

**From:** May Li, Product Manager, Netflix, Inc., Los Gatos

**To:** Marian Lee, CMO, Netflix, Inc., Los Gatos

**Subject:** Proposal to Promote Student Discount Membership

**Executive Summary**

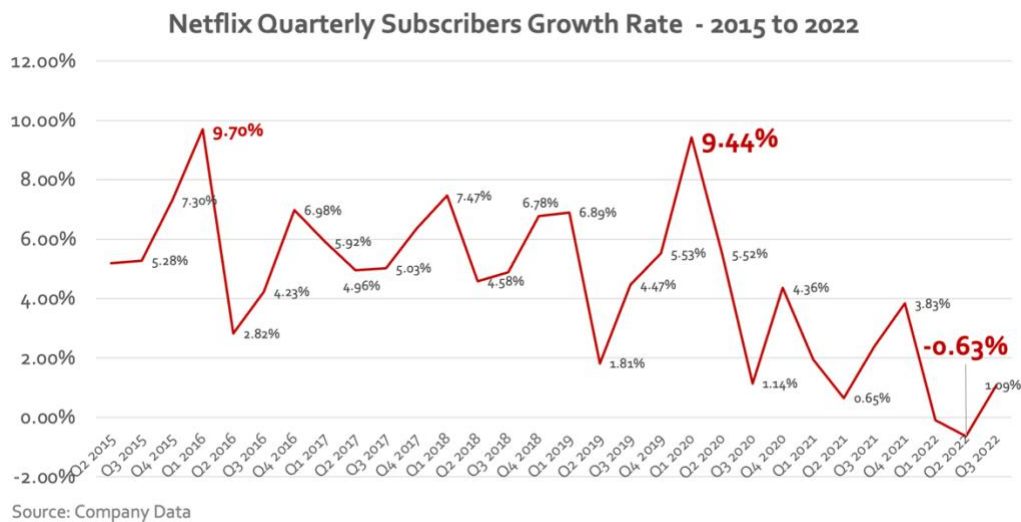
Subscribers are the primary source of Netflix’s revenues. However, we are now facing threats in attracting and retaining our subscribers. Pricing is one of the key barriers that cost us a large group of potential users. Some choose to share their accounts, while others go straight to our competitors. In order to gain them back and maintain a competitive edge in the streaming service market, student discount is an effective offer to attract more subscribers through a lower price, while generating a greater earning potential in Netflix’s future development.

**Rationale**

The market for entertainment videos is intensely competitive and subject to rapid change. Members, or subscribers, are the primary source that keeps Netflix operating. In 2021, we generated \$24.9 billion in revenue from our members’ monthly subscription fees, and our main goal has always been attracting and retaining members to keep a steady revenue increase. If our efforts fail to reach the goal, our business will be adversely affected. <sup>i</sup>

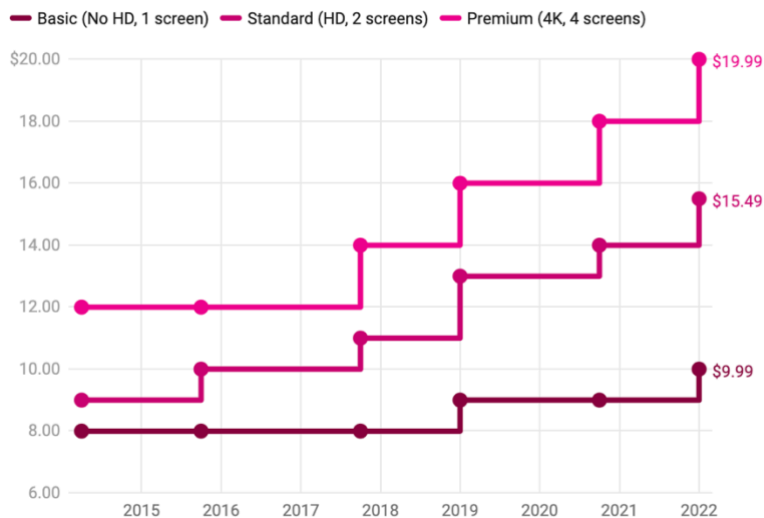
**We’re losing subscribers**

The pandemic has boosted our subscription rate in Q1 2020 with a 9.44% increase, but it has also disrupted the business by increasing costs and leading to delays in content release. In fact, after the pandemic peak, our yearly growth rate of the subscriber base has already started a downward trend. We reached 222 million subscribers in 2021, but stalled in Q1 2022, losing 200,000 subscribers and for the first time generating a negative growth rate at -0.63%. <sup>ii</sup>



One of the key factors for this decreasing trend might be the price. Although Netflix is using a tier pricing strategy to make it affordable to different customer segments, the subscription price is still at the top rank of the market. In 2022, Netflix made another price increase, raising the price barrier even further.

