

# Application of Intellectual Property Rights in Streaming Media Market: A Case Study on Giant's Key Success of Netflix

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**ABSTRACT:** Netflix is a subscription-based streaming service provider offering online streaming from a library of films and television series. The company is available worldwide and has millions of subscribers around the world. The purpose of this paper is to explore what role intellectual property rights play in making Netflix the American streaming service giant. This paper further researches the impacts, problems, and nature of intellectual properties. This research concludes that the use of patents, copyrights and trademarks overwhelmingly brought Netflix its legislation, identification as well as authority over the streaming media market. Nevertheless, Netflix still faces many challenges like the loss of potential customers, which is the most urgent affair. Thus, this paper suggests that Netflix rethink strategies of providing customer services, including balancing the costs among product acquisition and customers' subscriptions.

**Keywords:** intellectual property rights, Netflix, streaming service market

## 1. INTRODUCTION

Within the twenty-first century, numerous innovations were made and people's living quality increased pervasively. Rapid technological developments led people to start watching movies and TV series through online platforms, creating a solid base for the streaming media market. This allows numerous streaming services to thrive, including Netflix as one of its the prominent figures. Research shows that Netflix's yearly revenue exceeded \$20 billion in 2019, creating a striking edge among its competitors [2]. Moreover, Netflix's stock price nearly doubled in the year 2020, showing its outstanding performance under a world of technology in the current decade [2].

## **1.1 Background**

Netflix was a company launched by Reed Hastings in 1997, aiming to provide fast access to movies and television shows. It maximizes profit by maintaining a prioritized list of programs that audience wish to view. Subscribers are able to watch movies or series with intellectual property rights that are under the ownership of large entertainment firms. Starting from its establishment, Netflix actively implements intellectual property as one of its tactics in achieving competitive edges and accelerating its rate of innovation. Past studies tend to link intellectual property rights with the success of businesses, pertaining to both their long term and short term internal or external growth. Meanwhile, many researchers have chosen Netflix as the research object in their case studies, aiming to discover the secrets behind this world-popularized platform. They focused on the empirical development of Netflix, specialization of its operating system, and strategies that it used after its establishment in the twentieth century. More importantly, media streaming becomes widespread in the twenty-first century, making it a popular discussion topic among economists and market counselors. They studied meticulously the functions of the streaming media market and how they have blended into thousand peoples' lives. Lastly, many research were held upon the film industry as well. Scholars have analyzed the structure of this particular industry: how it works and why it could attract and retain so many customers.

## **1.2 Research Question**

Despite the wide variety of research done on intellectual property rights and on Netflix, the changes occurred in the film industry cannot be underestimated. In the twenty-first century, especially in recent several years when more countries became well-developed, Netflix implemented intellectual property rights to a large extent in achieving its target. Needless to say the fluidity of both the streaming media market and the whole film industry. Even though countless research have been made on Netflix, intellectual properties, or the streaming service market, none of which has yielded to demonstrate the relationship between them. There is also no evidence of previous research showing the strengths, weaknesses, opportunities, and threats of intellectual properties on Netflix. Undoubtedly, Netflix's hitherto development has a lot to deal with intellectual properties. The question is, how exactly have they contributed to making Netflix a competitive opponent in the streaming media market? More specifically, what role does intellectual property rights play in making Netflix the American streaming service giant? This research provides knowledge toward both intellectual property itself and its influences on the streaming media market as a whole. It examine specific interactions between the company Netflix, as research object, and the advantages of intellectual properties to the streaming service market and the film industry. This is crucial for understanding the costs and benefits of intellectual properties, their interventions of the film industry, and how have they benefit the market. The contributions made here also have wide applicability. They are able to emphasize all possible consequences of intellectual properties to a firm, not to mention thorough insights regarding the core of the film industry and streaming media market.

