Netflix Strategic Analysis

New Mexico Highlands University

**Background**

“Netflix is the world’s leading Internet television network with over 44 million members in 41 countries enjoying more than one billion hours of TV shows and movies per month, including original series” (Netflix) For one low monthly price, Netflix members can watch as much as they want, anytime, anywhere, on nearly any Internet-connected screen. Members can play, pause and resume watching, all without commercials or commitments. Netflix started in California by two men by the names of Reed Hastings and Marc Randolph. After being charged $40 in late fees from Blockbuster, Reed Hastings wondered how film fans could enjoy rented flicks at their leisure. Along with two friends, Hastings created Netflix which combines two major services that were previously unavailable through conventional movie rental stores, no late fees and renting from home. Netflix has more than 30 million streaming members in the United States, Canada, Latin America, the United Kingdom, Ireland and the Nordics, making Netflix, Inc. "the world's leading internet subscription service for enjoying movies and TV programs.

**Mission and Vision**  
 In place of a published mission statement, Netflix has a Vision, a Promise, and nine Values, which together provide an idea, provide insight about the Netflix mission. The mission statement of Netflix is that it revolutionizes the way people watch TV shows and movies. Members pay a subscription fee to watch streaming videos over a computer or receive video material on DVD's. There are varying levels of service.

When it comes to Netflix, the story of market competition has an interesting twist. In the beginning, the company's primary competition was Blockbuster. In the 1990s, Blockbuster was the largest name in home video rental service in the U.S., with thousands of stores nationwide. By 2004, though, the Netflix brand was gaining popularity as DVD renters developed a growing interest in its rent-by-mail service. The greatest threat to Netflix is that they do not own their own electronic distribution system. Cable companies are currently trying to resolve licensing issues with the Film Studios.  If they can ever develop an equitable solution to deliver movies with higher quality, video on demand through the Cable companies would threaten the renting of DVDs.  The advantage cable companies have is that they already own a high bandwidth pipeline directly to the consumer. The second big threat is video on demand itself.  Both Amazon and Apple are currently offering digital movies that customers can download and watch on their televisions.  However, to download through Amazon you must own a TiVo and through Apple you must own an Apple TV.  Netflix needs to implement a similar solution while still maintaining the personalization that comes from their Cinematch software.

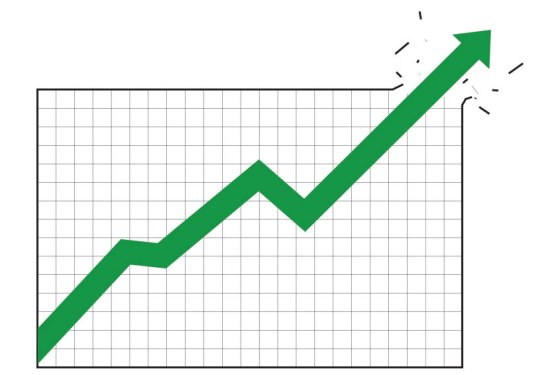
Netflix started in 1997, in Los Gatos, California. It shipped out DVDs-by-mail and waited for a reply before the next one was sent out. Netflix had over 100,000 titles with over 10 million subscribers! Now it is at 33.1 million subscribers, and does not only send DVDs out by mail any more. Netflix has broadened their horizons and became a power-house provider of on-demand internet streaming, with viewers all around the world. Where can they go next? Well, if Netflix can tap into the gaming industry, a market valued at 65 billion, then the possibilities have only begun.

The target audience is directed towards people looking to watch movies or shows over the internet. With only movies and videos the revenues have topped 1 billion in 2013.

1.2 B  
1.0 B  
900 M  
800M  
700M  
600M  
500M  
400M  
300M  
200M  
100M

The growth chart above shows how over the past decade the revenues tripled. The net income has also increased steadily, for the exception being in 2012. In 2012, for 2 quarters the Netflix had a net loss. Recently, Netflix submitted the 1st quarter of this year.

One of the reasons that Netflix has done so well is because of its competitive advantage. On top of instantly streaming videos and movies directly over the internet, Netflix has exclusive shows for members only. House of Cards, starring Kevin Spacey; or Orange is the New Black, are some examples of these Netflix exclusives.

Unfortunately, the substitutes are growing and the entry barrier to this market is low. One distinct way to stay ahead of the competition is to once again broaden the horizons. I believe if Netflix were to add to that target audience, not only will the transition be cheap but the gains to be made can be enormous. If Netflix were to start streaming video games through our membership, it would increase our revenues, thus net income, by 1.5% the first year. The transition would not be that expensive. About 46% of our subscribers watch our services through a video game console. The chances that they would use our video game streaming are 8-to-1 in our most recent survey. There are two options if this route were to be taken.

