Netflix Bigdata Analytics: The Development of Recommendations Based on Data

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ABSTRACT

One of the biggest suppliers of internet streaming media is Netflix. In 1997, it started operating. Reed Hastings and Marc Randolph, two internet entrepreneurs, founded the company. Los Gatos, California, is home to the company's headquarters. At first, Netflix offered DVDs for sale or rental. It switched to a video-on-demand business strategy as internet use increased and DVD sales and rental services declined. It began making its own TV shows and films in 2012. Netflix employs big data analytics to have a deeper understanding of their clientele. They use this data to provide customers better products or services. Netflix gathers enormous volumes of data from a wide range of subscribers. It gathers information on a user's location, the material they view, their interests, the data they seek, and the time they watch. Its system provides a customised suggestion depending on the user's interests based on these characteristics. Netflix has shifted its business model from DVD rental to video on demand and is presently creating original series as a result of its ongoing emphasis on evolving business demands. In this essay, we examine Netflix's several business tactics. This essay also examines how Netflix employed big data analytics to enhance the subscriber experience, become more customer-focused, and grow its user base. We have offered some recommendations based on the SWOT and PESTLE analysis that Netflix might use as part of its business plan.

Keywords: Netflix, big data, data analytics, streaming, on-demand video, and customer experience

1. INTRODUCTION:

Reed Hastings and Marc Randolph, two Internet entrepreneurs, formed Netflix, Inc. It started operating in 1997. Los Gatos, California, is home to the company's headquarters. Netflix's primary business is providing subscription-based internet streaming services for films, TV series, and original content. With more than 148 million subscribers operating in 190 countries—aside from China, Iran, North Korea, Crimea, and Syria—it is the biggest media service provider [1]. Netflix had significant losses in its early years, but as the number of internet users increased, the company shifted from renting and selling DVDs to launching online video streaming in 2007. Netflix managed to lessen the damage. Netflix has to alter their business plan in order to do this. Netflix produces its own films and TV series in addition to streaming films and TV series from other studios. Netflix began its global growth in 2010, first in Canada, then in Latin American nations in 2011, the United Kingdom, and other European nations including Denmark, the Netherlands, Norway, and others from 2012 to 2015. In 2012, Netflix divided their DVD rental operation into a distinct division from the division responsible for internet streaming. About 3.3 million people used Netflix's DVD rental division as of 2017, and the company intends to continue offering this service for a few more years. The main issues that Netflix is now dealing with include keeping its current members and attracting new ones, growing competition from rival streaming services like Hulu, Disney, Warner Media, and Amazon, and rising original

content production costs. Netflix leverages big data analytics to address these obstacles. Netflix has spent more than $1 billion on big data analytics research. They now have a distinct organization called Netflix Research, which focuses mostly on data analytics topics including machine learning, recommendations, and user experience.

For their recommendation systems, they have made significant investments in data sciences and data analytics. These recommendation systems provide recommendations based on their understanding of the consumers.

There are nine parts in all in this document. A basic overview of Netflix is given in Section 1. The goals of this case study are explained in Section 2. The approach used in this case study is explained in Section 3. In Section 4, Netflix's business model evolution is discussed and contrasted with that of its competitor, Blockbuster Inc. Section 5 explains how Netflix uses big data analytics to improve consumer experience and their recommendation system. The SWOT and PESTLE analyses of Netflix are explained in Section 6. The results of this investigation are presented in Section 7. Section 8 offers suggestions and recommendations based on PESTLE and SWOT analysis, and Section 9 Conclusion brings this study to a close.

2. OBJECTIVES:

Below are the objectives of study

History of Netflix.

To understand about the evolution of business model at Netflix.

To understand about the strategies of Netflix and how new strategies are used to overcome challenges faced by competition.

Overview of recommendation system.

To understand how Bigdata analytics is used by Netflix to improve customer satisfaction.

Use of SWOT and PESTLE analysis for recommendation of Netflix future strategies.

3. RESEARCH METHODOLOGY:

This case study's main objective is to comprehend Netflix's usage of big data analytics in their recommendation system. The study is carried out using a variety of online resources. The websites of Netflix Inc. and Blockbuster Inc., big data analytics, blogs on recommendation systems, and several conference and journal papers about big data and recommendation systems are the primary sources. The main purpose of Google Scholar is to find relevant literature for the case study. The primary motivation for selecting Google Scholar is its extensive collection of scholarly publications and its free use. It offers a number of capabilities, including citation tracking and individual citation export.

