CHAPTER 1

INTRODUCTION

The entire structure of this research is outlined in this chapter. The research background, research problem, research question, research objective, research limitation, research contribution and research outline are included.

1.1   Research Background

Marketing strategy in the currently rapidly evolving market is slowly shifting towards utilizing the power in the customer's hands. There is deep and intense competition between firms and businesses that in the end, it is more likely up to the customer's decision that a high degree of success is achieved. A customer in the current market for example, is more likely to weigh in all the options and alternatives when attempting to purchase something, given the plethzora of choices that are available and the large amount of information available to access (Chen, 2015). A product could subjectively feel more tailored or suitable to a person but not to others. This idea is further reinforced when accounting the wide availability of e-commerce platforms and more importantly for strictly online-based services and/or products. In the end, when it comes to the competitive point in business, the survival of organizations depends on identifying and attracting new customers and retaining existing customers (Dehghan, Alizadeh, & Mirzaei-Alamouti, 2015). At the same time, the advancement of information and communication tools face firms with the challenge of the different customers and the options given to them.

Knowing that customers are a powerful factor more than ever in marketing means that it is imperative that firms deeply understand their market and develop a great dynamic capability perspective, such as sensing, seizing, and transforming perspective and opportunities that most effectively executes their plan (Newbert, 2019). The dynamic capability perspective of a marketer allows them to have a stronger managerial cognitive capability, and therefore ultimately stronger understanding and decision-making skills. A study performed (Helfat & Peteraf, 2015) explored an approach in achieving said manage anrial cognitive capability through the integration of marketing and strategic management necessitates understanding the influence of customer benefits on customer value. A study is then

performed (Yi-Min Chen, Hsin-Hsien Liu, and Yu-Chun-Chiu, 2017) by building on Helfat and Peteraf's concept in a more modern market, specifically streaming services marketing. According to (Kotler, 2016), Marketing management is the science of choosing target markets and getting or keeping them through creating and delivering superior customer value and this very value-creation process is key in the development of modern marketing strategy. The study in 2017 used this idea of value creating through the customer's perceived benefits of the streaming platform products (Yi-Min Chen, Hsin-Hsien Liu, and Yu-Chun-Chiu, 2017).

Various research studies regarding marketing often base customer perceived benefits as a key factor in reaching greater customer satisfaction, and therefore a competitive advantage. According to a recent study by (Marketo, 2017), 82% of marketers believe that they totally understand how customers want to be engaged while most customers think that marketers are trying to engage customers primarily on the basis of the transactions taken place and not taking the time to understand how to build relationships with customers and recognize well the appropriate engagement practices.

Perceived benefits itself at the core value is gained by meeting consumer's needs and wants by the sum of its advantages and satisfaction gained (Wu, 2003). Understanding the factors and variables which develops customer satisfaction is important as it ultimately acts as a benchmark of a business performance. And at the same time becomes a guideline for possible improvements (Alan & Yasin, 2010). Previous studies, however, slightly differ in combinations of categories in which wholly represents perceived benefits. (Yi-Min Chen, Hsin-Hsien Liu, and Yu-Chun-Chiu, 2017).) followed (Parry, 2001) the identified four categories of perceived benefits: functional, experiential, financial, and psychosocial. Functional benefits relate to the performance of the product or service itself. For example, how a product would do things that a customer deem as desirable or necessary. Experiential benefits are the sensation and emotional pleasure experienced by customers upon owning or using the product. Financial benefits are factors regarding cost, financial security, or others. Psychosocial benefits involve how a customer perceived themselves and their self-image projected to others.

