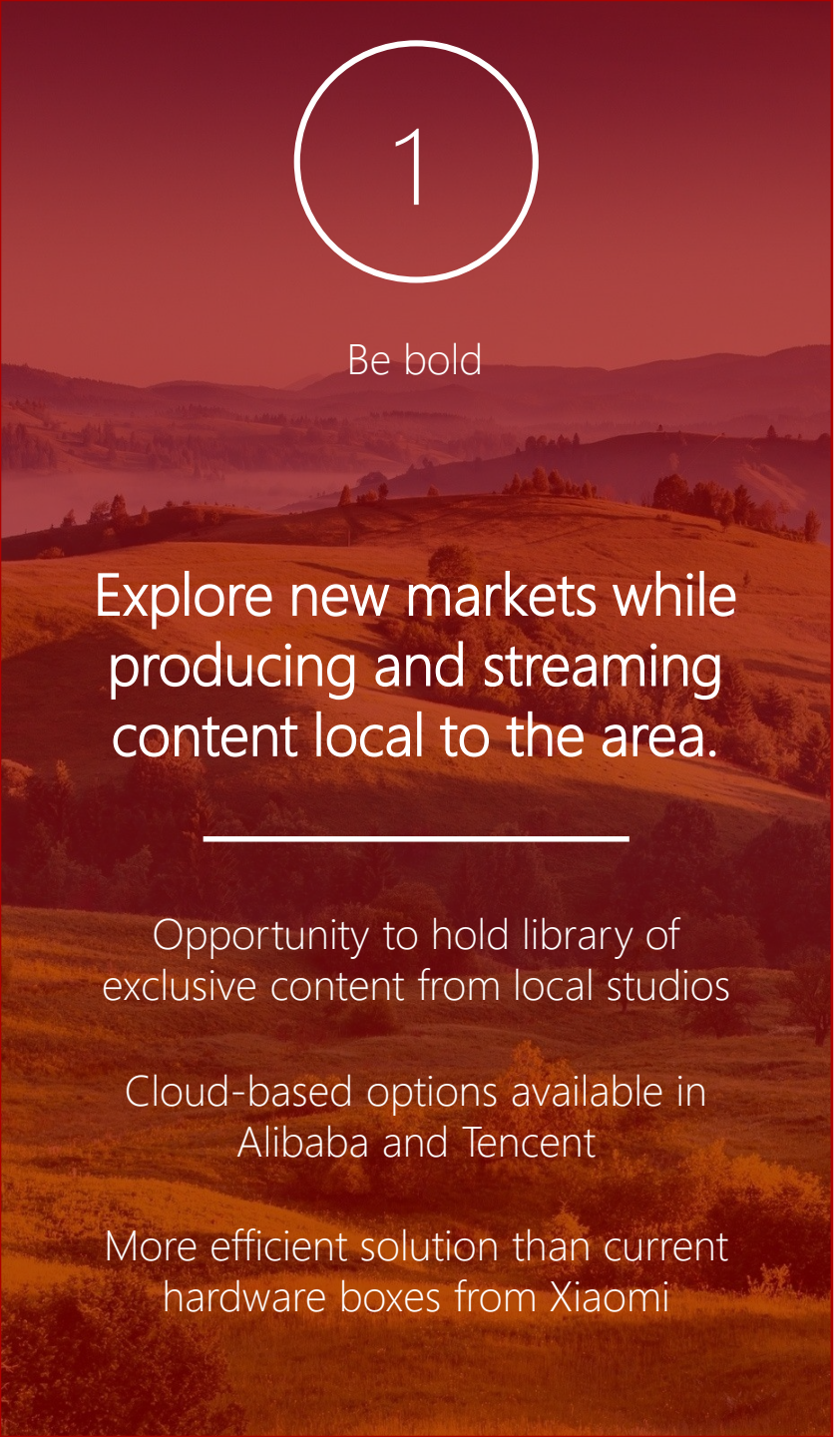




1

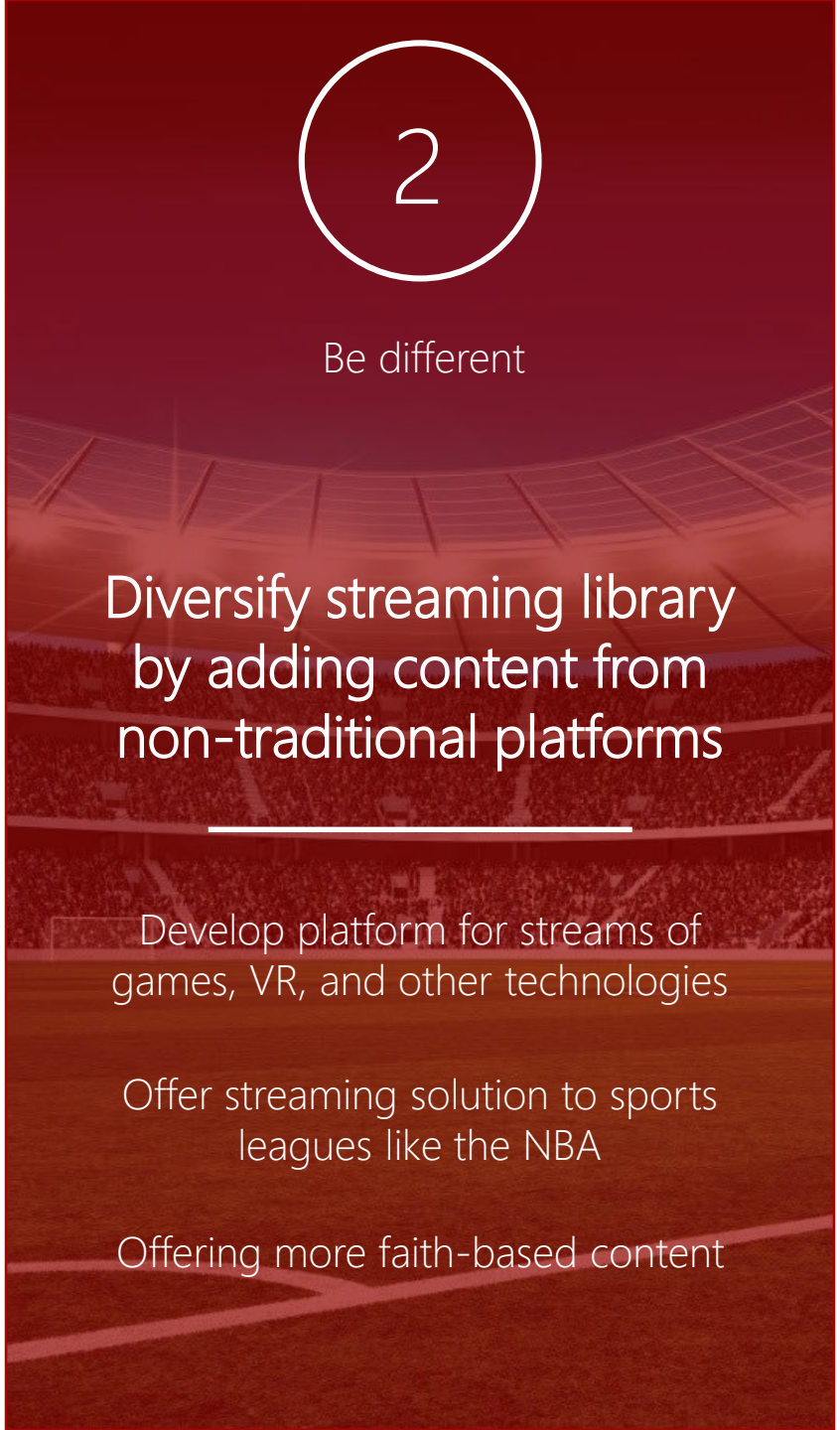
Be bold

Explore new markets while producing and streaming content local to the area.

Opportunity to hold library of exclusive content from local studios

Cloud-based options available in Alibaba and Tencent

More efficient solution than current hardware boxes from Xiaomi



2

