

The Effect of Free Trial on Netflix's Service Retention among the audiences in Malaysia

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ABSTRACT

Abstract: This article deliberates the conceptual framework for free trial as a powerful tool to entice new subscription to Netflix streaming media content. The transformation of technology has made the convergence of telecommunication and broadcast networks seamless. Thus, the boundaries between the telecommunication and broadcasting industries collapsed. This resulted that audiences are able to watch Netflix on any type of devices, anywhere at any convenience time possible. The free trial period is considered one of the key success factors for new media streaming providers like Netflix because it gives customers the best experience such as getting to know about the service before they continue their subscription. This paper argues that a free trial period provides a guaranteed baseline level of customer satisfaction from the very initial stage. This paper presents three important roles of the free trial period namely nurture process, motivation to audiences to subscribe the service and effect of free trial period and its relationship to the customer retention. In general, customer satisfaction is a measure of how well a free trial offered is able to meet customer expectations. As such, we employed the media dependency theory (MDT) as a systematic approach in order to study the effects of free trial period on audiences and the interactions between Netflix streaming media and audiences and ecosystem in Malaysia. Thus, based on the MDT, the researcher developed a conceptual framework to study this phenomenon as a guide to paths of research and offer the underpinning for establishing its reliability.

Keywords: *New Media, Free Trial Period, Netflix, service retention, media dependency theory*

Kesan Tempoh Percubaan Ke Atas Pengekalan Perkhidmatan Dalam Kalangan Penonton Di Malaysia Untuk Meneruskan Langganan Netflix

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ABSTRAK

Abstrak: Artikel ini membentangkan rangka kerja konsep untuk tempoh percubaan percuma sebagai alat yang berkuasa untuk menarik langganan baharu kepada kandungan media penstriman Netflix. Transformasi teknologi terkini telah menjadikan rangkaian telekomunikasi dan penyiaran menjadi konvergensi. Oleh itu, seolah-olah tiada sempadan antara industri telekomunikasi dan penyiaran. Ini menyebabkan audiens dapat menonton Netflix melalui pelbagai jenis peranti, di mana-mana sahaja dan pada bila-bila masa. Tempoh percubaan percuma merupakan salah satu faktor kejayaan utama untuk penyedia penstriman media baharu seperti Netflix kerana ia memberikan pelanggan pengalaman terbaik seperti mengenali perkhidmatan sebelum mereka meneruskan langganan mereka. Artikel ini berpendapat bahawa tempoh percubaan percuma memberi jaminan asas kepuasan pelanggan dari peringkat awal. Artikel ini membentangkan tiga peranan penting dalam tempoh percubaan percuma iaitu proses pemupukan, motivasi kepada audiens untuk melanggan perkhidmatan dan kesan tempoh percubaan percuma dan hubungannya dengan pengekalan langganan. Secara amnya, kepuasan pelanggan dapat diukur apabila melalui tempoh percubaan yang ditawarkan dapat memenuhi jangkaan audiens. Oleh itu, kajian ini menggunakan teori kebergantungan media (MDT) sebagai pendekatan sistematik untuk mengkaji kesan tempoh percubaan percuma ke atas audiens dan interaksi antara media penstriman Netflix dan audiens serta ekosistem di Malaysia. Oleh itu, berdasarkan MDT, penyelidik membangunkan rangka kerja konsep untuk mengkaji fenomena ini sebagai panduan kepada laluan penyelidikan dan menawarkan asas untuk mewujudkan kebolehpercayaannya.

Kata kunci: Media Baru, Tempoh Percubaan Percuma, Netflix, pengekalan perkhidmatan, teori kebergantungan media

INTRODUCTION

Most of enterprises offer free trials to their prospect customers in order to demonstrate that their prospective customers to experiences the service and to enjoy value of money before they decide to subscribe the service rendered. This method has long been used in business as tactical marketing strategies with main purpose to attract customers and to entice new revenue. For instance, a free offer starts with a formula milk promotion where the manufacturer provides a free sample to the clinic to be distributed to customers as a trial pack (Choi et al., 2020). Later, similar business's marketing tactics were expanded into cosmetic and shampoo products (Effiong et al., 2018). Previously, almost all trial sample offers were related to tangible products only, now the approach has been expanded into intangible services such as software (Datta et al., 2015), mobile services (Reza et al., 2020), subscription video on demand (SVOD) such as Netflix (Jiao et al., 2019) and PayTV such as Astro and unifiTV.

