NETFLIX

Teamwork - Company presentation

University of Trieste, Business Management class, May 2020

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References

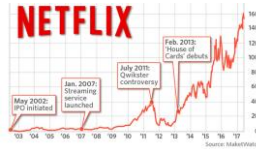Articles
Data

DESCRIPTION OF THE COMPANY

Company's history

Founded by **Reed Hastings** and **Marc Randolph in Scotts Valley**. It offered **online DVD rentals and sales** with some **film reviews**
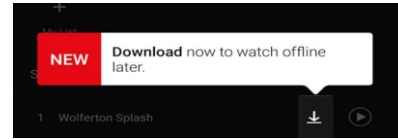
1997

1998

Netflix launches the **subscription service**, offering **unlimited rentals** and starting to have a movie **recommendation service**, **ranking films and series by its customers**

Netflix **changes name** and opened new stores.It counts **600000 members** and makes first initial public offering at **Nasdaq**.

2002

2007

Netflix began offering a **streaming on demand video service**. Netflix's growing and reducing costs. It is also **available with PS3, Nintendo, Tvs, I-Pad, IPhone and I-Pod**

Netflix starts streaming **"House of cards"** and **"Orange is the new black"** winning 7 Emmy Awards. It rows its members every year, launching also in **Latin America**, the **Caribbean** and **Europe**.
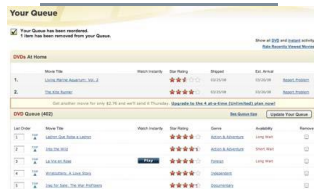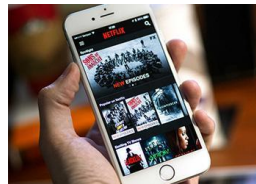
2013

2016

Netflix is **available nearly worldwide**, offering more and **more contents**, **growing memberships** and offering the **offline services** and the **downloading of contents**

Netflix launches **"Stranger things"**, **"La casa de papel"**, **"Dark"** and **"Suburra"**, expanding international originals film and series

2017

2019

Netflix **wins 4 Academy Awards for "Roma"** and declares the **first international original content from Middle East and Thailand. Wins 27 Emmy Awards** for Primetime and Creative Arts for **"Black Mirror", "Ozark" and "Queer Eye"**

Netflix's Stated Business Plan

VISION

- ❏ Become the best global entertainment service
- ❏ License worldwide entertainment content
- ❏ Create accessible markets for filmmakers
- ❏ Let content creators find global audience

Netflix's vision is to maintain its leadership in the entertainment world, increasing its global presence and its memberships, producing more original contents and helping filmmakers and content creators to reach a proper audience

MISSION

- ❏ Grow memberships
- ❏ Expand contents to improve customer experience
- ❏ Expand Netflix's services globally
- ❏ Maintain strategic positioning

Netflix's mission is to reach a global audience in order to have more and more worldwide subscriptions. In order to reach new members, Netflix is improving and expanding everyday its contents, satisfying and surprising the customers. In order to reach its goals, Netflix wants to maintain its strategic positioning on the market, staying within the limits of its net income.

BRAND PROMISE

"We promise our customers stellar service, our suppliers are valuable partner, our investors the prospects profitable growth, and our employees the allure of huge impact"
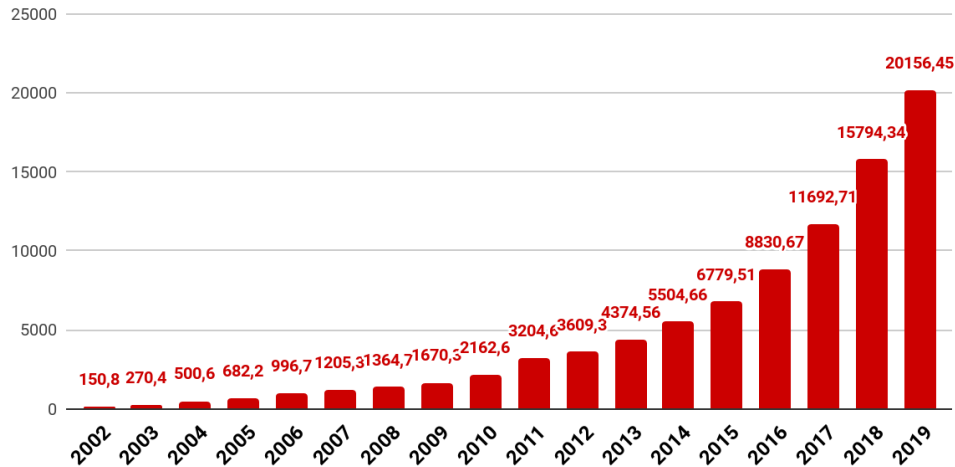
Netflix in numbers

