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Analysising Netflix's Strategy

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Abstact: ***Netflix, a subscription -based online movie rental service was founded in 1997 by Reed Hastings. Netflix is an internet portal through which subscribers can rent movies in DVD format and then have these DVD's delivered to them directly to their homes. Originally Netflix was based in the United States of America and it utilised the U.S. Postal service to deliver DVDs to its subscribers. By the end of 2006, Netflix had a total of 44 distribution centres across the United States which made it easier and faster to deliver its DVDs to a large number of its subscribers. Netflix, having a subscriber base of 6.6 million subscribers could ensure delivery of its DVDs to more than 90% of its subscribers within a single business day and by the end of 2006, Netflix had achieved revenues of nearly $1billion. (Rothaermel, 2012)***

Keywords: Netflix, Strategic issues, PEST Analysis, Porter's Five Forces Analysis

1. Strategic Issues

As society and science technology develops, the Internet has begun to change peoples' daily lives, such as the habits of study, communication and entertainment. Thus, in the context online business has become more and more common. Netfixs was online business, founded by Hastings in 1997. Its service item was online subscription-based DVD rentals.

In the process of development, Netfixs existed seven main strategic issues:
Firstly, Netflix ignored the actual situation and chose the similar business model with the other famous internet brands like eBay, Amazon. Because of competition advantages with other retailers, Netflix did not realise this until they found out the subscriber would not choose to return after their first experience.

Secondly, In order to develop the market, the firm has to spend much money to attract more new customers, and Netflix neglect the coustmers service, so that some early customers still lost by the slower service that Netflix offered.

Thirdly, Customers always like top new released movies which were the most expensive, thus increased the cost of Netfixs. As a result, the subscribers should expense more cost to acquire new movie because of the strategy called 'all you can eat'. And Netflix was always shipping the new movies package which has some old movies, but most subscribers may not like them.

Fourthly, the number of new films was less than the desired one and it leaded to customers' dissatisfaction. Due to there was no direct relationships with the major studios, Netfixs only built its film library through relationships with a small number of movie distributors.

Fifthly, due to Netflexs set up a single distribution center in Sunnyvale and California, Post Office may spenda long time to mail on cross-country andthen lead to extenddelivery period. As a result, it lost a lot of customers.

Sixthly, According to the subscription-based services,customer loss is the key strategic issue of Netflix.Owing to the high competitive market and raise of price, customer loss has become an urgent problem. Hence, customer acquisition, which includes developing new clients and retaining old clients, has become the main strategy to improve the business performance of the company.

Finally, the threat from video on demand (VOD) influences the performance of Netflix seriously. VOD can immediately provide customers to watch latest movies. Therefore, they consider that VOD is more convenient than DVD rental and traditional video stores.

Netflix's Strategy: An analysis utilising the strategic tools PEST, Porter's Five Forces model and SWOT.

2. PEST Analysis

Netflix is subject to political, economic, social and technological elements like other companies in the movie rental industry. Changes to any of the elements in this area might have a substantial effect on the business and operations of movie rental companies.

1) Political factor

Netflix might be influenced by changing laws concerning copyrights of certain kinds of content, like the television and movie shows that companies rely on to present to customers. Copyright law changes might affect Netflix ability to distribute this content to customers which could significantly impact business because this content might represent large segments of a company's services offering (Fritz, 2009).

2) Economic Factor

For Netflix competitive advantage to be maintained, it is essential to price competitively against rivals. Netflix is working in a business that depends mainly on the disposable income of its clients. If the growth of economic rates were slow and the power of customers purchasing are negatively impacted, Netflix would feel the impact of this drop in purchasing power first.

3) Social Factor

Netflix depends on the attractiveness of movies among customers in the sectors of the target market. As the average age of the potential consumers carry on growing older and

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filming expenditure among the older demographic turn out to be less popular, it might adversely affect the business.

4) Technology Factor

Given that the core operations of its business are internet based, Netflix has to contend with the continually developing technology sector, as the industry progress toward online expenditure. The Netflix market share is facing challenges from new rivals, because of the lower barriers to entry in terms of streaming content. The changes of Technology in terms of the internet rates, imposes on competitors in this industry, the need to continually modernize their model of business to sustain market share. (Netflix, 2009)

3. Porter's Five Forces Analysis

a) Internal Rivalry

There is substantial rivalry and competition between the offered companies in the industry, this include Blockbuster, Amazon, and Redbox. This competition is highlighted by the levels of marketing costs and advertising incurred by each firm. Netflix in 2008, spent over 200$ million in advertising which was dominated by various affiliate marketing deals and online advertisements, and remained at about 14% of revenue (Netflix, 2010).

b) Substitute Products and Services

For most homes Digital cable is now necessary, therefore many customers will have a film collection from their cable network. "On Demand," Services offered by cable television providers might be a substitute for Netflix if they increase their movie stock list to a similar title selection. It is essential for Netflix to keep up with the continually changing technology sector in order to sustain its success. (Amematekpo et al, 2011).

