

Netflix case study



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COMPANY OVERVIEW

Reed Hastings founded Netflix in 1997. He noticed that there was a demand for the ability to rent movies. With a large customer base he figured there was no question that his company could fail. This began the online movie rental industry to a large scale. With one company becoming successful, it wouldn't be but a matter of time before others began to catch on and begin to reap the benefits of someone else's idea.

Reed Hastings has already been a success for beginning new companies. He first made a name for himself by going public with Pure Software in 1995 (netflix.com/PressRoom). After the development of this company he began to acquire several other companies and made Pure Software one of the 50 largest public software companies in the world by 1997; this until they sold to Rational Software in 1997. From there Hastings moved on to other projects.

The other project in mind was Netflix. Hastings and a few colleagues formed Netflix in 1997, as formerly stated. Which by 1999, they had over one million subscribers in only three and a half years. Since the beginning of Netflix in 1997, they have battled many different forms of DVD entertainment

competition. The competition ranges from simply going to the local video store, or actually going out to purchase a movie. It ranges too many other levels as well as many other mediums. Through the beginning and even until today Netflix has been able to stay ahead of their competition; this mainly due to the seemingly flawless method of getting the product to the end user, and back. " No one is going to out-hare Netflix," Hasting said. (Netflix-Maddox) With this bold statement, Hastings has been able to keep his word on it. He is able to keep his word mainly because of the intricate rental system involved, also because they have until recently been what seemed to be the best deal for renting movies.

Netflix seems to have a simple statement. " Our vision is to change the way people access and view the movies they love. To accomplish that, on a large scale, we have to set a long-term goal to acquire 5 millions subscribers in the U. S., or 5 percent of the U. S. TV households over the next four to seven years." (Maddox, c-14) This statement appears to be plausible as long as they figure a way to keep the Blockbusters and the Wal-Marts of the world at bay.

" Netflix launched its movie rental service in 1999 with the goal of using the DVD format and the Internet to make it easier for people to find and get movies they will enjoy. As a result, our members can reliably discover and enjoy lesser-known titles. As we succeed, more people are watching more films, and filmmakers are reaching a larger audience. In turn, we believe they will produce more new films. Netflix strives to be the world's largest and most influential movie supplier. (netflix. com/pressroom)"

ISSUES

Primary

The first strategic issue that Netflix will need to cover is how to gain a larger consumer base. Without more members they will have a hard time keeping up with the competition. Many of their competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than Netflix does. Some of their competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantially more resources to marketing and Web site and systems development than Netflix does. The rapid growth of their online entertainment subscription business since their beginning may attract direct competition from larger companies with significantly greater financial resources and national brand recognition. For instance in 2003 the extremely wealthy Wal-Mart used their online site to launch an online DVD subscription service, Wal-Mart DVD Rentals. With increased competition reduced operating margins may result as well as a loss of market share and reduced revenues. In addition, our competitors may form or extend strategic alliances with studios and distributors that could adversely affect our ability to obtain titles on favorable terms.

Secondary

There are new opportunities for the industry. With the advancement of technology many companies can take advantage of the Internet. Currently Netflix expects to spend \$7 million-\$14 million this year on its Internet Video-On-Demand offering, which it will launch during 2005. Along with opening more distribution centers, this will cut down on delivery costs and time. They expect Internet VOD to have little impact on its performance for several years. This will help compete against other members that are allowing the

downloading of movies online. Because of this Netflix will begin a frontal attack as of 2005 with Video on Demand (www.biz-architect.com/netflix_vs_vod.htm).

New Entrants are becoming a threat to the existing members of the industry. More companies are deciding that they can take action in online renting. After Netflix pioneered the online rental service. Since then other major companies like Blockbuster began offering a lower monthly rate in addition to in-store renting. Netflix will not be able compete with in-store renting for the fact that they do not have brick and mortar establishments. With the new entrants in the industry the price of renting movies will become better for the consumers. In order to attract the biggest customer base the companies will need to battle over the best offer. As the competition occurs a few things can happen. First, the price of the membership will decline. Second, more movies will be offered.

Netflix must also consider globalization as a potential area to gain market share. Currently Netflix is serving members throughout the United States and in the United Kingdom. There is already competition globally outside these two countries. Many of the companies in this industry already have locations around the world. For example, Blockbuster has sites in 25 countries, which are 2600 stores outside the United States alone (blockbuster.com). This would mean that they would have to set a distribution centers in a foreign country and hire people to run the actual site. Once the centers are set up though, it would be feasible to promote the online service. Netflix would have to look the different tax rates, currency exchanges, and government regulations, along with different copyrights

associated with the studios that supply the movies, before physically setting up this venture. If the rates of these foreign restraints were greater than that of its sales then Netflix would be operating in a loss.

Something that the industry will begin to see is a change in the increase of technology over time. DVD's have replaced VHS, which replaced Beta, which replaced 8 millimeter; eventually something will replace the DVD. With that said, all companies should be aware that eventually DVD's will be outdated by some future technological advancement. They might be going in a better direction with Internet Video on Demand. It should be noted that the DVD would take a while to be replaced. Currently this technology is still fairly new and extremely reliable to the users.