Netflix penetrated Malaysian market since 2016. Like any other television programs, Netflix's main functionality is as a source of entertainment to the viewers. With the advent of the Internet, Netflix is easily accessible by the Internet users via compatible multiple devices such as tablets, laptops, desktop, smart TV and smartphones (Esack, 2017). This gives Netflix an advantage over cable TV and pay TV services because of the static and large TV sets. In addition to that, Netflix offers a lots of convenience to viewers in terms of flexibility whereas they are able to access the content from Netflix's at their own preferred time at any time (Isa, A. et al., 2020). In more clear context, Netflix indirectly is able to cater to the needs of viewer's digital lifestyles with mobility.

As Malaysia progresses towards digital transformation, it is unavoidable that subscribers will increasingly resort to the Internet access for everything from daily requirements to media streaming desires (Isa, A et al., 2021). According to Parrot Analytics's report, content that accessible via Netflix platform is dominating almost 70% of streaming media market in Malaysia (Parrot Analytics, 2019). Netflix eventually created competition after it began creating its own unique programming known as Netflix Originals (Jenner, 2018). It is important to acknowledge that Netflix's content is not censored by the Malaysian government due to current regulation which can only regulate firms that are registered in Malaysia (Tarrence Tan & Carvalho, 2021). This resulted in Netflix's subscribers having the ability to enjoy content that has been blocked by the Film Censorship Board (LPF) such as Noah, Fifty Shades of Grey and many others that have been categorized as not suitable for public viewing (Isa, A., et al., 2021).

One of the purposes of a free trial period is to allow users to consider whether it is the right option for them before deciding a purchase and/or to continue to subscribe to the service. However, in October 2020, Netflix removed its free trial in the United States's market. According to the report released by Newsweek, Netflix is no longer offering free trial period and **review** its position at different marketing promotions in the United States to attract new members and give them a great Netflix experience (Spencer, 2021). For Malaysia market, Netflix also imposed the same policy whereby it does not offer free trials anymore, instead the audience have the freedom to change their plan or cancel the service via online at any time.

This study is of the view that, the elimination of the Netflix free trial may have impact on both over-the-top streaming demand in response to the coronavirus epidemic and the long-term changes in the broadcasting sector since Netflix expanded its footprint in Malaysia since 2016. During the free trial period, customers are able to reduce uncertainty about the quality of a service because it is easier for users to generate positive attitudes and buying intentions by gaining a personal experience from the trial (Jiao et al., 2019). With the absence of a free trial period, potential customers may no longer be able to exercise their rights as users to experience using a service prior to making decision on whether or not to continue the subscription. Therefore, the objective of the study is to develop a conceptual framework with regards to Netflix's new policy which is no longer offering 30 days' free trial period in term of (i) how free trial period affect audiences' motivation to continue their subscription; (ii) the effect of free trial period on audiences to continue subscribe Netflix and finally (iii) identify the important of free trial period levels and its relationship to customer satisfaction in Malaysia. Furthermore, Netflix increased the subscription fee for RM35/month for Basic, RM45/month for Standard and RM55/month for Premium since January 2020.

LITERATURE REVIEW

This segment will discuss the previous studies in relation to independent variables with respect to free trial periods offered to the clients from various industry perspectives. This study also presents the theoretical foundation and employed Media Dependency Theory (MDT) which is the main argument used in order to strengthen the relevance of this study. Sandra Ball-Rokeach and Melvin Defleur developed the MDT in 1976. In general, MDT is a systematic approach in lightening the impacts of mass media on audiences and the interconnections between media, audiences, and social systems (De Fleur, 2016), in this context, the service provider behavior in adjusting their service offering in the market. The idea is based on traditional sociological literature, which holds that media and their viewers should be analysed within the framework of wider social systems. In principle, this theory elaborates that audiences are relying on the media to satisfy their needs such as to obtain information, entertainment, escapism and have a total impact on their life. As mentioned earlier, MDT suggested the important of relationships among the audiences, the media and the social system at large.

