NFLEX Adaptive Strategy in the Indonesian Digital Streaming Video on Demand

Gabriel Wambrauw¹ and Roseno Aji Affandi¹ *

¹International Relations Department, Faculty of Humanities, Bina Nusantara University, Jakarta, Indonesia 11480

Abstract. This study aims to explore the topic of the streaming phenomenon which in recent years has become one of the most popular and best-selling business trends due to digitalization. This research attempts to explore the subject through the success of NFLEX, a Subscription Video on Demand (SVOD) service based in the U.S. that managed to expand its reach to more than 190 countries—observing the trends and external factors that are affecting NFLEX’s behavior and strategy that determines their action to secure their place in the foreign markets, affecting the industry and culture surrounding it. From qualitative data resources gathered through primary and secondary data, this research explored the phenomenon of NFLEX and its adaptability by applying PEST Analytical Concept and Porter’s Five Forces as a framework to analyze the dynamics between NFLEX and external factors. This study found NFLEX to be very influential and adaptable in securing its place in Indonesia, overcoming regulatory barriers, and establishing partnerships to expand and adapt its product and operational strategy to the market preferences.

1 Introduction

The presence of video platforms such as NFLEX, Hulu, Disney+, and HBO GO provides a new form for the public to be able to enjoy the content that was previously accessible through the conventional way of purchasing a physical copy or waiting in line to purchase a ticket. The Subscription Video on Demand (SVOD) services provides a new experience for user to enjoy a cinematic experience without the conventional effort, with a variety of new accessibility options, personalizing and immersing the experience enabled by technology. For example, Download to Device options has been an excellent feature that allows user to enjoy their preferred entertainment without the need for an internet connection. Options such as subtitles and dubbing have also eliminated the language barrier, opening the door for users from all around the globe to enjoy the same entertainment. NFLEX itself has the option to provide more than 20 languages and localization of dubbing according to the production center of the content. This condition has created an incredibly notable change in the entertainment industry where most viewers have made the transition to video platforms provided by companies such as NFLEX and Disney as their go-to entertainment. The dominance of these companies raises various questions, such as how the strategies used by these companies to be able to capitalize on growing trends, and how their existence affects the existing industry, influencing the market and the digital culture.¹

1.1 Objectives

Understanding the behavior and strategy of NFLEX, this research aims to delve deeper into the impact that the streaming culture phenomenon has brought not only to the market itself but also to the existing industry, transforming it along with the digital culture that affecting the industry. Analyzing a firm’s behavior in its industry or market will lend us a deeper insight into how these digital phenomena could affect pre-existing industries. This research aims to incite more exploration of the SVOD and the streaming culture phenomenon, understanding various perspectives from different players, and provide more spotlight on the threats and opportunities that arises from digitalization to the existing industry.

2 Literature Review

2.1 Streaming Culture

Arditi (2021) observed the phenomenon ever since the emergence of YouTube, where streaming has become a significant part of the entertainment culture as it gives a limitless way for people to consume content as it also opens up a lot of capitalistic opportunities which grow alongside
the increasing use of the internet. In this phenomenon, it is important to understand the cultural shift that affected the society in how they are consuming content. This particular technological advancement has brought a lot of changes to society, whether in our consumer culture that has shifted from the traditional slow-paced process towards a more instantaneous and limitless way which through capitalism has been an evolving phenomenon that affected the audiences, culture, economy, and a lot of other things that brought on the question on how this technological phenomenon have paved limitless ways for businesses to commodify many things as a way to adapt and capitalize. One of the examples that can provide a better understanding of the impact is the music industry with the existence of MSPs (Music Streaming Platforms) such as Spotify and iTunes. Pittman (2016) stated that although it may be early to fully grasp the impact it has on the industry, there are concurrent trends, such as revenue decline for the conventional music market, increasing the MSPs company revenue. The phenomenon of MSP displays the example of a disruptive innovation that not only shifts the industry but also affects the music culture itself, as seen with modern musicians, making less revenue off the MSPs compared to the traditional way of succeeding through non-streaming sale revenue. Another interesting phenomenon, however, occurred on the other side of the world which has the opposite effect compared to the previous findings. Lee et al. (2016) discovered that in the case of Korean music industry, the phenomenon of MSPs has a positive impact on the music record sales which is significantly increased, and surprisingly also positively impacted the offline record sales.