EXTERNAL ANALYSIS

DOMINANT ECONOMIC FEATURE

Market Size/Growth Rate: The DVD market is one of the fastest growing markets, experiencing unprecedented growth since its debut in 1997. The growth was largely attributed to dramatically falling component prices. DVD recorders were forecast to surpass sales of DVD players by 2007, with an expected compound annual growth rate of 126 percent. DVD sales for 2003 were \$11.4 billion.

Stages of the Life Cycle: The e-commerce movie rental industry is now in the rapid growth and takeoff position, in the business life cycle.

Scope of Competitive Rivalry: Rivalry is fierce between the top e-commerce movie rental agencies, which are Blockbuster Video, Wal-Mart, Movie Gallery, Walt Disney's Movies on Demand, and Movielink's Downloadable Movies.

These rivalries all compete in global marketplace. The Geographic area of

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operations for the e-commerce movie rental industry is worldwide. With the advantage of not having a brick and mortar operation, subscribers can literally be anywhere in the world.

Number of companies in the industry: The online DVD rental agencies are fairly large and still new. There are two major companies that dominate the industry. (Netflix and Blockbuster) The four other companies listed in the previous section are rivalries of Netflix as well.

Buyer Needs: Buyer needs have changed since the opportunity of the e-commerce industry. In the online movie rental industry buyers are looking for the added convenience of not having to drive to the traditional brick-and-mortar outlet. Buyers are also looking for certain attributes such as, no due dates, and free shipping. We can predict that in the future buyers will require a new form of deliver such as downloading.

Pace of Technological Change: Advancing technology plays a vital role in the online movie rental industry. Industry members need strong technological capabilities to keep up with buyer needs.

Ease of Entry/Exit Barriers: Barriers to enter in the online DVD rental market were very low, but the barriers to profitability were extremely high. (Netflix-Maddox)

Degree of Vertical Integration: Members of this industry can gain competitive advantage by being partially integrated through their distribution channel.

Product Innovation: The online movie rental industry should focus on research and development to gain competitive advantage over rivals by

being first to market with a new product. A new product for this industry will soon be VOD.

Degree of Product Differentiation: Rivals within the industry are causing price competition. Blockbuster Video recently just lowered their monthly rate under what Netflix charges for their cheapest subscription. The degree of product differentiation has not occurred with the physical product, but it is the service that is causing price competition.

Economies of Scale: In this industry, members can enjoy economies of scale in shipping activities and partnership agreements with studios

PORTER'S 5 FORCES

The five forces model is a tool used to diagnose the competitive pressure of the industry. The model assesses the strength and importance of each pressure from five different areas of the market. The five areas of competitive pressure are threat of rival sellers, potential new entrants, and firms offering substitute products, supplier bargaining power, and buyer bargaining power. To use the five forces model one must first identify the specific competitive pressures in each of the five areas, second one must evaluate the strength of each pressure, and last one must determine whether the collective strength of the five forces is conducive to earning profits.

Rivalry

The strongest of the five forces comes from rivalry among competing sellers. Firms will use any resource or weapon available to gain a better position in the market. The rivalry in the online DVD rental industry is high. In this industry rivals carry a weakly differentiated product, which makes the threat

from rivals more intense. There are low costs to switch, which make it easier for consumers to shop around and have less brand loyalty. The only area in the online movie rental industry that has weak rivalry is in buyer demand. The industry enjoys an expanding buyer demand. In this fast growing market, rivalry is weak due to enough business being available to all members of the industry.

New Entrants

The threat of new entrants in the online DVD rental industry is strong. Industry members should be concerned with several factors that lead to strong threats of entry. Some factors include a large pool of potential candidates with available resources, low entry barriers, and high buyer demand. The industry is attractive to potential entrants because it is one of the fastest growing markets (Netflix, Maddox). There is significant pressure in the online rental business due to large market growth and profit prospects. The most formidable force comes from the incumbent members entering new areas of the industry. Blockbuster is an incumbent industry member who began expanding into other product segments. Some attributes that Netflix have lead to a weak threat of new entrants. These attributes are; better distribution channels, strong lead of customer base, revenue and brand recognition, and patents that can stifle competition through licensing fees for service (Netflix, Maddox). New comers to the industry also face high barriers to profitability. Netflix may also enjoy a cost advantage from longer experience and technological know-how in the industry.

Substitute Products

The threat of substitute products in the online DVD rental industry is moderate to high. A major threat for the industry is the idea that the DVD will no longer be the medium of choice for home entertainment and that consumers would soon be downloading movies and using On Demand (Netflix, Maddox). The substitutes for the industry are movie theaters, downloads, and movies On Demand. The threat of substitutes is strong when the substitutes are available and attractively priced.