a. Free Trial Period as a Nurture Process to Experience The Service

The emerging of Over-The-Top (OTT) streaming media in Malaysia is bringing further coloration to Malaysian digital everyday living with Internet connectivity dependencies. During early penetration days of global OTT streaming media in Malaysia, most of them were offered on free trial period. It seems that from industry practice, free trial period now become as part of commodity that involves selling and buying of services precisely effort of industry player to entice a new sale through marketing activities. For instance, Netflix, which heavily advertises its 30 days free-trial offer (Isa, A., et al., 2020). Upon

expiry of the trial, consumers can opt out or do nothing which will automatically become a subscriber to Netflix.

In addition, the no-contract principle became one of the captivating factors to Netflix where customers can freely terminate their services at any time. This is consistent with Netflix new motto announced by Reed Hastings - No Rules: Netflix and the Culture of Reinvention. The main concept of free trial is inviting the prospects customer to try the service for free in the hope that they will subscribe the service (Kotler, 2019). In other word, free trial period gives an opportunity to potential customer **to evaluate** how the service that they are going to subscribe is able to bring value to them before the end of the trial period. During the trial period, most of industry players employed sales promotion strategies which did not impose any charges and there is no obligation for the prospective customer to pay the service (Kotler, 2019). They can exit the service without penalty for pre-mature contract. From another perspective, free trials period is one of great way to lessen the resistance from the potential subscriber. It is important to note that free trials can be considered as micro commitment to lure the prospect to agree to subscribe the service rendered (Datta et al., 2015). Also , during the free trial period, it allows the service provider to establish the relationship with the prospect (Levinson et al., 2006).

In addition to the above, free trial period also allow the prospect customers to learn about the service (Jiao et al., 2020) not limited to how to download the application at the mobile phone, set-up Netflix program at the smartTV, download and/or stream the movies, genre selection, search function, receive the notification on new movies on board and many others. It is very important to acknowledge that free trial period is an opportunity to the prospect to make an assessment and evaluation on the service in term of price and coverage that fit with their expectation and requirement (Levinson et al., 2006). However, the trial period for OTT streaming media services is different from most of software markets among others are SmartPLS, Adobe Photoshop, Adobe InDesign and more. For software applications for instance, normally free trial consists of offering a partial experience with durable products, usually in the form of basic or limited versions of complete products (Reza et al., 2020). Usually, OTT media providers offer a free trial period including with the number of devices that can access the content from their library platform. As a result, the prospect customer including the family members are able to connect anytime using a small screen (smartphone, tablet, laptop) or big screen (smartTV) to access the content (Isa, A., et al., 2020).

Thus, the adoption rate of Netflix after the free trial period is high at 90% (Foubert & Gijsbrechts, 2016). This free trial period gives Netflix an advantage in terms of competition compared to its other competitors such as Amazon Prime Video, Hulu Plus and other OTT media players. Therefore, based on the above literature review, this paper argues that there is a need for a study to be conducted on the free trial period of Netflix service to determine if the community in Malaysia considers the free trial period helps them to improve their experience before deciding to subscribe the service.

The central of this study is to examine the independent variable in a cause-and-effect relationship which are called the independent (nurturing process) and dependent

variables (retention and/or subscription). The cause is called the independent variable (IV) and the effect is called the dependent variable (DV). This means that, free trial period is a nurturing process that has direct effect to user's experience subsequently cause the users to subscribe the service. For further explanation, this is illustrated in Figure 1 below.



Figure 1: Relationship of free trial period (IV) and retention (DV)

b. Free Trial Period is Able to Affect Audiences' Motivation

Many past studies have examined how the trial period is able to influence adoption among the customers and/or subscribers to purchase and/or subscribe the service. For instance, suppliers of electronic banking have successfully positioned their innovation in the marketplace by making potential adopters more familiar with the innovation through free trial period mechanism in order to facilitating adoption (Avlonitis & Papastathopoulou, 2006). Given that situation, free trial period also allowing the consumers to engage in a low commitment relation adoption decision if they are not satisfied (Datta et al., 2015) with the service rendered by the service providers. Thus, the adoption rate of Netflix after the free trial period is high at 90% (Foubert & Gijbrechts, 2016). This means, if the prospects are not satisfied, they can opt out at any time. In clear context, the inverse or negative relationship between the adoption rate will be determined by the satisfaction of the prospect customers.

