

LCBB5010

Analysis of Netflix's Accounting and Financial Statements

BA (Hons) Business Management
Management Accounting for Managers

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1. Netflix Corporate Background and Business Environment.

Netflix Corporation, a leading entity within the global entertainment industry, stands among the largest streaming platforms worldwide. In 2025, the company reported revenues of £33.55 billion, representing a 7.95% increase compared with 2024. This financial performance reflects Netflix's substantial global expansion and the ongoing consolidation of the streaming market. The platform reached 325 million paid subscribers in 2025 supported by a diversified portfolio of products, including original programming, gaming services, live streaming, and interactive content. Yahoo Finance (2026)

In 2025, the global entertainment industries generated £2.05 – £2.20 trillion in revenues. Projections for 2026 is 4.8–6.2% annual growth, raising total revenues of the sector at £2.15 to £2.33 trillion. Meanwhile Netflix leads the sector with £33.55B revenues approximately 20% of whole industry, followed by Amazon with 14-16%. Disney + with 10-12%. (S&P Global Market Intelligence, 2026)

1.1 Importance of management accounting in decision-making for modern businesses.

The importance of management accounting in internal decision-making lies in its capacity to help organisations build a forward-looking vision by developing future scenarios and evaluating risks and opportunities using reliable data. It also underscores the need to establish strategic objectives that remain fully aligned with organisational goals. (Atrill and McLaney, 2016)

2. Cost Analysis and Business Model in Netflix

Netflix operates primarily under a direct-to-direct consumer model, relying on advanced data analysis to design strategies that strengthen customer engagement. This approach is structured around key pillars: Subscription plans, on-demand streaming, multi-device simultaneous viewing, and a content portfolio driven by original productions and region-specific programming. These activities generated multiple revenue streams in 2024, with subscriptions accounting for 93% of total income (£33.55 B GBP).

The production of ad-supported plans in 2022 enabled Netflix to offer a more affordable tier, enhancing customer acquisition and contributing to overall revenue growth.

In terms of cost structure, Netflix's largest expenditure is content production and acquisition, representing around 60% of total costs (CompleteEra, 2026), followed by marketing, technological development, and the company's global operational infrastructure.

(Li and Duan, 2024)

2.1 Netflix's Revenue Model

In 2025, Netflix the 93% of annual income led by subscriptions, due to a low churn that ensured recurring and predictable revenues. Advertising accounted for 3.3%, supported by the rapid expansion of the ad-supported tier. Netflix also generated additional income through paid account sharing, while benefiting from a highly scalable content economy that reduces cost per user as the subscriber base grows. This combination strengthens Netflix's financial sustainability and reinforced its global market leadership.

(Daly, 2025)

2.3 Netflix's Key Cost Structures

Netflix's cost structures are focusing on expenses determinates in 2025, concentrate on fixed and variable cost. These costs influence operational efficiency and long-term profitability.

(Netflix, Inc., 2025).

2.3.1 Fixed costs

These expenses remain relatively stable throughout the year because they are not dependent on the organisation's productions volume. The main components of fixed costs include Amortization of previously produced or acquired content, Global technological infrastructure required to operate the platform, permanent staff salaries, general and administrative expenses (systems, offices, administration, legal, accounting), and debt and interest obligations. Together, these elements provide operational stability despite fluctuations in demand or user growth. Examples include the amortisation of original content such as stranger things or the annual payments to Amazon Web Services for data storage. (Netflix, Inc., 2025).

2.3.2 Variable costs

These expenses vary according to Netflix's level of activity, reflecting the interaction between growth and daily operations. When productivity and user acquisition increase, these costs rise; conversely, when activity declines, they decrease.

Netflix's most representatives' variable costs include the creation of new content (films, tv-shows and documentaries). The acquisition of external licenses, marketing expenditures, and additional user based operational costs. (Netflix, Inc., 2025).

3. Budgeting and Financial Planning

3.1 Netflix Budgeting

Budgeting plan guides Netflix toward central strategic and operational efficiency by allocating resources, managing costs, and supporting long-term growth. In 2025, Netflix directed its investment decisions to ensure coherent operational management and sustained organisational performance.