Supplier Power

There are certain competitive pressures that come from supplier bargaining power. If the supplier exercises bargaining power to influence terms or collaborate with sellers there can be a strong pressure. The suppliers of the industry are all of the studios that make movies. Suppliers have sufficient bargaining power when they know what the companies need to keep in inventory because of consumer demand. Each studio makes movies that are only available through them and that is a differentiated product, which gives the supplier more power because the companies can't get the movie from any other studio. One area where suppliers have less bargaining power is if Netflix, or Blockbuster or any other competitor accounts for a big fraction of the supplier's total sales.

Buyer Power

Large retailers usually have more bargaining power than individual buyers. Buyers can demand concessions when purchasing large quantities. There are also not many buyers for the studios so each buyer is important to the supplier. Information is also readily available to each of the competitors to

compare prices the studios are charging other buyers.

DRIVING FORCES

Netflix has become a dot-com success story. Netflix had to build software to help manage its complicated rental system. Using the Internet has extended the geographical area to where it is accessible anywhere in the United States. You can search and rent movies no matter what time it is, you don't have to worry about the store closing. It doesn't matter if there is a store near you or not. They had to have to newest technology available to outwit their competition. How Netflix did this was by making a wish list for viewers to see and eventually rent. Netflix will ship the movies free of charge with no due dates or late fees. One service that Netflix has is called CineMatch, which is a database for all the movies they carry.

CineMatch runs on two Sun 420 systems which generated thousands of predictions each second. CineMatch also collects information on the users' preferences. Netflix built 15 distribution centers to accommodate the customers so they can receive their movie rentals in one business day of shipping. Netflix would ship from the closest distribution center. With customers having more access to the Internet, they will be more likely to order movies online rather than driving to the store and worrying about the late fees.

Changes in Buyers/Changes in Usage

With more users having access to the Internet, more people will be online renting. The home computer will become the next movie store. As the Internet is accessible people may start burning and copying movies from the Internet rather than renting and paying any fee at all. Netflix has mentioned

adding and adult entertainment category to its website. Even though Netflix doesn't want to attract that kind of clientele they have talked about it. This may mean that women will no longer be making up more than half of the subscribers to Netflix. Seeing as how Netflix has come into the rental market people of different socioeconomic range have decided to enter as well. DVD's are much more accessible to every class of citizens, not just the upper class. Netflix appeals to everyone's taste. It appeals to movie fans because you are getting a deal if you watch a lot of movies. Like some people who only watch one movie a month, will lack interest in this deal. So they need to develop a deal for people who only watch 2 movies a month for an even lower price.

Changes in Cost and Efficiency

Netflix was first offering \$20. 95 a month for unlimited rental and three titles out at a time. The flexibility that Netflix offers now is great, the highest price is \$39. 95 which is for the avid movie goers, then it goes down to \$13. 95 for the most limited subscriber. Netflix has the highest efficiency out of all of its competitors because it has more than one distribution center. Netflix also lists your preferences and allows family members to use the account as well. Which means mom and dad can access movies that the kids can't. Netflix started turning profit in 1999 and has had continued success with its growth rate from year to year. Netflix has now lowered the subscriber cost to the amount each person may want to purchase. You can now decide what plan you want to subscribe to making it more efficient and cost worthy to rent movies. With Blockbuster treading on Netflix's heels there is going to be strong competition for a long time. This means that each company that is in

the Internet movie rental business needs to continuously be improving their systems to compete against each other.

KEY SUCCESS FACTORS

Technology-related

In-the brick-and mortar-buying context, we can use all five senses when distinguishing between items and exercising our preferences. Online businesses do not have that luxury. One factor that contributes to the successfulness of an e-commerce business is the persuasiveness of its web site. The industry must provide easy access to all of their movie selections, with search engines and other navigational links to help search for any movie. With the new technology of the Internet online retailers, such as Netflix and Amazon, are capable of monitoring consumer behavior. Unlike brick and mortar retailers they can relate every consumer response on their web site with a marketing-related outcome

Distribution-Related

To gain success in e-commerce there must be a strong network of distributors or shipping centers. With shipping centers strategically located throughout the United States members of the industry can promise that movies will be received within one to three days.

Marketing Related

Marketing related key success factors can be an important way to develop a company's strategy. These strategies can include providing better customer service, customer guarantees, user friendly website, and clever advertising. Without the conventional brick- and -mortar opportunities for marketing, members of the online movie rental industry need to think of new ways to

implement these strategies.

COMPETITOR ANALYSIS

Since 2001, the movie-rental industry has shrunk 19 percent, according to Carmel, Calif.-based Adams Media Research. That has left companies such as Blockbuster, Hollywood Video, Movie Gallery and independent operations fighting over ever-smaller pieces of the entertainment pie. In the early 1990s, there were about 70, 000 stores around the country that rented movies and today, there are about 18, 000 (Monroe, 2005). The companies that have felt the pressures consumers are willing to change their behavior to online purchasing of movies instead of purchasing them at a store. This competes with video stores because the consumer can receive movies without standing in lines or worrying about the movie you wish to view not being on the shelf. Price is also a factor in the competition of e-commerce distribution of movie rentals, such as offering free shipping of the movie rentals and the elimination of the infamous late fees. Competition is heating up on the company that can offer the best service for the lowest price. Appeal of this online process becomes apparent in the promotion aspects of the industry. Customer service is limited and not face-to-face, therefore friendlier interactions occur more than the usual services held by rental stores. The online entertainment industry also gives the customer a larger variety of products to choose from, almost like a movie library. With the advantage of price, product, promotion and distribution all favoring online transactions of movie rentals, competition can become pretty stiff.