4. NETFLIX vs. BLOCKBUSTER-EVOLUTION OF BUISNESS MODEL:

Netflix was the main competitor for Blockbuster Inc which is into the business of DVD sales and rental through their physical stores. Blockbuster started in year 1985 was an undisputed leader in the entertainment service business with more than 2800 physical stores. Blockbuster was selling and renting DVD through its stores across worldwide [2]. Netflix came with the unique idea of DVD sales and rental business without physical store. Using the Netflix website from the catalogue one must choose the movies/TV-shows what they want, and Netflix used to send the DVD through postal service. During the early days Netflix started offering DVD on rental basis. Netflix realized that it is spending more per customer than what it was earning through rent of DVD. So, it changed its business model to Subscription method where it was offering DVD rental to its customers who subscribed for a fixed fee. Unlike its rival.

Blockbuster Netflix was not charging any late fee from the return of the DVD. Since inception Netflix

was not profitable and was losing money one of its founder Reed Hastings in the year 2000 approached Blockbuster CEO John Antioco with the offer of Netflix being taken over by Blockbuster for $50 Million. His idea was Netflix team would manage Blockbuster's Online brand and Blockbuster needs to promote Netflix in their stores however this deal was rejected by Blockbuster's team [3]. The major challenge the Netflix faced is a very high demand for new and super hit movies, sometimes this resulted in customer being not happy due to movies not been available.

To address this Netflix came up with the idea of Netflix recommendation system this resulted in the decrease of 20% for the demand of new releases compared to the traditional DVD rental services like Blockbuster. Both Blockbuster and Netflix competed against each other for the same market, but their business model was different. Blockbuster's business strategy was predicated on the notion that the majority of movie rentals are the result of users' impulsive decisions to see new or popular films right away. As a result, its outlets primarily focused on that element. The foundation of Netflix's business strategy was the idea that films were a common kind of entertainment. Netflix used the postal service to send the films rather than picking them up like Blockbuster. Customers were drawn to Netflix by the simplicity of returning films by postal service and the option to retain them for a longer period of time. By the time Blockbuster saw the danger posed by Netflix and decided to introduce a model like to Netflix's in 2004, they were very late in adapting to developments. However, the notion did not come to pass because of a change in management, so they stuck with their previous business plan. In 2013, the business finally filed for bankruptcy and ceased operations.

5. BIGDATA ANALYTICS AT NETFLIX:

One of the first companies to use big data analytics was Netflix, which in 2006 issued a challenge offering $1 million to anybody who could enhance Cinematch, its current recommendation engine, by 10% [4]. Creating an algorithm to forecast subscriber movie preferences using historical data was a problem. Netflix supplied the dataset, which includes around 100 million ratings for 17,000 films from 480,000 users. The ratings were formatted as follows: user, movie name, rating date, and user rating. Over the course of several years, BellKor's Pragmatic Chaos team—which included mathematicians, data scientists, and engineers from various countries, industries, and research institutions like AT&T, Yahoo, and Commendo Research & Consulting GmbH—was given the prize in 2008 [5]. This competition was a huge success, and many of the teams who took part offered comparable solutions to other businesses, such as e-commerce. However, a privacy lawsuit against Netflix over the information used in the competition forced the cancellation of the second competition that Netflix had planned in 2010.

Netflix's recommendation algorithms make use of big data analytics and data science. The phrase "recommender system" was first used in information systems literature in the late 1990s [6]. Recommendation systems continue to be popular because they may be used to address many businesses' real-world issues. Numerous businesses, including Microsoft, Amazon, and others, use commercial recommendation systems [7-8].

5.1 NETFLIX RECOMMENDATION SYSTEM:

It recommends the subscribers various choices based on their interests. Recommendation systems use Machine learning. It takes inputs from user and recommends appropriately. In Netflix recommendation system collects user data such as the location of a user; content watched by the user, user interests, the data searched by the user, and the time at which user watched. Based on these parameters its algorithm gives a personalized recommendation based on the subscriber's interest. Mostly recommendation systems take user profile as an important parameter. Subscriber profile consists of different types of information such as interest of a subscriber, history of subscriber search

query, interaction with system etc. Whenever a new subscriber account is created, or a new profile is added to existing account Netflix will ask the subscriber to choose few genre or titles which can be used as initial parameters for recommendation system. If the subscriber skips this step, then Netflix will populate the user homepage with the popular set of contents. Once the user starts watching the content then this will super cede any initial preferences provided by subscriber. As the subscriber continues to watch. The content which was watched previously will be used to provide the recommendation further [9-10].