Content Investment: In 2025, Netflix invested \$18 USD (£14.04 B GBP) in content, encompassing both licensed and original productions. This allocation also supported live events and sports programming such as, WWE Raw and NFL sports. Furthermore, Netflix reinforced its commitment on local stories through internationally coordinated productions for instance: the following seasons of squid Game.

Ad-Supported: Budgeting at Netflix in 2025 was highly responsive to involving consumer monetization. To offset rising cost of content, Netflix implemented price increase across both its ad-free and ad-supported tiers in key markets. Budget forecast significant weight in the expansion of advertising revenue, projecting the ad-supported tier as a strategic mechanism to preserve platform accessibility while sustaining high content quality.

Data-Driven: Netflix is investing substantially in advanced data analytics, enabling the transformation of user and market data into financial decision-making. These decisions are supported by predictive model, performance metrics, and behavioural insights. For example, prior to allocating content budget, data analytics evaluates projected user engagement and market impact to ensure resources are directed toward high-value productions.

Diversification: Netflix expanded beyond movies and tv-shows, redirecting its economic resources toward gaming integration to enhance client engagement and perceived value, as well as toward intellectual property (IP) development, enabling indirect revenues. For example, stranger things through merchandising, games, and subsequent seasons.

(Business Model Canvas Template, 2026)