(Slater & Narver, 2000) explained that value is maximized when the benefits from the firm's offerings are more than the related costs (e.g., price, search, time,

and psychic cost). Firms that fail to achieve this are most likely to lose competitive advantage and therefore sending customers to the alternatives instead (Itani, Kassar, & Loureiro, 2019). There are various proven studies regarding the impact of customer's value perception to consumer's behavior in purchasing a product. More than 60% of customers that already show a high level of satisfaction would gladly switch to an alternative/competitor that offers better customer value (Jones & Sasser, 1995). This proves the importance in understanding customer's perceived values and the difficulty in creating competitive advantage purely based on how satisfied the customers are. In a marketing sense, firms working with better knowledge of what customers truly want and value would have an easier time focusing on effective methods, increasing productivity exponentially (Roig, Garcia, & Tena, 2006). Personal values that customers look for could be broken down into two parts, Instrumental values and terminal values. Instrumental values are the desired modes of conduct while terminal values refer to the desired end-states (Rokeach, 1973).

With streaming platforms as the subject of the study, this research wants to look into a more specific detail of one particular American over-the-top platform that has carved its name globally as one of the biggest and most popular in its market, "Netflix". Netflix is the current biggest video streaming platform based on the U.S that branched out to the international market around 2010. In the following years, Netflix continued to expand as an unlimited online video streaming service and reached the Asia Pacific region in 2016, including Indonesia. As of 2020, Netflix operates in more than 190 countries reaching a total revenue of $25 Billion, compared to $20 Billion on just the year before (Iqbal, 2021)

Indonesia has proven itself throughout the years as a promising market for the video streaming market. According to Statista.com, in 2020 there are approximately 199.16 million internet users in Indonesia. This number is expected to reach 256 million by 2025, making Indonesia as the country with the 4th most internet users in the world. Video Streaming platform market itself in Indonesia is rapidly growing from 176 million USD in revenue to an expected 237 million in 2021. The total users are expected to reach 27.5 million by 2025 and as of 2020, Netflix owns 35% of the usage share tying Iflix with the same 35% as the top two sVoD platforms with YouTube sitting behind at a surprising 10% (Statista, 2020).

Netflix's spread to Indonesia while seemingly promising and fruitful however, is without hardships and stumbles along its path for an extended period.

This research believes in the importance of understanding customer perceived value on Netflix, especially as a streaming platform, in improving management cognitive capability that will further be utilized in performing their managerial tasks and plans. Customer's functional, experiential, financial, and psychosocial benefits are the aspects which effectiveness are identified and analyzed in relation to creating instrumental value and terminal values. This study will focus on Netflix Customers and is intended to bring a more in-depth clarity on what said customers value in considering purchase of video-streaming platform subscription.

1.2   Problem Statement

The author of this study believes that even with the global success Netflix has achieved so far, Indonesia hasn't embraced Netflix as what it truly can be. Furthermore, the author believes that the market of video streaming platforms such as Netflix have a very large potential to grow exponentially more and more with each year. Indonesia and Netflix especially have a long-complicated relationship that is quickly stabilizing, finally allowing Netflix to maximize Indonesia's tremendous market potential.

Some of the first problems that Netflix encountered with Indonesia was with a few laws and regulations together with companies related to Indonesian Internet Service Providers. The first major issue is regarding Netflix not having a permanent branch in the country despite operating for years, more specifically, regarding tax payment. The finance ministry of Indonesia calculated that with the US$76.6 Million of revenue it achieved in Indonesia by the end of 2020, Netflix could've generated Indonesia US$3.8 Million via tax. However, since it doesn't have a permanent branch in Indonesia, it doesn't have a taxpayer number, disabling the government from collecting taxes from them (Mulia, 2020). This problem has led the government to impose a new law called Nexus Tax to deal with foreign companies' activities and taxes that operate through the Internet. However there has not been any news on its progression. Another majorly known issue was with Telkom, one of Indonesia's biggest ISPs. Ever since Netflix's arrival in Indonesia back in 2016, Telkom has banned Netflix's content to be accessed through their provision because of

unfulfillment of requirements regarding sensitive contents like nudity and violence. This content issue has also been addressed by the Ministry of Communications and Informatics (Kemkominfo) that deem Netflix's content as showing issues of pornographic elements, ethnics, religious, racial, intergroup divisions, and norms of morality. Aside from Telkom, some users of the ISP Indihome have reported poor connection and/or quality of streaming in general. Some ISP like Indihome and Telkom both have addressed this problem as the result of heavy bandwidth usage and the lack of Content Delivery Network in Indonesia that places Netflix's content locally in Indonesia to be accessed easier, quicker, and of higher quality (Kompas, 2020).

