WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Customer Segmentation in Targeted Advertising: A Case Study on Netflix

Anubhav Sharma

School of Business, Galgotias University, Plot No. 2, Yamuna Expy, Greater Noida, 203201, India

A B S T R A C T :

Understanding consumer behaviour is key to optimizing digital marketing, especially in the highly competitive OTT streaming industry. This paper explores how Netflix uses consumer segmentation to enhance targeted advertising and improve user experience. Through advanced analytics, Netflix segments users based on behavioural, demographic, psychographic, and geographic variables. These segmentation techniques are critical to Netflix's content personalization and its transition to an ad-supported revenue model. The study combines secondary sources with a brief primary survey to examine how segmentation impacts user engagement, ad relevance, and consumer satisfaction. The findings highlight the delicate balance between personalization and privacy and offer insights into the ethical and strategic considerations of data-driven advertising.

Keywords: Netflix, Consumer Segmentation, Targeted Advertising, Personalization, OTT, Behavioural Analytics, AI, AVOD, Data Privacy

1. Introduction

The rise of digital platforms has reshaped how companies connect with consumers. Among these platforms, Over-the-Top (OTT) streaming services have revolutionized content delivery by offering personalized, on-demand access. At the forefront of this transformation is Netflix, which has successfully integrated consumer segmentation into its business model to enhance both user experience and monetization.

Consumer segmentation dividing a broad user base into distinct groups based on behavioural, demographic, psychographic, or geographic factors—is a foundational principle in marketing. For digital-first companies like Netflix, it plays a critical role in optimizing both content recommendations and targeted advertising. With a global subscriber base, Netflix relies on artificial intelligence and machine learning to analyse user patterns, personalize experiences, and deliver tailored ads.

Historically, Netflix operated on a subscription-only model. However, its recent introduction of an ad-supported tier marks a strategic shift aimed at expanding market reach. This move places increased emphasis on segmentation, as the success of targeted advertising depends heavily on understanding user behaviour, preferences, and privacy expectations.

This paper investigates how Netflix applies consumer segmentation in its marketing and advertising strategies. It analyses the impact of segmentation on user engagement, advertising effectiveness, and platform performance, while also exploring ethical considerations related to data usage and personalization.

The research combines a comprehensive literature review with a brief primary survey to evaluate the effectiveness of Netflix's segmentation strategy. It also draws comparisons with competitors in the OTT space to identify best practices and emerging trends.

2. Literature Review

Consumer segmentation has long been essential to effective marketing. Early models, such as the STP (Segmentation, Targeting, and Positioning) framework by Kotler (1967), emphasized demographic variables like age and income. Over time, segmentation has evolved to include behavioural, psychographic, and usage-based patterns. Weinstein (2004) argued that dynamic, data-driven segmentation is critical in digital environments. Similarly, Wedel and Kamakura (2012) suggested that advanced techniques—such as cluster analysis—allow firms to better align offerings with consumer needs.

In the context of digital services, behavioural segmentation has gained prominence. Kannan and Li (2017) highlighted that platform using browsing history, frequency of use, and interaction data can target users more effectively than traditional demographic methods.

The explosion of big data has enabled hyper-personalized marketing. Arora et al. (2008) found that segmentation-based personalization increases

customer satisfaction and purchase intent. Lambrecht and Tucker (2013) demonstrated that ads based on recent behaviour perform significantly better than those based on general demographics. In ad-supported streaming, this principle becomes vital: ads must be relevant without disrupting the viewing experience.

Bleier and Eisenbeiss (2015) concluded that while personalized recommendations increase trust and engagement, they are only effective when users feel their privacy is respected.

Streaming platforms like Netflix use segmentation not only for marketing but also to shape user interfaces and content delivery. Datta et al. (2018) showed that Netflix reduces churn by personalizing its recommendation engine. Malthouse and Li (2017) explained how real-time behavioural segmentation enables personalized thumbnails and content layout. Zhou et al. (2020) found that content clusters based on genre preferences and binge habits increase engagement.

Netflix's own technical documentation reveals its use of hybrid recommender systems—combining collaborative and content-based filtering—to enhance personalization (Netflix Tech Blog, 2023).

As platforms gather more user data, concerns about ethics and privacy intensify. Martin and Murphy (2017) found that while young users appreciate personalization, they are cautious about tracking. Goldfarb and Tucker (2011) emphasized the importance of transparency in data collection, noting that users are more accepting of targeting when clear benefits are evident.

While significant research exists on segmentation and digital advertising, few studies explore their combined application in the OTT space—particularly during the transition from subscription-based to ad-supported models. Additionally, limited primary research captures consumer perspectives in emerging markets like India, where regional content and data sensitivity play major roles.

3. Research Methodology

This study employs a mixed-methods approach, combining qualitative and quantitative analysis to explore how Netflix applies consumer segmentation to enhance targeted advertising. The research is descriptive in nature and integrates case studies, industry reports, and a small-scale primary survey to provide multi-dimensional insights.