At the domestic level, taking a close look at the literature on the topic of Video on Demand (SVOD) phenomenon, understanding the perspective of the consumer itself. In this study, Rizaldy (2020) observed the underlying reason for the growing interest in SVOD through the lens of consumer behavior and characteristics, understanding factors affecting their interest in SVOD such as NFLX. He found that there are many factors affecting the consumer’s decision, which include, rational, emotional, patronage, and intrinsic motives amongst other factors that directly influences their decision. This literature helps us to understand a little bit about Indonesian consumer behavior and how their environment and culture affect their entertainment preferences. This research also found a similar study that takes a more in-depth look at a particular segment that enjoys SVOD platforms, particularly the young audiences or generation Z. Through interviewing a number of samples, there is a significant finding in how content choice and quality in an SVOD service seems to be an utmost crucial factor for them to subscribe to their services. Their social environment and educational status also played a part in affecting their choice in choosing SVOD service as their go-to entertainment (Mumpuni et al. 2021).

2.2 PEST Analysis

The PEST Analysis concept is an indicator that is often used in the business world to analyze external factors that are beyond the control of a company. According to the Journal of Business Management from the Wiley Encyclopedia of Management (Sammut-Bonnici and Galea 2015), PEST analysis has several variations that are within the scope of the evaluation stage where the process still must go through a further analysis stage regarding the operating environment of the business. PEST analysis consists of four components that make up the acronym of PEST itself, namely Political, Economic, Social, and Technological.

2.3 Porter Five Forces

Porter’s Five Forces model is an analytical framework that was created by Michael E. Porter to analyze a firm competitive environment in business. This model emphasizes the weakness and strengths of the industry, dissecting its structure through five competitive forces. The first force is the industry competition, which causes an intense rivalry in the industry affecting a firm’s power to undercut other competitors. Second force in the framework refers to the higher potential for new entrants to enter the industry given the low entry barrier which stems from factors such as economies of scale, access to distribution channels, and government restriction. The supplier bargaining power, which is the third force, examine the ability of a supplier to inflate costs of inputs in the industry, given the limited options for a firm to switch suppliers. Relating to the bargaining power, the fourth force refers to the bargaining power of buyers, meaning they can affect prices, relating to the segmentation of the customers themselves, how many are there, and how important each customer is to the firm as the smaller the segmentation meant more power for the customer to negotiate the prices. Finally, is the threat of substitutes which refer to the alternative option or substitute for a product or service that present a threat to a company (Porter 1979).

3 Methods

In recent years, one of the main discussions is that NFLX has experienced an immense increase and brought a massive impact on the mass media industry, especially in film and entertainment. This study observes how they develop and how the industry surrounding NFLX affects their growth to be able to dominate Indonesian consumers and understand the strategies they use to overcome the challenges they face in achieving their goals as multinational corporations. The main question in this study is what strategy NFLX as a multinational company takes in dominating the SVOD and television market, especially in Indonesia. This study observed the ongoing phenomenon through primary data from the perspective of individuals working in the industry and observation of various reports and studies through descriptive qualitative methods.
As seen in Figure 1, the first step in this research is to first understand how a firm behave and how they expand, namely NFLX, and understand how they operate, starting with NFLX globally and then how they interact with the local market and industry. Through the lens of PEST Analysis and Porter’s Five Forces, it presents a way to analyze the external environments that may, directly and indirectly, affect a firm behavior and strategy in which they take to navigate various problems and challenges which hopefully through this research, can provide us with an in-depth look at NFLX’s actions and the landscape of the industry in Indonesia and how both sides interact with each other.

4 Data Collection

A variety of samples are collected, primarily secondary data of third-party observations and studies from journals and reports, from the year 2016 to 2021. Primary data is also used by interviewing one of the individuals working in the industry through a series of questions pertaining to the discussion of industry development, disruptive innovation, and the industry's future projections. Building the hypothesis and foundation for this discussion through secondary data was then followed by the primary data to further reinforce the findings and assumptions made on this topic.