* Option A is to license out a deal with a video game company that has a tremendous amount of titles. This would give us access to all their titles and we would give them access to stream video games over the internet. Our income would be based off a percentage of streaming users, which will be determined before the deal is made. It will not be a fixed income but it will definitely be generous and consistent.
* Option B is to start streaming our own video games. Buying titles would be a much slower start than Option A, however; the gains would be 100%. No compromising our servers, nor limiting ourselves to another company’s success.

Think about where this company has started, and think about the direction it took with the use of the internet. Think about the direction it can go if Netflix continues to use the internet to the best of our abilities. The video game industry is valued at 65 Billion dollars. The time to act is now. I have laid out the options for you, all you have to do is choose which route you want to take.

**HR and the Internal Environment**

Netflix has grown from a company of 264 employees in 2001 to 2,022 employees as of 2013 according to Gale Business database. Netflix has reinvented their HR beliefs and processes which has shaped them into a company that many employees are proud to be a part of. They have seven aspects of their culture which are: Values are what we value, high performance, freedom and responsibility, context, Not control, Highly aligned, loosely coupled, pay top of market, promotions and development. Along with these values Netflix and their HR department have also established nine behaviors and skills they immensely value within their colleagues. These include: judgment, communication, impact, curiosity, innovation, courage, passion, honesty, and selflessness. They expect all employees to display these attributes every day and they value them so much that based off the demonstration of all, some, or none evaluates whether the employees are rewarded, promoted, or let go.

Netflix created a talent management philosophy that entailed keeping only “A” players/employees even if that included getting rid of any current employees that do not meet the growing needs of the company or possess skills no longer adequate, regardless of how much impact they made. Whenever they have to make a decision to let go someone who was once very useful, they will offer a fantastic severance package. Netflix found that “If you’re careful to hire people who will put the company’s interests first, who understand and support the desire for a high performance workplace, 97% of your employees will do the right thing” when making decisions. (4) They felt this was a much better approach than spending lots of time and money writing and enforcing HR policies to manage the other 3% of problems that might arise. If by chance they hired the wrong people they will be sure to let them go.

As far as spending money on trips, they asked employees to simply “act in Netflix’s best interests and spend company money frugally.” In general, they compose a clear expectation of responsible behavior which majority employees will abide by. As far as evaluations Netflix switched from formal performance reviews and implemented informal 360-degree reviews.

“We kept them fairly simple: People were asked to identify things that colleagues should stop, start, or continue. In the beginning we used an anonymous software system, but over time we shifted to signed feedback, and many teams held their 360s face-to-face” (HBR).

When Netflix made the big switch from DVD rentals to online streaming they needed new employees who were equipped and experienced with working on cloud services to properly store and allow access to all their content for users to watch. To do this their ideal new hires were going to be from companies like Amazon, EBay, Facebook, and Google. Their compensation philosophy helped attract new employers. For example, they encourage their employees and find it valuable to contact or interview with competitors to find out how much they will offer for their skill and talent, and then relay that information to them. As leaders build a company culture, they need to be aware of subcultures that might require different management. Certain questions should be asked to really get through to the employees and figure out what will work best for the company as a whole. For example, “What’s good for the company? How do we communicate that to employees? How can we help every worker understand what we mean by high performance?” If Netflix follows these points, there’s no reason the why the HR department can’t help them continue to be innovative.

**SWOT Analysis**

Netflix is in a rapid growing market where everything in today society is going digital to better comfort people provide a service to consumer to their convenience or their preference. Netflix with its great innovative management to help increase it shares in a competitive market of media. Many people are watching Netflix right now with a stock price that’s out of this world. Here is a SWOT Analysis to examine the Strengths, Weaknesses, Opportunities, and Threats of Netflix:

**Strengths**

* *Brand-* "Netflix" is fast becoming a verb in today’s society
* *Platform-* On all the major streaming services, Netflix has the best delivery system which helps keeps customers loyal and happy.
* *Content-* just acquired Disney , have content that customers want to watch and a good quality
* *DVD margins-* they make over 50% profit per dvd rented
* *Competitive Price*- $7.99 for all you can watch best price compared to its competition
* *Forward thinking management*

**Weaknesses**

* *Valuation-* Netflix trades at about over 100x forward earnings estimates in the stock market
* *Quixstergate*- raising prices didn’t sit well with consumers and caused Netflix stock to stumble. The effect of this made management a little shy at raising prices any time soon
* *DVD subscriber base*-as time passes its DVD subscriber keeps getting smaller and smaller eventually it will wither away
* *Content*- do not own any of the shows or movies