Extensive secondary research was conducted using Netflix investor reports, market intelligence platforms like Deloitte, Statista, and Mordor Intelligence, as well as academic sources on AI and personalization. Primary data was gathered through a short survey administered via Microsoft Forms, with 13 participants offering feedback on Netflix usage and personalized content.

The study evaluated Netflix's segmentation strategy through demographic, psychographic, behavioural, and geographic variables. These segmentation models were analysed to understand their role in enhancing engagement and ad targeting.

Segmentation Type	Variable Used	Examples in Netflix
Demographic	Age, Language, Subscription Plan	Anime for Gen Z, Classic films for seniors
Geographic	Location, Regional Language Preference	Tamil originals in South India
Behavioural	Watch time, Binge frequency, Genre	Horror fans get more thrillers suggested
Psychographic	Lifestyle, Mood, Social trends	Mood-based recommendations (e.g. "Feel-Good")

Table 1: Netflix's Segmentation Strategy

Netflix's segmentation is powered by AI models such as collaborative filtering (based on similar user behaviour), content-based filtering (based on attributes of watched content), and hybrid models. Personalized thumbnails, 'Top Picks', and 'Because You Watched' rows are among the techniques applied.

Device-based segmentation also plays a key role. Mobile users are offered shorter previews, while smart TV users often receive longer content. Laptops and tablets are targeted with autoplay features and mixed-format content. This level of personalization is critical to Netflix's ad-supported model, where user experience and ad effectiveness must be aligned.

To evaluate Netflix's strategy, comparative analysis was conducted with Disney+, Hulu, and Amazon Prime Video based on AI usage, ad targeting, and content personalization. Key performance indicators include engagement rate, churn rate, ad effectiveness, and subscription growth.

Despite a strong design, the study faces limitations such as a small primary sample size, lack of access to Netflix's proprietary algorithms, and rapidly evolving industry trends. Privacy regulations also restrict comprehensive insights into ad personalization mechanisms.

3.1.1 Survey Instrument

The primary data was collected through a structured online survey using Microsoft Forms. The questionnaire included both multiple-choice and Likert-scale questions focused on:

- Frequency of Netflix usage
- Preferred content genres
- Device used for streaming
- Awareness of subscription plans
- Attitudes towards personalized recommendations
- Comfort level with data usage for ads

The survey was shared with university students and young professionals, resulting in 13 complete responses.

4. Research and Analysis

Netflix's segmentation strategy plays a pivotal role in enhancing user experience and optimizing revenue. The platform leverages AI to personalize content layouts, from thumbnails to watchlists. Survey data shows that 62% of respondents received personalized recommendations, with an average relevance rating of 3.77/5. Additionally, 69% agreed that recommendations improved their viewing experience.

The subscription model is tailored to user segments:

- Mobile Plan: Budget-friendly, supports mobile and tablet viewing only (₹149/month)
- Basic Plan: Single screen access on any device with HD quality (₹199/month)
- Standard Plan: Two-screen access with Full HD quality (₹499/month)
- Premium Plan: Four-screen access with Ultra HD (4K) + HDR support (₹649/month)

Device-specific behaviour further enhances personalization. Most respondents (61%) used laptops/desktops, followed by smartphones. Netflix offers short previews on mobile, full-length series on TVs, and hybrid formats on laptops/tablets.

Survey results showed strong genre preferences: Action (77%) and Sci-Fi/Fantasy (54%) topped the list, indicating the value of genre-based segmentation. However, only 7.7% of users were comfortable with their data being used for advertising, showing hesitation towards Netflix's ad-supported model.

Question	**Top Response**	**%**
Preferred Genres	Action, Sci-Fi	77%, 54%
Primary Device Used	Laptop/Desktop	61%
Awareness of Plan Type	Not sure	~60%
Personalized Recommendations Seen	Yes	62%
Comfort with Data Used for Ads	No	92.3%
Rating of Recommendation Relevance (avg.)	3.77/5	—

Table 2: Survey Insights

From a business standpoint, segmentation helps:
- Increase engagement through personalized UI
- Lower churn via relevant content
- Optimize ad targeting
- Expand reach with localized, regional content

Compared to peers, Netflix leads in personalization, though platforms like Hulu and Amazon Prime Video excel in ad monetization. The challenge for Netflix lies in building a trusted ad-supported experience without compromising user satisfaction.

5. Finding

The findings of this study reinforce the value of consumer segmentation as a strategic tool in digital streaming. Netflix's application of AI-driven segmentation has proven highly effective in enhancing personalization, reducing churn, and improving user satisfaction. The survey data showed that personalized recommendations increased perceived value and engagement among viewers, confirming literature that links segmentation to consumer satisfaction (Arora et al., 2008).

Netflix's tiered subscription model aligned with demographic and behavioural variables demonstrates a practical use of segmentation for revenue optimization. Device-specific targeting also supports cross-platform engagement and informs ad formatting strategies for its new ad-supported tier.

However, the success of ad personalization is limited by user trust. Only a small percentage of users were comfortable with their data being used for advertising. This finding aligns with studies by Martin and Murphy (2017) and highlights the privacy-personalization trade-off that Netflix must manage. Transparency, consent, and responsible data practices will be essential for the long-term success of its AVOD model.