5 Results and Discussion

In operating, NFLX earns the main profit through a monthly subscription system that allows subscribers to watch as many content services as possible without ads, wherever and whenever they have adequate devices and a stable internet connection (Netflix 2022). With a business model like this, NFLX relies on its customers as its main source of income, therefore, NFLX as a multinational company attaches significant importance to new market opportunities compared to other aspects. NFLX has gained a sizable number of subscribers in the past few years, due to a range of factors and strategies, we will look through the PEST Analysis concept to understand the macro-level environment factors affecting NFLX’s competitive position and proceed to use the Porter’s Five Forces concept to analyze the industry surrounding NFLX. Looking at the growth of NFLX in terms of subscribers is undoubtedly an example of NFLX’s success and the immense market interest in this type of entertainment and services, especially in the last 5 years. The COVID-19 pandemic situation in 2020 also played a major role in affecting their growth for the last 5 years, where millions of people were forced to stay at home, finding new ways of entertaining themselves.

As shown in Figure 2, it is interesting to see the subscriber growth that NFLX has in Indonesia in just several years during the SVOD platform boom. This research found a unique insight in the SVOD phenomenon in Indonesia and Thailand which interestingly shares a similar impact because of NFLX and the rising SVOD entertainment trends.

NFLX reigns supreme in both countries, capturing the majority of the SVOD market, which is indirectly shown in the SVOD revenue comparison between the two. As shown in Figure 3, the revenue of SVOD platforms is increasing at a steady rate with NFLX contributing about 30% of the total revenue. A similar pattern also occurs in Indonesia as shown in the adjacent blue bar. There seems to be significant growth in revenue in Indonesia SVOD platform, especially in 2020 and 2021 with NFLX contributing 35% of the revenue. Bearing quite a similarity, the growth of NFLX since its arrival in Southeast Asian countries in 2016 seems to be steadily rising, dominating the local SVOD market. The example of NFLX gaining revenue from $167 million to $182 million in 2020 alone showcases the impact NFLX has in emerging markets such as Thailand and Indonesia (Ramasoota and Abhibhu 2021).
and technological. Starting with the political factors, one of the main obstacles for a company, in this case, is regulatory barriers in the case of NFLX in Indonesia, this has happened in 2016 when Telkom blocked NFLX services for its customers for only a few weeks after NFLX was released in Indonesia. The blocking occurred because Telkom found that NFLX did not comply with applicable regulations, and it was found that much of the content served did not pass censorship (Bate 2018). NFLX in this case sees that to be able to secure its place in Indonesia, there needs to be cooperation with operators such as Telkom, which is the largest telecommunications company in Indonesia, so mutualism cooperation is deemed necessary. The collaboration of NFLX and Telkom is deemed necessary for both parties as SVOD services dominated 70% of the bandwidth of the total internet traffic used in Indonesia (Telkom Indonesia 2021). From an economic point of view, NFLX takes a long-term strategy by looking at how the film industry in Indonesia still tends to lag in aspects such as the absence of government stimuli, taxation that hinders production, and distribution problems (Ardiyanti 2017). In this case, NFLX pursues a long-term strategy considering how the film industry in Indonesia is still relatively small and takes several strategies such as working with the Ministry of Education and Culture, investing $1 million dollars to hold a training program for young scriptwriters in Indonesia (Kompas 2020). In increasing their capacity as efficiently as possible, NFLX through their NFLX Originals program creates a new ecosystem for their catalog production through partnerships with local production studios such as Starvision, Falcon Pictures, etc. to produce films or series according to the preferences and profiles of the audience in Indonesia (The Jakarta Post 2020). From a social standpoint, NFLX understands that every country has different preferences for content and they found that local authenticity plays a major factor in their success which is seen with the success of Fauda and La Casa which were originally produced by the local studios (Wayne and Sandoval 2021). NFLX understands that local images and reality ties are critical to the success of a film or series, and they see that happening in Indonesia as well. The production of NFLX Originals such as the film The Night Comes for Us is an example of NFLX's collaborative efforts with local studios to create content that has a strong image and reality ties with the audience which is influential for the audience's interests (Utami 2019). In terms of Technology, NFLX continued to innovate its product starting with the freedom for customers to use more than one device, localizing content through subtitles and dubbing, promoting content algorithms, to adapting its products to local market technology. In the case of Indonesia, NFLX also carries out various strategies involving technology, starting with localization of subtitles, and dubbing for the Indonesian people, payment methods through local digital banking services such as Jenius, and also network providers such as XL and Tri to facilitate payments or data access for customers in Indonesia (Putri Fergus and Paksi 2021).