c) Entry of New Competitors

Netflix have to keep on maintaining the rising popularity of e-commerce such as an improvement and enhancing their inventory of stream movies with raise their HD streaming inventory. If this attempt is deferred, more suitable earnings of renting movies will take over such as "On Demand". This is probable because the low-priced entry barriers in the DVD industry linked to streaming content due to the huge amount of streaming content that could become obtainable to possible distributors.

d) Bargaining Power of Consumers

The industry of movie rental is an active industry. In times of slower economic growth where customers have a less amount of optional income their ability of expenses in the industry will be reduced. In times of a wealthy economy, customers might spend more money on the industry. This provides customers a high power of bargaining in the industry of movie because they can decide to use their entertainment money on alternative services or products.

e) Bargaining Power of Suppliers

Netflix is completely dependent on studios for the content they require to provide to customers. Currently, Netflix does not create any of their own content, if the suppliers were to stop the sharing of their content to Netflix, it might cripple business model of Netflix. This provides the suppliers extreme power over contract negotiations with Netflix for content acquisition. (Knowledge Wharton, 2009)

4. SWOT analysis

4.1 Firstly: Netflix's Strengths analysis

- Competitive "first-mover":
- Competitive "first-mover" advantages comprise identifying strong brand name and knowledge base.
- Economies of Scale in Netflix's Business Model:
- Online flexible infrastructure and interface allows Netflix to preserve low operating expenditure whilst raising its subscription base. Netflix's position in the industry will rise if movie downloads become the consumption technique of choice by subscribers. Consequently, because Netflix's subscribers increase, will lead to a decrease in marginal operating costs and increase in profits. (Amematekpo et al, 2011).
- Netflix was able to achieve competitive advantages by offering low price, free shipping, large selection, and no late fee policy. This improves the levels of consumer satisfaction and referrals.
- Netflix's Market Power:
- Netflix has been gaining control of a large area of the online DVD rental market and as a pioneer in this industry, Netflix has become a household brand.
- Electronic-commerce Expertise
- Expertise of Electronic-commerce including proprietary "Cinematch" software movie referral.
- Value in Netflix's consumer Services:
- Netflix presents a dedicated DVD recommendation facility based on the assessments and viewed films by its previously subscribers. These recommendations coupled with Netflix's extensive DVD inventory enable consumers to discover beyond the video content of the prevailing video feature films. The service is proprietary and unique to Netflix services.
- Library Content and Large DVD catalog:
- Currently, Netflix has a large, video content library. Netflix has more than 100,000 titles and 72 million discs, this including; TV shows, vague movies, and new releases. (Netflix, 2009)
- Experience and Skills:
- Netflix's employees have a passion for movies which would translate to a positive work ethic.

4.2 Secondly: Netflix's Weaknesses analysis:

- Financial Resources:
- Small Financial resources compared to competitors like Blockbuster.
- Consumers have to wait at least one or two days to obtain their films.
- Lack of Diversification of the world:
- Despite of that fact that Netflix present its services across the U.S and some other countries, Netflix has not expanded outside those few countries, which makes Netflix to depend on one or few markets. The globalization can benefit the Netflix's business by increased opportunities for growth and strength.

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- Dependent on USPS as subject to postage increases, distribution channel to forward.
- Subject to technological change.
- Netflix's product based on its services to their subscribers, this means that the Netflix's strength and growth will depend on the high Average Revenue per User, low Subscriber Acquisition Costs, and maintaining low churn rate. These issues might be difficult to control due to the absence of transition costs in the video entertainment industry.
- Netflix's brand Loyalty:
- Netflix's brand loyalty is not that great, while it has a high level of brand recognition. In 2011, a series of corporate missteps caused the firm to lose more than 800,000 consumers. (Amematekpo et al, 2011).

4.3 Thirdly: Netflix's Opportunity analysis:

- Netflix's Potential Growth of Subscription:
- The industry of DVD rental grosses every year, and Netflix might tap into this growing and Expansion into markets.
- Expansion of movie download ability.
- Continued international expansion of DVD internet access, acceptance of e-commerce and component sales.
- A small meteor crashes into Blockbuster Corporate Headquarters
- Digital Distribution:
- As video content's digital distribution turn into a progressively more popular viewing format, Netflix strategically located to provide as a connection throughout the slow changeover from physical DVD system to digital streaming. Netflix is improving it's located in this position than other companies because Netflix has an Electronic Commerce brand name and business model.

4.4 Fourthly: Netflix's Threats Analysis

- Extremely Competitive Market:
  The industry of DVD video covers a wide range of viewing prices, technologies, and services. There are some competitors that might potentially present home video cheaper than Netflix. If those competitors emerge with a better streaming ability and lower prices, Netflix's business model might be severely compromised. (Amematekpo et al, 2011).
- Changeable Video Rental Industry:
  The industry is constantly developing due to formatting and technological innovations. Prices, goods, and customer preferences are subject to rapid change, creating irregular and changeable markets where new competitor usually a threat and an impressionable business model is necessary to achieve.
- Subject to direct assault by deep-pocket of Netflix's rivals, such as subscription products presented by blockbuster.com.

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