- 8600 employees
- 190 countries entered (not included China, North Korea, Crimea and Syria due to U.S. government restrictions on American companies)
- Almost 183 million subscribers as of 31 March 2020 (+22,8% for the same period)
- 20,15 billions revenues in 2019 of which 10,1 bl in UCAN, 5,5 bl in EMEA, 2,8 bl in LATAM and 1,5 bl in APAC (+27,6% compared to 2018)
- 1,87 billions profits in 2019 (+53,7% compared to 2018)
- Netflix is one of the 100 best brand 2019 for Interbrand

Subscribers 2019 by region

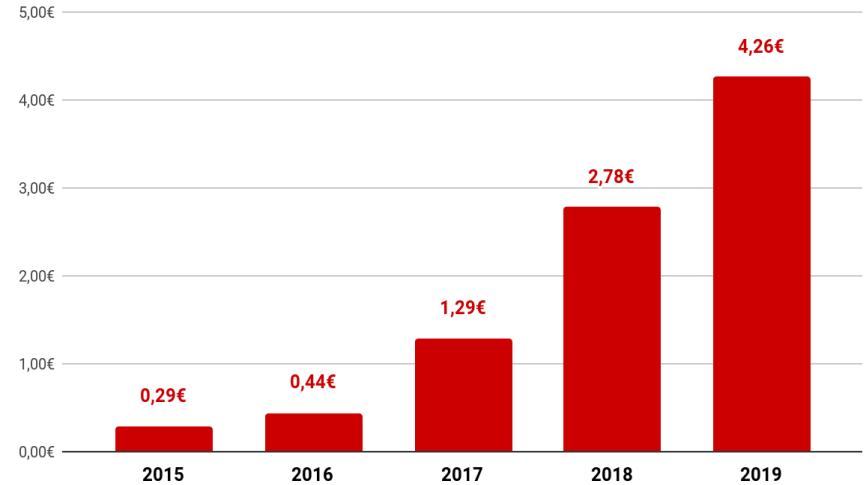APAC
9,7%

LATAM
18,8%

UCAN
40,5%

EMEA
31,0%
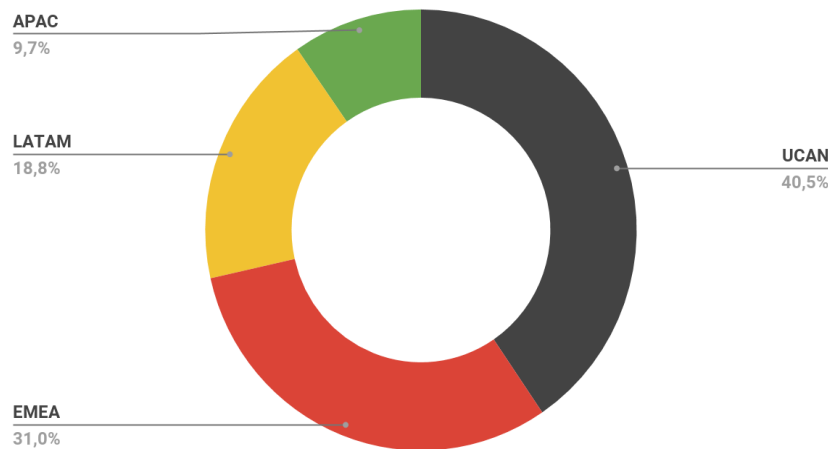
Netflix in numbers

Netflix's Annual Revenue from 2002 to 2019 (in million U.S. dollars)

