



SIX MONTHS OF NETFLIX IN FLANDERS: BEYOND THE HYPE?

SUMMARY

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— THE —
NETFLIX
REPORT

SUMMARY

At the kickoff in September 2014, Netflix could count on a substantial adoption potential in Flanders (a quarter of the Flemish internet population aged 18+). Six months later, we see a significant conversion from potential to actual adoption. The majority of the highly interested profiles, the potential Innovators and Early Adopters, have registered for a trial account. But it did not automatically lead towards permanent adoption. A substantial number of early adopters did not opt for a paid account after the free trial period. Additionally, a minority of the users who continued with a paid subscription have already terminated their accounts within the first six months. Possible causes for this discrepancy can be attributed to the countermoves from broadcasters and distributors, and a (partial) failure by Netflix to meet the user expectations¹.

Focusing on the actual adopters, two groups emerge: the Online Media Masters segment, and – less expected – the segment of Media Omnivore families with children². For both segments, the offered content and ease of use are considered to be the most important agents, but the underlying reasons are not the same.

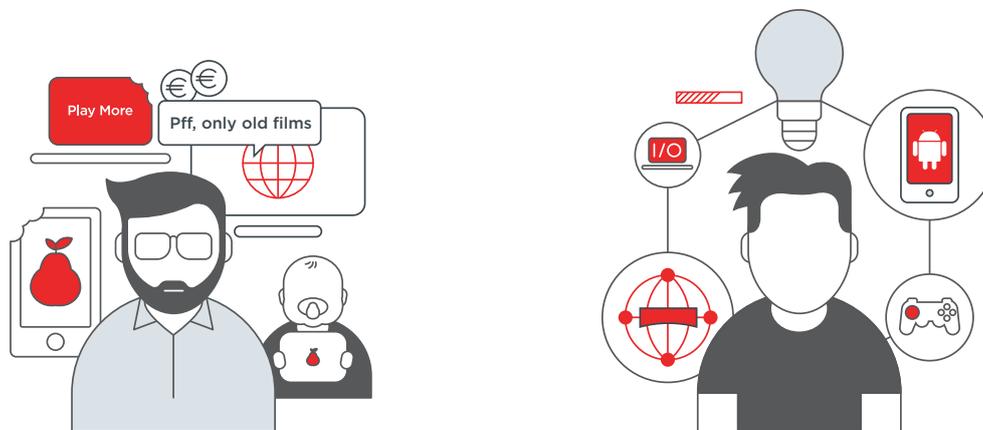
For the Online Media Masters, their main motivation in trying out Netflix is the offered content with the ease of use proving to be just as important. They find Netflix easier than illegal streaming or downloading pirated content. For the Media Omnivore families with children, the combination of interesting content embedded in a real user-friendly platform, was an enticement for mom and dad as ‘responsible for purchases’ within the family. Like with other profiles, we do find they have a certain level of disappointment with regards to the content, but it is striking that in most cases they decide to continue with their subscriptions because of the rather by chance discovered added value for their kids. A remarkable finding was the fact that the interface of Netflix is so intuitive. Even very young children manage to operate Netflix all by themselves long before they even learn to read. This is in contrast to the rather complex interfaces of other platforms (e.g. digital television) wherein children do have to ask for the help of their parents.

¹ An exact estimation of the total paid Netflix subscriptions in Flanders is not yet possible, given the short period of six months after kickoff, meaning that most subscribers are still in their first few months on Netflix (and have yet to meet the potential content saturation point). For a more precise estimation, we have to wait for the next digiMeter results in December 2015. But based on the insights gathered within this study, and taking into account the amount of sharing of Netflix accounts (not only within households, but also between households), we estimate the number of paid Netflix subscriptions at somewhere between 60.000 and 100.000.

² For more information on those segments, please consult the report of digiMeter 2014, or visit iMinds.be/digiMeter.

Regarding the viewing patterns of Flemish Netflix users, we find that most of them use Netflix just an extra layer on top of their existing sources for audiovisual consumption. It seems that Netflix just made it possible for 'heavy series viewers' to consume even more series. Netflix seems to have found a modus vivendi with traditional cable TV: Netflix is perceived to be complementary to traditional cable TV, therefore users are not that prone in terminating their cable subscriptions. However, for other sources and services like illegal streaming or downloading of content (mainly within the Online Media Masters) and other paid on-demand services for movies and series such as Play and Play More by Telenet (especially within the Media Omnivore families with children), Netflix seems to be a potential substitute for those services.

The biggest challenge for Netflix is to surpass the hype. The high spirits on the arrival of Netflix were based on two major expectations: content and ease of use (set at a reasonable pricing). In spite of the relatively short period after launching the service in Flanders (six months), it is clear that Netflix has not yet lived up to the promises it made in terms of content, especially when it comes to its selection of movies. This is not only materialized in the moderate (for series) to low (for films) satisfaction scores, but also in the significant dropout of subscribers after only a few months. In other words, a rapid saturation in terms of content offering is the main jeopardy to Netflix. This could cause Netflix users to evolve towards a "Hop on/Hop off" behavior instead of having a permanent subscription to Netflix.



