

# Netflix inc.: first mover disadvantage

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As a part of global expansion plans, Netflix Inc. (Netflix), the U. S. based video streaming company, launched its operations and went live in more than 130 countries across the globe on January 7, 2016, including India and excluding China. The expansive launch led to hike in shares of the company by 9. 3 per cent to close at US\$117. 68.

Despite first mover advantage, another service provider, Amazon's Prime Video service, surpassed Netflix by the end of 2017 with 10 per cent of the total over-the-top streaming market with over 610, 000 subscribers as compared to 8 per cent held by Netflix. Amazon Prime experienced the fastest growth in India with highest number of prime members in a debut year among the 16 countries where Amazon Prime was available. Germany and Japan also witnessed similar trends of Amazon's subscriber base surpassing Netflix.

Despite entering late in the market, Amazon's success over Netflix posed concerns regarding Netflix's strategy in Indian operation. It was time Netflix deliberated upon its business strategy to survive the highly competitive market in India. Especially since India was a key part of international subscription growth in co-founder and chief executive officer (CEO) Reed Hastings' future plans.

### **The Video On Demand (Vod) Industry In India**

With over 100 million subscribers active on multiple platforms, the Indian VOD market was valued at \$280 million. Revenue in the VOD segment in India amounted to US\$30 million in 2018. Revenue was expected to show an annual growth rate (CAGR) 2018-2022 of 45. 9% resulting in a market

volume of \$138 million in 2022. This significant growth was attributed to the increased digital penetration and adoption of smartphones. The cost of data on mobile in India fell like nowhere else in the world. That was very helpful because YouTube, Amazon. com, Inc., and Hotstar (owned by Novi Digital Entertainment Private Limited, a wholly owned subsidiary of Star India Private Limited) were all growing as it was much less expensive. The expansion of 4G and residential broadband had been extraordinary between 2016-2018.

## **The Indian audience**

### **Technology and Viewing Habits:**

Video streaming services helped audiences enjoy great TV content at their convenient location and time on multiple platforms without a dish or a cable connection. Web series, stand-up comedy, live sports streaming and quick time access to global content like House of Cards, Game of Thrones were the popular content on video streaming.

The luxury of viewing a variety of content when you please offered by video streaming services led to significant change in entertainment consumption in India. The Indian consumer that struggled with conventional challenges of battling for TV remote and limited content embraced the change wholeheartedly.

It was important to understand the uniqueness of Indian consumers who were the fastest growing mobile-driven internet user; having a huge appetite for content, while being ignorant and/or indifferent to content piracy issues. To meet the needs of such consumers, competitive pricing was the only way

to get them to shift to legitimate streaming services. Hastings considered India an important market also because it had the fastest binge watchers on Earth. The global average in binge watching is four days whereas for an Indian viewer it is three days.

Technology had been playing a major role in this transformation. Indians watched on demand video streaming services on several screens – smart TV, PlayStation (owned by Sony Interactive Entertainment), laptops, tablets, and phones. With internet getting faster, viewers would download the content on mobiles to be viewed on big TV screens. To enable viewers to enjoy the content on their smart TV, the streaming service providers were working with TV makers very closely for years, so that apps opened much faster and internet felt more native to the TV.

India, termed as “ mobile-first” economy, had the majority of its population using internet on their smartphones. This revolution was expected to lead to 500 million smartphones by 2020, double from the 2017 estimate of 200-250 million smartphones. Considering the rolling out of 4G services; reduced data tariffs in a competitive environment and inclination of Indian young population to watch content on the go, consumption of videos on smartphones was likely to increase significantly. Moreover, 90 per cent of households in the country had a single television set, making smartphones a favorite entertainment tool for individual consumption.

## **Price Sensitivity in India**

Price sensitivity, also known as price elasticity of demand, was defined as the consumer demand for a product that changed by the cost of the product.

According to the World Bank, in 2016, the gross national income per capita in India was \$6, 490, which indicated that India as a culture was price sensitive. Considering Indian consumers heavily focused on price and the value they get from their purchases where price negotiations and price comparisons were important, marketers needed to customize their strategies to fit the Indian consumer.

### **Culture**

Understanding the cultural context was also imperative for the growth of the business. Cultures were broadly classified into two categories: high-context cultures and low-context cultures. High-context cultures relied heavily on non-verbal communication, indirect and implicit messages, and long-term relationships. Countries that would be considered to have high context cultures would be Japan, Saudi Arabia, and Italy. Low-context cultures relied heavily on direct and simple messages, written communication, and short term relationships. Countries that would be considered to have low-context cultures would be the United States, Germany, and Sweden.