Netflix EPS of the last 5 years

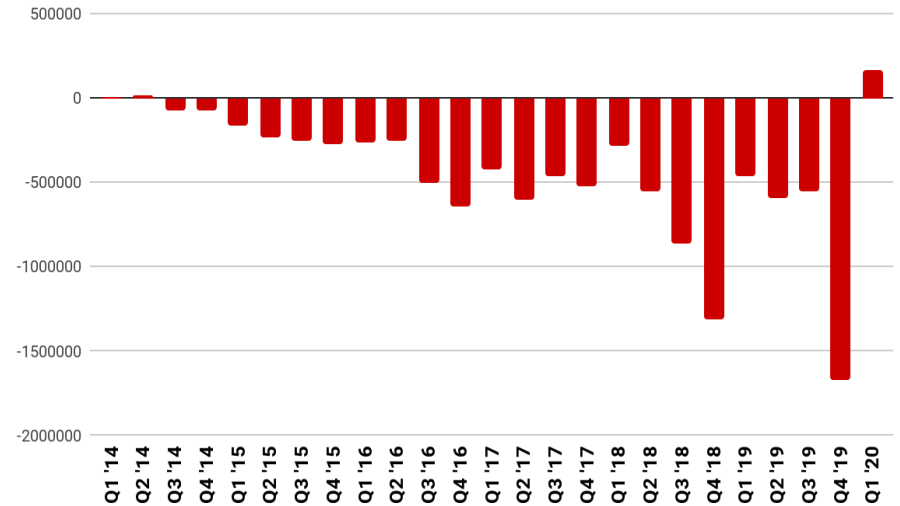# Netflix in numbers

Netflix ROI of the last 5 years

2015	1,84%
2016	2,07%
2017	4,13%
2018	6,22%
2019	6,88%
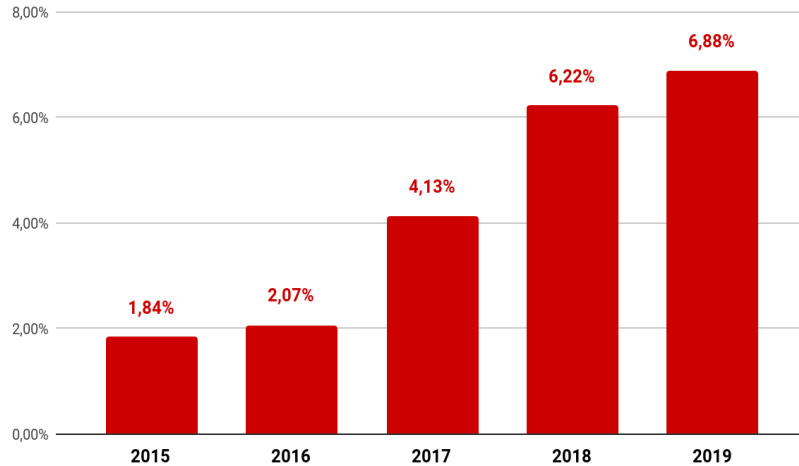
Netflix Free Cash Flow

Brand portfolio

The main **product** is video streaming subscription **service:** films, series, documentaries.
Members can watch with no limits, on any internet-connected screen, without commercials. Three types of cost membership, depending on the country in which is available[1].

Netflix's strategy: target every customers interested in streaming content; they consider one operating global segment.
 In a second moment, the service will be adapt on the individual needs using algorithms.
Currently, it is buying and creating local language content to attract local preferences.