## **1.3 Goals**

The goal of this research is to explore factors behind Netflix's success and how intellectual properties were involved in the process of Netflix's development. It is hypothesized that intellectual properties have acted effectively on helping Netflix to attract and retain its

subscribers. When it comes to the film industry as one unit, these rights also have a remarkable status. Moreover, it is also theorized that implementing intellectual property has undeniable costs. To test the validity of this hypothesis, this research aims to present a clear analysis on the benefits brought by intellectual properties to both Netflix and the whole film industry. It will go through the theories that discuss the impacts of intellectual properties and delineate their benefits. Secondary sources are in use, such as online books, past research, and expert reviews. Besides, the paper will study the company Netflix specifically through SWOT analysis, including a closer look of the company's potential strengths and weaknesses. By doing this, interactions between Netflix, intellectual properties, the film industry and streaming service market can be fully demonstrated.

## **2. LITERATURE REVIEW**

### **2.1 Background**

A large growing body of literature has investigated the background of impacts of intellectual properties on the field of streaming services. Intellectual properties are some proprietary rights that are legally enjoyed by some people who invent new things with their product of intellectual labor. Intellectual properties are more likely to say are intangible property rights and mental wealth. Intellectual properties can ensure the safety of companies and can add more values to these industries and markets, thus increasing the competitive ability between companies. Some benefits: intellectual properties help people know more about intellectual property rights and the importance of intellectual properties play in the streaming service industries. Intellectual properties often apply to some fields of inventing new things or in streaming services particularly. Many things are guaranteed by intellectual properties in order to protect them.

### **2.2 Content**

Several models have been developed to understand the impacts of intellectual property rights. These models found that the studies and analysis about the current situation of intellectual property insurance of these countries are necessary for China to establish a legal system and then provide some positive effects about it. In 2018, Aizhen Li said that intellectual property is intangible property enjoyed by the rights holders of their intellectual achievement, and their impacts are helping enterprises to formulate development decisions and reduce risk costs [1]. Lu Chen did a research on four periods of intellectual property (IP) "Hot Waves" in China. The first and the second stages are shifted in a very different picture to the third picture. In the third wave, one-sided threats have been confined under the WTO agreement [2]. In 2011, Quan and others considered intellectual property rights are fundamental institutions for economic growth [3]. These authors all presented their perspectives of defining intellectual properties as intangible property which help people to satisfy their rights they used to enjoy.

Quan et al. thought of IPRs appear to be beneficial for high- and low-income countries [3]. Yin and others stated that intellectual property protection (IPP) aims to encourage technology innovation and technology diffusion by protecting the interests of creators using appropriate policies and IPP has an important role in promoting technological innovation [4]. Yan and others demonstrated that intellectual property is the most important symbol of the knowledge economy, and knowledge is the most valuable part of the capital [4]. Therefore, an important

source of corporate value is intellectual property from the perspective of SMEs [5]. In 2019, Xuanyu Chen stated that there are two main obstacles in protecting genetic resources under the intellectual property system, and the benefits of developing countries and developed countries are different, because these two types of countries are different. Also, lack of international restraint mechanism also makes the protection more difficult [6].

Yin et al. talked about some development and problems of Intellectual Property Operation Platform [4]. That is because the traditional intellectual property rights operation process is complicated, so it is hard to realize the effective joint of supply and demand parties and integrate intellectual property alliance, which seriously restricts the effect of intellectual property operation [7]. In 2017, Dai and Lin proclaimed the Intellectual Property Risk in Industry-University-Institute Cooperation, and these reasons are opportunistic behaviour of both partners, characteristics of knowledge itself, knowledge sharing and knowledge spill over and so forth. Also, it set up the model of the relationship between the technical capability structure and the intellectual property risk and studied the mediating role of contract control [8].

In 2014, Ge Li thought intellectual properties function as a tool in managing universities, which can fully learn the best practices of the developed countries to promote the standardized and scientific management of intellectual property in universities by establishing a dedicated intellectual property management department, reforming the research incentive mechanism and developing sound policies and regulations system. However, there are still some problems with it, such as facing fierce market competition and the urgent need for knowledge innovation [9].