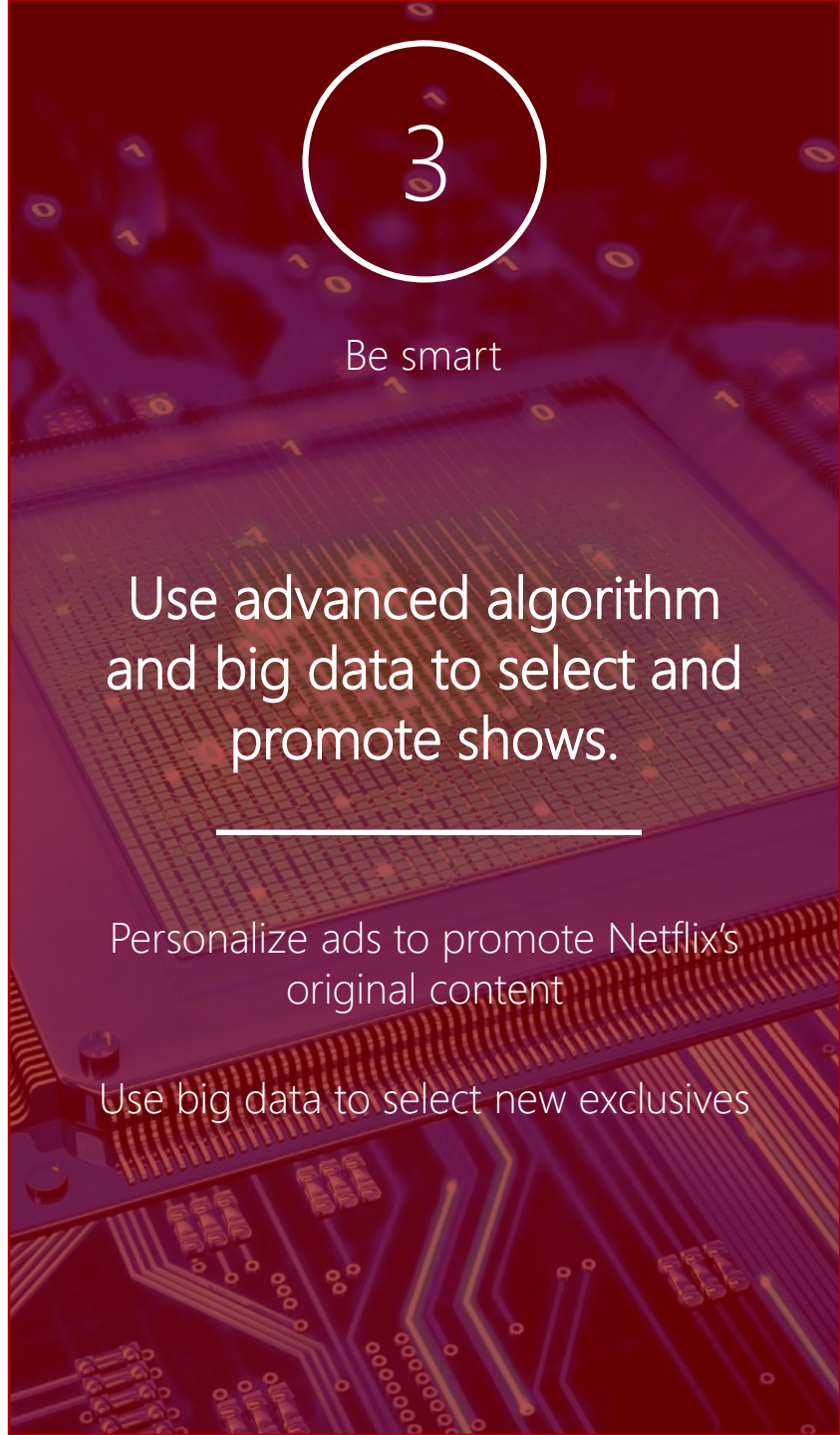
Be different

Diversify streaming library by adding content from non-traditional platforms

Develop platform for streams of games, VR, and other technologies

Offer streaming solution to sports leagues like the NBA

Offering more faith-based content



3

Be smart

Use advanced algorithm and big data to select and promote shows.

