

Exhibit 2 shows trends in Netflix's subscriber growth.

## Netflix's Strategy

Netflix had a multipronged strategy to build an ever-growing subscriber base that included:

- Providing subscribers with a comprehensive selection of DVD titles.
- Acquiring new content by building and maintaining mutually beneficial relationships with entertainment video providers.
- Making it easy for subscribers to identify movies they were likely to enjoy.
- Giving subscribers a choice of watching streaming content or receiving quickly delivered DVDs by mail.
- Spending aggressively on marketing to attract subscribers and build widespread awareness of the Netflix brand and service.
- Gradually transitioning subscribers to streaming delivery rather than mail delivery as the popularity of Internet-delivered content grew.

**A Comprehensive Library of Movies and TV Episodes** Since Netflix's early days, the company's strategy had been to offer subscribers a large and diverse selection of DVD titles. It was aggressive in seeking out attractive

new titles to add to its offerings. Its library had grown from some 55,000 titles in 2005 to more than 100,000 titles in 2010. The lineup included the latest Hollywood releases, releases several decades old, movie classics, independent films, hard-to-locate documentaries, TV shows, and how-to videos; Netflix's DVD library far outdistanced the selection available in local brick-and-mortar movie rental stores.

In October 2008, Netflix and Starz Entertainment, a premium movie service provider operating in the United States, announced an agreement to make movies from Starz, through its Starz Play broadband subscription movie service, available to be streamed instantly at Netflix. Access to the Starz Play service at Netflix was included with Netflix members' current monthly subscription fee. The agreement with Starz Play gave Netflix members access to an additional 2,500 movies that could be streamed directly to their TVs and boosted Netflix's library of instantly watchable movies from 12,000 to 14,500. In 2009, Netflix expanded the number of titles available for streaming by about 30 percent; management expected that the number of streaming content choices would continue to grow rapidly for the foreseeable future.

**New Content Acquisition** Netflix had invested substantial resources in establishing

**Exhibit 2** Subscriber Data for Netflix, 2000–2009

	2000	2005	2006	2007	2008	2009
Total subscribers at beginning of period	107,000	2,610,000	4,179,000	6,316,000	7,479,000	9,390,000
Gross subscriber additions during period	515,000	3,729,000	5,250,000	5,340,000	6,859,000	9,322,000
Subscriber cancellations during the period	330,000	2,160,000	3,113,000	4,177,000	4,948,000	6,444,000
Total subscribers at end of period	292,000	4,179,000	6,316,000	7,479,000	9,390,000	12,268,000
Net subscriber additions during the period	185,000	1,569,000	2,137,000	1,163,000	1,911,000	2,878,000
Free trial subscribers at year-end	n.a.	153,000	162,000	153,000	226,000	376,000
Subscriber acquisition cost	\$49.96	\$38.78	\$42.94	\$40.86	\$29.12	\$25.46

n.a. = not available

Sources: Netflix, 2009 10-K report, pp. 26 and 32, and 2003 10-K report, p. 11.