In relation to the content that can be accessible from the Internet, the free trial period is also one of the methods and strategies to prevent viewers from watching pirated content. According to Lu et al. (2021), the free trial and a competitive price are the pushing factors for consumers to stop watching pirated content due to they have an alternative to access the content via OTT media streaming service platform. Apart of free trial, other reason that further enhance audience's motivation to subscribe to OTT media is due to the high quality of content (Lu et al., 2021). Reason being is that the OTT media streaming platform offered high quality video as compared to the pirated content such as the physical details, sound effects, audiovisual, lighting and colour of the film or movie. However, those details are not available for the pirated content. Thus, the audiences can't really enjoy and experience better quality of the content.

What is more, during the free trial period, the prospects are able to make themselves familiar with the services subsequently helps them to improve media literacy after learning about the services including but not limited to access, evaluate, adequate

of skill required to make an assessment that influences the audience's purchase decision. In other words, free trial period may change user's perceptions, attitude and needs subsequently their post-trial behavioural especially the moment the service is reaching the expiry date. Among the reasons are the OTT media streaming offers extra value-in-use to audiences in particular no advertisement especially during the binge watching activities (Yang et al., 2015)(Isa, A., et al., 2019). Obviously, as compared to the free-to-air television, the audiences will be not distracted with commercial advertisement in order to enjoy the movies via Netflix or any other OTT media streaming services.

Free trial period also proven as powerful instrument that help reminds the prospect customer about the extra value of the service. For instance, usage intensity can be an important driver of adoption and retention because it reminds customer about the personal value that they experience during the free trial period (Datta et al., 2015). During the free trial period, the goal is to make it possible for the potential customers to have experience about the service. There is strong evidence from previous study that free trial period allow someone to start to feel a sense of ownership (Armstrong, 2010). Thus, the feeling of ownership has developed as motivation factor for customers to continue the subscription after the free trial period expires. Practically, there are two ways for OTT media streaming players to structure free trials period:

- i. Opt-in. Users sign up for free without including any payment information. They can explore the service until date of trial expires, at which point the system will pop-up reminds to sign up to pay and/or get out; an
- ii. Opt-out. Users' fill-up credit card information is taken at the start. If the user doesn't cancel by the end of the trial period, the service provider will bill them automatically.

In most cases especially in quantitative studies that uses parametric statistics in analysing the data (Fraenkel & Wallen, 2009)(Zainuddin Awang et al., 2015), the factor that motivates the audience to continue subscribing is known as the mediating factor. In simple and plain language, mediator means a way in which an independent variable impacts a dependent variable. It's part of the causal pathway of an effect, and it indicates that how or why an effect takes place(Preacher & Hayes, 2008)(Awang et al., 2018)(Shatha A. Mahfouz et al., 2020). If free trial period is a mediator, influencing the adoption is clearly caused by the independent variable (free trial period) and thus, it influences the dependent variable in this study namely satisfaction and subsequently this led to service retention. Hence, the aim of mediation analysis is to see if the influence of the mediator is stronger than the direct influence of the Independent Variable. Figure 2 illustrates the relationship of free trial period as mediating factor that motivate audiences to make decision to retain Netflix subscriptions.