Personalize ads to promote Netflix's original content

Use big data to select new exclusives

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Key Takeaway

The project is expected to obtain an NPV of $370 million and have an IRR of 11%

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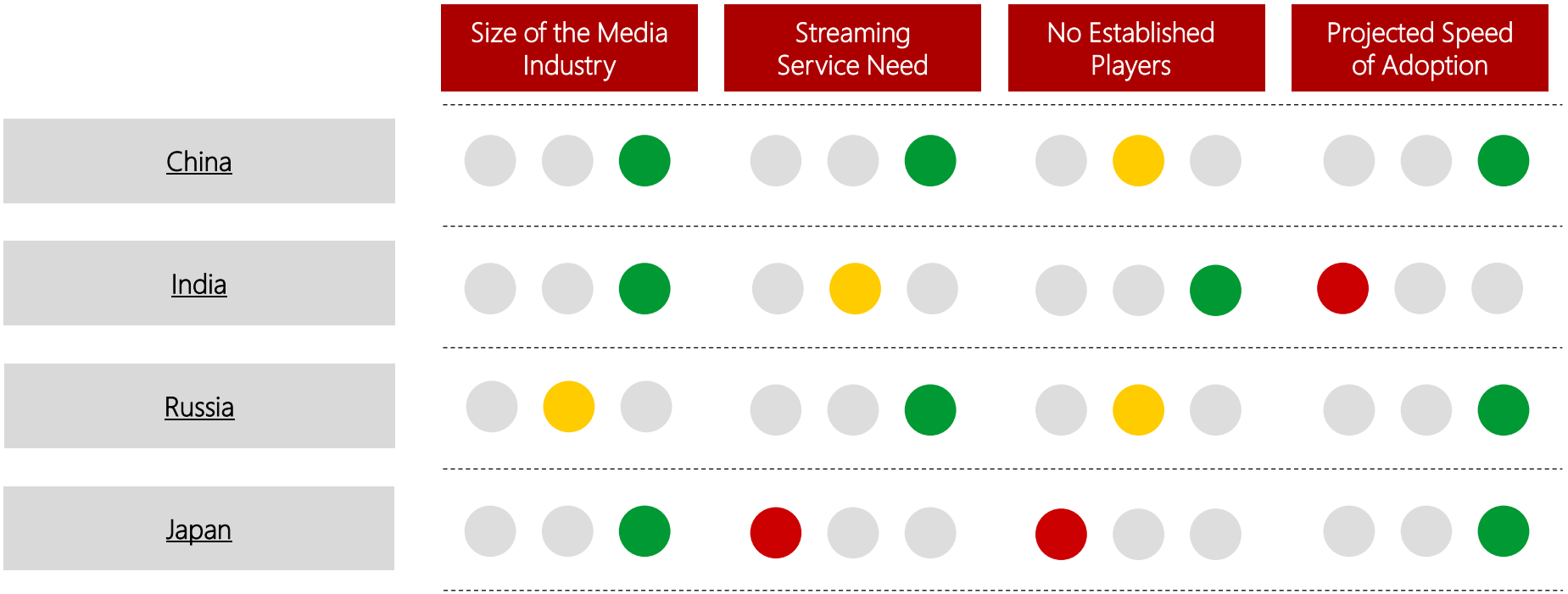
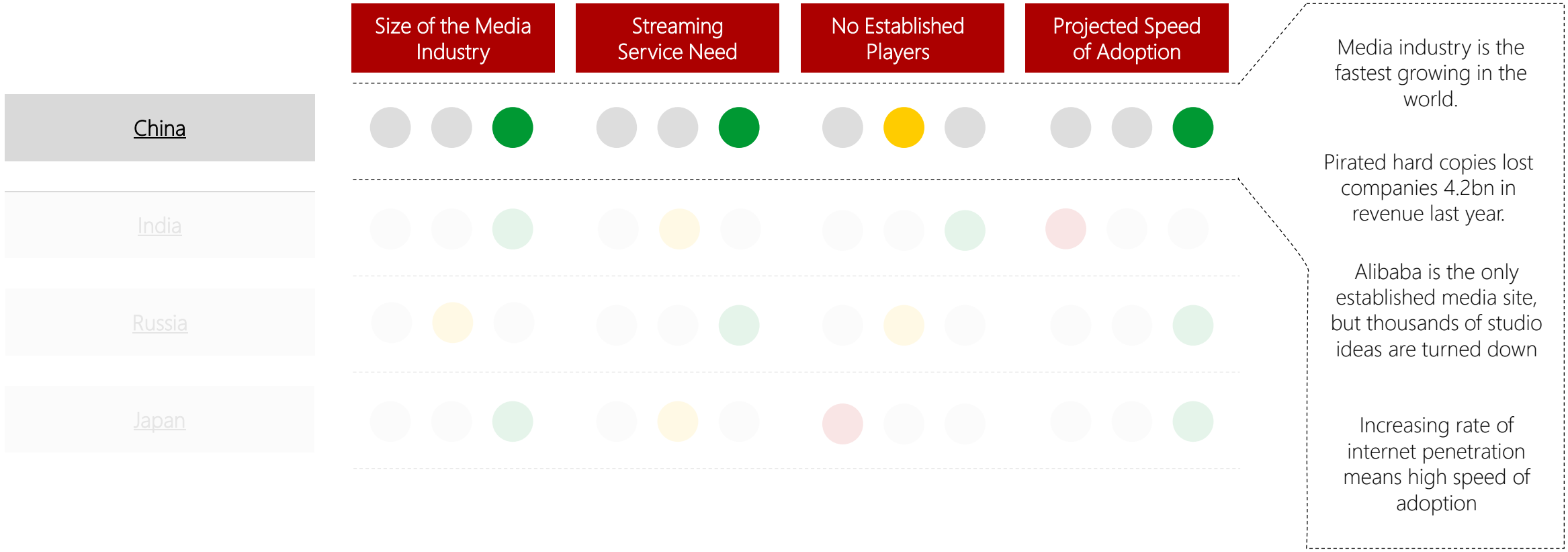
Netflix's potential around the world