From a competitive perspective, Netflix remains a leader in algorithmic personalization. While Hulu and Amazon Prime Video lead in ad monetization, Netflix's strength lies in its recommendation engine and localized content strategy. This positions the company well, though future success depends on maintaining its ethical edge while scaling its advertising efforts.

The research supports broader conclusions for OTT platforms: segmentation is no longer optional but essential. Personalization must be combined with trust, relevance, and ethical responsibility to achieve sustainable growth in the streaming economy.

Platform	Personalization	Ad-Supported?	Strength
Netflix	Strongest	Yes	AI segmentation, localized content
Amazon Prime	Strong	Limited	Ecommerce-based ad targeting
Disney+	Moderate	Yes	Franchise-focused, family content
Hulu	Strong	Yes (early adopter)	Advanced ad model, personalization

Table 3: Platform Comparison

6. Conclusion and Recommendations

This study examined the role of consumer segmentation in enhancing targeted advertising and personalization within Netflix's streaming ecosystem. It found that Netflix leverages a sophisticated mix of behavioural, psychographic, demographic, and geographic segmentation strategies to optimize content recommendations and support its ad-supported model. These segmentation methods are enabled by AI algorithms that tailor the user experience across devices and subscription plans.

While the majority of users appreciate personalized suggestions, there is widespread concern over the use of viewing data for advertising. This highlights a critical challenge for Netflix as it scales its ad-supported offering—building and maintaining user trust. The research concludes that the company must prioritize ethical data practices and transparent communication to ensure acceptance of personalized advertising.

Based on the analysis, the following recommendations are made:
1. Increase transparency regarding data usage and provide opt-in options for ad personalization.
2. Tailor advertisements to user segments by genre preference, engagement level, and device usage.
3. Invest further in regional content production based on geographic segmentation insights.
4. Monitor user sentiment towards ads and adjust frequency or content type accordingly.
5. Ensure that personalization algorithms continue to prioritize user experience over commercial intent.

As the OTT industry becomes increasingly competitive, the ability to deliver personalized yet privacy-conscious experiences will define platform loyalty. Netflix's segmentation-driven strategy offers a strong foundation for continued innovation and market leadership if implemented with ethical foresight.

REFERENCES

1. Arora, N., Dreze, X., Ghose, A., Hess, J.D., Iyengar, R., Jing, B., ... & Shankar, V. (2008). Putting one-to-one marketing to work: Personalization, customization, and choice. Marketing Letters, 19(3–4), 305–321.
2. Bleier, A., & Eisenbeiss, M. (2015). Personalized online advertising effectiveness: The interplay of what, when, and where. Marketing Science, 34(5), 669–688.
3. Chaffey, D. (2022). Digital Marketing: Strategy, Implementation, and Practice. Pearson Education.
4. Datta, H., Knox, G., & Bronnenberg, B. J. (2018). Changing their tune: How consumers' adoption of online streaming affects music consumption and discovery. Marketing Science, 37(1), 5–21.
5. Deloitte. (2022). The Future of OTT: Beyond Content. Retrieved from https://www2.deloitte.com
6. Goldfarb, A., & Tucker, C. (2011). Online display advertising: Targeting and obtrusiveness. Marketing Science, 30(3), 389–404.
7. Kannan, P. K., & Li, H. (2017). Digital marketing: A framework, review, and research agenda. International Journal of Research in Marketing, 34(1), 22–45.
8. Kotler, P., & Keller, K. L. (2021). Marketing Management (16th ed.). Pearson Education.
9. Lambrecht, A., & Tucker, C. (2013). When does retargeting work? Information specificity in online advertising. Journal of Marketing Research, 50(5), 561–576.
10. Martin, K. D., & Murphy, P. E. (2017). The role of data privacy in marketing. Journal of the Academy of Marketing Science, 45(2), 135–155.
11. Malthouse, E. C., & Li, H. (2017). Opportunities for and pitfalls of using big data in advertising. Journal of Advertising, 46(2), 227–235.
12. Mordor Intelligence. (2024). Over-the-Top (OTT) Market – Growth, Trends, Forecasts (2023–2028). Retrieved from https://www.mordorintelligence.com
13. Netflix. (2023). Netflix's Personalization Approach. Retrieved from https://about.netflix.com
14. Netflix Tech Blog. (2023). How Netflix uses machine learning to power personalization. Retrieved from https://netflixtechblog.com
15. Rust, R. T., & Huang, M. H. (2021). The AI revolution in marketing. Journal of Marketing, 85(1), 20–36.
16. Statista. (2023). Netflix Subscriber Growth and Revenue Trends. Retrieved from https://www.statista.com

17. Weinstein, A. (2004). Handbook of market segmentation: Strategic targeting for business and technology firms. Routledge.
18. Wedel, M., & Kamakura, W. A. (2012). Market Segmentation: Conceptual and Methodological Foundations. Springer Science & Business Media.
19. Zhou, Y., Xie, Y., Tang, J., & Zhou, B. (2020). Personalized content recommendation in OTT streaming services. IEEE Access, 8, 191121–191130.