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Econ 136

Netflix Questions

1)

Threat of new Entrants

As a well recognized movie and television company, competition in online steaming is likely to intensify in the future. Many new online streaming entrants are likely to be direct competitions entering the on demand streaming market to maintain market share and remain releventand competitive in the changing media. As a testament to the consension of changing media, In late 2014, Rogers and bell media respectively introduced shomi and Crave T.V. to Canadian marketplace; a recognition of the market trends favoring digital on demand. Additionally Google Hulu and Apple have started digital streaming revenue streams marking themselves as new entrants. While these new entrants have shown up within the sector,it remains unclear whether these new entrants truly represent a threat.

Bargaining Power of Buyers

The current business model implemented by Netflix gives it customers a large amount of bargaining power. Customers face minimal consequences for canceling any subscription. Customers can also calvel at any time without any fees and have profile information saved for up to one year after termination. Price sensitivity of Netflix customers further increases their bargaining power. At $8.99 a month, Netflix is relatively inexpensive . The low price and high amount of content creates a competitive advantage compared to traditional media outlets. However, it also creates high consumer expectations regarding price and content, and may have further increased bargaining power of customers. Netflix mitigates bargaining power of buyers by offering original content only available through Netflix but ultimately the availability of alternatives and price sensitivity of customers ultimately gives bargaining power to buyers.

Threat of Substitutes

Although often perceived as industries in decline, numerous substitutes for digital streaming remain in the marketplace. Substitute products including Satellite and cable T.V. DVDs and Movie theaters. As the latest technology in T.V and movie viewing. Growth of on demand video streaming has become popular means for accessing content and a pervasive threat to traditional ways of viewing T.V and movies. Media outlets lowers the threat of substitutes products. Although,many substitutes products for on demand video streaming are in decline, the remain ubiquitous in the entertainment industry and remain a threat to Netflix. Netflix will likely face the threat of new and innovative substitutes in the future.

Bargaining power of Suppliers

As Netflix obtains the majority of its content through licensing agreements with content proprietors, its suppliers have considerable bargaining power. When licensing agreements expire, content suppliers may choose to terminate thus diminishing the amount of content Netflix has. The prevalence of digital streaming services further enhances the bargaining power of suppliers. Once an agreement with Netflix has ended Viacon contracted with Amazon. Illustrating that that suppliers have a variety of digital streaming competitors with whom to form licensing agreements. Netflix does not own rights to original content. It owns the right to stream programs exclusively for a limited time, but the licensing rights may be sold to a competitor. With Netflix being highly reliant on Suppliers to provide the content it requires to acquire and maintain viewership. The bargaining power of suppliers are very high.

Rivalry amongst existing competitors

With the increasing number of new entrants to the digital on demand market segment, a causal industry observer may expect the rivalry amongst competitors in this market segment to be high. Numerous digital services including Google Play,YouTube, and Amazon Instant have emerged.And the prevalence of digital streaming providers may be seen as increasing rivalry with in the industry. Rival organizations have indicated that they believe the digital on demand market is evolving where consumers will subscribe to multiple digital on demand services. Although Netflix face many direct competitors, these competitors only pose a moderate threat based on the current competitive environment. However, rivalry may intensify as more competitors enter the market.

Conclusion

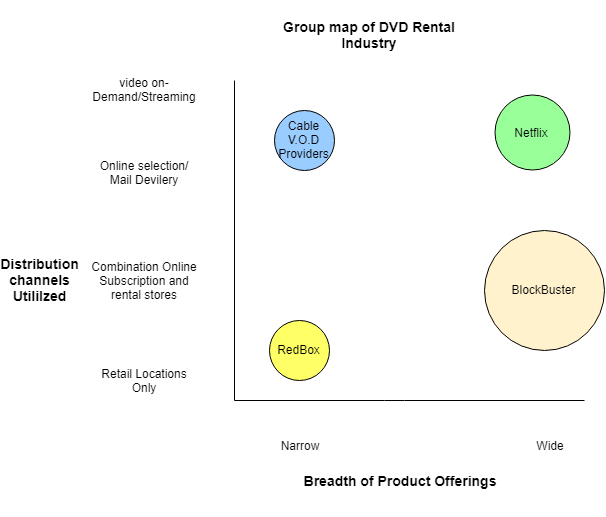
Netflix has established itself as a industry leader, However its current business model makes Netflix highly dependent on suppliers and a cost structure where Netflix is dependent on volume to remain profitable and consumers sensitive to price increases, have created a situation where Netflix is highly vulnerable to competitive forces. Some recommendations would be to find an additional revenue stream or to seek strategic alliances with competitors. While Netflix has dominated through innovation its business model has a means to a strong sustainable advantage remains to be seen.