New Markets

Netflix's potential around the world

1



China and its media consumption market

Demand of the Market

1

Issue with hardware piracy in China

› $4.2b lost in revenue

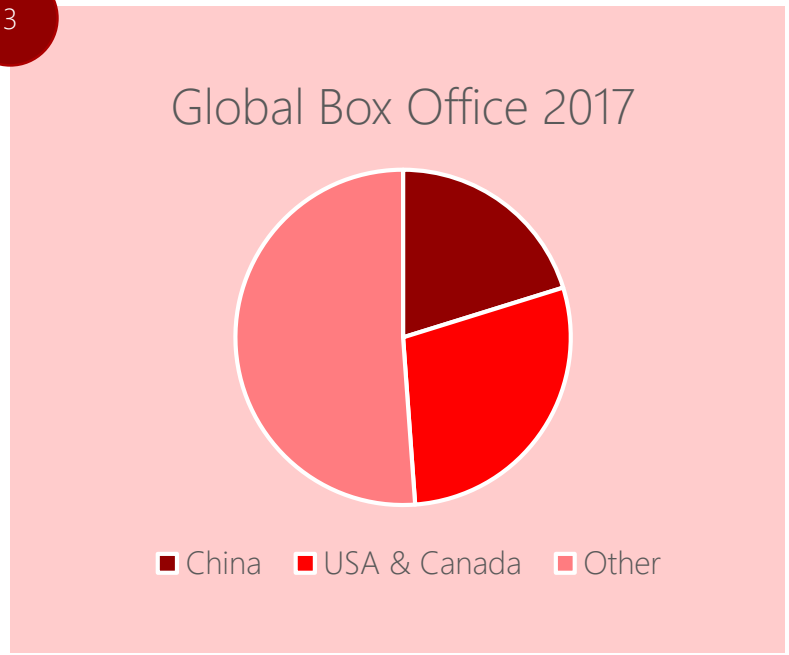
2

Many Chinese dramas go unfunded

› 52% of cases

Size of the Market

3



There is opportunity for Netflix to capture the remaining market

[1] https://www.forbes.com/sites/kenrapoza/2012/07/22/in-china-why-piracy-is-here-to-stay/#2e77fdb58006

[3] https://www.scmp.com/culture/film-tv/article/2140381/china-will-soon-be-worlds-top-film-market-having-overtaken-us-canada

Competitors that could threaten Netflix

YOUKU 这世界很酷	NETFLIX	Xiaomi
Large cloud-based library based in China	Has ability to store large library of media using AWS cloud	Superior performance due to support from hardware element
Lacks any engagement features such as recommendations.	Can use existing technology to bring additional features to streaming	Expensive: Must pay for hardware and premium subscription service

Netflix can use its existing infrastructure to capitalize on uncapitalized demand in the industry

Netflix's move to the United Kingdom

Case Study

Problem

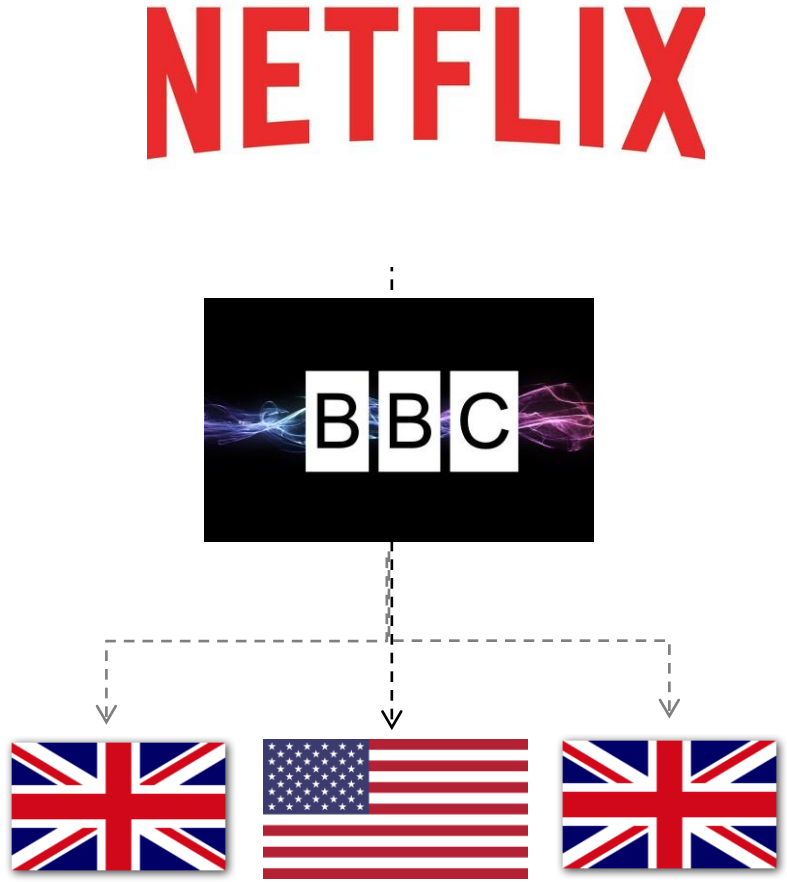
Highly rated BBC content with limited streaming options for exposure both domestically and internationally

Opportunity

Partnership between Netflix and BBC

Result

35% increase in expected subscribers. 28% increase in ratings for BBC shows



https://www.bbc.com/news/technology-38672837

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Netflix's possible diversification methods

Diversification Strategy	Consumers Retained through
1 **Sports Streaming** ▪ Streams are being tested by other services	Reliable 60fps/1080p streams that are otherwise unavailable
2 **Faith-based Content** ▪ 8.6 Average rating on Netflix	Wider selection of popular genre in Netflix
3 **Game/VR Streaming** ▪ Promotes interactivity ▪ Requires expensive infrastructure	Drastic diversity in content produced and streamed. Allows Twitch-like p2p interactions.