(click. linksynergy. com)

Netflix

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Netflix, the Los Gatos, California based company, had a four year head start in front of competition which helps them control the majority of the online DVD rental market share. The world's largest online DVD rental service's idea is pretty simple. You get online and create a rental list of your top movie choices. You rank movies so Netflix knows which titles to send first. They send out 3 movies at a time in a rental slip with a return slip included. You never pay any shipping charges. As a safeguard, if any DVDs become broken or damaged, the consumer will not be charged since anything can happen with mailing DVDs you simply return the broken or scratched DVD with no charges. The company decided on the strategy of \$13.95 a month for 4 DVD rentals a month (two titles out at one time) or \$19.95 (three out at a time), \$29.95 (five out at one time), \$39.95 (eight out at one time) unlimited DVD rental at any given time with absolutely no late fees! This plus the easy and usable online rental system, along with the 15,000 plus DVD library allows Netflix to boast a 2.6 million-user base. (ad. linksynergy.com)

To maintain the market share, Netflix had to step up and strategize against incoming competitors. Netflix has developed a nation-wide distribution process, operating 30 distribution centers located throughout the United States and reaching more than 85 percent of their subscribers with generally one-day delivery (netflix.com). Netflix members who rate movies will receive unique and personal movie recommendations every time they visit the Netflix website. These personalized recommendations are based on a member's individual likes and dislikes (determined by their movie ratings and rental history). The recommendations allow members to discover great new films they may not have otherwise considered watching. Netflix has also built alliances with Best Buy owned stores to increase advertising and their

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consumer base.

Blockbuster Video

Blockbuster Video is one of Netflix's top competitors. Blockbuster, being the world's largest video rental chain with about 9,000 company-owned or franchised stores in twenty-seven countries, is a well-known name in the movie rental industry. Blockbuster has kept loyal customers for online rental as a sizeable opportunity and feel that teaming up with MSN to reach its large audience of unique monthly users is one key way Blockbuster Online can quickly establish itself in this business," said Shane Evangelist, general manager of Blockbuster Online. Other alliances that Blockbuster Video has teamed up with to enhance marketing are Time Warner and DIRECTV. These partnerships put pressure on Netflix by promoting and advertising to a wide variety of areas.

Blockbuster Online using the campaign, "Your favorite neighborhood movie store has come up with an offer that will compete with Netflix" (funways.com), competes by pricing unlimited DVD rentals for \$9.99 the first month, and \$14.99 a month after that. Blockbuster online renting works the same as Netflix: no late fees, no due dates, and no shipping and handling. In 2003, the Company continued laying the groundwork for its participation in new opportunities like rental subscriptions, movie and game trading and store-in-store concepts. Blockbuster currently offers an in-store movie rental subscription program, the Blockbuster Freedom Pass, in approximately 25% of its stores and a no late fee policy. For a flat monthly fee, the Freedom Pass allows members to rent an unlimited supply of movies without due dates or extended viewing fees for as long as they subscribe to the pass. The Freedom Pass is scheduled to be rolled-out to all U. S. company-operated

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stores. The company also intends to launch an on-line rental subscription service this year. Now, Blockbuster plans to integrate the in-store and on-line subscription program providing members with increased flexibility, choice and convenience.

Wal-Mart

Wal-Mart Inc. is a large new entrant that Netflix is contending with in the online movie rental industry. Wal-Mart is the world's largest retailer, with sales topping over \$200 billion, which builds strong brand/name recognition. Wal-Mart Stores, Inc. builds an image in the mind of consumers of always having the "lowest prices" on their products. From this advertising tactic, online movie rentals will benefit by customers feeling as if Wal-Mart will also offer the lowest monthly fees. Wal-Mart offers a free 30-day trial period, free shipping and \$12.97 unlimited rentals per month with no late fees. Wal-Mart's movie library is almost identical to Netflix, the only difference for now is that Wal-Mart operates seven distribution centers compared to Netflix's fifteen plus. Wal-Mart has enough profit flowing through the corporation to make anything possible, including running over the competition in online movie rentals, the only problem standing in the way is the lack of potency or knowledge Wal-Mart has or is known for in the movie distribution industry.

Movie Gallery

Movie Gallery is the nation's third video rental company, whom bought out a rival Hollywood Entertainment (nation's second video rental company), owns franchises of 2,200 stores and still expanding in all 50 states and Canada. The agreement between Movie Gallery and Hollywood Entertainment stems from the traditional video-rental companies being locked in a price war with Netflix and Wal-Mart Stores Inc. From the background of this rental company

along with the buy out, Netflix has another competitor to watch out for. Movie Gallery's principal activity is to provide retail home video in rural and secondary markets. They offer a wide selection of movies and video games for rent and sale. Movie Gallery has developed and implemented a flexible and disciplined business strategy that centers on driving revenue growth, maximizing store level productivity and profitability and minimizing operating costs. The stores offer from 4, 000 to 15, 000 movies and from 200 to 1, 000 video games for use with most video game platforms. Although Movie Gallery, Inc. has not executed any online rental services; the merger between the nation's second and third video rental companies along with the expansion of stores demographically has gained attention of competitors and customers.