2) What forces are driving change in the movie rental industry? Are the combined impacts of these driving forces likely to be favorable or unfavorable in terms of their effects on competitive intensity and future industry profitability?

Technological changes related to the internet such as technology of steaming rented movies directly to the big- screen has improved drastically. Changes in how the product is used. There are fst emergence of switching from rented DVDs to watch movies to watching internet streamed movies. This switch away from renting a physical copy to streaming has had a major effect on the entire movie rental marketplace. The weight of evidence indicates that the driving forces will all act to intensify competition among the carious movie rental providers. All the new entrants offering streaming will try to be steal market share. There will be vigorous competition. And think that yes the driving forces lead to higher profitability among the movie rental companies. DVD rental marketplace is likely to change.

3)

What does your strategic group map of this industry look like? How attractively is Netflix positioned on the map? Why?



Netflix is attractively positioned due to Netflix being shown above has both mail delivery and streaming capability. It has a wide variety of titles in its movie library. These factors place Netflix in a very strong position to come out a winner as streaming becomes the preferred method of delivery.

4) What key factors will determine a company’s success in the movie rental industry in the next 3-5 years?

Some key factors could be

* **Large selection of titles** - wide variation of movies is essential
* **Internet Streaming-**  On demand movie streaming have become the norm
* **Attract large enough subscriber base to be profitable** - economies of scale to keep cost low and price competitive.

5) What is Netflix’s strategy? Which of the five generic competitive strategies closely fit the competitive approach that Netflix is taking? What type of competitive advantage is Netflix trying to achieve ?

Netflix is using a multi pronged strategy. This is shown through Netflix having more than one revenue stream. While some could argue that Netflix is employing a broad differentiation strategy by having its own original content. Netflix is employing the best-cost provider strategy though its actions in moving as quickly as possible to transition to digital delivery of movie content. Which will get it instant delivery capability and also reduce its operating expenses by curtailing the need for so many distribution centers and mail delivery cost. Netflix is trying to achieve a four pronged competitive advantage based on

1. A wide selection of titles
2. One business day delivery method with unlimited streaming privileges
3. Movie recommendation software
4. A growing reputation and brand recognition

Netflix seems to be in a strong position to sustain its competitive advantage in delivering movies to its customer base and is well positioned to continue to grow its subscriber base.

6) S.W.O.T analysis

Strengths

Netflix has capitalized on being a first mover in the online DVD rental business- its is now the world's leading internet movie service and has a growing subscriber base. Netflix’s 120,000 titles to choose from and its proprietary movie recommendation software makes it easy and convenient for customers to identify and select movies to their liking and greatly simplifies the task of ordering their next round of movies.

Weaknesses

Netflix’s service is not appealing to households who rent movie DVDs occasionally it appeals mostly to those who want to watch movies in their homes on a regular basis and see the monthly fee as a good bargain. Netflix has limited financial resources and its profits are relatively small which makes it vulnerable to the bargaining power of movie studios. Subscribers cancellations are sizable and rising- climbing, to grow its subscriber base, Netflix must attract millions of new subscribers each year.

Opportunities

Netflix is leading the transition to digital delivery of rented movies attracting millions more subscribers. Online movie rental is still in the growth stage of the industry life cycle. Also the allure of expansion into foreign markets.

Threats

The growing bargaining power on the part of movie studios to extract higher fees from Netflix in return for granting Netflix the rights to stream movies or to purchase their movie DVDs for rental purpose.The entry of movie rental competitors in the emerging VOD and digital deliver segment that have the name recognition, brand power, and resources to draw subscribers away from Netflix.

Conclusion

Netflix overall situation is strong and its outlook as a strong first mover makes its outlook promising. Netflix is well positioned in the movie rental business, with expanding capabilities to stream movies to subscribers as market demand for VOD grows, in addition to the variety of titles and its movie recommendation software combine to make Netflix competitive positive attractive and capable of profitability on the road ahead.

7) appraisal of Netflix operating and financial performance based on the data ? what positives and negatives do you see in Netflix performance? Analysis based answer to your assessment of Netflix recent financial performance.

