

Digital Entrepreneurship

Assignment 1 (Part B)

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Course: Digital Entrepreneurship

Submission Date: 17/06/2021

Abstract

This report aims to systematically analyze the Netflix company as an assignment for Digital Entrepreneurship module. The report is focused on the internal aspect of the company. The report is divided into three parts, introduction of the company, structure of the company and conclusion which aims to provide comprehensive summary, based on the SWOT analysis.

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1. Introduction of the company

1.1 About Netflix

Netflix has been founded in 1997 by Hastings and Randolph as a service focused on renting and selling a DVDs over the internet. In 1999, the company introduced a subscription model for their customers which enabled them to enjoy an unlimited DVD rental for a monthly fee. The Netflix become the public company in the 2002 and by 2005 it had over 4 000 000 members.

A major part of the Netflix's remarkable success can be attributed to the introduction of streaming services in 2007. This allowed their customers to watch the movies directly over the internet. In 2013, the Netflix has started to create its own original content (Butler, 2020).

2. Structure of the Company

2.1 Business Model

The business model of Netflix is built around the Video-On-Demand (VoD) services. Netflix provides a variety of options to enjoy the VoD content including through direct streaming or as a download and watch later option. The latter provides the customer with a greater flexibility while traveling or helps in case of poor internet connection (Oat, 2013).

The company is using a subscription model, which is significantly helping the company to retain the customers. The company provides unlimited content to its customers as a part of subscription, which currently (in 2021) costs \$8,99 for the basic package. Netflix uses a mixture of weekly releases and drop all at once methods to keep customers interested and loyal. The company also diversifies its business to other platforms including mobile and consoles, as well as through creating

the original content. Aversa et al, suggests that diversified business model provides an overall reduction of the risk for the company (Aversa et al., 2017).

2.2 Value chain

The Porter's Value chain model is a tool that breaks down the organization into the smaller pieces, in order to help the managers or analysts to understand how the organization is creating the value. The model is divided into the two main categories: primary activities and support activities. Support activities are further divided into: Firm Infrastructure, Human Resource Management, Technology Development and Procurement. The main role of support activity is, as the name suggests, support primary activities in the value creation process. Porter's Value chain model divides the primary activities into the following categories: Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service (Porter, 1985).

Inbound logistics in Netflix's case is represented through the Netflix Original content as well as through the partnerships with various third-party content creators. Specifications and standards are then shared as a part of "Netflix Preferred Fulfillment Partners" membership. The partners meeting the strict Netflix standards earn a NPFP badge as a proof of quality.

Operations can be described as a step between Inbound Logistics and Outbound Logistics. It is an activity where the company transfers the raw material such as content, into its customers. To serve this purpose, Netflix has an excellent user-friendly platform that is also adjusted for the mobile phones, tablets, and gaming consoles and provides search and other features that can be further customized. The core of the Netflix operation is the cloud architecture, where the content is stored and streamed from to the customers. Furthermore, Netflix has an app that can be downloaded on both iOS and Android (Netflix, 2021).

Outbound logistics characterizes how the company delivers its product to their customer. To deliver the product to the customers, Netflix uses cloud infrastructure which allows customers to stream the content whenever and from wherever they like. Furthermore, Netflix allows users to download the content directly into the app, to make a watching possible in offline mode in case of travelling or poor internet coverage (Byrne, 2018).

In terms of company's marketing and sales activities, Netflix can be regarded as a success story as they were able to grow their revenue by 183% between the 2016 and 2020. Furthermore, company currently has over 200 million subscribers and enjoys the market leader position. This success could be attributed to five key areas: original content, data-driven marketing, multi-platform integration, email marketing and their capabilities to adjust their services to the market conditions (Sharma, 2021).

Apart from Netflix's streaming services, which are a core of their business model, the company also offers 24/7 customer support which allows customers to receive support in case that any issues with account or streaming service arises.

2.4 SWOT analysis

SWOT (Strength, Weaknesses, Opportunities and Threats) is a strategic tool that helps company to analyze the internal (Strengths, Weaknesses) and external (Opportunities, Threats) factors. Based on the summary from SWOT analysis, the management can select appropriate strategy to minimize the impact of the threats or maximize the benefit from opportunities. Overall, it is a supporting tool for the strategy implementation, which occurs when company is implementing processes that are aligned with its strategy (Gürel and Tat, 2017).

One of the most significant strength of the Netflix is their brand recognition. Furthermore, their high-quality streaming platform and content has attracted a significant customer base. Their business model is flexible and allows company to adjust their offering based on the current trends. Their pricing is competitive and offers a value for money. Their pricing policy benefits the customers as they are not interrupted during the streaming with any form of pop-up adds.

The weakness of the company is that although they offer original content, they also distribute a third-party material. Furthermore, in 2020, around 50% of their revenue has come from the US customers. This is due to the fact that in some mostly Asian regions, most of their revenue comes from mobile-only plan that is substantially cheaper than traditional US subscription (Gaille, 2020).

Opportunities for the Netflix are mostly identified in the growth through the product mix expansion. This might also lead into the penetration of new markets, and expansion in the markets where their presence is currently low.

Competitors are currently one of the main treats of the Netflix. It is natural that the evolution of streaming services, cloud and success of Netflix in achieving milestone of 200 million subscribers attracted the major players in the media and internet sector. Currently their top competitors are Amazon, AT&T, Walt Disney Company, Roku, Apple and Alphabet. Furthermore, the cyber-crime and piracy is ever persistence treat that the company needs to pay attention to (Rivera, 2019).

3. Conclusion

The perfect mixture and balance of all five primary activities helps the company to build a sustainable business that delivers the value to the shareholders and has the competitive advantage over the competitors. Competitive advantage in the case of Netflix can be identified in a form of wide offering of original content as well as excellent user-friendly platform that allows customers to categorize the content based on their preferences and their own profile. Furthermore, the subscription plan allows creating multiple profiles therefore it is also family friendly.

Finally, the company has delivered the value to the shareholder in the previous decade in the form of a substantial share price appreciation. However, the success of the company has attracted competition, therefore it will be more difficult for the company to sustain the pace of growth of new customers. Currently, the company is enjoying a benefit of stay-at-home economy as a result of Covid-19, which accelerated the interest of people in streaming services. As described in the Part A of this assignment, the Covid-19 has indeed speeded up the growth in streaming services, therefore it is an opportunity for Netflix to take the advantage of this temporary trend and diversify in either vertical or horizontal way, to stay relevant when the tide will turn, and our habits will return to normal.

4. Reference list

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