Netflix and NBA League Pass

Netflix and NBA League Pass

NBA LEAGUE PASS

NETFLIX

Greater Exposure

NBA League Pass only sells 26M game views

Choice of Game

Can gain revenue through Netflix bidding on games

Piracy

Can cut down on illegal streams

Netflix and NBA League Pass

NBA LEAGUE PASS

NETFLIX

Low Cost

Expected bids for low-tier games should be inexpensive

More Engagement

Uptimes for sports games are 3 hours+

Wider Consumer Reach

Value proposition through exclusive streams with NBA

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Netflix using algorithms to determine which shows to purchase

With Algorithms

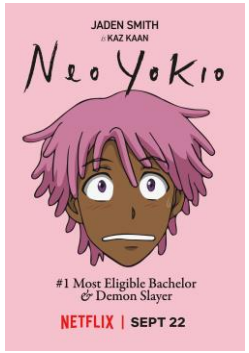
8.44

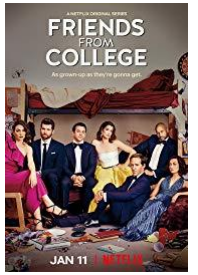
AVG Rating

Without Algorithms

6.79

AVG Rating





https://www.netflix.com/ca/

Netflix personalizing ads using algorithms

Use Case

Problem

Disengaged consumers that are not interested in Netflix exclusive content

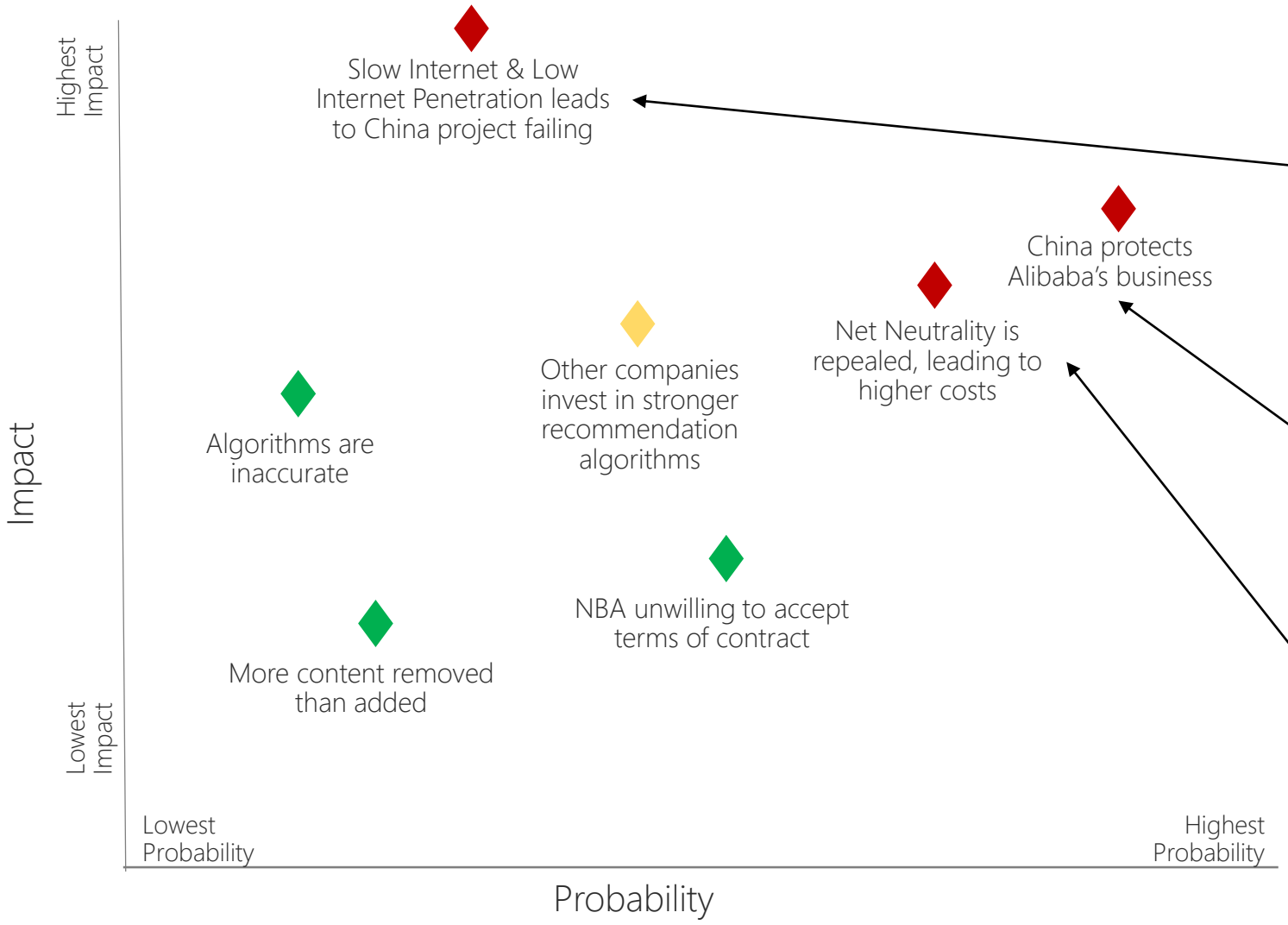
Opportunity

Tailoring each ad to the tastes of each consumer (ie. Show different ads based on consumer behavior)

Result

Re-engagement of the consumer. The consumer is on the service for a longer period of time

The various risks and their impacts



The Chinese government is the leading investor in 5G technology, outspending the USA by $24 billion since 2015. China has also invested $50 billion in rural networks.

This should increase internet speeds by over 20x when compared to current 4G-LTE. This also increases the reach of the current network.