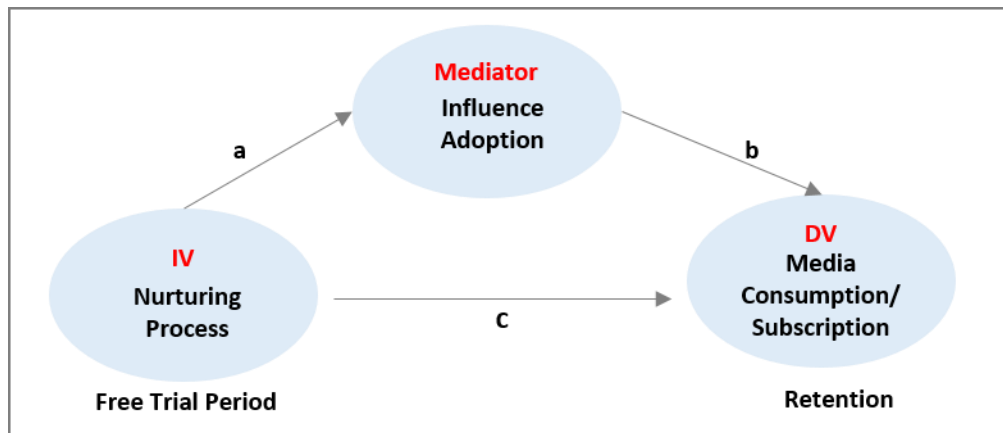


Figure 2: Position of IV effects a, b and DV c for the free trial period in the study model

In clearer context, the researchers attempt to prove a new empirical describing the simultaneous relationship using the same sample to test the mediating factors as illustrated in Figure 2.

c. Free Trial Period and its Relationship to the Customer Retention

This study is also attempted to asses and analyze the current state of free trial period and its relationship with the customer retention from the academic and industry perspectives. According to Oliver (2015), in the modern concept of marketing, customer retention and its psychological equivalent of loyalty may have superseded satisfaction. In fact, that the emergence of loyalty and even to suggest a correspondence between satisfaction and loyalty at this juncture has been proven (Oliver, 2015). Based on the above-mentioned context, this study intends to examine how audiences in Malaysia respond to the free trial period offered by the OTT streaming media players and its relation to retention of service. According to Kotler (2019), it is supremely important to satisfy the needs of potential customers due to customer retention is more important than customer acquisition. Hence, customer retention is referring to business approach in converting new customers into regular customers through creating a better customer journey, give extra value to customers subsequently long-term customer satisfaction (Kotler, 2019). With same notes, customer retention is actually vertical dimension of satisfaction, individual episodes of satisfaction can accumulate into summary or long-term states (Oliver, 2015).

Based on the previous study, the main determinant factor for customer retention is the quality of service. For example, service quality is a key factor in customer retention which is widely used procedure implies the general assumption that the same quality value is accompanied by the same level of customer retention in the banking sector (Hishamuddin Ismail, 2009). In addition to the above, service quality in particular of the time taken in servicing is considered to have the highest direct impact on customer retention in automobile workshop industry (Kumar et al., 2017). In the context of this study, the quality of Netflix service is a factor that drives audiences to continue the service after the end of the free trial period. Positive user’s experience has a productive impact

consistent with customer's expectation. For example, better quality of Netflix's streaming media services will improve users experience for the service in Indonesia market (Martins & Riyanto, 2020).

Avid viewers that always have binge watching activities will also have a tendency to continue subscribing to OTT media streaming services. However, potential customers are more uncertain about the service benefits and may have doubts on their own usage behavior. Hence, potential customers typically use the free trial period to assess their own usage intensity and value the service if they have high usage to watch the movies subsequently to continue the service (Datta et al., 2015). In other words, a person's habits in daily activities especially in the aspect of media dependencies also influence them to continue subscribing to the OTT media steaming service after the trial period ends (Yang et al., 2015).

In the context of this study, retaining the service with Netflix by the prospect customer has been identified as Dependent Variable. Reason being is that it is something that depends on other factors namely free trial period that stimulate the interest of potential subscriber to Netflix service. In this instance, the dependent variable (media consumption and/or subscription) is the effect. Its value depends on changes in the independent variable in this context is free trial period. Figures 2.1 and 2.2 explains the position of the dependent variables in this study.

d. Free Trial Period Related to Media Dependency Theory (MDT)

The central of our study is to examine the cause effect of free trial period and its relationship with subscribers' retention that reflect the customer satisfaction. In general, this study aims to discuss the phenomenon of audience dependencies on Netflix in terms of free trial period ability to influence the decision of the audience to continue to subscribe the service. According to the MDT, the more the media's ability to satisfy viewer's expectations, the more likely they are to rely on the media in this particular Netflix. As a result, the media will have a greater impact on them. It implies that viewers utilise media to meet three basic needs namely to obtain entertainment, information and to escapism (Yang et al., 2015). On the same notes, this study would like to emphasize that it is also important to acknowledge that new media serves the audience's various goals that fit with digital lifestyle. Thus, this study tends to agree with Yang et al. (2015), with regard to the dependency on new media which influences people's behavior including buying behavior.