Media Omnivore

Online Media Master

Following the announcement that Netflix would launch its service in Flanders on September 19, 2014, a stream of predictions appeared in the press. According to one source, Netflix would introduce the end of 'television as we know it', while other sources commented that Netflix wouldn't stand a chance without a proper offer of local (Flemish) content. Another striking observation in the slipstream of that announcement was that a lot of innovations within the Flemish audiovisual ecosystem were initiated. Medialaan, for instance, launched a free online on-demand service via the website VTM.be where registered users can watch episodes of TV shows. The public broadcaster VRT also announced that in the fall of 2015, Canvas will be restyled, with a larger emphasis on content offered on digital platforms to connect to a younger audience. And whereas Proximus had decided to integrate Netflix on the Proximus TV-decoders, Telenet decided to enter into the competition with Netflix. Telenet adapted the Rex & Rio-packages and rebranded them to 'Play and Play More'. The most remarkable shifts were a permanent price cut for the cheapest package (Play) to a more 'Netflix-comparable' pricing of €10 per month, as well as an expansion of the HBO offering. Another notable addition in both packages was the 'Terugkijk TV'-service, so that subscribers have the opportunity to re-watch an episode of a TV show until 7 days after airing.

This shows that the arrival of Netflix was no minor event to the Flemish media industry. Netflix is one of those players with a potential disruptive impact on audiovisual consumption, and entails a lot of questions.

- What is the adoption potential of Netflix in Flanders?
- How important is the offering of local content?
- What are the major thresholds that slow down the adoption rate, and which are on the contrary the major motivations to engage into a subscription on Netflix?
- What is the level of (dis)satisfaction within the early Netflix adopters?
- Which considerations do Netflix users take into account what to do with other subscriptions on audiovisual content? And what about the free (illegal) online sources of movies and series, such as torrent-websites and Popcorn Time?

In the quest for answers on those questions, iMinds launched three consecutive research waves between August 2014 and May 2015:

1. A prior-to-launch adoption potential forecast by means of a survey on 2,047 respondents (representative of the Flemish Internet population aged 18+)
2. A follow-up survey with 800 respondents taken out of the pool of 2,047 respondents (40% of each adoption-potential segment) in March 2015. Survey questions include:
 - What is the situation six months after the launch?
 - Has Netflix found a way to convert the adoption potential into actual adoption?
 - How satisfied are those early users of Netflix?
 - What are the advantages of Netflix, and on what aspects are they disappointed?
 - Did Netflix constitute a shift in viewing habits?
 - Did the users alter other subscriptions, or have they bought extra devices to enhance the Netflix viewing experience?
3. In-depth interviews in April 2015 at the households of 50 respondents from the follow-up survey. The selection was based upon a number of remarkable findings deduced from the follow-up survey. The interviews allowed the researchers to gain more in-depth insights behind the underlying factors constituting the findings, as well as get a glance at how Flemish families actually perceive and experience Netflix.

Summarizing the results of the three research waves, we come to some striking conclusions.

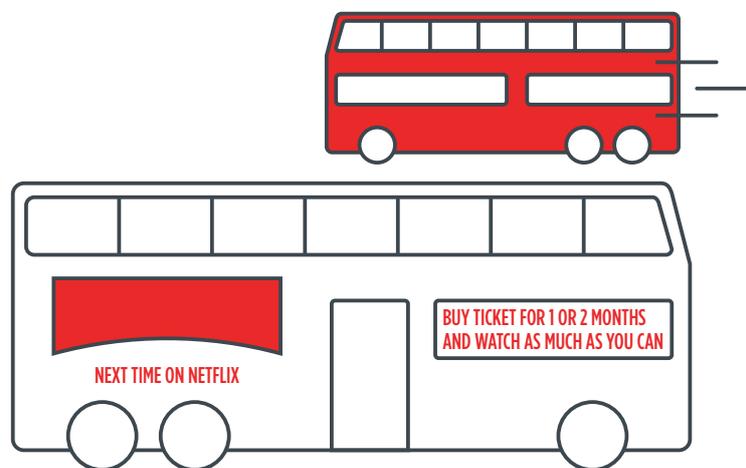
- Netflix does have a substantial adoption potential, and that potential has largely been converted into actual adoption... but not always resulting in a permanent subscription. The adoption potential forecast in September 2014 showed that 5,4% of the Flemish internet population aged 18+ could be indicated as potential Innovators: a segment that absolutely wants to be the first to adopt to Netflix no matter what the actual pricing and content offering may be. And this prediction has proven to be accurate, as over 9 in 10 already had signed in on Netflix in the first six months. But it is remarkable to note that a part of those Netflix enthusiasts have already (temporarily) terminated their Netflix subscriptions. In March 2015, only 8 in 10 of the predicted Innovators still have access paid subscriptions for Netflix.