Netflix subscribers base is growing rapidly- from 292,00 in 2000 to over 12,268,000 in 2009. Netflix’s subscribers grew from 4,179,000 to 12,368,000 a compound average growth rate of roughly 30%. This is an indication that the company is attracting free trial subscribers in great numbers. The number of subscribers cavellatoins each year are rising - from 330,000 in 2000 to 2,160,000 in 2005 to 6,444,000 in 2009. The rising number of callelation is cutting into the number of net subscribers. While the number of cancellations been on the rise revenues grew from 682.2 million to 1,670.2 million - a compound average growth rate of 25.1%

The positives in Netflix’s operating and financial performance is the growth in Netflix’s subscriber base and the downward trend in subscriber acquisition cost and the increase of trail subscribers. As the customer base increases the expense percentage for prescription costs have gone down.

The Negatives of Netflix’s operating and financial performance based on the dadt in case Exhibits 2,3, and 4 are the increasing expense percentage to technology and development and subscriber cancellations are larger than ideal. In addition to cancellations the company’s combined year end cast and cash equivalents plus its short term investments were not as high in 2008 and 2009 as one might like to see.

8) Weighted Strength Matrix

Netflix Blockbuster Vod providers

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Competitive Strength Measures** | **Importance weight** | **Rating** | **Score** | **Rating** | **Score** | **Rating** | **Score** |
| Number /Variety of titles and content offerings | .20 | 10 | 2.00 | 9 | 1.80 | 3 | .60 |
| Ease and convenience of choosing movies to rent | .10 | 10 | 1.00 | 7 | .70 | 9 | .90 |
| Ease/ convenience of accessing the rented movie | .10 | 10 | 1.00 | 7 | .70 | 9 | .90 |
| Competitive pricing/ variety of subscriptions plans | .20 | 10 | 2.00 | 7 | 1.40 | 10 | 2.00 |
| Brand reputation | .10 | 10 | 1.00 | 8 | .45 | 7 | .70 |
| Order filling capabilities | .10 | 10 | 1.00 | 9 | .90 | 5 | .50 |
| Geographical market coverage | .10 | 9 | .90 | 10 | 7 | .70 | 1.00 |
| Financial Strength | .10 | 5 | .50 | 2 | .20 | 5 | .50 |
| **Sum of weights** | **1.00** |  |  |  |  |  |  |
| **Total Rating/ Score** |  | **73** | **9.30** | **59** | **7.15** | **54** | **6.9** |

The competitives strengths table made above shows that Netflix business model and strategy seem better than BlockBuster. Blockbuster is deficient streaming capabilities and is burdened by eroding traffic and sales at its rental store locations, but BlockBuster has stronger capability than netflix to reach and satisfy both renters of DVD and many retail locations. VOD providers are more limited and their pay per view pricing approach is not as competitive. Thus a good case can be made that Netflix enjoys a net competitive edge over Blockbuster and VOD providers in the movie rental business and is well positioned to sustain its net competitive advantage in the upcoming years.

9) What 2-3 top priority issues does Netflix management need to adress ? what topp 2-3 issues does Blockbuster management need to adress ?

In Netflix’s case a high priority issues that should concern management are what should or can Netflix do to curtail the growing number of subscriber cancellations. Are there any actions that Netflix should employ to attract new customers ? and What should Netflix do to prepare for the coming marketing campaigns by cable companies to offer VOD to their broadband customers and thereby compete head-on with Netflix ?

In BlockBuster’s case high priority issues that should concern management are how best can BlockBuster get its financial affairs in order, return to profitability, and emerge for bankruptcy. Are efforts to revitalize store traffic and store sales at BlockBuster a lost cause ? should BlockBuster accelerate its efforts to build its movie-streaming capabilities and close the gap with Netflix.

10) What recommendations would you make to Netflix CEO Reed ? at minimum, your recommendation should cover what to do about each of the top priority identified in question 9.

My recommendation to CEO REED Hastings would be to continue to add more titles to Netflix’s library especially content that can be streamed to subscribers because it seems to be the forthcoming trend. In addition to adding more titles Netflix should continue to refine and continue efforts to lead the transition to streaming delivery of movies to subscribers. Hence, the imperative of expanding the content library that can be delivered digitally and to continue the explorations of what can be done to increase subscriber retention and minimize subscriber cancellations. If Netflix can learn what the main reasons are for cancellations, it may be able to come up with a subscription offering that addresses the reasons for cancellations.

Citations

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