Through Porter’s Five Force, this research will now delve deeper into the industry structure in Indonesia and observe each force in the environment where NFLX stands. There are several SVOD platforms in Indonesia that present competition to NFLX. The release of NFLX in Indonesia was soon followed by several other platforms such as Disney+, VIU, GoPlay, Vision+ to name a few. These rivalries cause other platforms to provide various deals and exclusive content to compete with NFLX. For example, GoPlay, the SVOD service provided by Gojek, provides free access to its users amidst the COVID-19 pandemic (The Finery Report 2020). Competitor such as VIU, a Hong Kong-based SVOD platform also presents a challenge as VIU appear to be experiencing massive growth over the past few years in the Southeast Asia region, mainly from Thailand and Indonesia where most of their available content are serial dramas originating from Korea which caters to the preferences of Indonesian subscriber (Katadata 2021). Looking over at the potential of new entrants with the case of NFLX doesn’t seem to be much of a problem that presents a big threat to NFLX, especially in Indonesia seeing as NFLX already established its value through the quality and quantity it provides, ranging from advanced customizability options for audiences, wide varieties of contents, to a significant number of partnerships with small and huge production houses from all over the world to produce original contents. The barriers in this industry are quite high given the capabilities that NFLX and other competitors possess, mainly the value of the content that they offer which makes it extremely difficult for a new platform to compete.

The problem of streaming platforms in general in the aspect of bargaining power that these suppliers possess is that they can hold a higher bargaining power over them. Although NFLX in recent years has established its own production house with NFLX Originals, most of the content available on its platform is still licensed from major studios. NFLX has been cutting down its licensed content since 2014 by over 40% as major studios such as WarnerMedia, Disney, and NBCUniversal have been pulling their catalog of films and serials. However, in recent years there seems to be an increase in the number of original content produced by NFLX, making up about 40% of the service’s library which meant the interest in NFLX original content is growing exponentially and NFLX itself is able to slowly increase their profits through producing their own contents that they are able to distribute internationally as opposed to licensing the content from major studios (Boccella 2021). In the case of Indonesia, NFLX seems to be in a relatively great position as they possess large audiences as shown in Figure 1 with their massive number of subscribers, combined with their partnership with local studios and publishers to either produce and collaborate on new projects or redistribute films or series of that publishers.

Most online users in Indonesia consume their content through mobile devices, which presents quite a challenge for NFLX, especially with other competitors, creating more deals and catering more often to the mobile users which
meant there is a higher bargaining power on the customer's side as they are presented with a lot more options to switch to. Provided with these facts, NFLX managed to adapt to the regional preferences as seen with their strategy to push out a mobile-only subscription plan that includes a cheaper deal for NFLX mobile users as one the example of NFLX conforming to the market preferences (The Jakarta Post 2019). Finally, is the threat of substitutes which is related to the industry competition for NFLX, posing a challenge for NFLX's profitability as other competitors will always innovate their strategies to pull away NFLX subscribers by offering more enticing deals. Many operators and cable network providers in Indonesia offer combo streaming packages that include streaming platform deals that make it easier for the subscriber to choose the alternatives given the fact they already are users of that operator and cable network to consume television. This can be seen with companies such as PT.FM Streamtainment deals that provides access to Home Box Office GO and Catchplay with their internet and TV subscription (First Media 2022).

