NETFLIX
STREAMING INTO THE HISPANIC MARKET:
NEW PRODUCT AND DESIGN

By

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Introduction

This paper describes the steps taken in order to recommend the development of a new product to be implemented by Netflix. The recommendation is based on a) organization objectives, b) business segmentation strategy, c) all the research to date, d) an evaluation of the Netflix website design and movie offerings, and e) an analysis of the characteristics, behaviors, TV entertainment preferences and Internet usage of the Hispanic market in the United States.

The paper illustrates the new product development process and uses it as a guide to explain how it is applicable to Netflix recommendation and product justification. To demonstrate the findings and marketing recommendations, a visual plan, in the form of a power point presentation, is also prepared to be presented to Netflix’s Board of Directors.

According to Kotler and Keller (2009) a new product ranges from a completely “new-to-the-world” item or service that can create a new market, to minor improvements and modification to existing products. The process to develop a new product consists of the following eight steps: a) idea generation, b) idea screening, c) concept development and testing,
d) marketing strategy development, e) business analysis, f) product development, g) marketing testing, and h) commercialization. (Kotler & Keller, 2009).

**Idea Generation**

Netflix business model, assumes two major competitive advantages in the DVD-by-mail and streaming service; a unique recommendation software, that improves the customers movie experience and a “13.9 million subscribers” (New Media Age, 2010, p. 25) and counting customer base. The company success and growth has been based on offering what the customers wants, when they wanted and with the less hazel possible. Netflix constantly works on improvements to its recommendation software and the identification of new segments or niches to attract.

Although, one of those segments targeted by Netflix is the “46.9 millions” (Perez, 2010) Hispanic market, the research analysis indicates that it is not being address properly. At the moment, Netflix’s website is not bilingual. Perez (2010) indicates that 90% of the Latinos with computer search online regularly and a significant part of them prefer to search Spanish language websites and Spanish language version portals. Second, “novelas” (Spanish language soap operas), the major primetime TV offering in Univision and Telemundo networks is not a search category in the website menu, even though the DVDs are on stock. Third, a close examination of the DVD ratings, on the Netflix’s website, showed a noticeable difference between the average number of subscribers rating movies, which are in the thousands and hundreds of thousands versus in the hundreds for “novelas”.

The recommended idea is to create a medium that will culturally represents and addresses the Hispanic market language and entertainment content needs and wants. The purpose is to design a more convenient Hispanic oriented website that can attract a larger share of the “largest
minority group, accounted for 15.1 percent of the United States population” (Wayne, T., 2009, para. 2). There are two possible alternatives to consider. The first alternative is a new bilingual version of the Netflix website addressing the language barrier or secondly, a new separate website in Spanish addressing the language issue, emphasizing on Hispanic content and lifestyle.

**Idea Screening**

The evaluation of the two ideas suggested that although, the first one appears to be the correct thing to do; it could be difficult to modify Netflix website’s generic status with the purpose of identifying a part of it with Hispanic market characteristics, without the risk of rejection from other members or minorities. After, considering such a risk, the decision was to continue with the second alternative.

The second idea is to create a brand extension for Netflix that will target the Hispanic market, offering a 100% Spanish website, full “novelas” episodes, Hispanic series, family shows and Spanish language movies. “Not only are Hispanics more responsive to communications in Spanish, they are requiring higher quality communications in Spanish” (“spanishtranslation.us,” 2006, Hispanic market in the United States, para. 3).

Similar to other companies such as Coca Cola (Cherry Coke), Procter & Gamble’s Mr. Clean (Mr. Clean Magic Eraser) and Google (Google en Español), brand extensions attract new consumers offering new products, under the flagship brand name. The idea is to establish a new website called “Netflix en Español” (Netflix in Spanish), opening a virtual space that will enhance the Hispanic customer movie experience by offering website operational instructions, menus, movies descriptions and recommendations in Spanish.

“Netflix en Español” is a Spanish language and cultural oriented website that will provide all the services a customer finds in the Netflix original website, but operational wise, the
company will not have to add major fixed costs to the actual business because the basic infrastructure (recommendation software and distribution system) will be the same. The additional costs are more related with translators, targeted advertising and probably the hiring of a Hispanic market expert and Spanish speaking customer service representatives.