India was considered a high-context culture, which was transitioning into a low-context culture due to its dialogue-orientation and strong direct communication styles, which supports low-context. Global marketers needed to understand that India was a low-context culture with high-context features to market them more effectively with strong communication, taking into account their values and beliefs.

## **Netflix: pioneering the service**

2007 witnessed Netflix bringing the movies directly to customers' computers and making a remarkable transition from using discs.. Moreover, Netflix enforced the concept of binge watching by producing its own originals and releasing whole season at once which led to about 27 % of Netflix's offerings. The facilities like unlimited viewing, simultaneous streaming across devices, and video downloads provided by Netflix led to 87 million subscribers around the world within a decade of launching video streaming.

With its presence in over 190 countriesNetflix became world's leading internet TV network. To cater to the wide interests of diversified members, Netflix segmented its users based on psychographics and not on demographics.

Netflix leveraged the developing markets which was significantly investing in technology like Mexico, Argentina, Peru, India and other countries. With partnerships with Reliance's network, Vodafone, Airtel and Videocon, Netflix brought down the time spent in streaming video on mobile to 25 hours of viewing with 1GB of data, which was further expected to go down to100 kilobits by the end of 2018.

With data cost forecasted to become inconsequential by 2022, it would not be surprising to see internet TV replacing linear TV. In 2017 Indian market comprised 300 million mobile phone users however Netflix targeted 10 or 20 million the high-end – users.

With one of the largest production budgets globally, Netflix was set to invest \$8 billion in creating content for the Indian audience in 2018. The focus was on high-end shows and big productions, mostly in Hindi and English without indulgence in regional languages and on advertisements.

## **Amazon prime**

Amazon Prime, a paid subscription service offered by Amazon. com, gave users access to streaming video/music and other benefits for a monthly or yearly fee. After strategically launching Prime Video at a much cheaper rate compared to Netflix in India in July 2016, Amazon was partnering with telecom providers to expand its user base in the country. Its partnership with Vodafone provided its customers access to Amazon Prime video at promotional rates. The merging of Vodafone Idea cellular, created India's largest mobile phone company with a total subscriber base of 400 million customers. This was a significant number of the total mobile phone subscribers in the country, which exceeded 1 billion. With this partnership, Amazon got its users to watch its content on their smartphones with a 4G connection. This worked well in India, as a majority of the population was not likely to invest into a fast broadband connection at home to view content on large screens. Further, introducing the schemes like users signing up for Amazon Prime via Vodafone to get a ₹. 250 (\$ 3. 68) cash back in their Amazon Pay account also ensured deeper penetration in the Indian market. Its collaboration with Bharti Airtel enabling select customers to avail a free year of Amazon Prime membership caught user's attention. The differentiation in content offered by Amazon also added on to its success story as it focused on local content and smartphone video consumers as its

target audience. Amazon Prime Video planned to invest \$300 million for creating original content.

Amazon strategically played on pricing which went well with price-sensitive country like India. Prime's annual membership, was initially offered at ₹499 (\$7.76), which was hiked to ₹999 (\$15.53) in 2018 in contrast to Netflix's cheapest package of ₹500 (\$7.78) a month.

## **The Battle Between Amazon And Netflix In India**

Both Amazon and Netflix had big budgets, aggressive marketing and growing libraries of Indian content; ; however Amazon Prime Video led the competition by producing 20 original series in India, (which was among the most of any country where it was active) as compared to Netflix with seven local series. According to IHS Market, a market research group, Amazon had a little more than 600,000 Prime Video users at the end of 2017 while Netflix had 520,000 subscribers.

In terms of pricing, In 2017, Amazon launched in India with a different content strategy of offering video service with its Prime membership, which offered free shipping for its e-commerce site and costed about \$15 a year in India. In contrast, Netflix offered \$8.00 per month subscription in India that was same as in the US and refused to discount its prices for overseas customers. This was more than a day's wages for nearly 90 per cent of Indians, and affordable only for a small urban elite.

Netflix had no Indian shows at the time of launch and word of mouth was another challenge that Netflix faced in India as the global trend of audience



wanting to watch a show to be able to discuss with their friends and family was still lacking.

### **Other Competitors In Vod In India**

Hotstar: Launched right before the 2015 Cricket World Cup in February 2015 by Star India, Hotstar was an Indian digital and mobile entertainment platform providing streaming media and video-on demand online.

Initiated with serving as a mobile application that would support streaming of the Cricket World Cup with some entertainment content, it expanded its offering with 35, 000 hours of content, spread across eight languages from the entertainment, movie and sports channels owned by Star India.

