A swot analysis of netflix inc

Netflix provides agricultural products for farmers in the United States and offers its subscribers access to a library of television, movie and other filmed.

Nowdays, Netflix reinvented the home video rental model by employing innovative customer service and new technologies. And this gives the company a serious first mover advantage. The outlook of external market conditions is positive.

If Netflix decides to stay and compete it needs to (1) keep innovating to maintain its advantage, (2) use subscriber acquisition momentum and build larger customer base and (3) move fast to plant roots into next-generation models of content delivery based on digital technologies.

SWOT Analysis

Strengths

Relationships with studios. Netflix maintains strategic relationships with studios, which is the basis of its rich catalog.

Deep and wide library. Netflix currently offers around 25, 000 film titles, (arguably all feature films ever published on DVD) spread over 12+ Million disks. Average depth (number of copies of each film) is 480 copies.

Recognizable brand. Netflix is the largest “ on-line subscription DVD rental service” in the US. It has a well recognizable brand, which helps in marketing by decreasing customer acquisition costs.

Logistical expertise. Launched in 1998, Netflix has developed and fine-tuned its logistical processes for 6 years with the help of internally developed logistical software.

Widest delivery network. With 30+ distribution centers spread around the US, Netflix delivers DVDs to 85% of its subscribers the next day.

Recommendation engine " CineMatch". Netflix utilizes recommendation technology based on user ratings of individual titles. At the end of 2003 Netflix ratings database contained around 300 million ratings (around 15, 000 ratings per title and 150 ratings per subscriber). Thus every customer can receive a personalized computer-generated recommendation for a film.

Client acquisition momentum. Netflix has a critical mass of over 2 million customers, a number expected to grow in the next 2-3 years.

Low price per title. Based on their reported annual subscription revenues for 2003 and reported monthly turnover of about 18 million disks, the average rental price per DVD comes at $1. 50 – $1. 75. According to analysts' reports, the average Netflix customer rents between 5 and 7 titles per month. At a monthly subscription price of $17. 95, the result is $3. 00, which is much closer to the market average of $3. 15 – $3. 79 per title. Still, in the eyes of their customer the possibility to rent unlimited number of titles and thus have a home-made low price is clearly strength.

" Flat monthly fee, no late fees" pricing model. This was a model pioneered by Netflix, which enjoyed enormous popularity among subscribers. Today this model is followed by a growing number of other rental businesses too.

Weaknesses

Strong suppliers. As discussed above Netflix sources its main inputs from a few and strong players. Films come from Hollywood distributors; all distribution is handled by one service provider – USPS, and all payments and made online via credit card – payments processed by the four major credit card companies.

Volatility in performance. Netflix market performance depends on a number of variables (18 listed in 2003 Annual Report). Additionally demand for the product (films) depends on uncontrollable variables such as taste, recommendation. Finally economic success is very much related to customer loyalty because of the high acquisition costs.

Studios define release. Netflix can rent out the DVDs once they are out in the market. This is a decision made by movie studios and their distributors and therefore outside the control of Netflix. As discussed above, the position along the window release continuum might affect the popularity of a title and change the competitive environment.

Opportunities

Digital delivery. Netflix can take advantage of their knowledge of the consumer tastes (300 million film ratings over a library of 25, 000+ titles) and transfer this know-how towards digital delivery. The single most important factor in digital VOD models would be adequate recommendation (the modern version of traditional TV programming) and no other player in feature-film delivery has this expertise.

DVD format dominant. Based on the analysis above and the opinion of industry experts and analysts, the DVD format will be the dominant video format in the next at least 10 years. This situation might be challenged by the new digital transmission and HD storage formats, however, this is an issue affecting the whole business model and departing from the physical nature of the medium.

DVD installed base grows. With expected penetration of DVD players in 65% of US households, Netflix is positioned favourably to exploit this " infrastructural" given.

Underutilized debt capacity. Netflix' balance sheet as of 30 September 2004 is debt free. This gives the company an upside potential to borrow in order to finance its expansion. (Currently unit economics and cash generating potential are believed to be strong and there seems to be no short term need to finance operations.) The weighted average book-debt-to-capital ratios for the internet and movie rental industries range between 9% and 14. 3%.

Comparison universe

WA book debt to capital ratio

Movie rental industry – peer group

(Retail – special lines, SIC: 5600)

(4 companies)

14. 3709%

Internet industry

(SIC: 7370)

(164 companies)

9. 0389%

Threats

Prices of key inputs. As mentioned earlier Netflix is exposed to fluctuations in supplier policies, and specifically prices. USPS, card payment processing companies and film studios can increase their prices, which will affect dramatically the unit economics of Netflix model.

Studios may form alliances with bigger players. As competition in the rental segment intensifies, studios might deem it more beneficial to form alliances with bigger players, namely Blockbuster and Wal-Mart, manifested in more advantageous conditions. This will worsen the competitive advantage of Netflix.

Studios might not renegotiate revenue sharing agreements. Revenue sharing agreements which shift costs towards the variable end of the continuum might not be renegotiated at less advantageous terms. Although this will not necessarily worsen the economics of the operation, it might significantly increase the working capital requirements (more cash trapped in DVD copies). Given the short time horizon, WCR will have to be financed by debt which will deplete the borrowing capacity at a critical moment when Netflix might need a financing cushion to ward off other adverse market developments.

DVD retail prices fall. As discussed above diminishing retail prices of DVD titles might lure customers away from renting and into buying DVDs. A similar tendency was observed in the period 1999 – 2003 and must not be discounted lightly.

New channels of filmed entertainment delivery. New technological solutions and digitalization of TV will enable consumers to get access to filmed entertainment over new channels such as VOD, pay-per-view and Video over IP. Although not expected to gain market importance before 2007, these channels already witness implementation which is well accepted by consumers. Additionally, the increasing popularity of video games also claims part of consumers' leisure time.

New entrants into the rental market. Already competitive, the rental market is about to see new entrants both from the lower end (copy-cat small-capital companies) and from the big players such as the film studios. Low entry barriers combined with the high stake for film studios (currently 45% of a films revenues come form home-video rentals and sales) will be the drivers for these shifts.

Management of growth. Currently Netflix experiences growth which affects its business operations. Successful management of this growth is a critical factor for Netflix's continued competitiveness.

I want to work in this company. Because I love movies and have a deep understanding of the film industry. I also love the rich pioneering and revolutionary new industry, NETLIX is a leading new movie rental company, and it is also my ideal place to work. I think NETFLIX suit my taste, I can play in the company’s potential and at the same time realize my personal value. So I hope the NETFLIX work.

Netflix will be a wise investment. This company created a new movie rental system, as the Internet advances and the development of home audio and video equipment, the cinema picture quality and sound advantages of greatly reduced. Many people began to be more willing to watch more easily at home the latest and most popular videos, add the price on the NETFLIX player has an advantage compare to cinema. This will be popular network industries. So the company is a wise investment.

Team6

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