Besides the 5,4% Innovators, 22,7% were predicted to be potential Early Adopters: a profile that is also enthusiastic about Netflix, but would not sign in without reflection. Their considerations are more rational than the rather impulsive Innovators, and they tend to await the actual Netflix proposal before deciding whether or not to sign in. For 7 out of 10 potential Early Adopters, this resulted into adoption in the first six months, but almost 15% of them have already canceled their accounts.

Six months after the Netflix launch, we clearly see that there was a substantial adoption potential right from the start (about a quarter of the Flemish internet population aged 18+), and that a strong correlation emerged between the predicted and the actual adoption of Netflix. In spite of the high spirits at the kickoff of Netflix, we do perceive that a minority has already canceled their Netflix subscriptions after only a few months. So we can conclude that Netflix does not yet constitute a strong level of loyalty, and that we distinguish three types of respondents for further analysis:

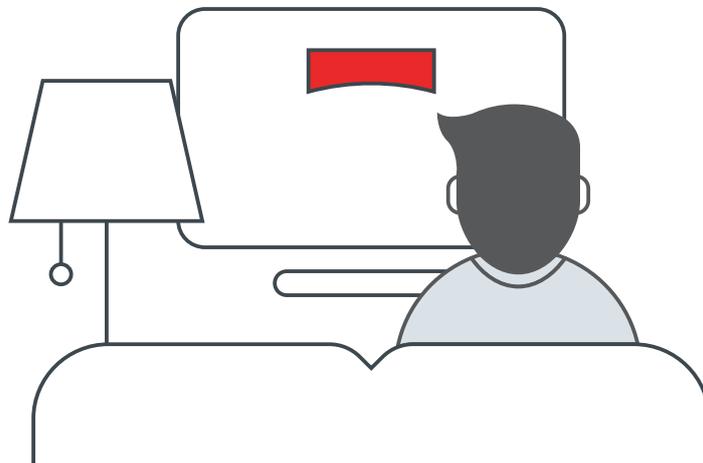
- **Strong interest in Netflix at kickoff, but no actual adoption in the first six months.** Main reason for this discrepancy is a perceived lack of time (implicating that Netflix is considered to be additional to the existing offer of traditional channels, and not as a substitute). Another important cause lies within the dissatisfaction with the offered content. A final reason, especially for those who consciously control their spending (e.g. students), is that Netflix offers limited added value compared to free (illegal) alternatives, significantly decreasing the willingness to pay.
- **Relatively fast take-up of Netflix, despite a lack of interest at the launch of Netflix.** Within the group of potential users with low to no interest at all in September 2014, a small portion has nevertheless quickly subscribed to Netflix. The recurring factor within this group is that a kind of 'lock-in' is created after the first (free) month of trial. Via enthusiasts in their circle, they decided to give it a try, and soon got convinced of Netflix, especially thanks to its ease of use. Whether these profiles will continue their subscription on Netflix in the long term, depends on the content: As soon as the offered content falls short to satisfy them, they will not hesitate to turn their back to Netflix and leave.

- **Adopted within first six months, but quickly dropped out.** The major reason for early drop out is by far disappointment in the offered content. While some report that they plan to permanently terminate their subscriptions, another portion develops a kind of “Hop On/Hop Off”-pattern: continuous signing in- and out for short periods (a few months). This pattern can be observed within students (only paying for Netflix when they really have time and the need to watch content available on Netflix), and people planning to drastically lower their audiovisual consumption in a given period, for instance during the summer. Another reason for that “on/off”-relationship towards Netflix lies within the disappointment with the offered content: they leave Netflix for a while in the hope that the catalogue would be replenished with new content. As we observe that a (potential) saturation with the content is a recurring risk, it is to be expected that a growing portion of Netflix users will adopt this “Hop on/Hop Off” behavior.



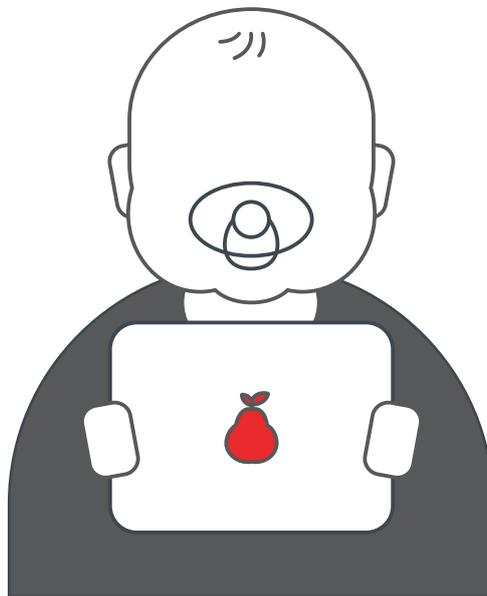
Hop on/Hop off: Use Netflix for a (short) period, put it on-hold for a while, and re-activate later on.