3.2 Netflix Operational Expenses

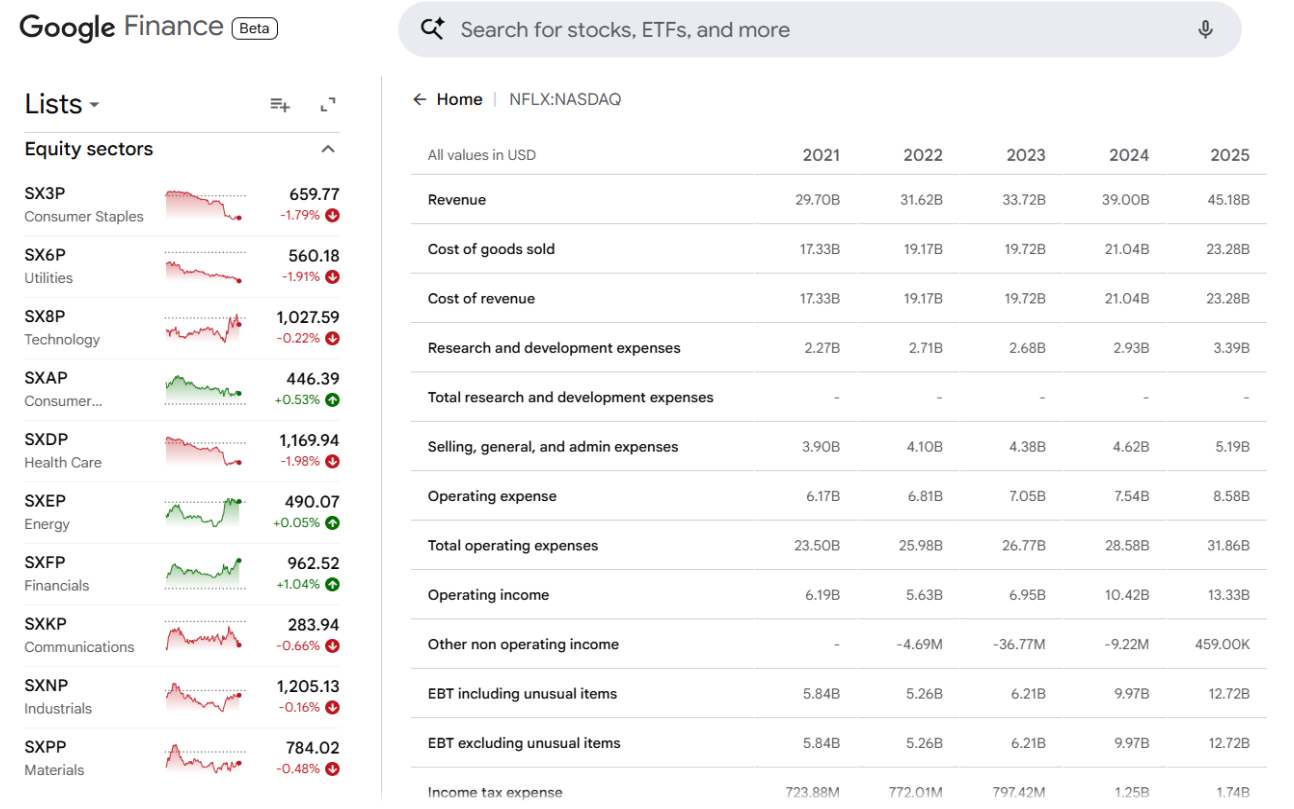


Figure 1: Netflix Income Statement

Source: Google Finance. (2026)

In figure 1, Netflix's operational expenses can be observed at 8.58 B USD in 2025 and 7.54 B USD in 2024. Applying the Year-over-Year (YoY) formula ($YoY = \frac{\text{value of current year} - \text{Value previous year}}{\text{value previous year}} \times 100$), the percentage difference between both years is obtained; in this case, the positive gap of +13.79% indicates that Netflix increased its costs in 2025 relative to 2024. The rise in expenses is influenced by Netflix's management decisions and broader macroeconomic factors.

Management decisions: These decisions are internal to Netflix and directly increase operational costs. They include ad-expansion through the development of global advertising partnerships, investment in products such as live events and advanced algorithms, hiring staff and providing incentives, and entry into new markets like India, Japan and Korea by producing local content and opening new operational facilities. (Reportify, 2025).

Macroeconomic decisions: The decisions are external to Netflix, and it cannot exercise control over them. For example, global inflation in salaries and services, rising technological requirements such as cybersecurity, storage, and cloud infrastructure, and protective policies

on digital advertising and data protection. Moreover, countries like France or India require Netflix to invest at least 20% in local content, including live tv-shows, films, and related productions.

4. Performance Measurement and Decision-Making

Performance measurement in Netflix is to analyse efficiency and optimise the decision-making process. Through key performance indicators (KPI). Netflix's performance measurement system fulfils critical functions, such as aligning departments, supporting decisions based on raw data, and evaluating operational efficiency. Without KPIs, the company cannot determine whether it is achieving its strategic, financial, or operational objectives.

Financial KPIs

Are indicators to measure the economic performance of Netflix company to evaluate financial rentability, revenues, costs. it is an essential part off financial business sustainability.

Operative margin: The percentage of Operative Margin in Netflix increase in 32,30% in the last 12 months finishing in March 2026. Demonstrating the efficiency to convert revenue into operating profit. Boosted from: control on content costs, growth thanks to advertisement and increase the tariffs prices.

Return on Assets: The return on assets it reflects a stable rentability on investment of 15,40%. in the last 12 months finishing in March 2026. Indicates a solid rentability to generate revenues from total assets.

(Yahoo Finance. 2026)

Non-Financial KPIs

They indicators that measure operational, costumer, product, and behavioural performance without relying directly on monetary figures. They are just as important because they explain retention, engagement, user satisfaction, and content efficiency, which subsequently influence economic outcomes.

Total Engagement (Hours Viewed): Netflix manages to have users consume roughly 70% of its available content, showing a highly engaging platform with strong retention.

Customer Satisfaction & Brand Loyalty: This indicator shows a customer satisfaction in 55% and brand loyalty in 92%, demonstrating that Netflix maintains users stable, with a low churn rate in front of strong alternatives as, Amazon prime, HBO and Disney +.

These two previous points are connected to operative margin because they demonstrate Netflix's efficiency in converting revenue into operating profit.

Advertising: The 40% of the new users choose the advertising plan due to a low price, thus becoming a core catalyst for growth and operating margin expansion, as a result of increased benefits without increased costs

(Netflix, 2026)

4.1 Netflix's strategies

Global expansion: Netflix's ambition is to reach 1 billion users; for this reason, it has accelerated its expansion into Asia, particularly India, Japan, and South Korea. Thanks to this escalation, it achieved 1.51 B USD (£1.18 B GBP) in the first quarter of 2026. Netflix estimates it can attain 670 B USD (£522.6 B GBP) through advertising and local content production. . (Mukherjee, 2026).