Together, these studies outline some important information about intellectual properties. In this literature review, they discuss some things, such as the impacts of intellectual properties, some problems or risks of intellectual property. All of the information is based on a vital premise: intellectual properties are key components of protecting some things, especially in streaming services. These properties protect the permissions of the movies, and thus protect the benefits of the companies. However, they seem to pay much attention to researching about the process of intellectual properties and seldom talk about how they are classified into many different categories.

### **3. METHODOLOGY**

#### **3.1 Research Design**

This paper adopts qualitative analysis and uses the method- SWOT as research method to study the effects of intellectual property rights on Netflix's success as a streaming service giant. Many factors contribute to the success of Netflix, including Netflix's recommendation system, protection of intellectual property rights, and market of streaming service, etc. Most papers in this field are qualitative research instead of quantitatively research because within so many possible factors, it is difficult to analyze the success of Netflix, a streaming service giant, by using mathematical formula. Therefore, this paper analyzes Netflix's internal strength and weakness, opportunities in the market, and threats from the market.

### 3.2 Netflix

Netflix is an American over-the-top content platform and production company, was founded in 1997 by Reed Hastings and Marc Randolph in Scotts Valley, California. The company is a subscription-based streaming service provider offering online streaming from a library of films and television series. In September 1999, Netflix introduced the monthly subscription concept and then dropped the single-rental model in early 2000 [10]. While Netflix experienced fast growth in early 2001, after the dot-com bubble burst and the September 11 attacks, Netflix laid off one-third of its 120 employees [11]. In January 2007, the company launched a streaming media service, introducing video on demand via the Internet. In 2009, there were over 100,000 DVD movies available on Netflix, which had more than 10 million subscribers. In November 2010, Netflix began offering a standalone streaming service separate from DVD rentals [12]. In January 2016, at the 2016 Consumer Electronics Show, Netflix announced a major international expansion of its service into 130 additional countries. It then became available worldwide except China, Syria, North Korea and Crimea [13]. By January 2021, Netflix's streaming service had 203.7 million subscribers around the world, including 73 million in America [14].

Since the range of Netflix's targeted customers is wide, Netflix uses Cinematch recommendation system, which suggests items of interest and enjoyment to watchers based on their preferences, to attract consumers' attention [15]. By analyzing the accumulated movie rating, Netflix makes several hundreds of millions of personalized predictions to subscribers per day, each based on their particular tastes [15]. This recommendation system makes a great contribution to the success of Netflix. Figure 1 shows that Netflix is constantly making improvement on its Cinematch recommendation system.

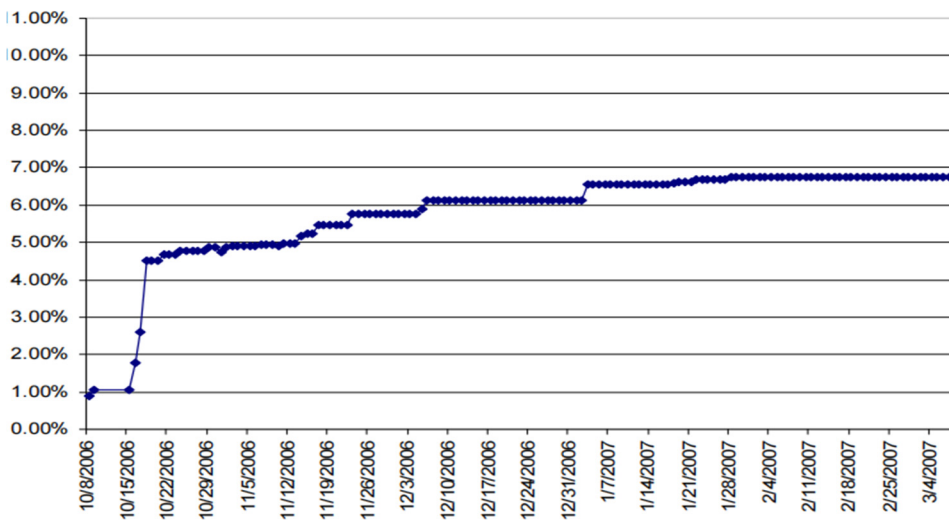


Figure 1 Aggregate improvement over Cinematch by time [15]