- **As expected, adoption lies mainly within the Online Media Masters.** This segment of mainly younger people grew up with digital media and they first appeared in digiMeter 2013. Concerning their audiovisual consumption, they consider digital sources to be valued additions on top of more traditional forms of watching video. Online Media Masters were already big fans of series before Netflix came into view, but their consumption was derived mainly through illegal sources. Netflix is more a substitution for those illegal sources, and less for classic cable TV. If they can't find (recent) episodes of series or movies they like, they still turn to torrent sites and Popcorn Time.
- **Netflix is mainly consumed in a similar way as regular TV.** Netflix users also prefer to watch content on the big screen in the living room. And preferably in the company of others. But on top of that, Netflix offers them the flexibility to – for instance – watch a final episode on their tablets right before they sleep, watch a movie while taking a relaxing bath or enjoy an episode in the garden on a sunny day.



Netflix users prefer to watch Netflix on a big screen in the living room, but also develop Netflix habits on other devices in other rooms of the house.

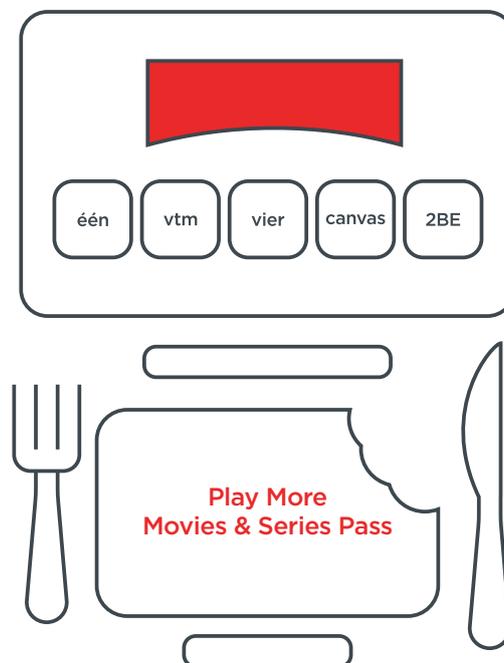
- **Using Netflix is a child's play.** Literally for some families. Besides the suspected group of Online Media Masters, we find a surprising uptake of Netflix within Media Omnivore families with children. The interface of Netflix is so intuitive that even young children are able to operate Netflix, even before they learn to read. Add the surprisingly large catalogue of children series and films, and you get why those families tend to stick with Netflix, even if the parents themselves start to experience some saturation with the content.



Interface of Netflix is so intuitive that even 3-year olds can operate Netflix; also a remarkable offer of child's content.

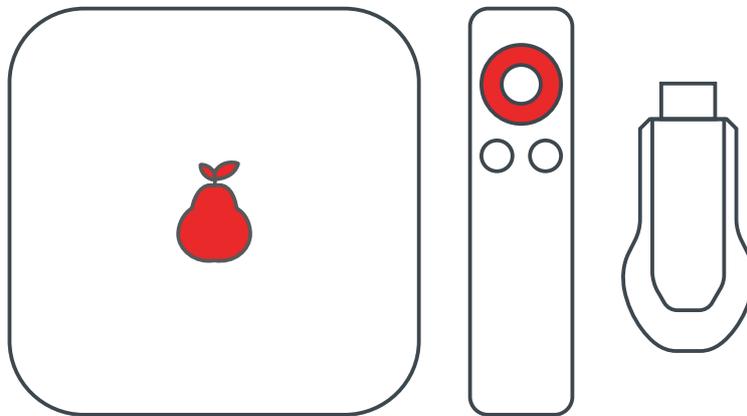
- **Ease of use and flexibility are the biggest assets of Netflix.** The intuitive interface and the ease of switching from one device to another without any hassle is a real hit among users, but they wonder if the searchability of the catalogue could be improved by adding a filtering mechanism, in which users can alter parameters such as genre, topic, actors, distributors, etc.
- **But: Netflix needs to be aware of low satisfaction with the content offering!** Most Netflix users perceive a big divide between the offering in Flanders and the offering in other countries like the Netherlands, United Kingdom or the United States. On top of that, users are disappointed to see that the content (especially films) is often outdated. This can cause people to drop out (even on short term!), and to return to illegal sources!

- Local content is no breaking point for adoption, but a nice bonus.** Offering Flemish content seems not to be a priority to Netflix. And people who seldom watch Flemish series before Netflix are not likely to suddenly watch them on Netflix. But for other subscribers, the offer of local content can be a delightful bonus, for instance to watch episodes of Flemish series they have missed when they aired on TV. Those consumers would love to see the offering of local content grow, preferably including series of commercial broadcasters. But it seems unlikely that Flemish content will soon become a differentiator for Netflix. Netflix remains a platform that co-exists alongside the regular offering of TV broadcasters.
- Netflix is complementary to regular TV, but is considered an alternative versus other packages of films and series on demand.** Within Flemish households, Netflix seems not to be a substitute for regular TV, but it comes on top of that. Services like 'Play More' are more threatened. When considering the pros and cons of both services, the price disparity often favors Netflix. For others, the advantages in the offered content and services in the Play More-package (e.g. the availability of HBO series and the ability to watch TV shows up to 7 days after broadcasting) does match the difference in pricing. They are likely to prefer Play More above Netflix.