**Opportunities**

* *International expansion*
* *Raise Capital* –with people willing to pay this much for Netflix stock, the company might do well to sell more shares.
* *Advertising-* to it site
* *Content-* if they acquire shows consumers want they can eventually have the competition wither due to consumer wanting to watch shows or movies only Netflix offers
* *Shows and movies*- they can hire someone to make content only for Netflix viewer eyes only shows preferably due to it being much cheaper and less of risk

**Threats**

* *Off-balance sheet liabilities*
* *Google-* Google already owns YouTube, it offers many shows and channels for free and can possible offer much more due to celebrities can start channel etc
* *Content price-* Expect media companies to raise prices and squeeze Netflix’s margins.
* *Content-* if a competitor acquire content Netflix subscriber desire this may cause Netflix to start losing members

Final thoughts

While Netflix is a leading competitor in its market if it gets overconfident it can spell its doom it has a decent lead on its competitors but it has to find more ways to differentiate itself from its competition.

Strategic strategies

The Netflix card strategy is mainly to focus on a competitive platform where Netflix can become more competitive and reach out to more customers who do not have Netflix and want it but are afraid. First off, the Netflix card can essentially be used as a gift card not only that but it can also be used as a credit card for Netflix customers. Not only that but to help Netflix increase its consumer availability. First people who feel do not feel comfortable putting their credit card information online. Since the Netflix card would provide this pillow of comfort to these consumers. Next the Netflix card would also help attract consumers who do not have a credit card or access to one because Netflix requires a credit card to subscribe to its service. A teenager for one would benefit from this, because most do not have a credit card or access to one and would like to get Netflix. Also by allowing people to do this with a Netflix card it would help reduce the amount of complains from being double charged or getting continuously charged after unsubscribing. Lastly Netflix could provide a couple new options with those with a Netflix card first one with a 1 day service for those who are weekend warrior and don’t have time to enjoy a full month of Netflix due to busy life, and finally a week service for those who have a week to spare every here and for people who want to marathon through seasons of their favorite shows.

Netflix is currently very successful with their online streaming service and many people choose it over competing services. Their extended library selection, commercial-free, and inexpensive service tends to attract and retain customers. However, there is one idea in particular that can increase the number of customers and give current users even more incentive to stay loyal and committed to Netflix. This idea will allow users to access all their favorite shows and movies virtually whenever they want. When watching anything on the internet whether it be Netflix, YouTube, or online TV network channels have you ever encountered the problem of being frustrated with slow loading, constant pausing, out of sync video and audio or just slow streaming in general?

There is a solution and strategic plan to circumvent this ongoing, never ending problem. This strategy will position Netflix in a huge competitive advantage over competitors and all current users are going to be infatuated with this new component. Basically users are going to have the ability to save and store up to seven hour’s (420 min) worth of television shows or movies onto their computer, phone, tablet, Ipad, etc. using the new additional component via the Netflix application (provided that there is enough memory on device.) . In order to download the shows or movies the Netflix user must be connected to the internet or using Wi-Fi. However, once they have selected and successfully downloaded their choice of entertainment from Netflix’s library to their their device they can freely watch it whenever and for however many times they wish just as if they were streaming it online but with the convenience of not needing internet or using up any of their data. No need to worry about waiting for it to load or stream continuously. Any and all preferred shows can be watched at the touch of click or even on the go. Since Netflix will utilize the app for all the movie and TV content downloading, there will be no conflict with infringement and copying rights because the material will be nontransferable or duplicable. In other words the shows and movies picked to be downloaded cannot be exchanged from one device to another.

This new feature will give Netflix a huge competitive advantage and edge over competitors. It will also intrigue a new target population that does not currently have constant access to Wi-Fi or data plans large enough to stream. Additionally, this is great for people who travel often. Altogether the benefits include: no streaming cost, watch whenever, no delays or pausing or loading as long as the device being used to watch the content is fully functioning, any shows or movies can be chosen and exchanged from the entire Netflix library for as many times, up to 7 hours. The only down side to this new feature is the need for internet to initially sync the choices onto the app interface but after the content is synced there is no need for internet or streaming. Currently, the only way this convenience is available is through purchasing individual movies or TV show or otherwise through illegal pirated material.

Conclusion

Netflix is a well established company striving to become more competitive, innovative, and strong every day. If they continue to stay on the path they are on, their future looks great not only for the company, but its members and potential consumers as well. Netflix’s ability to come up with strategic ideas and implement them before competitors is the crucial component which will differentiate them from the rest of the world and allow them to continue their successful track.