

# Netflix case analysis essay



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## NETFLIX By Roxanne Meyer

Netflix is an American provider and the world's leading internet subscription service of on-demand streaming media in the United States, Canada, Latin America, the Caribbean, United Kingdom and Ireland and flat rate DVD-by-mail in the United States. Netflix members can instantly watch unlimited films and TV episodes streamed over the internet to more than 700 devices for about \$7.99 a month.

With regards to increasing the influence of the Netflix brand, expansion into the video game industry could be an option, however various factors such as competitors, viability and sustainability of the company as a whole need to be further analyzed in order to assess whether this proposal is feasible.

Competitor Analysis AREA| NETFLIX| HULU| BLOCKBUSTER| REDBOX| market share| 55%| 35%| 5%| 5%| Subscribers| 23.6 mil| 24 mil| low| 12 mil| Brand Popularity| HIGH| LOW| MED-HIGH| MEDIUM| start date| 1998| 2007| 1985| 2003| Revenue in 2011| 705.7 mil| 420 mil| bankrupt| 363. mil| Revenue increase from 2010| 29.00%| 48%| | | Growth in customers| 30%| 50%| | 30%| (in 2011)| | | | Netflix's success has inspired a number of other DVD rental companies both in the United States and abroad, but none of the purely online companies appear to approach Netflix in terms of market share or revenues as can be seen above. Hulu is a close second in terms of Market share and it can be seen that its entry into the market was nearly a decade later than that of Netflix, which places Netflix in the advantageous position of the more experienced firm.

The cheapest subscription fee of Netflix, Hulu and Blockbuster (online) is all around \$7.99 which is an extremely competitive price and thus forces the public to choose between these online movie services based on brand, quality and popularity. With regards to popularity in terms of Brand, Netflix seems to be the leader but one has to consider company growth and according to the figures in the table above it seems as if HULU is growing with considerable speed. However, Netflix holds top leadership in regards to their total market share of the on-line movie rental industry.

As well as being the 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. Brand loyalty is one of the most important factors in this industry where the prices of substitutes are similar and competitive.

## Netflix SWOT analysis

### Strengths

- User experience Delivering DVDs straight to the home is a major convenience that pretty much has led to the demise of the bricks-and-mortar business of Blockbuster (NYSE: BBI). With just a little bit of timing, customers can have movies coming and going so as to almost always have a movie ready to watch. Add the recommendation engine

for additional suggestions along with streaming and strong customer support, and you've got a pretty good experience generating loyal and enthusiastic customers

- Market Share leader. Netflix holds top leadership in regards to their total market share of the on-line movie rental industry.
- Streaming capability. A benefit of having any monthly plan costing at least \$7.99, are for those nights when the random urge takes you. Plus, Netflix streaming is available on many different consumer electronic devices and is becoming a standard feature for new TVs.
- Key Alliances 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.
- Very competitive prices. For as little as \$7.99 a month, people can watch as many movies as they want, either streaming or on DVDs. For just a bit more, a higher number of DVDs can be taken out at a time, giving users more flexibility. This form of movie renting is less expensive than paying for cable movie channels, while giving customers more selection.

## Weaknesses

- Pricing power. The studios can still dictate some serious terms to Netflix, limiting when various movies become available (the infamous “28-day window” for instance) or for however long they desire.
- Difficulties in Inventory Control 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.
- Loss of customers due to delays It is difficult to get the actual numbers or 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 have to wait too long for their favorite movie or a new release.

\* Bottlenecks can result 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.

\* The terms of content distribution. These are not exclusive, allowing competitors access to the same movies and television shows, leaving the way open for competition.

### Opportunities

\* Movie Downloads 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.

\* Branding Netflix can become the first thing people think of for watching movies at home, just like “ google” is the first thing many think of for searching. There’s been at least one instance of using the word “ netflix” as a verb, so this could be the beginning.

\* Pricing

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.

\* International. There’s an upper limit to the number of subscribers here in the States, so to keep growing, the company must expand outside the borders. We can expect the first foray abroad sometime later this year.

\* New alliance opportunities 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.

\* Distribution As more subscribers come aboard, the value of Netflix as a distributor of content for studios like Time Warner (NYSE: TWX ) and Disney (NYSE: DIS ) goes up, leading to more pricing power for Netflix and less for the content producers. Threats \* Traditional brick and mortar rental stores are a threat to Netflix. \* Content producers going their own way.