There are two types of recommendation system [11]
Content-based
Collaborative filtering

Content-based filtering:

This type of recommendation system is based on the history of the subscriber. The Subscriber will watch a content or movies of a kind like action or comedy again if he has viewed a similar content in past as described in Fig.1. This type of recommendation system takes the customer information [12]. Initially when any subscriber has just joined the service it asks the subscriber to provide the information like which genre he likes and some other information. Some of the data that is collected by the subscribers are as below
It asks the user to rate the content.
User Search data.
Rank the content from least favorite to most favorite.
Choose the better of two items.
Ask the user to create what he likes and what he dislikes.
Analyzing the user search data.
Tracking the users viewing history.

Collaborative filtering: This kind of recommendation system is based on similar profiles of users [13]. To create a subscriber profile the recommendation system mainly focuses on the below two information.
Subscriber preferences.
History of subscriber

For instance, if a subscriber A watches crime, action, horror movies and subscriber B watches crime, action, comedy movies then subscriber A will like to watch comedy movies and subscriber B will like to watch horror movies. Please refer Fig.1.

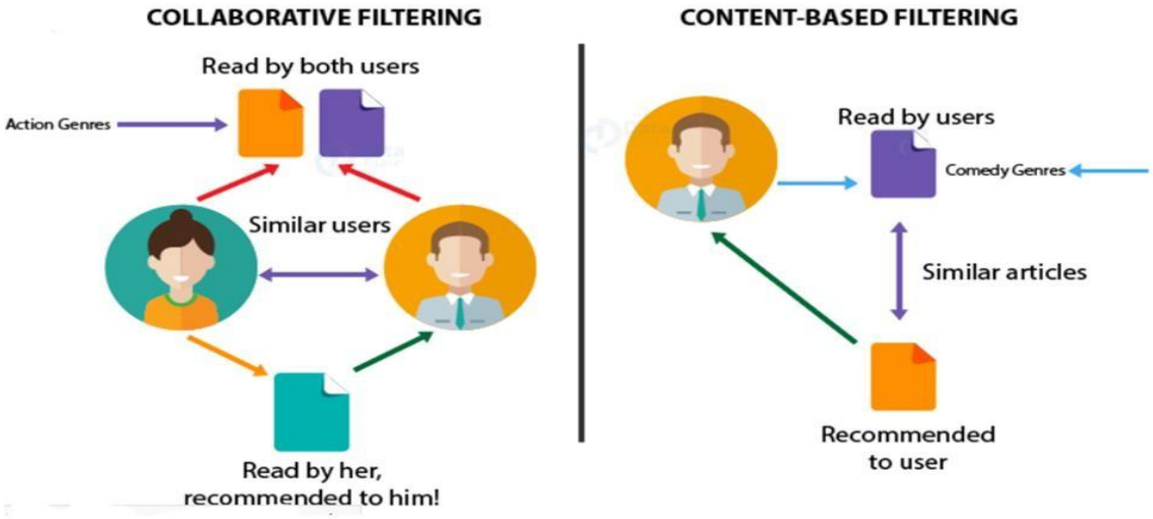


Fig.1: Recommendation Technique

Hybrid Recommendation System: This type of recommendation system is the combination of content and collaborative recommendation system. Netflix uses hybrid approach of the recommendation system refer fig 2 & 3. In this recommendation system a recommendation is made by combining the viewing habits of the subscriber and searching habits of the subscriber with previous history of the subscriber. Below are few of the hybrid recommendation techniques

Weighted: In this type of hybrid technique two or more recommendation system will provide a recommendation to user based on the user preference and finally the scores of different recommendation systems are combined to achieve a high accuracy.

Feature Combination: In this type of hybrid technique the output of one or more commendation system is provided as input to the final recommendation system.

Cascade: This type of hybrid recommendation system is staged recommendation process and is based on priority.

Switching: In this type of hybrid approach based on some criteria switching happens between the recommendation systems.

Feature Augmentation: In this type of hybrid approach the output of one recommendation system is provided as input to other recommendation system.

Meta-level: This type of hybrid recommendation system is order sensitive.