Aside from the aforementioned complication, there are some other issues in the general operations in Indonesia that are of importance as a base of this study. Netflix in recent years has a consistent increase in the number of its users. However, this number is still quite small compared to the actual number of Indonesian internet users in general. According to statista.com, Netflix has around 906.800 Indonesian subscriber in 2020 and Indonesia has an estimate of 199,16 Million internet user in 2020.
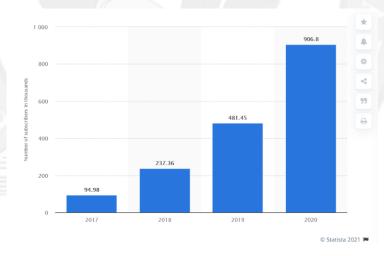
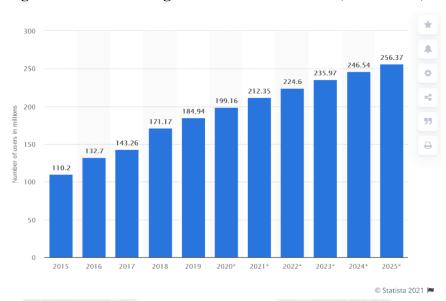**Figure 1.1: Estimated Netflix Subscriber in Indonesia (2017-2020)**

Figure 1.2 : Estimated global Netflix Subscriber (2015-2025*)

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Netflix as a sVOD platform also has to deal with various form of competition as one of the biggest challenge in Indonesia. Media Platform Asia showed that on mid-January 2021, Disney+ Hotstar has a paying customer base of 2.5 Million customer despite only have launched recently on September 2020, Viu coming second with 1.5 Million, Video with 1.1 Million, and finally Netflix as the fourth largest competitor with only 0.85 Million. The largest competitor, Disney+, is the most comparable in term of contents and customer base to Netflix. One of the major difference is Disney+ didn't have problems with its contents violating Indonesian regulation while managing to create a 2-year exclusive mobile partnership with Telkomsel for bundling packages.

Affordability and availability also becomes a problem for Indonesian customers when consuming sVOD contents. Most of indonesian internet user find the price of accessing these content to be too much or not worth it. This fact is also understood by content creators or providers that becomes reluctant in distributing legal contents to Indonesia, creating disparity in contents available in the end. The result leads customer to resort to piracy and free-shared content website that in comparison is more affordable and available. (Jakpat, 2016) created a survey with 450 respondents aging 20-35 that showed that 44.44% of customers watch movie through illegal download through the internet. In accessing foreign content, 39.1% is also through internet download, and 28% through free streaming websites. The same survey also found that 70% of the respondents to be uninterested in subscribing

to Netflix with the reason of preferring to download/free-stream, unstable internet connection, lack of credit card (payment method), or content with cable tv. On the other hand, the other 30% are willing to subscribe to Netflix in order to watch movies/tv-series as much as they want, enjoy global program/show, and getting bored with national tv programs.

Currently as it stands, Netflix has recently amended its dispute with Telkom to discuss plans for partnership and have successfully removed the ban on 7 July 2020 (Antaranews, 2020). This opens Netflix to easily access Telkom's huge user base of 170 million subscribers, with Indihome has only 7 million in comparison. Netflix is also in a better spot business potential-wise as the result of the global health pandemic, COVID-19 or Coronavirus as it drives all the residence in the world to find entertainment in their own homes. The global pandemic also shuts down access to large number of public areas, especially cinemas as it is Netflix's major competitor in Indonesia. Being more promising than ever since its release, Netflix needs to start appealing itself to the Indonesian market. Identifying what Indonesian market looks for in their platform. what they value from accessing their platform.

