

## Netflix shrinking for the first time

Netflix has always been our favourite video streaming platform for leisure during pandemic. In the last season in 2021, there was a famous Korean drama called 'Squid Game' was released on Netflix exclusively and there were over 110 million viewers binge-watching it all around the globe. The demand for Netflix's streaming service rose dramatically and the total revenue of Netflix surged.

When Netflix predicted there would be a continuous growth in the future, there was a storm after the calm. Netflix had first time recorded a drop of 200 thousand subscribers in the first season in 2022, which was unprecedented in the past 10 years with a loss. The investors anticipated that less dividends would be received in the pessimistic business future of Netflix and in turn the demand for its shares was lowered, causing a consistent drop in the stock price of Netflix of over 70%.

There are multiple causes for the of sluggish development of Netflix and the most significant one might be the new policy of Netflix which restricts all the family users who do not use the IP address in the only registered geographical location. Almost 50% of their customers are sharing accounts with their friends or family members. It is unsolicited by the users as their private property rights to use is weakened. Under such user-hostile policy, the demand for Netflix streaming service decreases, causing a loss in total revenue.

Nevertheless, the substitutes such as Disney+ and AppleTV+ have gone viral with plenty of unique content which leads to the decline of the demand for Netflix drama series. In comparison with Netflix, Disney+ does not require their family subscribers to always stay in the same room and restrict the ability to enjoy the dramas with snacks during spare time. The demand for Netflix would abate after other platforms being considered as options for the similar types of entertainment and leisure. Moreover, the oligopolistic market structure of streaming media suggests that there is interdependence in decision making between the companies of Netflix, with 21% market share in a shirking trend, and others like Amazon Prime Video, which occupied 20% market share. Netflix has diminished influence comparing to the past and faces more challenges to gain new subscribers and keeping the old ones at the same times.

Comparing to 2021, the epidemic protection policy is much lenient in 2022 which brings back a lot of social activities between families and friends. As hanging out is also a way to relax and a substitute of staying indoors and watching Netflix, the demand for entertainment at home decreases and causing a shrink in the number of subscribers which is the quantity demanded.

To tackle the problem, Netflix raised the subscription price of their service to

compensate the loss. The prerequisite of the adjustment was that the demand for Netflix subscription was inelastic so that the percentage increase in subscription fee outweighs the percentage decrease in number of subscribers. At the same time, Netflix had considered other solutions to recover the loss of users such as rolling out other service plan for potential customers to increase the demand for its service and hence the quantity demanded and profit.

However, in long term, the root of the problem is never solved. Customers would prefer other media than Netflix that have a lower full cost as watching Netflix may involve higher implicit and explicit cost. Who would not prefer a cheaper and more convenient option to chill? Unless the top-notch 'Squid Game' Season 2 is released, or Netflix may not be our highest-valued option.

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