### **3.3 SWOT Analysis**

#### **3.3.1 Strength**

In 2017, in order to protect intellectual property rights, Netflix's new application adopted Google's Widevine digital rights management technology [16]. With this technology, films and videos will be protected by prohibiting illegal downloading or playing by watchers who do not rent those videos. In this way, Netflix maintained its product image because it firmly protects every film's intellectual property right [16]. Therefore, attracted by Netflix's positive company image of respecting intellectual property rights, customers are more inclined to rent videos on Netflix. In addition, Netflix has competitive "first mover" advantages- strong brand name and knowledge base- because in this industry, Netflix has become a household brand and has been gaining control of larger DVD rental market share [17]. Netflix is also faster and less expensive than their competitors in the field of streaming services [18]. Netflix can improve consumer satisfaction and referrals by offering low prices, free shipping, large selection, and no late fee policy [17]. Because Netflix belongs to the entertainment area, and Netflix makes life easier and convenient, Netflix has the opportunity to defend its market share and capture more subscribers [18].

#### **3.3.2 Weakness**

Compared to large companies like Blockbuster, Netflix has small financial resources [17]. Although Netflix has worldwide recognition, it does not have a great brand loyalty [17]. For instance, in 2011, Netflix lost over 800,000 consumers because of a series of missteps [17]. Netflix spent too much money on attracting new customers, but it neglected customer service, leading to early customers' dissatisfaction [17]. Moreover, Netflix was constantly increasing its monthly rental cost. Thus, although Netflix protected every film producer's intellectual property rights, customers were dissatisfied by the increasing monthly rental cost [18]. Before 2011, Consumers were allowed to rent or stream video entertainment by subscribing to Netflix for a monthly subscription rate [18]. But after 2011, Netflix changed its strategy to separate the rental and streaming models, which finally backfired: consumers self-selected out [18].

#### **3.3.3 Opportunity**

In this age, people's awareness of copyrights is increasing dramatically, so people are more inclined to spend a certain amount of money on watching films online instead of watching pirated movies. Therefore, Netflix should enhance propaganda at the importance of intellectual property rights. In addition, people are currently experiencing the pandemic of COVID-19, so people have more time watching films online.

#### **3.3.4 Threatens**

Netflix faced challenge in the infringement of intellectual property rights: illegal downloading [19]. Unfortunately, Netflix might fail to provide a legitimate alternative to illegal downloading [19]. In addition, within the highly competitive market, Netflix is subjected to direct assault by its rivals, such as subscription products presented by blockbuster.com [17].

## **4. RESULTS**

To conclude, Netflix works efficiently and is less expensive to use. It also belongs to a wide range of entertainment sectors, including its prominent DVD renting and subscription services. With the aid of technology, Netflix becomes a casual and household brand, consolidating its status in the market with a large DVD rental share. This arouses customers' interests and gives the company competitive advantages over others who hold similar visions. The drawbacks are noteworthy anyway. Netflix's major "inside" problem deals with its limited flow of cash, which can be one of the most struggling and perplexing issues. Other than that, Netflix is also facing potential problems such as illegal downloading and its unsold operation policies. The remarkable decrease of brand loyalty of customers can also count as one of its threats. Customer loyalty is essential, lacking the ability to reach peoples' satisfactions can result in an elapse of ideal customer basis, thus shelving many of its prominent innovations.

## **5. DISCUSSION**

### **5.1 Research Question**

Intellectual properties are at the edge of Netflix's overall development, and this is what the study hypothesized. These properties are used to protect the content that Netflix licensed and presented to subscribers through its streaming services. The use of patents, copyrights and trademarks overwhelmingly promoted Netflix's legislation, identification and authority over the streaming media market. The company utilized different intellectual properties in its attempt to restrict the appropriability of its core services as well as to protect itself from infringement suits.