Negotiate and use Alibaba's cloud services in return for streaming rights in the country

Youku is not currently a top priority for Alibaba

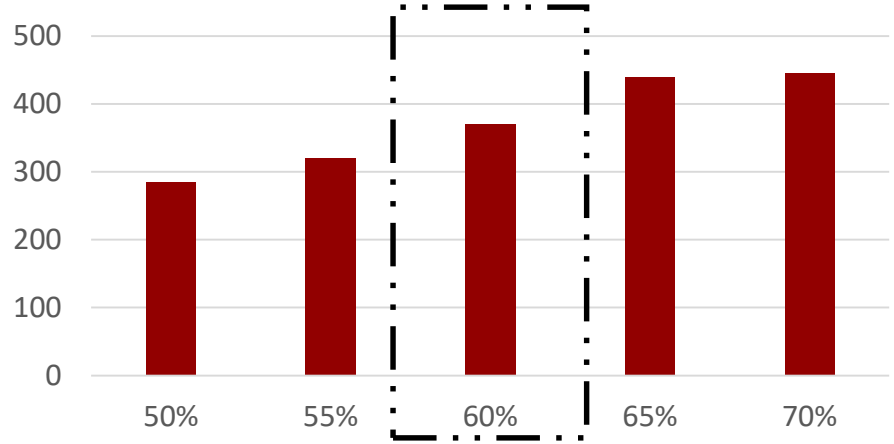
While greater costs cannot be negated, it does add a significant barrier-to-entry for smaller streaming services such as Sling or Twitch.

https://www2.deloitte.com/content/dam/Deloitte/us/Documents/technology-media-telecommunications/us-tmt-5g-deployment-imperative.pdf

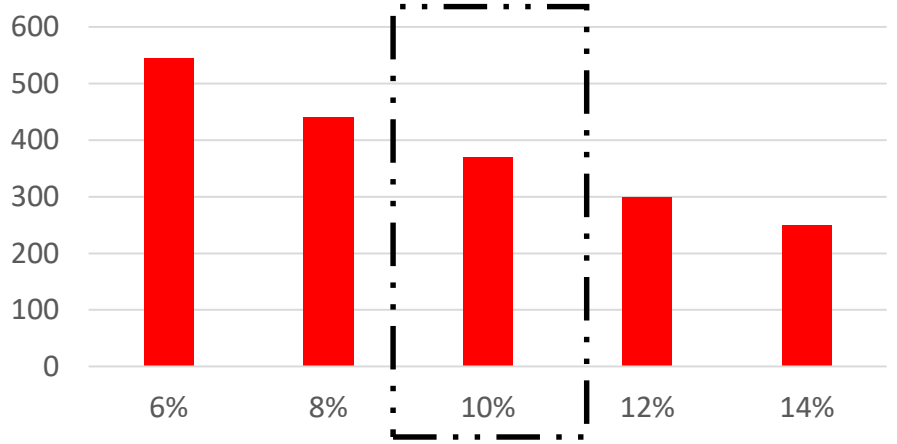
Sensitivity of various inputs for NPV

NPV Value (in millions of USD)

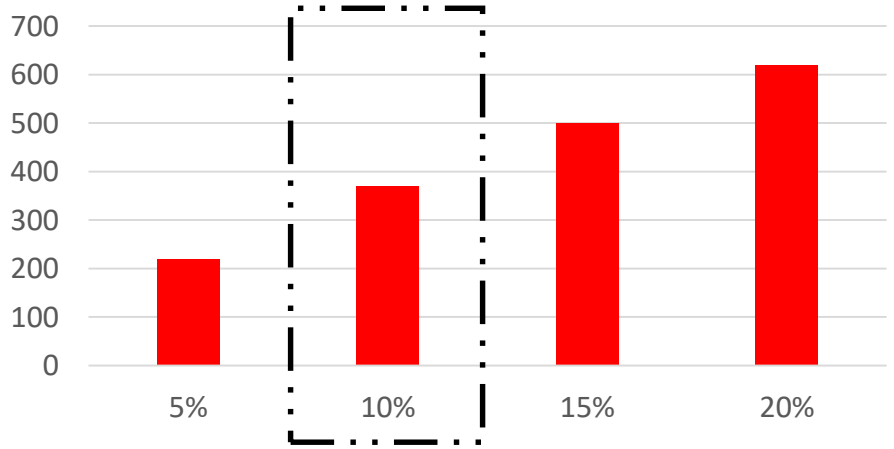
Algorithm Accuracy (%)



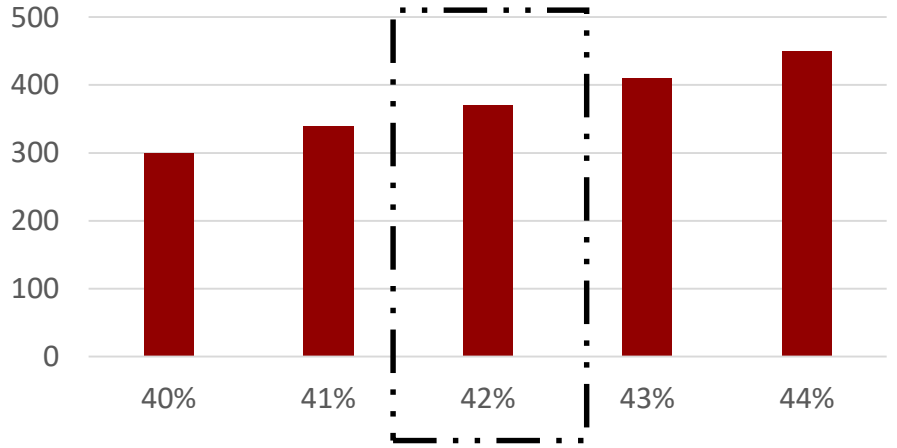
WACC (%)



Foreign Market Adoption (%)



Foreign Internet Penetration (%)



"In hindsight, I slid into arrogance based upon past success."