Movies on Demand - Walt Disney's

The Walt Disney Corporation and media giant News Corporation has come together to launch a new video on demand service to customers in the US. Movies. com will provide films made by Disney, Miramax and 20th Century Fox to viewers both on cable and using the Internet. Movies. com will show new releases from the two film studios on an exclusive basis before they are released on traditional pay-per-view channels. There is a built-in audience of 10 million people who the companies say will have access to the service via on-demand cable television services or broadband Internet access. The new service will also provide other forms of entertainment, such as games on demand. Unlike the competitors, Movies. com will be the first to bring the service to cable television viewers. Movies on Demand has fluctuating prices depending on the movie you choose to see, but does derive competition for

Netflix by offering movies right when you want them without even a trip to the mailbox, just by using a click of a button.

Downloadable Movies

The downloadable service offers customers over 90, 000, 000 songs and movies. Over 30, 000, 000 people using this service are downloading their favorite MP3s, Movies, Software, TV Shows and Videogames! Being a member will provide you with all the tools customers need to start downloading as many MP3's, Videos and DVD quality movies as you can handle. Downloading Movies becomes available on the customer's PC right away. There are no late fees or due dates, and doesn't require a membership. The price of each download varies depending on the movie chosen, but you must have a credit card to purchase movies. Downloadable movies are a competitor with Netflix by providing movies on the spot right on the customer's computer.

INDUSTRY ATTRACTIVENESS

Assessing the profitability of an industry is a key factor in determining its attractiveness. The industry has high barriers to profitability, but also contains many factors that validate the attractiveness of the industry. Due to increasing buyer demand, online movie renting is currently in one of the fastest growing markets. An attractive feature in the online movie industry is the possibility for newcomers to develop strong competitive advantage over rivals due to a strong lead of customers, revenue, and brand recognition because there are few existing competitors. Barriers to entry are low which gives the industry an appeal to new entrants. The industry has many avenues to take to create innovative means to attract new subscribers.

INTERNAL (COMPANY) ANALYSIS

COMPANY STRATEGIES

Netflix is the current industry leader in online DVD rentals. The vision of Netflix is to change the way people access and view the movies they love. Implementation of current strategies will help Netflix reach their goal and guarantee the accomplishment of their vision. A company's strategy is management's game plan for growing the business, staking out market position, attracting and pleasing customers, competing successfully, conducting operations, and achieving targeted objectives.

Business Strategy:

Netflix's strategy can be seen in their actions in the marketplace. Online enterprises must attract customers on more than just cost, so Netflix will out compete rivals by being the best-cost provider. Netflix will give customers more value for the money. Netflix will achieve best-cost status by delivering attractive attributes such as,

better customer service, website features, faster delivery, and offering a wider selection of DVD's at a lower cost than their competitors. Netflix can operate at a level lower than their rivals mainly due to experience and the learning curve. Netflix is incorporating a hybrid of low cost and differentiation targeting value conscious buyers.

Functional Strategy:

Marketing- Netflix puts emphasis on satisfying customer needs and the convenience factor in their advertisements.

Distribution- Netflix has 30 distribution centers. They deliver the movie through the service of the USPS faster than their competition. Soon they will be able to provide downloadable services.

R; D- Through research and development Netflix has gained technological know-how in their website. Their website offers Cinematch, which helps consumers with an easy to use rating system, and it provides a customer database.

Supply Chain- Netflix is partners with the industries studios, which helps gain a better selection and have higher availability rates so more titles are in stock than the competition.

Operating Strategy:

Netflix has few operational strategies due to the fact that they are online. Some key strategic moves Netflix must keep up with are management of their distribution centers, maintaining a good relationship with the USPS, advertising initiatives, supply chain related activities, and website maintenance, and customer service.

SWOT ANALYSIS

By appraising Netflix's internal resource strengths and weaknesses and its external opportunities and threats through a SWOT analysis, we can provide a good over-view situation on whether Netflix is a fundamentally healthy or unhealthy company.