Netflix comes on top of regular TV, but may be substitution for other On Demand-packages for films and series.

- **Netflix as a driver for adoption of media streamers.** It is remarkable how much Google Chromecast profits upon the arrival of Netflix. Due to the users' preference in watching Netflix content on a TV screen, they search for user-friendly and affordable ways to connect their big screen to the internet. And the Chromecast seems to be a popular solution especially for this purpose.

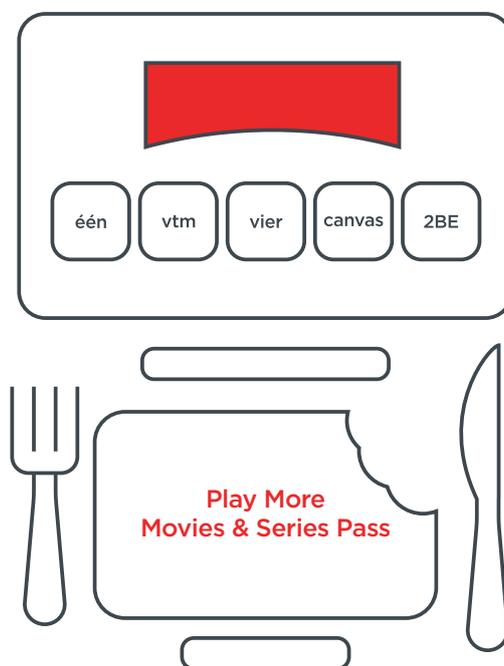


Netflix as driver for purchasing media streamers such as Google Chromecast and Apple TV.

SIX MONTHS OF NETFLIX IN FLANDERS IN 12 IMAGES

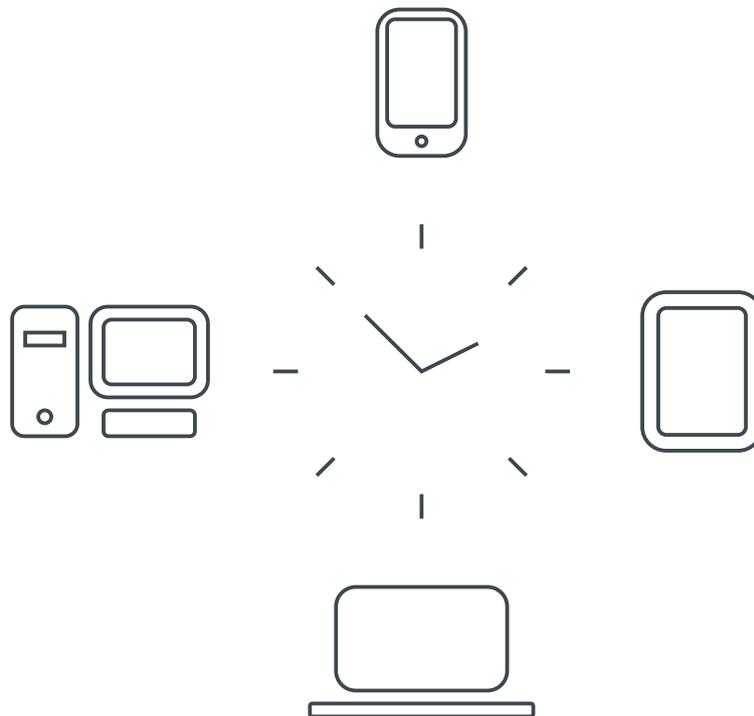
SUMMARY

1. NETFLIX COMES ON TOP OF REGULAR TV, BUT MAY BE SUBSTITUTION FOR OTHER ON DEMAND-PACKAGES FOR FILMS AND SERIES.

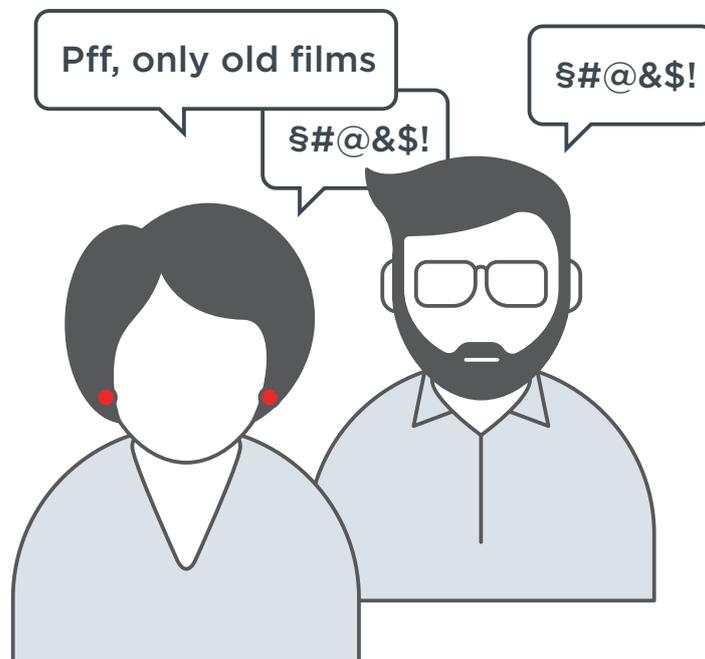


2. HIGH SATISFACTION WITH FLEXIBILITY AND EASE OF USE OF NETFLIX: WATCH WHAT YOU WANT, WHEN YOU WANT, ON THE DEVICE OF YOUR CHOICE, EASY TO USE, ...