Mixed: This type of hybrid recommendation system is the simplest one. In this different kind of recommendation system are combined to provide the recommendation.

Limitation of Recommendation System:

Cold-Start: For any new subscriber there is not enough data available to make recommendation at beginning.

Scalability: As there are vast number of users and contents. A huge amount of computational power is necessary to provide accurate recommendation with shortest time possible.

Data Sparsity: As the database is huge the most active users might have rated only a few of content.

Accuracy: It is one of the major limitations as it deals with the ability of recommendation system to predict what a user wants more accurately.

Diversity: This is helpful in avoiding bias. There should be a diverse set of recommendation to be available.

5.2 PREDECTING VIEWING HABITS OF SUBSCRIBER:

To provide personalized recommendations to its subscribers Netflix collects huge amount of data from its user base. Below are some of the things which Netflix tracks

When a user stops a content.
When a user fast forwards a content.
When a user pauses a content.
Time during which the user watch.
Location of the user.
What content the user watch.
On what device does he watch (TV, Smartphone etc.)
Browsing behavior of user.
Searching habit of user.
Reviews and ratings given by user.
Based on these data Netflix gives personalized recommendations.

5.3 FINDING THE NEXT HIT TV-SERIES: A STUDY ON HOUSE OF CARDS:

Netflix has entered production and distribution of originals. It started producing its original TV-Shows. The strategy used by Netflix is driven by bigdata. Netflix won the bid to produce House of Cards against various other competitors like HBO, AMC. The very interesting fact was without seeing a single episode of the show Netflix committed $100 Million for the show of 2 seasons consisting of 26 episodes. This decision was driven by bigdata analytics. By analyzing the past viewer data Netflix was able to determine that users of original House of Cards which aired on United Kingdom in 1990's were interested to watch movies directed by David Fincher and actor Kevin Spacey. Netflix was so confident that the show what they would produce would turn out to be a super hit based on the bigdata analytics. Netflix has around 80% success rate for original content compared to other networks whose success rate is by far less then Netflix. The production or original content is decided by running Bigdata analytics and other data mining algorithms to determine the size of the audience who would watch these original contents.

5.4 NETFLIX PERSONALIZE CUSTOMER EXPERIENCE:

Netflix uses A/B test to personalize user experience. Whatever the it is shown on the platform (eg: images) is driven by data collected by A/B test. Each test present two different versions for subscriber and observe how the subscriber react to these. Netflix uses landing cards. Landing cards are images or video teasers that can be seen in the homepage of the subscriber. Landing cards is helpful in attracting the subscriber to watch the content. Users are more likely to watch the content if the images are attractive to them. [14]

6. ANALYSIS:

Both SWOT and PESTLE analysis are performed as per the guidelines mentioned in Company analysis case study [15-21]

Company Background [22]
Company: Netflix Inc
CEO: Reed Hastings
Year founded: 1997
Founders: Reed Hastings and Marc Randolph
Headquarter: Los Gatos, USA
Industry: Cable/Satellite TV
Number of Employees (2018): 5,500
Public or Private: Public
Ticker Symbol: NFLX
Market Cap (Feb 2019): $155.81 Billion
Annual Revenue (2018): $15.79 Billion
Profit |Net income (2018): $1.21 Billion
Products & Services: Video on demand, online streaming
Competitors: Hulu | Disney+ | HBO| Warner Media | Amazon |
SWOT Analysis: SWOT analysis can be used by organization to identify internal factors that is of strategic importance like Strength and Weakness of an organization and External factors like Opportunities and Threats.
SWOT analysis helps the organization to develop four types of strategies as below
SO-Strength-opportunities Strategy.
WO-Weakness-opportunities Strategy.
ST-Strength-Threat Strategy.
WT-Weakness-Threat Strategy.

Strengths:

- Established Brand Name.
- Reliable distribution network.
- Global Customer Base: Netflix is serving over 190 countries worldwide.
- Good performance in new markets.
- Successful track record.
- Successful market strategies.
- Technology: Netflix is ready to embrace changes rapidly it is one of the early adapters of bigdata analytics and data science.
- Product innovation.
- Original Content: Netflix is in production of original content and the quality of the content which Netflix produces are liked by many viewers.

Weakness:

- Huge Debt: The production of original content involves huge costs this results in debts.
- Limited Copyrights: For many of shows or movies Netflix has taken rights from other studios. It is becoming difficult to manage the content library as the rights taken from other studios expire and the content will be taken off from Netflix.
- More investment in newer technologies.
- No success outside core business.