Hulu is owned by Disney, General Electric's NBC, and News Corp. , and likely gets very favorable deals for their content. If enough people favor what's on Hulu and Netflix cannot provide the same content, that's going to be a serious problem for Netflix. \* Other streaming offerings. It's pretty much accepted that streaming will be the primary way movies will be viewed in the not-too-distant future. Just about anyone with a big enough bankroll can get licenses on content and provide this service. Google's (Nasdaq: GOOG ) YouTube is the next most serious threat after Hulu.

\* Technological advances in the future 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.

\* Internet pipe providers. Many of them are also movie distributors. They can limit the traffic traveling over their lines, favoring their own stuff over Netflix's. Netflix Value Chain Analysis The Value Chain analysis for Netflix is a powerful tool for managers to identify the key activities within the firm, which form the value chain for this specific organization, and have the potential of a sustainable competitive advantage. Therefore the term ' competitive advantage' Netflix's case lies in its ability to perform crucial activities along the value chain better than its competitors.

## Primary Activities

### 1. Inbound logistics

- With Regards to its 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.
- Netflix partners with suppliers such as Best Buy, Samgoody. com, and Amazon. com in order to reduce costs relative to competitors. These alliances provide access to valuable technologies, and core competencies. The company has few operational strategies due to the fact that they are online. However, in order to ensure that their discs are in satisfactory condition for consumers they have put certain standards in place which these suppliers must adhere to (The Supplier Guiding Principles).
- Netflix has proven quality control systems, proprietary technology and 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. An achievement or attribute that puts the company in a position of market advantage .

## Operations

- 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.
- Netflix uses a sophisticated software system made specifically to efficiently deliver to subscribers individual title requests within 1-business day.



- With regard to how Netflix is able to operate as the leading dvd rental site is due to the fact that As well as being the 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.

### 3. Outbound logistics

- The activities that are required to get finished products to customers include order fulfillment, transportation and distribution management.
- Netflix provides on-demand Internet streaming media in the United States, Canada, Latin America, the Caribbean, United Kingdom and Ireland and flat rate DVD-by-mail in the United States.
- Netflix has 30 distribution centers that deliver the movie through the service of the USPS faster than their competition. Soon they will be able to provide downloadable services.
- It uses the post office infrastructure for delivery and it is thus an inexpensive and reliable shipping method for Netflix and added convenience for the consumer.

### 4. Marketing and Sales

- \* Marketing was key in the early adoption and success of Netflix. By getting the word out through major portals, Yahoo, MSN, and AOL, and through its relationship with BestBuy, consumers were deluged with information about the Netflix service.
- \* Free trials address the skeptics of this service, and result in high conversion rates to continuing customers.

The recurring transaction model helps consumers adopt the discipline of selecting films each week but without pressure. \* Ordering through a centralized and regional warehouse mechanism creates efficiencies similar to what Amazon developed. Mail order catalog systems would be difficult for movies, but using the Internet lets people both order and pay online. \* Customization and personalization allows Netflix users to save lists of preferred movies. As they became available, those films were delivered based on priority. Database mining and direct email marketing is based on a much better view of the customer, and predictive trends based on aggregate rental and purchase trends. 5. Service \* Activities that maintain and enhance their product's value include customer support, repair services, installation and training. \* Netflix has an extremely efficient customer service system \* 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. Therefore, by partnering with Amazon, Netflix will be able to gain tips on how to improve their customer service. Support Activities 1. Procurement \* Netflix has 36 Distribution centers in the USA \* This plays an important role in their business since they are global leaders of the online movie rental industry. \* These local distribution centers also reinforce the leadership position Netflix has in online rentals and have helped to replicate regionally the success the company has experienced in the San Francisco Bay area, the site of their very first distribution facility. These shipping centers are incredibly efficient. Most are no more than 8, 000 square feet, yet each location processes and ships a daily average volume of between 5, 000 and 30, 000 discs. This is made possible - in large part - by the

proprietary software Netflix uses to track and ship its inventory of over five million DVDs. \* The cities in which Netflix has chosen to place each of its distribution centers are strategically located so that most of the country is within a U. S. mail delivery zone of only a couple of days. . Human Resource Management \* That Netflix was able not only to prevail over this competition but also to thrive was largely attributable to the culture of freedom and responsibility inculcated by founder Reed Hastings. \* To foster this culture, the company adopted a series of unique employment practices that were meant to attract, retain, and motivate the type of employee that Netflix valued. \* Among these practices was a compensation system with several unconventional features.