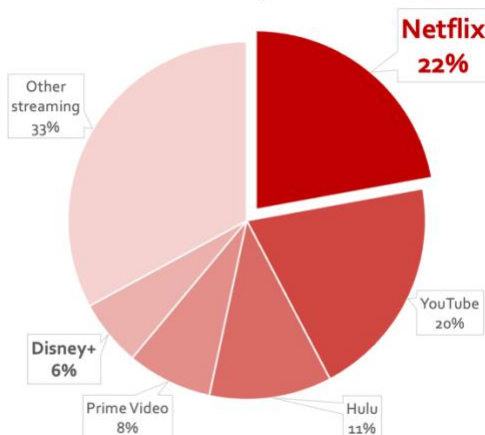
**History of Netflix price increases**



**Threats from the competitors**

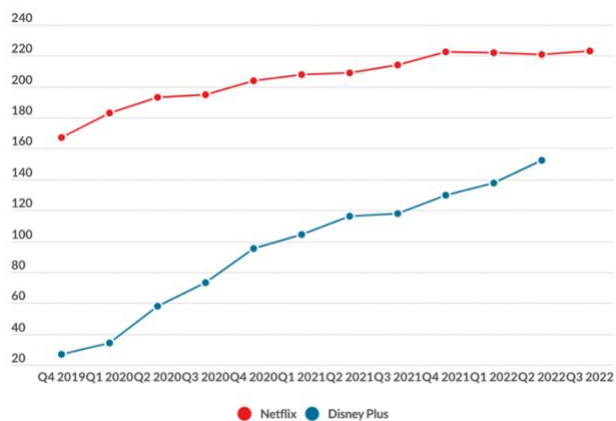
For many years now, Netflix has been a leader in the streaming service industry. Besides the largest subscriber number in the industry, Netflix also possesses 22% of the market share when it comes to the total streaming minutes in the US market, which is our biggest market with more than 65 million subscribers, contributing to 43% of its revenue earned in 2021. <sup>iii</sup> However, through new and existing distribution channels, consumers now have increasing options to access entertainment videos. Our reign is being threatened by the quick rise of Disney+ and other streaming services that are attracting away our subscribers all over the world. The latest data shows that the subscriber number of Disney+ is increasing at a much higher rate. <sup>iv</sup>

US audience streaming minutes 2022 (%)



Source: Company Data

Netflix vs Disney Plus: subscribers



Note: Disney and Netflix have different fiscal years. We have pushed Disney's fiscal one quarter back to match Netflix. Source: Company data

Customers are evaluating streaming services from their relative service levels, content offerings, and more importantly, pricing.<sup>v</sup> As shown in the table, Netflix's subscription price is not competitive compared to other service platforms. At the same time, our competitors also offer discounts for college students at a nearly half-price rate.

Streaming Service	Subscription price/month (standard plan)	Student Discount Pricing	Discount Rate
<b>Netflix</b>	<b>\$15.49</b>	<b>?</b>	<b>?</b>
Amazon Prime	\$14.99	\$7.49	-50.03%
Hulu	\$6.99	\$1.99	-71.53%
Disney+	\$7.99	\$2.99	-62.58%
Paramount+	\$4.99	\$3.74	-25.05%
Discovery+	\$4.99	\$2.99	-40.08%

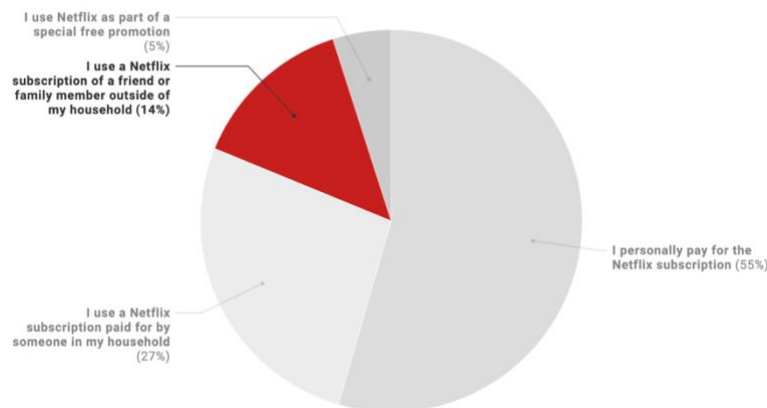
Losing subscribers is a warning signal, and there is no time to lose in finding new ways to retain our current users and at the same time, attract more potential audiences from our competitors.

### Proposed Solution: Student Discount

Large potential subscribers are still in the market.

In fact, the market for streaming services has not yet reached saturation. Netflix's "users" rely on different access to our content. A survey from analysts Moffett Nathanson finds that only 55% of US Netflix users are paying for their subscriptions, and about 14 % of other users admit that they're watching the service using an account paid for by someone outside of their household.<sup>vi</sup> According to another survey conducted on 4,400 households across the US, about 33% of Netflix services are shared in more than one household.<sup>vii</sup> Those users are sharing passwords with others through co-paying or even for free, which means that they're all potential subscribers if we can trigger their willingness to actually pay for our service.