-> **cost leadership** and **differentiation**

In the USA, Netflix is becoming a **cash cow**:
- with 73% MS (the second is Amazon Prime Video with 9%), and a slow market growth
- similar situation in UK (60& MS)
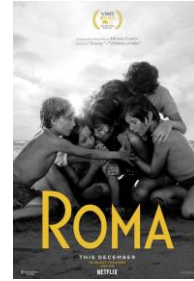
In some countries, Netflix is a **star** product, with more competitors:
- in Europe it has an average market share of about 50%
- in the APAC area has registered a growth of revenues of 153% and of membership of 148% over the past three years.
LATAM area is more complicated, here the growth is low, but Netflix is steel the leader[2].

Brand portfolio

Another product is the **DVD rental service** through email. Available only in the USA.

Options:
- "Standard" plan , $ 7.99 price per month, 1 discs out-at-a-time;
- "Premier" plan. $ 11.99 price per month, 2 discs out-at-a-time.

Both unlimited per month, with no late fees, free shipping & returns, first month free, free unsubscribing. Costs go up to $9.99/month and $14.99/month if you want to include Blu-rays in the service.

Target: rural areas where internet connection might be a problem.

-> **Dog** product

Revenue for 2019: $ 297,217,000 (-19%)
Members for 2019: 2,153,000
(minus 553,000 from the last year)
But no expenses for marketing

A Netflix Company

Value Chain

R&D → **Production** → **Marketing** → **S&S**

R&D made thanks to the **data** gathered from each customer, trends, and analysys made by Marketing sections
Headquarter: Los Gatos (California)
Offices: in Europe, Latin America, Asia

Contents provided thanks to
- deals with suppliers (Warner Bros, Sony Pictures, Paramount, ...)
- Netflix's production (sites in UK, Spain, USA, Canada)

CONTENT →

← DATA

Service available **worldwide** through the platform (excluding Mainland China, Syria, North Korea and Crimea)

A Service Value Chain
to target everyone

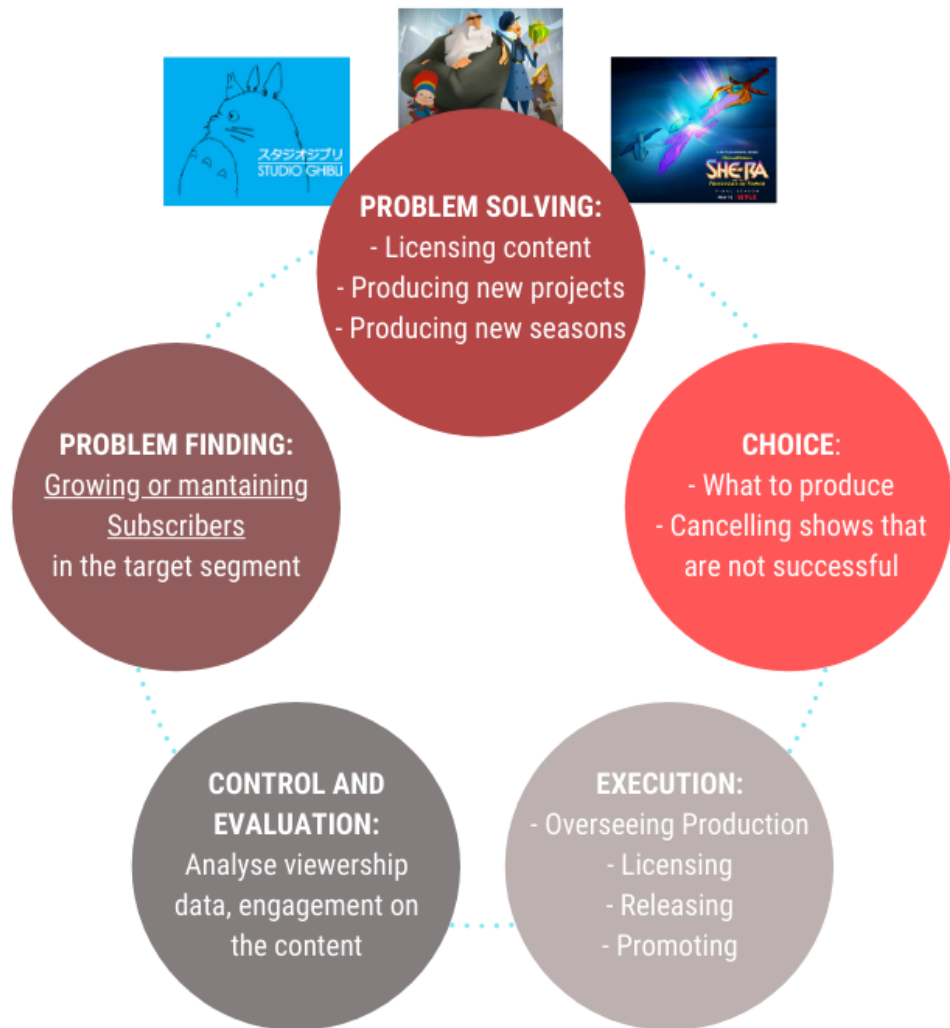Netflix's goal is to have, and ideally to produce, everyone's favourite show. This means it needs to evaluate the needs of all possible target segments and develop solutions on how to interest them and keep them engaged - and subscribed to the service.[1]