SUMMARY

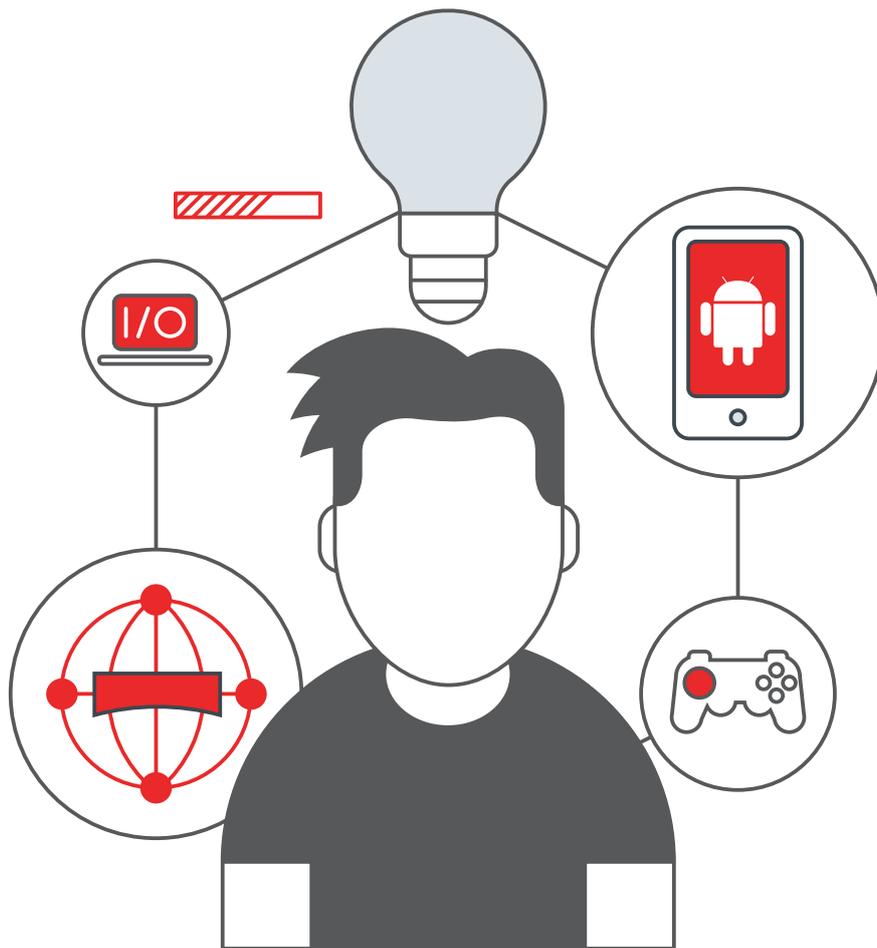


3. BUT: FRUSTRATION WITH CONTENT OFFERING OF NETFLIX

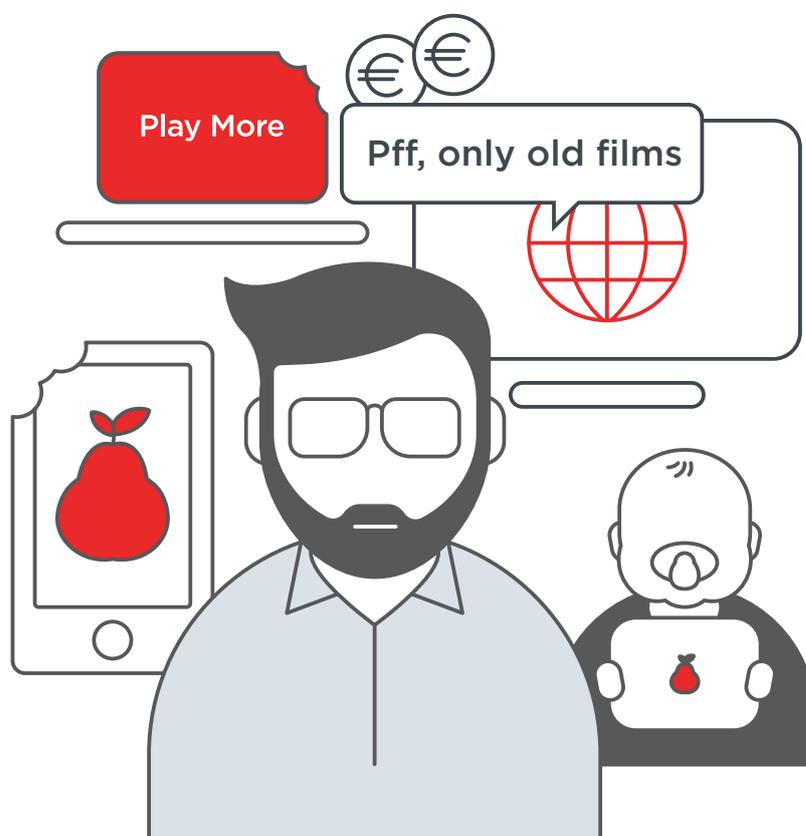


4. EXPECTED ADOPTERS: ONLINE MEDIA MASTERS

SUMMARY

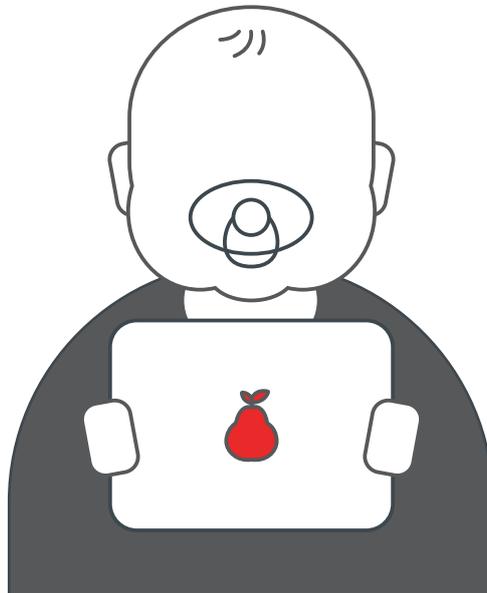