Whereas most companies provided compensation packages with a predetermined mix of cash and equity-based awards, Netflix turned the model on its head and allowed employees to request their own mix. 3. Technology Development \* Netflix recognizes that they should keep up with technology in order to maximize their productivity. \* It is now the biggest online distributor of streaming video, with more than 40% growth in new customers this year. It's gone from shipping movies to your mailbox to streaming them directly to PCs, then to consoles like the Xbox and now to smartphones and set-top boxes. Netflix has been working on new technologies of streaming, and this should increase the speed at which movies are able to be downloaded to be viewed. The release date is scheduled for this upcoming year. 4. Firm Infrastructure \* Netflix had preliminary plans to expand to the UK in 2004, but the expansion was cancelled as Netflix concentrated its services on the U. S. market \* On July

19, 2010 Netflix announced that in the fall of 2010 it would launch its instant streaming service in Canada, making Canada the first international market expansion for Netflix.

On September 22, 2010, Netflix became available in Canada for \$7.99/month, but with a severely limited selection. \* Netflix announced on July 5, 2011 that by the end of 2011 it would expand its services into 43 countries and territories in Latin America and the Caribbean, offering items in English, Spanish and Portuguese. \* Netflix migrated its infrastructure to Amazon EC2. Master Copies of digital films from movie studios are stored on Amazon S3, and each film is encoded into over 50 different versions based on video resolution, audio quality using machines on the cloud.

Netflix uses a number of pieces of open-source software in its backend, including Java, MySQL, Apache Tomcat, Hive, Chukwa, Cassandra, and Hadoop Trends \* Movie ticket sales for 2011 are down 20% from 2010 \* The major studios released only 110 movies in 2011, down 11 from 2010. \* Total box office for 2011 was down 1.4 percent from its record high in 2010. \* In 2005, the Motion Picture Association of America commissioned a study that stated that 44 percent of the industry's domestic losses were caused by the illegal downloading of movies by college students.

It put the total number of illegal downloaders at 55 million, with the US accounting for 47% of this activity. \* According to the survey of 1,000 movie and music fans, the ratio of illegally obtained media to those gotten legally has decreased from 4-to-1 in December 2007 to 2-to-1 in January 2011, with many more viewers using Web sites like Netflix and HULU for streaming.

Proposal The vision of Netflix is to change the way people access and view the movies they love. Implementation of innovative new strategies will help Netflix reach their goal and guarantee the accomplishment of their vision.

Due to increasing buyer demands, online movie renting is currently in one of the fastest growing markets and an attractive feature in the online movie industry is the possibility for newcomers to develop strong competitive advantage over their rivals. The Video games industry is one that continues to grow in popularity as new technologies with 3D graphics evolve. Many Gaming stores can charge exorbitant prices for the latest video and computer game due to its high demand and acclaim. The fact that Netflix discs are able to be viewed on Xbox and PS3 paths a way for it to broaden its product line to that of video games.

By using horizontal integration, Netflix will be able to reach a greater segment of the population and therefore increase sales and profits tremendously. Netflix will simply be expanding the firm at the same level of its value chain and thus would not have to incur costs of creating an entire new segment to its operations. Many times once consumers are finished playing a video game they discard them or never use them again. The high prices that are paid for video games could be directed instead toward a rental system which would be attached to the membership for movie viewing.

Customers would save a lot of money because instead of buying the video game they could rent it at a third of the price. Netflix already occupies more than half of the market and thus expanding into video games online rental

could increase its market share to an even greater degree. Due to the fact that Netflix has rising competition from HULU and Redbox, it seems extremely logical and economically feasible that Netflix improve on its service in order to once again prove to be the superior online rental service.

All of Netflix competitors provide similar services and at similar prices to that of Netflix and many users are beginning to convert to competitor services such as HULU and Blockbuster (online. ) The video game service that could be offered by Netflix could thus be used to get lost customers back.

According to trends in the movie industry, it can be seen that people are not attending movie theatres as much as in the past. There has been a significant decrease in ticket sales over the past year and this is promising for the online movie industry as the population has become more inclined to watch movies in the comfort of their own home.

In order to capitalize on this significant decrease in movie goers, Netflix should definitely extend into video game rental business because playing video games is a very popular past time. Another Trend that favors the Video Game industry for Netflix is the fact that illegal download of movies and music has decreased from 4 to 1 over the past three years. There have been many strict laws put in place for theft and piracy of movie and music software and thus many people have turned to a more lawful purchase of media.

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. Therefore Netflix will not need to worry about hiring new employees or storefront costs for this new video game industry. Netflix will only have to concern itself with establishing a relationship with some of the leading gaming industries, just as it did with the movie industries it aligned itself with in order to gain access to popular video games.