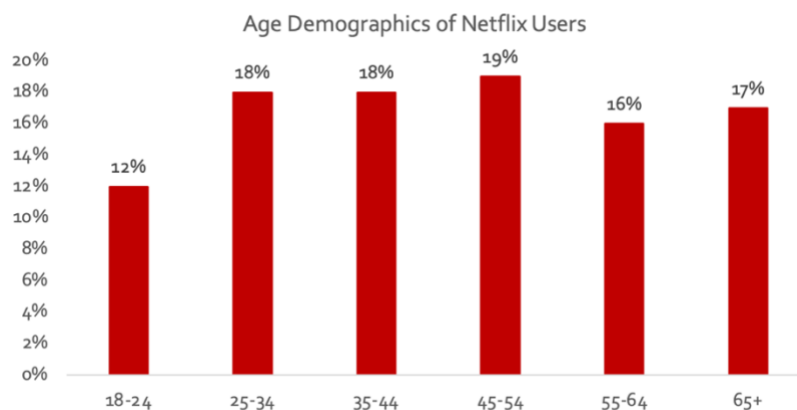
How people use Netflix



## Adjusting Pricing Strategy with Student Discount

To gain those potential subscribers back, the company is constantly adjusting the pricing model. Last month, we launched the “basic plan with ads” option at \$6.99 per month<sup>viii</sup>, offering a more economical option to reach more audiences. To limit the unpaid use of our service, we’re planning to charge an extra fee for adding multiple devices.<sup>ix</sup> There’s currently no latest user data to prove the effectiveness of these initiatives, but it proves that Netflix has a tendency to respond to competitive pressure from price.

One of the most common ways among other streaming services is to start a student discount. For many years, Netflix insists on not offering this discount to consumers because we are confident in our unique content. Many of Netflix’s recent hits are targeting the younger generations, like *Squid Game*, *Stranger Things*, and the most recent one - *Wednesday*. We believe that students will pay for our shows even without the discount. However, according to the latest consumer research, college students aged 18-24 are only taking up 12% of Netflix’s total subscribers<sup>x</sup>.



This unalignment is telling us that students are probably the consumer group that tends to share their accounts with each other and not pay for the subscriptions on their own. And sharing accounts is not the only problem. Netflix’s edge in content creation is also challenged by other platforms. In 2020, the success of *The Mandalorian* announces that Disney+ has possessed the strength to compete with Netflix on content.

Therefore, it is a good time to introduce **Netflix Student Discount** right now. Student Discount is a supportive offer to urge more students to become our actual subscribers. The extent of the discount should be benchmarked against our competitors. In this case, we can set the student discount price at \$3.99 per month with ads. This is a 42% discount compared to the basic offer with ads and is at the same discount level as our competitors such as Amazon Prime (-50%) and Discovery+ (-40%).

## Implementation and Outcomes

The discount will inevitably lead to a loss in our overall revenues generated from previous student subscribers, and the estimated monthly decrease will be about \$43 million. However, we are expecting a 40% growth in our total student subscribers, which will correspondingly boost our revenue by \$41 million per month. Apart from the increase in new subscribers, advertising profits can also be generated through student discount plans. With the current basic plan with ads, each video has roughly five minutes of advertising per hour, and we are charging \$65 per thousand impressions for 30-second ads<sup>xi</sup>, at least a \$16 million increase in advertising revenue per week. The detailed Cost-Benefit Analysis is shown in the table below, and the total benefit-cost ratio is 1.33, indicating a positive annual payback.

	Item	Description	\$
<b>COST</b>	<b>Revenue Loss</b>	The estimated decrease in revenue due to the plan changing for previous student subscribers (annually)	\$527,472,000
	<b>System Development</b>	Technical updates including website upgrade, payment system setup, UNIDAY Student verification, etc.	\$500,000
	<b>Marketing &amp; Communication</b>	Internal and external announcement and campaigns	\$500,000
	<b>Total</b>		<b>\$528,472,000 *</b>
<b>BENEFIT</b>	<b>Revenue Gain</b>	40% increase in student subscriber	\$510,209,280
	<b>Advertisement Revenue</b>	\$65 per thousand impressions for 30-second ads	\$192,000,000
	<b>Total</b>		<b>\$702,209,280 *</b>

*\*estimated number*

The total setup timeline will last for 2 months, including the system development, pricing adjustments, marketing, and communications. Apart from those internal changes, we also need to construct a student identity verification procedure by cooperating with student verification platforms such as UNiDAYS. Ideally, the official announcement of Netflix Student Discount Plan will be released in February 2023, and the promotion will start in March.

## Conclusions

For Netflix, the risk of losing subscribers is a dangerous signal. To deal with the threats posed by the competitors as well as attract more potential subscribers, it is crucial for Netflix to constantly adjust the pricing model. With Student Discount, Netflix can easily touch the pain point of the younger generation. It will help the company to raise the conversion rate of student subscribers and gain a long-term benefit in future development.

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