Netflix case study online free

Business

We have also delved into the central elements of the subscriber model, as well as constructed a prospective model to forecast the expected cash flows for the next five years. This forecast model helps to analyze the possibility of acquiring new subscribers. Using this model, we furthermore examined the estimated value ofNetflix.

com. As a result of our findings, we believe that you should continue to use the subscriber business model to forecast the future of your company.

We feel that the value of your company will grow with the addition of new subscribers, particularly unlimited package customers. With the advent of growing technology we believe that these customers will continue to purchase your services, especially when they are able to stream videos online, on demand. We do feel, however, that revenue sharing is not a profitable addition to your business; therefore we recommend that you forgo this business plan.

Thank you for the opportunity to look in to your business. If you have any further questions feel free to contact us.

Sincerely, BBILS Company Netflix is faced with the main objective in July of 2000 of making an attractive and successful public offering in the NASDAQ market. In order to meet their objective the firm has to show positive cash flows within the following twelve month period (keeping in mind that the years 1998 and 1999 showed a negative income). The financial officer is in charge of re-evaluating the cash flow requirements of the company’s current business plan, and suggesting any modifications for the projected cash flows.

He also has to project sales, new subscribers, and ways of attracting and retaining customers for more than one month. Netflix also has the opportunity to capitalize on the potential to enter the video-on-demand market, which can create value and position them as an industry leader featuring the digitally streamed videos. They are counting on the advancement of DVD technology and internet for establishing significant market share and turning them into an industry leader. Effective deployment of such objectives can help to achieve these goals.

In order to meet these goals Netflix offers many features to attract customers. Use of a subscriber model that forecasts projected sales, costs, and potential subscribers can assist in assessing the effectiveness of their business plan.

One of the features that Netflix offers is a free month of service with the purchase of a new DVD player. The costs of giving out a free month add to the some $16. 4 million in sales in marketing expenses. However, this promotional incentive is crucial, as it can help to attract ustomer and retain them as paying subscribers. Netflix management’s subscriber model also contains all the expected costs and cash inflows.

Using this same model they can calculate the cash flows associated with retaining a customer beyond a six month period. This can also help to calculate the percentages of customers that are most likely to continue paying for the subscription after six months. Some other features that the company uses are the marquee queue, revenue-sharing, movie-finder, and video-on-demand.

The Marquee Queue allows customers to make a list of their preferred movies from which they will be mailed out movies starting from the top of the list, as soon as the previous movies are returned, and so on. According to the business plan, a subscriber has an average of 4 discs rental per month, which leads Netflix to the necessity of having a library of over 5, 000 tiles and over 62, 000 discs with a value of $8. 7 million.

Revenue-sharing is a good promotional program which brings in positive cash flows and creates relationships with major studios at minimal costs.

Under the revenue-sharing agreement, a retailer pays a lower price for each DVD in exchange for sharing a portion of the revenue with the movie studio. Another feature is the movie finder which is an evaluation and rating system. Based on the reviews and evaluation of movies, Netflix creates a personalized profile for every customer allowing them to make movie recommendations. As we assess the financials and decisions that Reed Hastings faces in the upcoming period as Netflix enters the stock market with their IPO, it is important to assess the company's past performance.

Taking a look at the past and better understanding their business plan will help to analyze whether the company is poised to experience the growth and capture the market share necessary for longevity.

As the case illustrates, Netflix cash flows do not offer the most ideal financial situation. Since its launch in 1998, Netflix has experienced rapid growth and increasing revenue gains, however they have not yet made a profit. It should be mentioned however that this is typical of internet start-up companies, particularly businesses that rimarily operate on a subscription basis. This

leads to the importance of marketing programs as previously mentioned that are geared to attract new subscribers and retain customers for a long-term period. Netflix current business plan and marketing programs are shaped with this objective at hand. Although they are costly, sales and marketing programs are necessary for Netflix to gain market share and expansion.

The revenue sharing deals can help maintain cash flow as the company works on attracting new customers.

Promotional programs such as the free-trials offered for one month are integral in attracting new customers. Even though they can be costly, such promotions help to draw new subscribers that are attracted to the alternatives that Netflix offers to traditional brick-and-mortar video stores. Furthermore, their attempt to differentiate themselves from Blockbuster and other established media outlets is also key to their continued expansion. Looking at the aspects of their past performance and positioning we can see that Netflix has several pieces in place to capitalize on market opportunities.

However, we will have to address if these measures will be effective in attracting the number of new subscribers needed to turn over a profit and make Netflix attractive to investors in the stock markets.

Constructing a subscriber model and anticipating future growth will be essential to this analysis. For Netflix business model, McCarthy chooses to use a subscriber model to forecast their future cash flows requirements. This is necessary because all of Netflix revenues are based on the maintenance and growth of paying subscribers.

With Netflix unlimited DVD rental package and the hopes of eventually having an online video streaming program, loyalty is crucial to the company. It is essential that the company focus on the acquisition and retention of these paying subscribers if they hope to continue to grow the company and eventually turn a profit.

The company is growing their revenues at an extreme rate, but in order to make a profit and be financially sound, it is necessary to reliably plan for the future. The subscriber model is the best way to help forecast future cash flows based on this necessity of subscriptions.

The basic elements of a subscriber model are as follows. First, the expected cash flows from a new subscriber need to be compiled. This would include the subscription fees paid, the shipping costs of the DVD's, the costs of acquiring the necessary DVD's, the expected number of discs that will be rented, and any other costs that may be associated with obtaining a new subscriber. Next, a likely retention rate of that subscriber needs to be modeled.

Finally, the projected number of future new subscribers needs to be added in with the existing subscribers to project the company's expected cumulative cash flows.

When these numbers are accurately computed, financial growth and vitality of the company can be more precisely projected. " Q3" Assuming that Netflix. com does not change its current business model, the value of Netflix. com is $1, 045, 685, 610. The amount was calculated by using the NPV of Netflix.

com and multiplying it by the total number of Netflix subscribers, accounting for expected turnover, assuming a growth rate of 2. 98% in operating expenses and a 34% tax rate. Netflix. com is able to convert 70% of their free trials into paid subscriptions and maintain 40% of that after 6 months.

We realize that after 6 months, while they have a very high retention rate, some of their customers will drop off. The true retention rate was not stated in the case study we will assume that of the 40% that stay longer than 6 months, they will have a retention rate of 90%.

As they lose customers they continue to grow at a higher rate and convert new paid subscribers monthly. The DVD’s that would be leftover from the canceled subscribers then compensate for some of the DVD’s that would need to be purchased for the new subscribers.

Netflix should continue to partner with the movie studios and invest in revenue sharing for approximately half of their DVD purchases. We chose to do half and half with revenue sharing because there is no guarantee on how many deals Netflix can make with the different movie studios. Netflix. com should continue to offer the free one month trial to solicit new customers.

The free trial allows customers to see how easy Netflix. com is to operate and how quick the turnaround time is for a new DVD rental. Netflix. om subscribers are for the most part consumers who have access to a computer, which could create new opportunities for Netflix. com such as streaming videos right onto a personal computer so the customer can watch their movie instantly. The ability to stream movies over the internet would also

free up more capital for Netflix because they would not need to invest in as many copies of DVD’s and shipping costs.

The initial start up cost for the hardware and software to allow streaming would quickly be recuperated.