Yang et al. (2015), further explains that intensity dependency refers to the strength of dependency relationship. They argued that that goal dependency refers to viewer goals that are satisfied, manifestation from comprehension and enjoyment towards the movies. In fact, there is a very clear discussion in the past on the role of the media and its impact among others are (i) the effects of advertising on purchasing, (ii) the effects of political campaigns on voting, (iii) the effects of public service announcements (PSAs) on personal behavior and social improvement, (iv) the effects of propaganda on ideology, and (v) the effects of media ritual on social control (Mcguire, 1986)(Perse, 2001).

However, only a few researchers have studied the dependency of media with one of the modern marketing techniques in the contemporary context namely free trial period particularly the new media domain with digital lifestyle from Malaysian perspective. In a separate development, studies on media dependency on the free trial period have been conducted in Netherlands (Datta et al., 2015)(Foubert & Gijbrecchts, 2016), United Kingdom (Smits & Nikdel, 2019), Indonesia (Martins & Riyanto, 2020) and Singapore (Reza et al., 2020). It should be emphasized that such study has not been conducted in Malaysia. Therefore, this study is necessary to conduct a comprehensive research from the commercial aspects in which Netflix has ended a free trial period promotion to potential customers including Malaysia market (Spencer, 2021). Hence, this study plan to employ MDT in order for researchers to identify the cause effects in the absent of free trial period promotion from Netflix.

CONCEPTUAL FRAMEWORK

Overall, this paper uses a conceptual framework to illustrate the researcher's idea on how the research problem will be explored eventually to define the relevant variables based on theory and literature reviews, subsequently maps out how they might relate to each other (Rocco & Plakhotnik, 2009). The objective of this study is to understand in depth about the causal effects of the free trial period among audiences and its impact in terms of OTT media subscriptions retention in Malaysia. This study has identified the key concepts and the conceptual framework of the proposed study is shown in the Figure 3 below.