Strength

Strength is something a company is good at doing or an attribute that

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enhances its competitiveness. Netflix holds several forms of strengths, such as:

A skill or important expertise in: strong e-commerce expertise, technological know-how, defect-free merchandise to the customer, and expertise in providing consistently good customer service

Valuable physical assets: thirty state-of-the-art (up to date) distribution centers, and nationwide distribution facilities

Valuable human assets: an experienced and capable workforce, talented employees in the technological and customer service fields, cutting-edge knowledge and intellectual capital, and proven managerial know-how

Valuable organizational assets: proven quality control systems, proprietary technology, key patents (on delivery system), a cadre of highly trained customer service representatives, a strong balance sheet and credit rating, and a comprehensive list of customers' e-mail addresses

Valuable intangible assets: a powerful or well-known brand name, a reputation for technological leadership, buyer loyalty and good will (largest DVD library)

Competitive capabilities: product innovation capabilities, a strong dealer network, cutting-edge supply chain management capabilities, quickness in responding to shifting market conditions and emerging opportunities, and state-of-the-art systems for doing business via the Internet (using the post office infrastructure for delivery provided and inexpensive and reliable shipping method for Netflix and added convenience for the consumer)

An achievement or attribute that puts the company in a position of market advantage: market share leadership, a wider product line than rivals, wide geographic coverage, a well-known brand name, superior e-commerce

capabilities, and exceptional customer service (customers enjoy the privacy of ordering films)

Competitively valuable alliances or cooperative ventures: fruitful

partnerships with suppliers that reduce costs relative to competitors,

alliances to provide access to valuable technologies, and competencies

Core Competencies: Core competence is a valuable resource in Netflix's

strengths that highlight the company's over-all performance that is better

than other internal activities. Netflix has core competencies of: the know-

how to create and operate a cost efficient supply chain, well after sales

service, and filling customers' orders accurately. Netflix leverages " best

practice skills in direct and database marketing, and creates a fluid means to

blend discovery processes with transaction models into transparent cross-

sell and up-scale strategies" (valueframeworkinstitute. org). Being an online

DVD rental store, Netflix combines the growing Home Entertainment Market

and the Internet. Unlike brick-and-mortar video rental business, Netflix incurs

less overhead because no storefront is required and less employees are

hired. (filebox. com)

Distinctive Competencies: Distinctive competence is a valuable resource in

Netflix's strengths that highlight the company's over-all performance that is

better than their competitors. Netflix had a goal to be the largest DVD rental

company in the United States. The distinctive competencies of Netflix has

made this goal happen by being the first on the market for building " a

robust Web architecture that supported the ideal selection and fulfillment

experience of discerning Internet patrons" (valueframeworkinstitute. org)

with movie rentals. Today, Netflix holds top leadership in regards to their

total market share of the on-line movie rental industry. As well as being the

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first on the market, Netflix holds a contract with movie studios and film producers (such as MGM studios, Warner Bros., Dream Works, etc.) to gain direct distribution and access to first run movie content without the traditional 9 to 12 month delay. This strategy of developing key alliances (Best Buy) with content providers in film and the television sector, and merchandise of DVD hardware has moved Netflix straight to the top of the market, making their brand name recognized and trusted. Netflix also has the biggest subscriber base in the industry.

Weakness

A weakness or a core deficiency is something a company lacks or does poorly in comparison to others or a condition that puts it at a disadvantage in the marketplace.

Inventory control is very difficult in Netflix. Because DVDs are sent to customers through mail, some DVDs might arrive late and some might be broken or lost during delivery. In addition, it is difficult to get the actual numbers of DVDs that might be available due to customers' right to keep the videos as long as they want. This might also cause Netflix to lose some customers if the customers wait too long for one favorite movie, which is kept by other customers for a long time. Netflix also does not distribute videotapes, only DVD's; this can lose customers that have not forwarded their technologies into the 21st century. To avoid losing customers, Netflix has to buy more copies although it costs them more. Customer cannot get the movie immediately. They have to wait for the mail to arrive. It might only take 1 or 2 days to get the DVD's, however, delivery delay by the post office can result in longer waits. Although Netflix allow unlimited DVD rentals, the

customer has to return at least one movie to get another one. Any slowness at receiving and processing returned movies could be the bottleneck of the service. Although Netflix is inexpensive and convenient, it is less economical to those customers who watch less than one movie each week.

Opportunities

An opportunity is a big factor in shaping a company's strategy. Netflix has many opportunities to tailor the strategy of their company. With the development of network technology, Netflix will provide the service of allowing customers to download movies on the Internet in the near future. This will save a lot of money for Netflix in packaging and postage fees. Pricing is attractive enough to promote revenue, therefore the higher up-front costs and lower variable costs predict an opportunity for sustainable profits for Netflix. Netflix and Musicland Stores paired up to begin a cross promotion program to promote awareness and sales of DVDs. Netflix will point customers to SamGoody.com when they want to buy discs. In return, SamGoody.com will provide the purchase phase of Netflix's "Test drive" program before they decide to buy. Customers who visit a page for a specific movie on SamGoody.com will also have the option to rent from Netflix.com. Netflix will also give the option to rent DVD from Netflix.com or buy it from SamGoody.com. As a web based business, Netflix has rapid growth potential with the popularity and development of World Wide Web, and DVD technologies. More and more people will accept and be involved in the e-commerce business. Netflix, the world's first and largest online DVD rental store, will develop fast. Netflix established promotional relationship with Amazon.com for the sale and rental of DVD. Amazon's reputation for its

tremendous selection and first-class customer service will make it the ideal partner to handle sales to Netflix's customers. Netflix also looks forward to introducing millions of Amazon.com customer to its compelling DVD rental service through exclusive special offers and promotions. This will bring more customers to Netflix. Netflix will extend into video game rental business as well. Playing video games is a very popular past time. Netflix has already used the opportunity to "profile" their users. This allows the consumer to set up separate queues for up to five different family members.