Another example is MNC Vision which is the oldest subscription-based television service in Indonesia, launching Vision+ in 2020, a streaming service that provides video on demand, original series, dramas, movies, sports, and international channels. MNC Vision offered cheap plans and enticing deals for MNC Vision existing subscribers, giving out a free month trial for customers to enjoy their streaming platforms (Vision Plus 2020). These are a few substitute examples that may present a threat to NFLX as many of these services utilize the pre-existing services of television subscriptions, providing an efficient way for customers to easily switch without the hassle of setting up different devices or registering a new payment method for NFLX. This begs another question on whether the presence of NFLX is considered a threatening disruption in the existing industry. Going by the definition of market disruption, NFLX's presence in Indonesia does seem to disrupt the existing industry but in no way presents an industry-ending threat. One instance of disruption we can see is from the case of MNC Vision which reportedly experience a decrease in subscribers, lowering their 2 million subscriber count by 6 percent in 2017, and again by 5 percent in 2018 which reportedly is a result of many of their subscriber switching out their cable tv decoder, for much simpler and cheaper services available through platforms such as NFLX and VIU with just purchasing an Android box which only require the presence of internet connection in a simpler plug and play process compared to the conventional process of installing prerequisites parts such as setting up a satellite dish and decoder (Kompas 2019). Although there is a huge increase in demands and numbers of SVOD services such as NFLX, it does not seem to be as threatening to the existing industry as it may seem.

Looking into the screentime comparison between conventional media like television and SVOD platforms, this research found an interesting statistic taken from Southeast Asia. As shown in Figure 4, the television screen time duration in Indonesia seems to be doing very well as of 2020, standing at around the average of 110 minutes of screen time compared to the SVOD screen time duration of 60 minutes. However, this does not mean that there isn’t a disruption happening because of NFLX emergence in Indonesia. As mentioned before, NFLX brought along many new innovations, expanding its reach into Indonesia to secure the growing demands for SVOD entertainment. Their arrival gives the local industry a fresh perspective on how modern entertainment transforms into something that’s even larger than before. Disruption in this sense meant that there may be a decrease in the conventional cinema ticket sales as people now can efficiently watch any films or series anywhere and anytime, they like without much effort. However, this kind of disruption does not translate to SVOD replacing the traditional cinema but instead as a challenge for the current industry to evolve, adapting to the newest trends and phenomena while still maintaining its conventional entertainment reputation. Loyalty and relatability seem to be the two key points in understanding why disruption such as NFLX may never actually be such a dangerous threat after all as the existing industry in Indonesia will always have its own market no matter the competition, while at the same time allowing them to observe the incoming competition and learn about them, adapting or imitating their innovation into their own brands. Relatability in this case meant that the Indonesian market will always prefer something that feels relatable to their livelihood and environment, whether it be the language, style, habits, sense of humor, and many other aspects that made them feel at home.
local products will often adapt to global trends and foreign companies’ innovation, launching their very own products or services, adapted into local tastes and preferences as seen with the case of Tokopedia, learning from Amazon’s innovation and technology, combining it with a local “touch” in terms of how they market, distribute, advertise or how the products and services works. Another example he provided is Uber, a transportation company based in the U.S. that began expanding its services in Indonesia back in 2014. Despite their massive success in the U.S., it was evident that they are not able to translate that same success into the Indonesian market as Gojek had already established their services which are more relevant and in line with the Indonesian culture even though Gojek and Uber have a similar mechanism, by adapting into the local’s preference. Yoyon then emphasizes that in the case of NFLX, they in fact possess a certain value that is wanted by Indonesian, however, it does not directly translate into it being a threat to the existing industry as other local competitors will always find their own market segment, which is the result of their customer’s loyalty and unique value that they possess, making entities such as NFLX to be more of an inspiration for them to adapt and innovate their products (Ukhrawinata 2022).

6 Conclusion

In the case of NFLX, there are several important points to highlight in their development as a multinational company. The first is that NFLX is a highly adaptive company, where throughout its expansion around the globe, they seem to be always succeeding in implementing its strategy and securing its place in that market. It is certainly advantageous for NFLX to see the increase in interest in video streaming/on-demand platforms in recent years especially boosted by the pandemic. Observing their movement, especially in Indonesia provided little insight into how NFLX overcome the many obstacles of a foreign market. Entanglement with the market and government regulations seems to be one of the testimonies to NFLX’s ability to navigate their way through the market. Another key highlight is their strategy to always create a unique value for each market they reach, adapting to the preferences and conditions of that market, either through collaborations or with innovative marketing strategies to gain traction to the point where it is able to slightly disrupt the industry inciting the competition. Combining that with the growing market seems to provide NFLX with the perfect environment to capture a substantial number of customers. This research is far from perfect and more in-depth research and discussion are needed in the future to provide us with more understanding of the streaming culture phenomenon and how it affects the present industry.

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