5. SURPRISING ADOPTERS: MEDIA OMNIVORE FAMILIES WITH CHILDREN

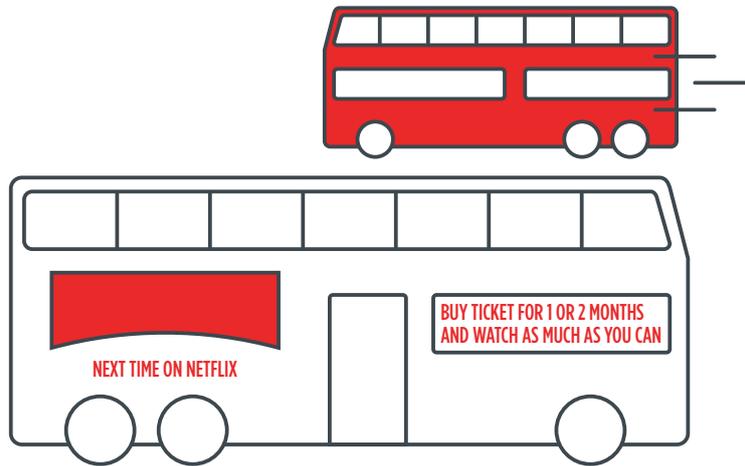


**6. INTERFACE OF NETFLIX IS SO INTUITIVE THAT EVEN 3-YEAR OLDS CAN OPERATE NETFLIX;
ALSO A REMARKABLE OFFER OF CHILD'S CONTENT.**