- Reed Hastings

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2. Other Issues
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4. Other Countries of Interest
5. Exit Strategies

2 Industry

1. Netflix Production Chain
2. Netflix Distribution Chain

3 China

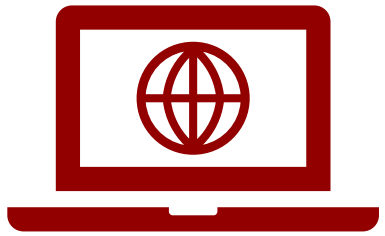
1. China's High Tech Industry
2. China's High tech Industry & Gov.
3. Concerns about China

Appendix: Calculation Method (in millions of USD)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Cost	2800	2100	1000	1000	900	900	900	900
Escalation		0.08	0.12	0.12	0.12	0.12	0.12	0.12
	-2800	-2268	-1120	-1120	-1008	-1008	-1008	-1008
Revenue	100	1200	2500	1400	1400	1400	1400	1400
Escalation		0.1	0.1	0.1	0.1	0.1	0.1	0.1
	100	1320	2750	1540	1540	1540	1540	1540
	-2700	-948	1630	420	532	980	980	980
NPV	$370.82							
IRR	11%							

https://clients1.ibisworld.com/reports/us/industry/home.aspx

Appendix: Other Issues



Net Neutrality

Federal jurisdiction. Cannot be overturned easily

.

Offers higher barriers of entry to smaller streaming services

Low Internet Penetration

Still should sell their DVD service in favour of better odds at market

.

Could use hardware solutions to solve this problem.

Appendix: Other Considerations

Keeping Netflix DVD

Cash Cow that could be milked for the longest extent possible

.

Better to liquidate now. Subscriptions have dropped rapidly, and current assets are extremely useful

Offer Hardware Box

Offer incredible performance for lower price than competitors

.

Goes against company vision. Is more expensive in the short term, and performance isn't necessarily needed

Removing Exclusive Content

Netflix Originals are generally well-received through algorithms

.

Lower bidding price for others. Gain no backlash from big studios.

Appendix: Other Countries of Interest

Japan

Large amount of movies and fast infrastructure, as well as a demand for this media

Major players already exist

Russia

Offers country-wide stable infrastructure with need for streaming services

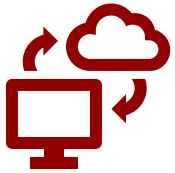
Does not have a wide variety of useable local content that could be leveraged

India

Large amount of movies and TV Shows available in India, with little ways to stream them

Infrastructure is not stable enough country-wide, leading to capped revenues

Appendix: Exit Strategies



Selling Media to Alibaba Cloud

All bought media could be sold to Youku and Alibaba to maintain in their database

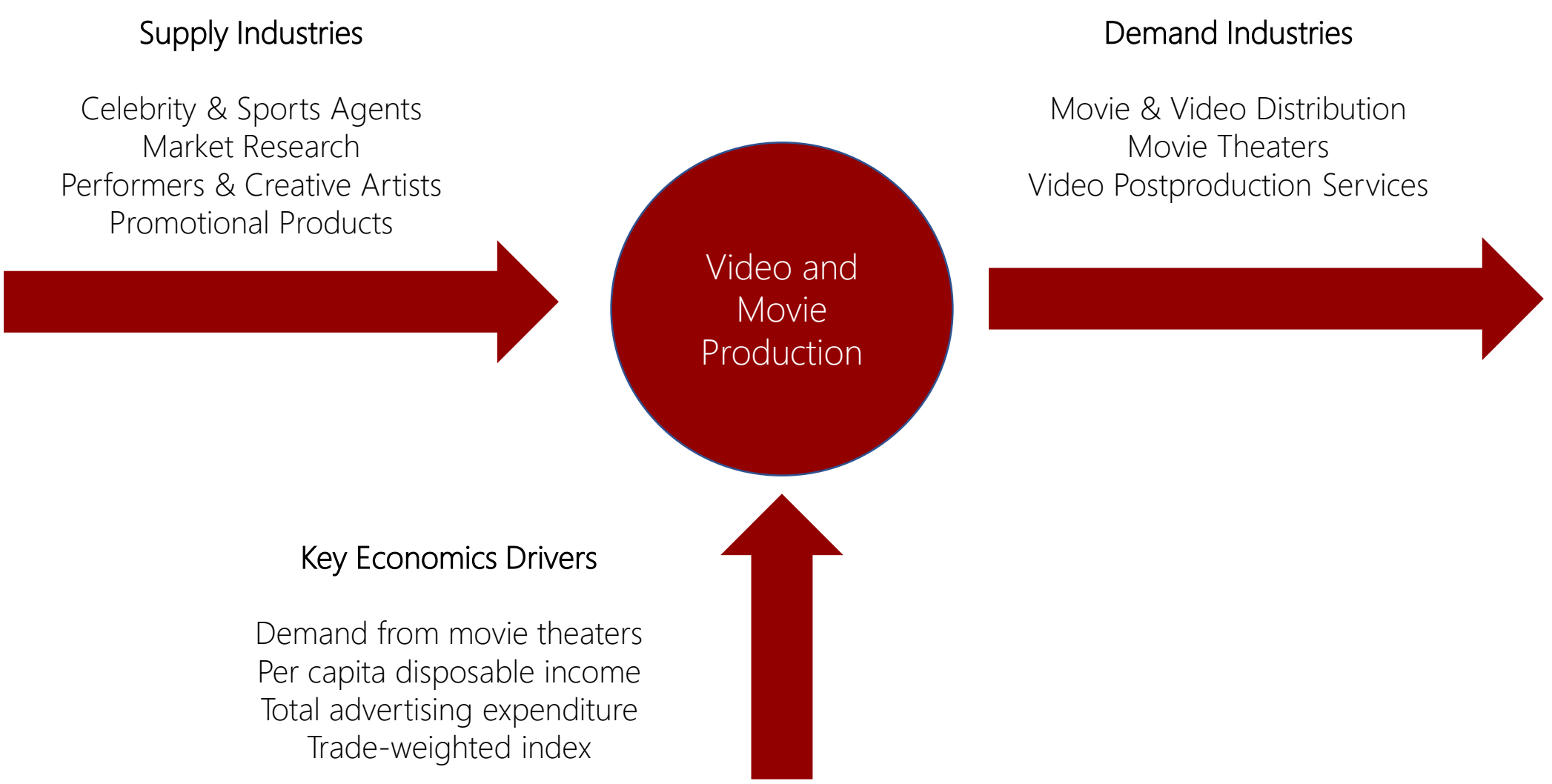
Changing from AWS to AC

Can compete with Amazon Web by turning towards Alibaba Cloud if deal is unfavourable to Amazon