**Concept Development and Testing**

The “Netflix en Español” website is based on a convenience-cultural oriented concept that conveys the idea of enjoying an easier way to rent and stream the best entertainment content in Spanish. Hispanics will be willing to try “Netflix En Español” because it will be language friendly and the design and part of the content will be culturally related to their countries.

Kipnis (2005) indicates that one of the growing DVD categories for the Latino market includes TV on DVD (“novelas”). “Telenovelas are a crucial ingredient in the TV experience of US Hispanics; as this segment of the population moves more and more online…” (Vanderlann as cited by PR Newswire, 2010, para. 1). The “novelas” are primetime TV series viewed not just by Hispanic women but also by men. According to the International Communication Research, 44% of the Hispanic American adults surveyed had watched “novelas” in the past week (Flores, 2005), 53% are women and 35% men (“hispanicad.com”, 2005). Most “novelas” present strong stories and visuals that represent the culture in Latin American countries which make them very popular with Hispanics.

**Marketing Strategy Development**

The marketing strategy is based on the development of a new service, by creating a Netflix brand extension, directed specifically to the 46.9 millions” (Perez, 2010, para. 2) Hispanic market. “Netflix en Español” website, focus in a well identifiable and fast growing Hispanic market with a “purchasing power estimated at over 1 trillion dollars as of 2010” (“he-
The Hispanic market is the largest minority group, accounted for 15.1% of the U.S. population (Wayne, 2009, para. 2). Eleta (2010) says that Hispanic moms represent 21% of the total number of mothers in the U.S. and Hispanic males 18-34 population has increases in the last five years 23% vs. 2% for non-Hispanic. The majority of the Hispanic community is concentrated in the States of Florida, New York, Texas, California, and Illinois.

Hispanics have strong emotional attachments with their home country. “The majority of domestic Hispanic people are very emotionally attached to their country-of-origin or the culture of their parents' home country. These emotions have a positive impact on their purchasing decisions” (Perez, 2010, U.S. Hispanic consumer, para. 4). The AOL Latino 2006 Hispanic Cyber study indicated that 68% of online Hispanics consider the Internet as the best source to make a brand decision (“spanishtranslation.us,” Online Hispanic market). “Around 74% connect to the Internet every day and 78% access the Web at home” (“spanishtranslation.us,” Hispanic market in the US, para. 5). According to hispanicmarketadvisors.blogspot.com (2009) “While in 1996, 75% of all Web searches were conducted in English, today English searches accounts for only 25%” (para. 2).

The Spanish language and the Spanish entertainment content are important issues for the market. According to Hispanic Telegence as cited by hispanicmarketing.us (2009), 52% of the Hispanic respondents speak only Spanish in their homes and 49% watch Spanish language primetime TV. In terms of entertainment, Hispanics buy and rent more DVD’s than non-Hispanics. The Hispanic population tends to gravitate between community and entertainment sites (Wayne, 2009). And as mentioned before, “Forty-four percent of Hispanics surveyed had watched a telenovela in the past week …” (Flores, 2005, para. 2).
“Netflix en Español” will be positioned as an easy, convenient and culturally oriented website dedicated only to rent and stream “novelas”, TV series, family shows and movies exclusively in Spanish. Netflix management will design a website that truly represents the Hispanic heritage; something that is almost impossible to do with the actual website, due to the ample range of customers subscribed. The “Netflix en Español” website will attract the Hispanic subscribers. According to Perez (2010), Hispanics prefer brands they can feel familiar and comfortable, select products that seem complimentary to Hispanic culture and lifestyle, and are very loyal to products and services they feel are design to last.

The marketing strategy, in addition to, attract the Hispanic market, also supports Hastings description of the company, as a simple cost effective distributor and facilitator of movies and TV series enjoyment, by mail and through the Internet. One advantage of the proposed strategy is the low cost of implementation. The new brand extension enables Netflix maintain the same subscription, operational and delivery model; keeping cost increases at the minimum.

To guarantee the success of the strategy, Netflix first, has to “research cultural and linguistic issues” (Perez, 2010, Goal: Getting top research, para. 1) and make available a broad selection of “novelas”, Latino family show and TV series in Spanish (some of them all ready in Netflix’s website DVD library). Second, promote of the new service in Hispanic oriented mediums through multiple online and offline efforts.