SUMMARY

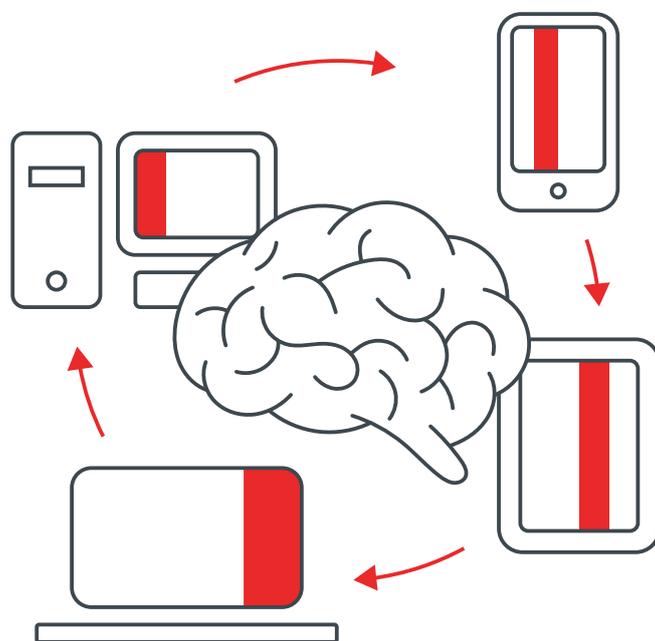


7. HOP ON/HOP OFF: USE NETFLIX FOR A (SHORT) PERIOD, PUT IT ON-HOLD FOR A WHILE, AND RE-ACTIVATE LATER ON.

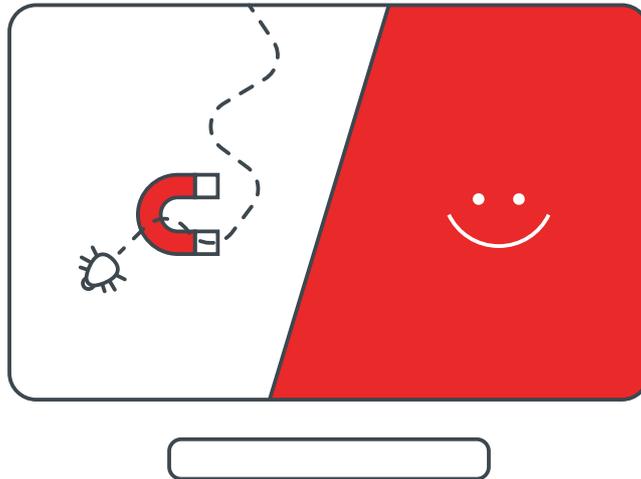


8. NETFLIX INTELLIGENCE: NETFLIX MANAGES YOUR PROGRESS IN SERIES AND FILMS ACROSS DEVICES.

SUMMARY

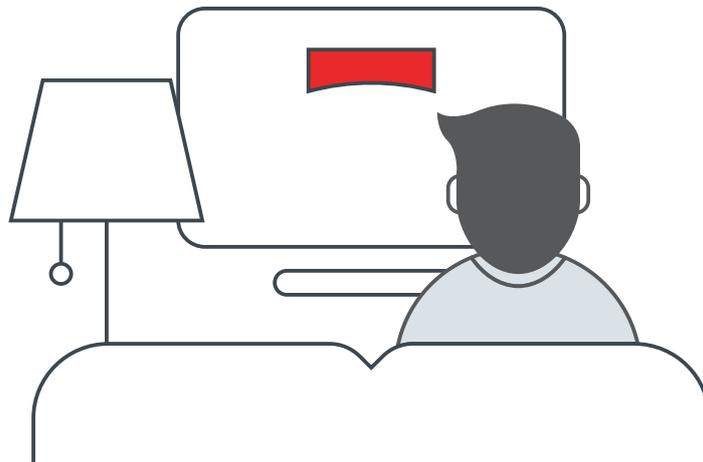


9. BIGGEST ASSETS OF NETFLIX COPARED TO ILLEGAL SOURCES: EASSE OF USE, SPEED, AND SMALLER RISK OF INFECTING YOUR DEVICE WITH MALWARE AND VIRUSES.

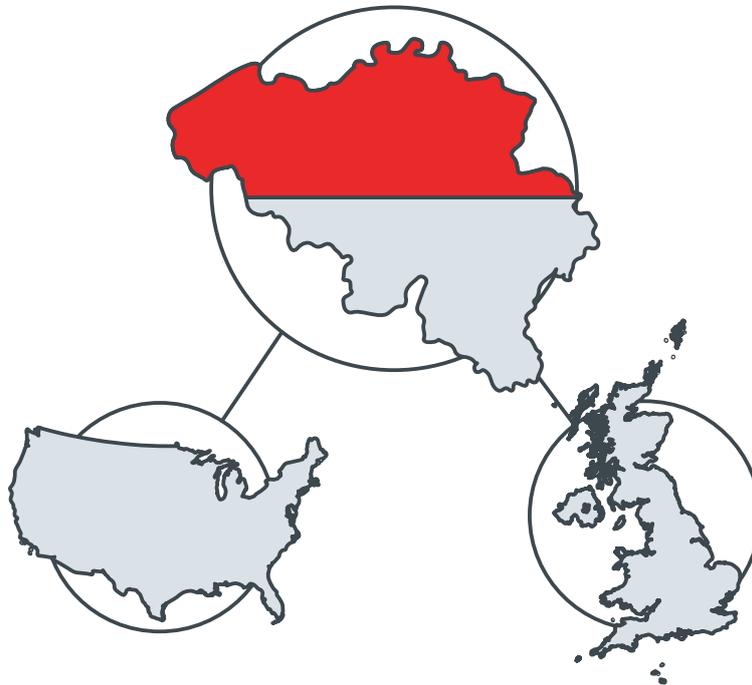


10. NETFLIX USERS PREFER TO WATCH NETFLIX ON A BIG SCREEN IN THE LIVING ROOM, BUT BEGIN TO DEVELOP NETFLIX-HABITS ON OTHER DEVICES IN OTHER ROOMS OF THE HOUSE.

SUMMARY



11. LOCAL, FLEMISH CONTENT TO BREAKPOINT FOR ADOPTION, BUT NICE BONUS: USERS ESPECIALLY INTERESTED IN AMERICAN AND BRITISH SERIES.



12. NETFLIX AS DRIVER FOR PURCHASING MEDIASTREAMERS SUCH AS GOOGLE CHROMECAST AND APPLE TV.

SUMMARY