Threats

Certain factors in a company's external environment pose threats to its profitability and competitive well-being. Netflix has threats swarming their direction that they have to watch out for, such as: Traditional brick and mortar rental stores are a threat to Netflix. They have some features that Netflix doesn't have to satisfy customers. For example, customers can get the movie they want on the spot. Furthermore, customers will not waste money on a monthly fee when they don't have time to watch the movies. Netflix does not have the market to itself. Other online rental stores such as Cafe DVD, DVDBam, and RentmyDVD offer competition. VHS rental store are another kind of competitor of Netflix. Some movies haven't been released on DVD, while they can be found on videotapes. Some people will turn to that kind of store to get their favorite movies. Due to the development of technology, some other kind of movie media might occur. DVD might be replaced in the future. So, Netflix will be greatly threatened if it cannot adapt. Bargaining power of customers and suppliers can rise which will raise the prices of supplying DVD's to Netflix. From the pressure of other

competitors, customers might want lower prices to maintain membership with Netflix. A shift in buyer needs and tastes might change by innovations in technology; DVD's might be the next technology to be pushed down the market by a new product. Vulnerability to industry driving forces may be taken by other competitors instead of building prominent driving forces in Netflix.

Conclusion

Reliability: Being a dependable operations brand is a must. With the number of subscribers that Netflix has, maintaining accessibility and a high-quality Internet architecture is a must. Netflix has to work more on getting products to the customer that are not defaulted, such as scratched or broken.

Compatibility: Netflix needs to keep presentation formats accessible to all internet users, all types of browsers, including PDA's, making them more frequent.

New features: With innovations in technology becoming more prominent in our world today, Netflix has to focus on making new technologies and customized or personalized data available. (Direct e-mail personalized based to know what coming attractions are available)

Distribution: Many new threats are entering the market, meaning Netflix should think about making their company and opportunities worldwide instead of nation wide.

Pricing packages: Netflix could make packages more available to the individuality of the consumer, creating tiers based on the level of usage and arranging the price from there. Customers like to see the lowest cost available through their provider.

Customer service: With the volume of customers Netflix has, some are liable to send the movies back incorrectly. Call centers must be worked out to help these problems.

New product lines: Music and e-books should be the next target for Netflix. Learning tools and other important useful tools will help Netflix's product line and profit. The key to maintaining successful capabilities will have a strong emphasis on extending into challenging markets of technology advances.

(Appendix SWOT)

VALUE CHAIN ANALYSIS

" The task of value chain analysis and benchmarking are to develop the data for comparing a company's costs activity by activity against the costs of key rivals and to identify what internal activities are a source of cost advantage or disadvantage."(Crafting and Executing Strategy)

Netflix is charging customers \$13.95 - \$39.95 a month and you can cancel anytime. Blockbuster is now \$14.95 a month. Wal-Mart is \$12.97-\$18.98, Movie gallery is not online but they still rent DVD's. Walt Disney on demand is \$6.99 monthly equipment fee and \$3.99 for new releases \$2.49 for older titles and you can view the movie for 24 hours. Movie links has no subscription fee and each movie is independently priced and charged per rental. A DVD recorder is approximately \$249.99, but then you own the equipment.

The primary value chain for the Internet rental industry (access to the internet, credit card, marketing, distribution sites). Netflix primary focus is concerned with the subscribers and not losing them to their rival companies or losing them to another media. Netflix is vertically forward

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integrated which means that they produce the access to the internet site, marketing, distribution and they have a contract with the studios to receive all their titles to their movies.

Netflix key value chain activities of benchmarking are the low cost provider for subscribers. They are using the Best Practices for having the lowest price, no late fees, and are the most efficient as of now until a rival out competes them. Netflix cost are totally online with the other competing firm, as long as they don't under price their service and keep up with the competitive environment that they have opened up. Netflix right now has the competitive advantage over blockbuster and Wal- Mart.

COMPETITIVE STRENGTH ASSESSMENT

With the facts given from the external analysis of key success factors and information found from the financial breakdown, a weighted and unweighted competitive strength assessment was constructed and assessed. The analysis compares Netflix with its closest competitors. This quantitative evaluation proves that Netflix is behind its biggest competitor blockbuster because of a few key success factors. Reputation, advertising, and price were the main factors that keep Blockbuster on top in the online renting movie race. Wal-Mart and Amazon can not exactly compete with Netflix and Blockbuster because they do not rent movies through the Internet. But, a comparison by advertising, reputation, and technological skills between all four entities proves that Wal-Mart has the greatest overall strength rating compared to Netflix, Blockbuster, and Amazon. With all of the key success factors considered for this industry and a weighted and unweighted analysis of each company shows the overall competitive position of Netflix. (Appendix

H & I)

STRATEGIC ISSUES AND OBSTACLES

Strategic Issues and obstacles have been covered in Section I under issues.