“Netflix en Español” project sales for the next five years are presented in Table 1.
Table 1: Netflix en Español projected sales for the next five years (in thousand of dollars)

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<th>Netflix en Español Projected Sales for the Next Five Years in thousand of dollars</th>
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**Business Analysis**

The analysis findings after evaluating the competition, the business models, product prices, service rates, and the Hispanic market behavior towards TV and Internet, demonstrate the capability of “Netflix En Español” service as a profitable endeavor.

Netflix is not the only distribution content company trying to attract the Hispanic market. In addition to Univision and Telemundo, the largest Hispanic networks, the research identified such companies as RCN offering thirty-seven Spanish channels (Cepeda, 2006), Maximum TV, Dreamhouse Entertainment (“prnewswire.com”, 2010) and Ventura Distribution (“hispanicprwire.com”, 2003), to name a few. However, these companies are not in the rental business as Netflix, they are more directed to offering a standard TV programming, much similar to Univision and Telemundo. “Netflix en Español” will use the same proven subscription based business model implemented effectively in the original Netflix operation. The production and execution of the new website will not affect the companies fixed costs because it will use the Netflix infrastructure.

Other competitors such as Amazon.com and xenon.com enable Latinos purchase “novelas” and other limited Spanish language family programs, but a 2 disc set can cost between $10.00 and $25.00 dollars (shipping and handling not included). These prices are too high compared with Netflix $8.99 subscription plan with unlimited movies and streaming.
“Netflix en Español” will offer something new to the Hispanic market; an easy, convenient and culturally oriented way dedicated only to rent and stream “novelas”, TV series, family shows and movies exclusively in Spanish. As mentioned before, the Hispanic market is growing at an unprecedented rate and its purchasing power is expected to reach $1.3 trillion dollars by 2015 (“hispanicmarketing.us,” 2009). The US Hispanic population is well known for its appetite for watching TV and movies (PR Newswire, 2010). Olivarez as cited by Kipnis (2005) indicated that, on average Hispanics rented 10 DVDs in comparison to 8.1, by the rest of the population. The next two points taken into consideration, which demonstrate the profitability opportunity of “Netflix en Español” are the 84% penetration of DVD players in Spanish Latinos homes (Kipnis, 2005) and the results of the 2008 Xbox 360 survey regarding Hispanics wants, values and family that concluded a 89% Hispanics vs. 64% of the general public, preferred buying gifts that bring their families together; and 95% vs. 85% are looking for gifts that can be enjoy during the whole year.

In summary, “Netflix en Español” is capable of reaching the company’s goals of increasing, in a profitable way, subscriptions because of a) the business model differentiation between Netflix and other competitors (rent vs. licensee), b) the ability to use a proven business model (Netflix) c) a reduced, if not, zero additional fixed costs increase, d) better prices than the competition, and e) capturing a large share of a fast growing market that rents 2 DVDs more in average compare to the general market and is willing to expend on activities that bring the family together.

**Product Development**

The reason for the development of “Netflix en Español” comes from the understanding that Hispanics are approximately 47 million (Perez, 2010) and growing market that needs to be
served differently than the rest of the subscribers in order to attract new Spanish speaking customers. “Netflix en Español” is website is a highly targeted Netflix version focuses on the Hispanic market offering similar services provided in the main website (Netflix), but using the same recommendation software technology and distribution channel.

The main differences between this new service and the original website service will consist of a language and content change, new visual design and a customer service on Spanish. “Netflix en Español” will present all the movie descriptions, actors and directors biographies, menu buttons, user recommendations and DVD content on Spanish. In addition, it will offer such categories as “novelas”, Hispanic family shows series, and Spanish movies. It will also incorporate graphical representations of the Latino culture as part of its visual design. The website will be graphically designed with Hispanic themes tying emotional and cultural feelings with the experience of the user. To answer questions about the services, there will be Spanish speaking personnel to help callers or to assist with other customer service issues.

The moment the website become operational, but before it is commercialized, the company should test it using a Beta version that can be accessed by a selected sample of the Hispanic market. The observations and recommendations, by Beta users, will enable the company revise or modify any area in the website, before the commercialization of the service.