1.3   Research Questions

The research questions of the problem identified for the research are as follows:

1. Does a customer's perceived functional benefit have an effect towards perceived instrumental value?

2. Does customer's perceived experiential benefit have an effect towards perceived instrumental value?

3. Does a customer's perceived financial benefit have an effect towards perceived instrumental value?

4. Does a customer's perceived psychosocial benefit have an effect towards perceived instrumental value?

5. Does perceived functional benefit have an effect towards perceived terminal value?

6. Does customer's perceived experiential benefit have an effect towards perceived terminal value?

7. Does a customer's perceived financial benefit have an effect towards perceived terminal value.

8. Does a customer's perceived psychosocial benefit have an effect towards perceived terminal value.

1.4 Research Objective

The research is conducted as Two-tailed test as the relationship between indicators are not certain to be positive or negative. Based on the problem, the research objectives are as stated below:

1. To examine and test whether a customer's perceived functional benefit has an effect towards perceived instrumental value.

2. To examine and test whether a customer's perceived experiential benefit has an effect towards perceived instrumental value.

3. To examine and test whether a customer's perceived financial benefit has an effect towards perceived instrumental value.

4. To examine and test whether a customer's perceived psychosocial benefit has an effect towards perceived instrumental value.

5. To examine and test whether a customer's perceived functional benefit has an effect towards perceived terminal value.

6. To examine and test whether a customer's perceived experiential benefit has an effect towards perceived terminal value.

7. To examine and test whether a customer's perceived financial benefit has an effect towards perceived terminal value.

8. To examine and test whether a customer's perceived psychosocial benefit has an effect towards perceived terminal value.

1.5 Research Scope

This research is conducted under several limited scope and conditions:

1. This research discusses Perceived benefits in forms of functional, experiential, financial, and psychosocial benefits; Perceived values in the form of instrumental and terminal value.

2. The study is to be conducted in the main cities in Indonesia, especially but not limited to Jakarta, Bogor, Depok, Tangerang, and Bekasi.

3. The respondents in the study are paying Netflix customers with no limitation of age and uses internet.

4. The specific brand of the research is Netflix

1.6 Research Contribution

This research is expected to have contributed toward the general outlook and practical implications that will describe as follows:

1. Theoretical Contribution

This research is expected to contribute a theoretical study in the relationship between customer's perceived benefits and the creation of customer's perceived values, hopefully providing information and insight that can be used by future parties seeking interest in the field of this research to create further research on similar objects that have not been included in this research.

2. Practical Contribution

The result of this research study is expected to become inputs in practical contributions in two matters:

a) This research can be used as references for the company in developing customer perceived values through identified customer's perceived benefits to maximize the achievement of company's goal.

b) This research can be implemented as information for the company to analyze the market perceived values in order to set future marketing strategy.

1.7 Systematic Outline

The systematic outline included all the major parts and chapters in this research. The outline of the research is as elaborated below:

Chapter I: Introduction

This chapter elaborates on the research's structures, which comprise the research background, the research problem or problem statement, research question,

research objectives, theoretical and managerial contributions, and the systematical framework of this research.

Chapter II: Literature Review

This chapter explains the complete existing theories and literature review of the research topic that will be taken from textbooks, journals, and other research sources. This chapter also contains the research model and hypothesis that discusses several variables concerning the research questions posed.

Chapter III: Research Methodology

In this chapter, the research methodology used in this research is described in order to respond to the research questions written and provide a full explanation of the research used. Starting from research paradigm, research object, research subject, unit of analysis, types of research, research design, ethics in data collection, types of variables, conceptual and operational definition, measurement scale, data source and techniques, types of question, and sample design.

Chapter IV: Data Analysis and Methodology

The fourth chapters in this research represent the findings of the linkages among variables in this study. The result of using statistical examination was performed with the data collected. The result of the discussion will provide accurate data to answer the research question and leads to the conclusion of the research.

Chapter V: Conclusion and Recommendation

The outcome and conclusion of research questions and other chapters are derived from this chapter, based on results of the review of this research and recommendations for the future will be made.