Product pricing: Due to global expansion, substantial investments, and rising production costs, Netflix projects a 50% increase in premium products over the coming years. This adjustment enables the integration of the advertising model while maintaining lower prices to compare for the overall rise. (Hladik, 2026).

cost-cutting: Netflix has implemented cost-cutting measures due to expansion and rising pricing. These measures involve structural adjustments within the global product team, such as simplifying roles and reallocating tasks through centralisation or consolidation. (Ritman, 2026).

5. Netflix Sustainability and Ethical Considerations

Netflix is committed to integrating financial measures aligned with environmental sustainability, including plans to reduce emissions by up to 50% and to adopt renewable energy. It also emphasizes corporate ethics in its efforts to operate more responsibly while sustaining growth and product quality. This includes transparency and fairness, ethical cost management, as well as strengthened privacy, security, and accessibility practices.

5.1 How Netflix integrates sustainability into its financial decision-making

Climate targets as financial constraints: Netflix established climate targets in 2021 to align its business with the global clean-economy transition. By means of projects focused on reduce emissions by 2030 using Netflix capital (between 1,5 to 4%). As well as invest on decarbonization and implement budgeting to support technological and logistical production operations. Currently in 2025 the company is guiding decisions on operations and production efficiency.

Operational efficiency and clean energy investments: Netflix estimated invest 25 – 55 M USD (19,5-42.9 M GBP) in modernizing its corporate operations and facilities to be more energy-efficient. Investing in ecological alternatives as geothermal and solar power sources using storage batteries, as a result, it obtains clean, energetic and stable infrastructure.

ESG governance integrated into financial planning: Netflix integrates ESG governance into its financial planning to ensure stable growth and long-term value, linking environmental and social risks to strategic decisions, clean-energy objectives, climate changes, and transparent reporting for shareholders.

5.2 Evaluate ethical considerations in cost management and pricing strategies.

Transparency and equity in prices: Netflix adopted a strategy to optimized product plans, as lightly increments on prices rates. The ethical consideration from Netflix it should communicate the rise prices and the improvement with the Netflix's services and offer accessible alternatives plans with advertisement to reduce the entry barrier.

Ethical cost management: Netflix's budget for content production is approximately 17 M USD (£13.2 M GBP) annually. To manage this ethically, Netflix prioritises operational efficiency and the reduction of production emissions. It also aims to maintain service quality and preserve the user experience, while investing in its own productions to reduce dependency on copyrights and external licences.

Decarbonizing productions to reduce costs: This segment represents a significant challenge for Netflix, as the company must navigate two parallel pressures: advancing sustainability and reducing costs in an ethical manner. Netflix is implementing strategies such as replacing diesel generators with portable battery systems and transitioning its vehicle fleet to electric models worldwide. These adjustments create short-term financial strain, as they increase operational

costs; however, from a long-term perspective, they are expected to reduce expenses by 15% to 35%

(Netflix, 2025)

6. Conclusion and Recommendations

6.1 Recommendations

Transparency: Greater transparency is recommended because Netflix invests in sustainability but does not disclose how much or in which areas, which prevents measuring impact, evaluating returns, improving internal decision-making, and strengthening external stakeholder trust.

Optimise amortisation: The increase in operational expenses in 2025 is double compared with previous years due to global expansion. The recommendation is to implement a flexible budget and semi-annual revisions to control and adjust investment according to actual results.

6.2 Conclusion

The analysis of Netflix shows that the company operates within a competitive and dynamic industry, where management accounting is crucial for developing effective financial planning and cost efficiency worldwide. Netflix generated approximately £33.55 B GBP in revenue in 2025 and reached 325 million subscribers, consolidating its position as a leader in the streaming industry. The +13.79% increase in operational expenses in 2025 reflects investments in global expansion and content diversification, supported by a low-cost subscription plan backed by advertising and by technological and sustainability innovation.

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