The service is technologically sound because it’s using technology that already has proven to be successful, offering movie viewers a more pleasant experience. Also, it’s commercially sound because it will be positioned to attract, specifically, the rapid growing Hispanic market. “From 2000-2009 Hispanics accounted for 50% of all US population growth” (Eleta, 2010, p.13). On 2007, Hispanics represented the largest minority group, accounted for 15.1% of the United States population (Wayne, 2009); reaching, on 2009, 11% of the total
American online market (comScore as mentioned by Wayne, 2009). In addition, it is commercially sound because Hispanics have purchasing capacity; “U.S. Hispanic purchasing power surged to $870 billion in 2008, and is projected to reach $1.3 trillion by 2015” (Hispan Telegence as cited by “hispanicmarketing.us”), with a preference for Spanish content websites.

**Market Testing**

According to Kotler and Keller (2009) market testing provides information about “how product sales met expectations” (p. 574). In addition, “consumer-products tests seek to estimate four variables: trial, first repeat, adoption and purchase frequency” (Kotler and Keller, 2009, p. 588). Due to time constrains it was impossible to test the idea. However, a “Sales –Wave research” (Kotler & Keller, 2009) can be perform with a sample of users because the service will provide a two weeks free trial, after which, the participants are reoffered to continue using the service by paying a subscription. Afterwards, a test market is recommended where “Netflix en Español” is made available in one or two States with a large population of Latino in order to evaluate responses and customers’ observations.

However, the research analysis founded various examples of United States companies that increased sales after implementing and promoting a product or service that zero-in the Hispanic market.

General Mills significantly increased its Spanish ad investment across the portfolio and earlier last year noted a 35 percent sales increase for Honey Nut Cheerios among Hispanics. Universal Films posted record-breaking opening weekend box office results for Fast & the Furious (Eleta, 2010, p.13).

Also, “Time Inc. launched People en Español in 1997. Circulation has since doubled to 414,000 to make it the top-selling Spanish-language magazine in the USA” (El Nasser, para. 14).
In addition, there are a number of companies such as Yahoo en Español, AOL Latino, Google en Español, MSN Latino that implemented a Hispanic oriented product using their flagship brands. These examples support the theory that a new Netflix Latino oriented service, targeting the Hispanic market can and will probably have a similar effect of increasing subscriptions.

According to Graciela Eleta (2010), Senior VP brand solutions at Univision Communications, Inc., although it seems obvious, it is necessary to stress that the most important thing to building a relationship with a majority of Hispanics is communicating in Spanish. “More than three-quarters of Hispanics choose to speak Spanish at home, including those born in the U.S.” (Eleta, 2010, p.13). Malaghan (2008) says the most obvious difference between the U.S. Hispanic market and the general market in the U.S. is the Spanish language. “Marketers need to be cognizant of those Hispanics that only speak Spanish and those that choose to speak Spanish rather than English” (Malaghan, 2008, acculturation: The impact, para. 5).

**Commercialization**

According to Kotler and Keller (2009) commercialization includes timing, geographic strategy, target market and the implementation plan. The recommendation for the launching of “Netflix en Español” is for November-December, looking to capture the Christmas season sales which is very important for Hispanics and also is a perfect moment to offer “Netflix en Español” subscriptions as a gifts to a family member or friend. Geographically speaking, “Netflix en Español” will be available to anyone by the Internet, but the strategy will focus the efforts in cities where a strong Hispanic presence exists, such as “Los Angeles: 8.4 million, New York: 4.4 million, Miami: 2.1 million, Houston: 1.9 million, Chicago: 1.9 million … 48% of the U.S. Hispanic population lives in California and Texas” (Perez, 2010, USA Hispanic markets, para. 1).
The target market is the 46.9 million Hispanics, focusing initially, on those that speak only Spanish and those who select to speak Spanish in their homes instead of English. One of the principal characteristics of the target is the need of an easy, understandable and comfortable way to rent and experience Spanish entertaining content. "There's more of a skew" toward community and entertainment sites among Hispanics” (Jack Flanagan as cited by Wayne, 2009, para. 4). Specially, mothers and young adults between 18 and 35 who live in or close to the cities mentioned in the last paragraph. Flanagan as cited by Wayne (2009) says "The Hispanic market is a very attractive one for prospective marketers … "They know where to reach them, and those categories exhibit the highest level of engagement and interactivity." (para. 4).

