Provide an economic analysis of netflix

Business, Marketing

Company History Netflix was founded in the year 1997 by Reed Hastings and Marc Randolph. They started the service offering online movie rentals. The company changed its subscription model in the year 1999 by offering unlimited rentals for one low monthly subscription. The company got listed on the NASDAQ in the year 2002. Netflix started to stream movies on other devices such as Xbox 360, set top boxes, and other internet connected devices beginning from 2008. The company had 12. 3 million members at the end of year 2008. The company was launched in Canada in 2008 and began expansions to Latin America and Caribbean in 2011.

Major Source of Revenue

Netflix drives its revenues from two sources: monthly subscriptions from users who can instantly stream TV shows and movies over the internet and delivery of DVDs and Blu-ray discs to customers' homes.

Major Cost for the company

The major cost components or Netflix include fixed-fee licenses, revenue shared and direct purchases made from studios and other content providers. The company also has to spend money in maintaining its streaming services through Amazon Web Services and Content Delivery Networks.

Factors impacting supply and demand

There are many factors that impact the supply and demand of the company's business. One of the primary factors determining demand is the economic situation. The demand also depends on the quality of content produced.

Competition

The market for entertainment video is very competitive. The company is having the following competitors:

Multichannel video programming distributors, including cable providers, direct-to-home service providers, and telecommunication partners

Internet based movie and TV content providers such as Apple's iTunes, YouTube, Amazon. com etc.

DVD rental outlets and kiosks such as Blockbuster and Redbox

Retailers of entertainment video such as Best Buy, Wal-Mart

As can be seen from the list of competitors, all the competitors have a different unique characteristic in the way they are providing entertainment video to the customers. While cable providers and direct-to-home service providers offer a fixed list of entertainment videos on a monthly fees, internet based content providers provide customers which is more similar to Netflix. The other competitors are retailers which provide entertainment videos to customers through brick and mortar shops. This can be said to be a monopolistic competition. Monopolistic competition can be defined as the market structure where there are many sellers of the same commodity but there is a slight difference in the way the service is provided (Jain & Ohri, 249).

Extent of market power

Although there are many companies that provide similar service to customers, however, none of the companies providing online companies have been able to come close to Netflix in areas of market share or revenue. Thus, the company is having significant market power and drives the market.

Success of the company

The company has been very successful in increasing its subscriber base over the period of time. It had a total subscriber base of 20 million at the end of 2010. The company's revenue was $2. 16 billion with net income of $161 million. Thus, the company can be said to be a successful company.

Reference

Jain, T. R., & Ohri, V. K. (20111). Principles of Microeconomics. New Delhi: VK Publications.

Netflix. Netflix Inc. Annual Report 2010. Los Gatos: Netflix Inc., 2011. Print.