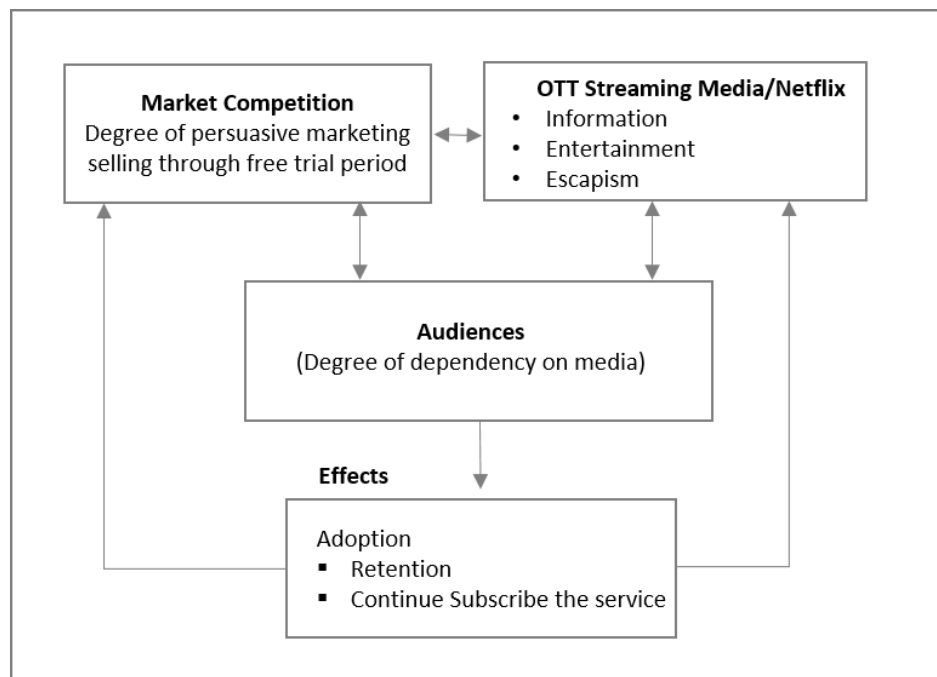


Figure 3: Proposed conceptual framework of the study

THEORETICAL FRAMEWORK

Theoretical framework defines the main variables influencing the phenomenon of interest and highlights the need to study how those main variables might vary and under what circumstances. As highly recommended by Sekaran and Bougie (2016), after a critical review of the literature that relevant to the topic, the researchers should be ready to develop a theoretical framework. Thus, researchers examined the literature review in order to identify the variables that are important and relevant with the research topic as determined by previous research findings. The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework should be able to present and describe the theory that explains why the research gap under study exists (Rocco & Plakhotnik, 2009)(Sekaran & Bougie, 2016). As such, using an established theoretical framework based on MDT, the researchers try to highlight new elements in this article which is the depiction of the interdependence of the three general factors namely:

- (i) free trial period as nurturing process of the audience to gain experience,
- (ii) free trial is able to affect audience's motivation to subscribe to Netflix; and
- (iii) free trial period and its relationship to the customer retention

Based on the abovementioned context, this article suggests the next logical step by step on how the researchers visualize the sustainable use of MDT to answer problems that have been identified earlier. The research framework for this study can be summarised as per presented in Figure 4 by describing the elements studied.

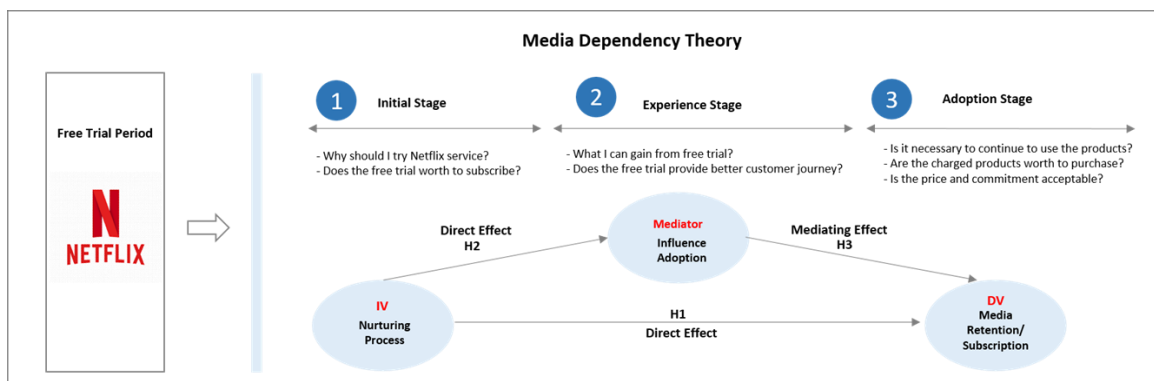


Figure 4: Proposed theoretical framework of the study

METHODOLOGY

In order to come out with the conceptual framework, this paper employed media dependency theory (MDT) and past research to support compelling arguments that relevant to the context of communication domain associated with audience study. Subsequently, based on the literature review, this study identified the research gap in detailing research questions and variables. Hence, this study anticipates that this paper

should be able to determine the relationship between variables that indicate the significance causal-effect in order to answer the research question.

CONCLUSION

Based on the above-mentioned discussion, this paper elaborates the free trial period in determining factor for the audiences continued Netflix's subscription, free trial period effects on the audience motivation to subscribe to Netflix, and relationship between free trial period and retention. The theory employed in this study is MDT, upon which the theoretical framework for this study will be subsequently developed. Following that, the researchers will proceed with the pilot study the moment all the instrument preparation process is implemented. A set of instruments will be given to a group of audiences with the same background as the group of audiences targeted in the actual study. The researchers also shall ensure that the instruments used are in accordance with the set standards before conducting the pilot study process. This study is important due to its ability to contribute to the knowledge towards media industry practitioners in terms of understanding the reaction from active audiences when free trial period cease from the Netflix's service offering.

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