To reach this market effectively the introduction plan will be based on the company’s philosophy. “The whole reason for Netflix to exist is to spread the love of movies and connect people with movies they love” (Swassey 2007, para. 8). The difference is that the message will built awareness about “Netflix En Español”, the love for Hispanic “novelas”, family shows, Latin series and Spanish movies and how easy is to enjoy them.

To get the message across, an integrated marketing communications program will be implemented. The main objective should be to build brand awareness for the new service, placing and executing activities in selected Hispanic media channels, events, etc. First, the advertising will project the lively Latino spirit and advertise “Netflix En Español” as an easy and entertaining website completely in Spanish. Ads will be placed on Spanish-language TV and radio channels in high Latino population cities and states. Second, promotions will stress the two weeks free trial offer, special coupons and free streaming capabilities with every paid subscription. For a limited period, a sales promotion offering special subscription rates will enable customers buy them as Christmas gifts for other friends. Third, events will be tied to
“novelas”, and other Latin shows, in order to build the awareness of the available Spanish content and the new brand, specially, with housewives. A real size red colored envelop character with Latino characteristics will be created for promotional events in shopping centers, and other public centers.

Fourth, in terms of public relations, the company will sponsor competitions between young Hispanic film makers and even get involve with the Hispanic communities in there activities. Also, Netflix will get involve with Latino actors to raise money to help young Latinos study film making.

The direct marketing and interactive marketing will create elements that will invite the Hispanic customer and will support the “En Español” (in Spanish) message. This includes: the words “En Español” in the front of the envelop, any print and promotional material, the homepage of the website and a multi-dimensional search engine marketing campaign using Pay-Per-Click campaigns on selected Hispanic websites and search engines (Perez, 2010).

Perez (2010) says that Hispanics in the USA find out about brands though commercials, personal experience and word-of-mouth. “Netflix En Español” satisfies a major language issue and that message has to travel as fast as possible through the Hispanic community. To achieve it is imperative to integrate free virtual tools such as 30 to 90 seconds videos placed in YouTube, social networking through Facebook, Twitter and e-mails to Hispanic groups, Latinos movies and TV enthusiasts and other Spanish entertainment website and blogs in order to start a snowball effect.

Justification

To strengthen and protect Netflix’s leadership position, CEO Hastings has always been carefully applying innovative techniques, price controls, new DVDs’ titles availability, brand
awareness efforts, and improvements to the recommendation software in order to attract subscribers. However, at the end, the key component to Netflix continuous growth is the subscribers. Adding the subscriber element to Netflix customer-centered philosophy devoted to “spread the love of movies and connect people with movies they love” (Swassey 2007, para. 8) shows that is not only about subscribers, is about subscribers that are connected to Netflix and the movie experience.

In other words, Netflix can be increasing the subscriber numbers, but that does not mean that is creating long term connections with them. Is our opinion that in trying to attract the U.S. general market, in the case of the Hispanic market, Netflix could lose a precious opportunity and customers if efforts are not taken place to address the Latinos’ language, lifestyle and cultural needs regarding their entertainment wants. Frank Higgins, Nestlé president of confections/emerging markets, says “It’s very, very simple. You can sit on your hands right now, continue to pursue the general market, let the Hispanic market evolve as it does and a competitor is going to take the business from you” (Higgins as cited by Eleta, 2010, p. 13).

The actual Hispanic share of the nation’s total population in the U.S. accounts for 15% and it is projected to double by 2050. “According to the latest population projections by the U.S. Census Bureau, the Hispanic population is projected to nearly triple, from 46.7 million to 132.8 million during the 2008-2050 period” (Malaghan, 2008, para. 1).

At the moment, the Netflix website does not even addresses the basic issue of the language difference, which reduces its opportunity to attract more than 55% of the Hispanic market. “It’s becoming almost imperative for many US businesses to make all or some of their Web content available in Spanish if they want to maximize their reach to the entire spectrum of
the US Hispanic community” (“hispanicmarketadvisors.blogspot.com”, Reaching the entire spectrum, para. 1)

As a result of the research findings regarding Netflix actual services in one side and the Hispanic market needs and expected growth in the other, it is our conclusion that “Netflix En Español” is the appropriate solution to address the present, looking at the promising future of the Hispanic market. Higgins as cited by Eleta (2010) concludes “But the bottom line is, as a business opportunity, the Hispanic market is a fantastic opportunity that comes around once in a business career” (p. 13).

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