Opportunities:

- Expansion into other countries including China.
- Partnership in Europe to meet European laws.
- Alliances: It can partner with various service providers to provide bundle packages at discounted price.
- Potential to earn revenue by other means like advertisements.
- Attracting New customer base with the use of data analytics.

Threats:

- Increased Competition: Other Providers like Hulu, HBO, Amazon, Disney and Warner Media are entered or entering the online streaming service.
- Piracy: It is the biggest threat many users download the content by illegal means.
- Increasing the Subscription price lead to subscribers switch to other providers.
- Sharing of Single Subscription between multiple users.
- Change of subscriber behavior
- Different countries liability laws.

PESTLE Analysis: PESTLE analysis is used to analyze the macro environment of any organization.
PESTLE stands for
P-Political
E-Economical
S-Socio-Cultural
T-Technological
L-Legal
E-Environmental
PESTLE analysis provides a detail analysis of macro environment of organization along with its operational challenges

Political:

- Due to European regulations Netflix belonged to same category as television distributors. Netflix needs to follow the European rule that 30% of the content needs to be European.

- Due to restrictions of US on some countries like Crimea, North Korea Netflix cannot expand to those countries.
- Due to permission issue by Chinese government Netflix could not expand its business to china.
- Existing petition in US by AT&T in Federal Communication Commission to limit online streaming platforms like Netflix.
- Censorship: different countries has different laws regarding censorship. US content may not be suitable for many countries where it needs to be highly censored.
- Mandatory Employee benefits.

Economical:

- Change of exchange rates impacts the revenue of Netflix.
- Competitive pricing.
- The price of Netflix in US is much lower than traditional service providers.
- Tax laws in different states of US.
- Inflation and Interest rates.
- Skill level of workforce.
- Cost per Employee.

Socio-Cultural

- Many Customers are moving to watch content through their smartphone.
- Netflix is known for charity work like providing scholarships.
- Demographics and skill level of countries population.

Technological:

- Recent technological advancement and impact on product offerings.
- Improving quality of streaming with less data consumption to support 4K content efficiently.
- A new software called 'Hermes' is developed by Netflix Research which automatically grades a translation. With the use of this Netflix will be able to serve the faster and good quality translation of shows to different countries.

Legal:

- Due to copyright laws Netflix has introduced blockers that will block the users accessing the contents from other countries this will affect the user base.
- They need to handle the video piracy affectively.
- Employment law.
- Copyright and Intellectual property.
- Consumer protection law.

Environmental:

- Netflix needs to work more towards using of renewable energy and reduce the carbon footprint of its data centers.
- Recycling and waste management.
- Use of ecological products.

7. FINDINGS OF THE STUDY:

- Netflix is one of the early adapters in bigdata analytics.
- Use of bigdata analytics has resulted in customer satisfaction.
- Data analytics has helped Netflix in production of original content.
- Data analytics has helped Netflix to be leader of streaming market.

8. SUGGESTION AND RECOMMENDATIONS:

Based on the SWOT and PESTLE analysis below are few recommendations

- Netflix to continue its use on Data analytics and Data Science to improve the customer experience.
- It is recommended to reduce the subscription cost as similar as its competitor for developing countries like India.
- Use of limited Advertisements to compensate loss of revenue due to lower subscription prices.
- Explore other territories for expansion.
- Produce more original content region specific.
- Tie Ups with different production studios to increase the content library.
- Use of advanced authentication techniques like finger print or facial recognition [23-26] or Multi factor authentication [27-28] for subscriber authentication.

9. CONCLUSION:

In this essay, we have examined Netflix's business strategy in comparison to Blockbuster Inc.'s and how Netflix overtook its rival to become the industry leader in online streaming services. We spoke about the Netflix prize competition and how the winner team's algorithm improved the accuracy of Netflix's current algorithm. We have also spoken about the many types of recommendation systems, such as Netflix's usage of a hybrid recommendation approach and content-based and collaborative filtering recommendation systems. Additionally, we have examined the usage of Bigdata Analytics' recommendation system to enhance customer satisfaction. We've also spoken about how Netflix uses big data analytics to forecast subscribers' watching preferences and how this helps create original material that will be a tremendous hit. Lastly, we have given Netflix a few suggestions to enhance their company strategy based on the SWOT and PESTLE analysis.

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