It gained its popularity with 340 million views for all 49 matches during the ICC Cricket World Cup 2015 and over 200 million views during the Indian Premier League Season 8, in 2017. With over 100 million downloads, Hotstar has more than 100 advertisers on the platform and bulk of their revenue generation is through advertisement. Hotstar contents are provided either free of cost or on a subscription basis with premium contents available only to premium membership holders.

The app has made its place in the Indian market by using strategies like gaining streaming rights to popular shows like the Game of Thrones, showing a good understanding of the Indian audience and having content on sports and popular TV shows from both International, national and regional TV.

Jio Play: Launched by Reliance, Jio Play was a personalized VOD application, that brought Bollywood, regional and international movies, TV episodes, trailers and music videos in high definition.

Voot: Viacom 18 launched Voot in March 2016, and was available as an app for iOS and Android users, and a website for desktop consumption. Voot was only available in India and hosted over 40,000 hours of video content that included shows from channels like MTV, Nickelodeon and Colors.

ALTBalaji: Launched by Balaji Telefilms on 16 April 2017, ALTBalaji was a subscription based VOD and was available across 32 different interfaces for its viewers. It created original, premium, and tailor-made content especially for Indians across the globe and claimed the platform to be the largest content bank in India with stories ranging from drama, comedy, and romance, to thriller, crime, and mystery.

## **Netflix Challenges In India**

Hotstar is the market leader in India and together with Amazon Prime, they are the major competitors of Netflix in India and the three of them differ in many ways including content, pricing, streaming quality, user friendliness, and providing additional services.

### **Pricing**

Netflix' pricing strategy in India was the highest among the three with three different plans labeled basic, standard and premium, priced at ₹ 500 (\$ 7.35), ₹ 650 (\$9.56) and ₹ 800 (\$11.77) a month respectively. Increased monthly fee was charged for improved streaming quality and the ability to access the account on multiple devices. Hotstar offered its premium services

<https://assignbuster.com/netflix-inc-first-mover-disadvantage/>

at a fee of ₹ 199 (\$2. 93) a month . And also offered free ad-based usage along with its subscriber-based premium plan. Amazon Prime has the most competitive pricing with yearly fee of ₹ 999(\$14. 69) that included account usage on multiple devices and ultra HD 4K streaming.

### **Content Libraries**

Amazon Prime and Netflix both carried similar content libraries with a collection of English speaking TV shows along with Bollywood content. However, Amazon had a stronger Indian presence in its content including movies in many different regional languages as well as Indian stand-up comic acts. Along with American content, Hotstar by far had the most Indian content available in its library and enabled its users access to titles popular from HBO such as Game of Thrones, Billions and Westworld as well as content from Indian channels Star Plus, Star Bharat and Hotstar Originals. It uniquely positioned itself by providing users facility to live stream soccer and cricket matches through its Star Sports channel.

### **Ease of Use**

Netflix and Amazon Prime offered easy to use web applications with a much higher video quality, offering full HD content on cellular devices that were popular for streaming amongst Indians, while Hotstar offered a lesser resolution through phones in a less user-friendly application. In addition to this, Netflix and Amazon Prime allowed users to download their content for offline viewing, while Hotstar only provided downloads for their regional content. Amazon Prime membership was a value added feature over the other two players with giving access to members to one-day deliveries through Amazon.

**Subscriber Base**

Hotstar was leading its competitors with 75 million users, which was likely due to its ad-based users and availability of regional content. Netflix and Amazon Prime had membership-based services of 5 million and 11 million users respectively. Prime had a competitive advantage over Netflix over pricing and invested \$300 million in the creation of Amazon Original content in regional languages, an area where Netflix was lagging behind.

**The way ahead**

If all these developments between 2016-2018 were any indication of the intense future competition among these players in India, it seemed Netflix, the first global brand to enter the Indian market was at a disadvantage in comparison to Amazon prime, which had overtaken its subscriber base as well as the Indian market leader, HotStar. Netflix surely needed to re-look at its strategy for survival and expansion in the promising Indian market, specially keeping in mind the rapid growth of Amazon prime and the presence of a very strong market leader, HotStar. Reed Hastings was concerned about the Indian market. What was a crucial issue to address - was it the pricing or the content? Should it have offered more ' local' content or continued to be seen as provider of ' global' content? Would a price competition with Amazon Prime be a rational choice? Was there need for greater collaboration with telecom companies? One thing was for sure - As the competition among the players heated up, the consumers were going to be spoilt for choices. Not only could they expect better content, they could also expect them to be delivered at a lower cost with faster access and

convenient platform to use the services. Indian market was poised for some interesting times ahead as far as online streaming services were concerned.