Besides, Intellectual properties enlarged Netflix's opportunities of exports. Netflix entered the market as a breakthrough of streaming services and has made countless evolution and incremental progresses after its establishment. With the rights and protections over original movie series, Netflix has attracted worldwide subscribers to employ its service. These innovations also boosted the development of the whole film industry. Moreover, holding properties with originality and initiative, Netflix set up long-term collaborations with firms such as Coca-Cola, Baskin-Robbins, and Burger King, enhancing its position as a market leader for the past decades. Obviously, Netflix is popularizing itself by collaboration with others. This allows it to attract even more customers and to integrate diverse technological improvements easily and cost effectively. Thus, intellectual property rights enhance the bounds between Netflix and its collaborators.

Last but not least, since intellectual properties allowed Netflix to protect its original TV series, they helped Netflix to attract a number of customers all over the world, including teenagers and adults as its most ordinary audiences. Looking backward, people adopt Netflix as an advance and novel service several years after its establishment in 1997 (at around 2003 when Netflix finally began earning profits). However, a gradual but striking increase in subscribers during the twentieth century allowed it to increase its stock price rapidly and thus became the most remarkable streaming service in the United States.

## **5.2 Possible Improvements and Area of Growth**

Despite all of its strategic benefits, Netflix faced problems internally and externally. In order to maintain advantage within the streaming media market, Netflix must overcome its most urgent affair- loss of potential customers. Undoubtedly, Netflix is appealing to millions of subscribers, but its high product acquisition and potential cash flow problem might hit it over its head. Even though Netflix acquired subscribers all over the world, its customer loyalty cannot compete with that of its competitors, such as Blockbuster and Comcast. Hence, the most beneficial action for Netflix will be to rethink strategies of providing customer services, including balancing the costs among product acquisition and customers' subscription. This can act effectively in helping the company to discover its own weaknesses and find out solutions to improve its present situation, such as ensuring customer loyalty. For example, the company could consider rearranging income, so that a part of it could go to marketing or research and development, which provides Netflix with incentives to make sustainable incremental innovations in order to strengthen its customer basis.

## **5.3 Comparison**

Different from previous studies, this research primarily focused on the influences brought by intellectual property rights to Netflix. The research included information on the SWOT analysis of the present situation of Netflix as well as the company's impact on the streaming service market and the film industry. Apparently, both this paper and that of previous scholars, who chose similar topics, have reached a consensus that the role of intellectual properties is tremendous- it is ample enough to take full responsibility for the prosperity of a well-established company.

## **6. CONCLUSION**

On this basis, it is concluded that the benefits of intellectual properties to Netflix outweigh their drawbacks. These rights not only strengthened Netflix's operation, but also consolidated its position as a market leader in both the film industry and the media streaming market. This research shed light upon the impact of intellectual property rights on Netflix after it appeared in peoples' views. The result unsurprisingly supports the hypothesis: intellectual properties indeed play a large role in the development of Netflix throughout. This paper carefully evaluated the company Netflix through SWOT analysis. Evaluating Netflix from a wide range of perspectives provides insights for its situation and the ways in which it operates. This is what has not been done before in this field. Considering some of the current weaknesses of Netflix, it is reasonable to say that the most beneficial act for it is to introduce more first-to-market technologies and provide more advanced experiences for customers. This act secures Netflix's customer basis and helps it to mitigate its cash-flow urgency.

Future research on intellectual properties and Netflix may extend their views toward the aggregate market. By portraying the picture from a larger point of view, the influences of intellectual properties can be further comprehended and interpreted. Besides, this research concentrates on Netflix, so the results may not be able to apply to other streaming services, like those found in other countries and had different structures. Alternatively, further research may investigate patterns of the media streaming market in regards to technology improvements. To



that end, scholars may consider choosing more companies to study, either related to streaming services or to the film industry. Eventually, the results of all these studies, regardless of their research object and time range, should fall into the category of exploring the benefits of intellectual properties.

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