Return to Normal Ads

If Ads are not well received, Netflix could easily revert back to old promotion strategy

Appendix: Netflix Production Chain



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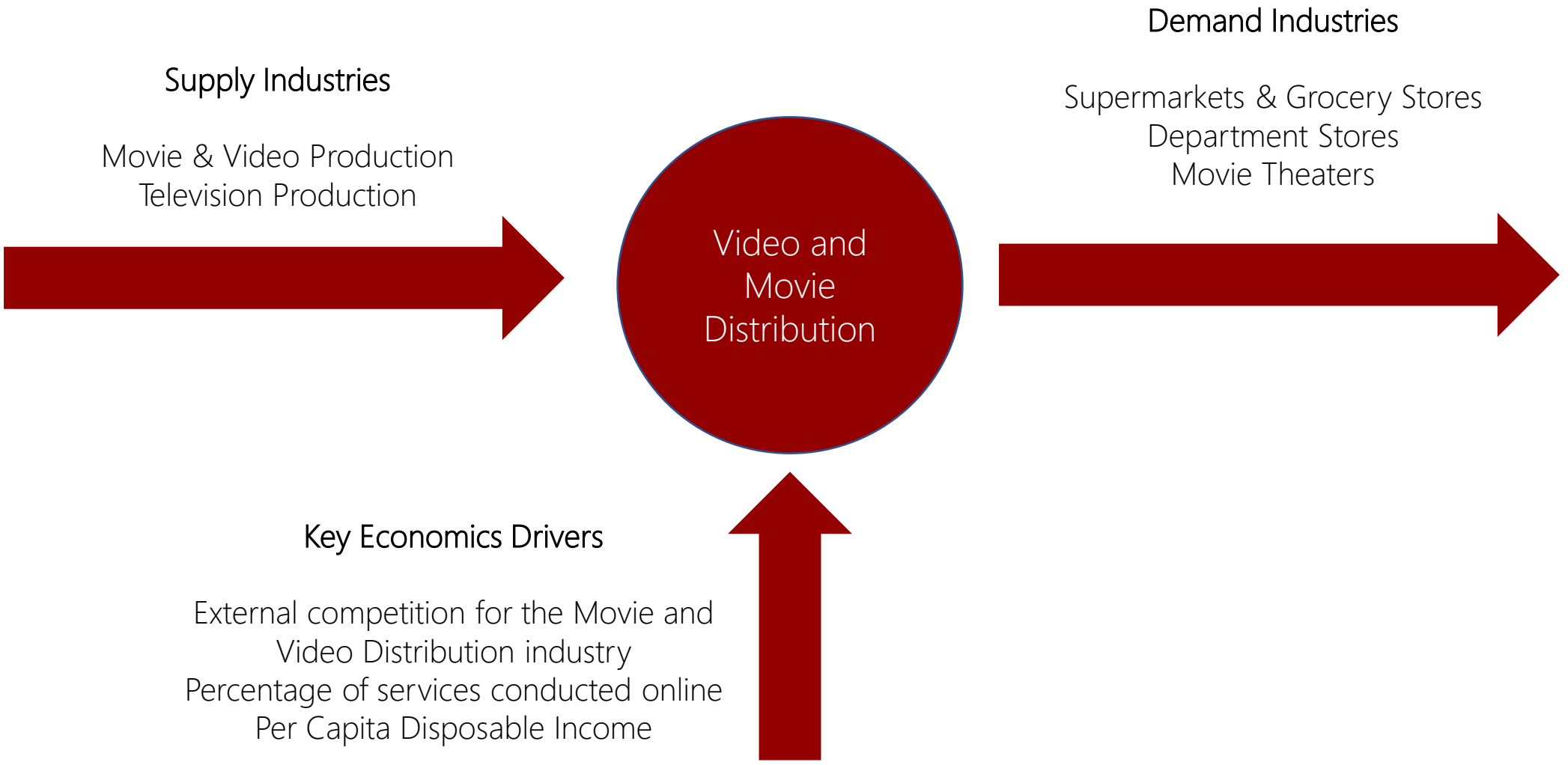
Appendix: Netflix Distribution Chain



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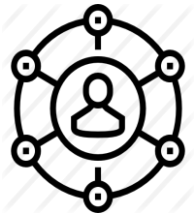
Appendix: China's High-Tech Industry

Government Involvement

$400 Billion investment in high-tech sector

Network Infrastructure

Outspent the USA by $24 billion on 5G networks since 2015 (Deloitte).



Physical Infrastructure

$50 billion investment in logistical platforms and express distributing systems (Deloitte).

High Tech Innovation

Innovation in infrastructure

New Tech Acquisitions

41% of unicorns are Chinese (Fortune).

Research/Development

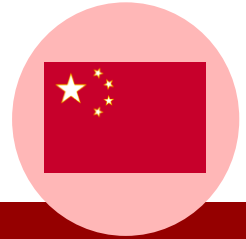
Alibaba tripled its R&D budget to $15 billion. Focusing on AI and quantum computing

Appendix: China's High-Tech Industry & Government

Innovation

- Boosts tax revenue through increase of efficiency
- Forces government to support the technology

Growth Cycle



Government Activity

- Increases consumer base through infrastructure
- Direct expenditure into R&D of new technology

High Tech Innovation

Government Involvement

Appendix: Concerns about China

Political Instability

- Investments into military instead of consumer technology
- Focus shifts away from middle class

Foreign Expansion

- Amazon plans to expand into China
- Possible promotion of Prime Video