Alternative Courses of Action for Success

After analyzing the data given in the external analysis of the online movie rental industry and the internal analysis of Netflix, our team has concluded that Netflix has several alternatives courses of action for success. The first alternative we came up with is a customer reward system. If a current customer refers a friend that leads to a new subscription, Netflix will give both parties one free month of renting. A second alternative for Netflix would be to offer a wider product line. This product line may include adult entertainment, video games, music, and books on DVD. Our team has decided that entering the global market has many opportunities. Entering the global market will increase Netflix's subscriber base and increase brand awareness.

Recommendations

Given the current position held by Netflix, it is difficult to argue with its current strategies and objectives it strives to achieve. As the industry leader in the United States, it is critical that the company continue to evaluate its performance and opportunities that exist in additional markets. Changing economic conditions can occur quickly, so Netflix must always be aware and prepared to deal with the changes to ensure continued success.

In the short-term, Netflix needs to focus on a competitive pricing policy. Keeping subscription prices under competitors will lead to more subscribers. Netflix also needs to open more distribution centers. Opening more of them will benefit the customer with speedy delivery time. Subscriber rewards

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would be the last short term recommendation. If Netflix were to offer some kind of reward to current subscribers for referring friends their subscriber base would increase.

In the long-term, Netflix needs to incorporate more technological improvements into their business strategy in order to provide VOD to subscribers. Brick-and-Mortar competitors hold an advantage over Netflix when it comes to part of the market share. If Netflix were to start having brick-and-mortar locations, they could gain on the market share that does not have access to the Internet. With the advancement of hackers and thieves on the Internet today, Netflix needs to also look into improving their secure website and guarantee against fraud. This will also make people who are not comfortable using their credit cards have a better piece of mind when doing so. The biggest long-term recommendation that Netflix needs to consider is globalization. In order to increase revenue and gain more subscribers they will defiantly have to include international subscribers.

Implementation

Implementations of Short-Term Goals

Our team stated that the competitive pricing policies need to be kept up to date. To do this they need to be aware of the rivals pricing. You need to make sure that you don't under price or your product and start making a loss on your profit. This objective will need to be in place at all times. This needs to take immediate effect as to be competing at the highest levels of quality. The financial department needs to be kept up to date with the other companies prices at all times.

By opening more distribution centers this will help to cut the costs of delivery and time of getting the movie to its desired location. Netflix will increase

there profits by increasing subscribers, witch in effect will cause the company to need more distribution centers to get these movies out, this will also this will increase their inventories and storage space. With more space they could work on getting better rates from the studios. It only takes twelve employees to run each center, so adding more people and center they can increase their profits dramatically. This objective should be accomplished as soon as possible. The area of this implementation would be taken care of by management and their constructions teams along with human resources for employment.

With the decline of subscriber price Netflix will be able to compete more competitively against online companies that allow downloading without a subscription. If they don't implement this then they will lose a wide consumer base that will go else where for a cheaper price and a quicker process. This should take place in the near future to keep up with the consumers who are always looking for the new way to do things and with instant results. The technology center and the management should highly consider looking into this.

Having subscriber rewards in place already means you get something back for already being a subscriber. Right now they will give you \$11. 00 that month if you refer 500 friends. They need to make it more for less, like ten friends equals one month totally free. If they put this into action then more people might join. They need to change their policies that they have right now for referring a friend and implement this strategy. Management will need to discuss this over to make sure that it is profit worthy.

Implementations of Long-Term Goals

To keep the company growing they will need to start gaining a larger consumer base. With all these new rivals emerging they could start losing current or future subscribers. To gain a large base they need to start advertising to specific consumer needs. This goal is long term because they need to research new markets to get into. The marketers, research and development will need to start looking into this for the near future but it's not necessary immediately.

The technology as we know is ever changing and in the future they may no longer have DVD's so Netflix will need to adapt to this change when this takes place or maybe start developing other media device to take the place of these. Another objective would be to keep up with the demands of the Internet and how one day it might crash so they should also be ready for that. The area that would oversee this would be research and development.

A brick and mortar establishment would ensure the company if the Internet ever did crash. But also it would gain in sales just like Blockbuster for the traditional types who are afraid to use the internet with their credit card information, putting their local address and giving them the opportunity to their financial bank accounts for the hackers to see. An establishment is also useful for people who do not believe in the Internet. They could begin by just opening one store at a time to see how people will use it and then go from there. This should be implemented slowly and management should oversee this production.

Globalization is another long-term goal because you have a lot of rules and regulations to worry about when entering a global market. As we know this can be done and by the looks of things already there is a demand, and the demand I'm sure is overseas. Going global means you will have more distribution centers, and plenty more subscribers. Blockbuster went global with brick and mortar companies so it's very likely that the Internet rental system should take off just like it did here in the states. This process will take a few years to getting established in other countries but it needs to happen so our one of their rivals will do it first if Netflix doesn't jump on it. The whole team at Netflix needs to be on target with this especially research and demand as well as the marketing team to market in these countries.