PROBLEM SOLVING:
- Licensing content
- Producing new projects
- Producing new seasons

CHOICE:
- What to produce
- Cancelling shows that are not successful

PROBLEM FINDING:
Growing or mantaining Subscribers
in the target segment

CONTROL AND EVALUATION:
Analyse viewership data, engagement on the content

EXECUTION:
- Overseeing Production
- Licensing
- Releasing
- Promoting

Corporate sustainability and responsibility

Environmental Social Governance[1]

- Support of renewable projects
- Use of energy from renewable sources
- They are working to be as sustainable as they can in our operations.

Social inclusivity

- Workforce heterogeneous as the stories that they provide

Netflix culture

Freedom and responsibility[2]

- "No rules " approach: no unnecessary rules, to be more creative and productive
- Trust in employees for use of time, money, judgement

Values: judgment, communication, curiosity, courage, passion, innovation, inclusion, integrity, impact

COMPETITIVE ENVIRONMENT

PESTEL Analysis

POLITICAL
- Taxes depend on each country[1].
- Censorship requirements from various governments[2]
- Global market, so each country has different regulations

ECONOMICAL
- Availability of broadband connection
- Disposable income
- Exchange rates

SOCIO-CULTURAL
- Diverse workforce and content
- Targeted content
- Focus on younger generations
- Switch from TV to smartphones[3]

TECHNOLOGICAL
- Recommendation algorithm[4]
- Batch production and release
- 4K, broadband, compression for bitrate efficiency
- Mostly stable technology

ENVIRONMENTAL
- Data centers are energy intensive
- Sustainable production
- Brand image
- COVID long-term consequences hard to predict[5]

LEGAL
- Copyright law
- User data protection, privacy
- Attitude towards piracy

THE US MARKET

	Pricing Model	Relative Market Share[1]
Netflix	Basic monthly 9$ Standard monthly 13$ Premium monthly 16$	2,6
hulu	Monthly with ads 6$ Monthly without ads 12$	0,37 Does not include the 'Hulu + Live TV' subscription service
prime video	Monthly 12$ Yearly 114$	0,36

HBO NOW   DIRECTV NOW   sling TELEVISION   Disney+   Monthly 7$
Yearly 70$

Porter's Five Forces

Threat of Potential Entrants

Low entry barriers

Every show is unique

High capital requirements to produce/license content

Most possible entrants are already producers

HIGH

Power of Suppliers

Content is the main asset

Low number

Reliance on AWS[1]

Severe threat of vertical integration

Original content

MODERATE

Threat of Substitutes

Many entertainment substitutes[2]

Free (Youtube, Twitch)

Declining popularity of TV

Piracy

HIGH

Power of Buyers

Low switching costs

Increasing amount of alternatives

Monthly subscription

VPN control

HIGH

Rivalry Among Competitors

Growing global market

Saturated US market

Competition on each population segment

HIGH

CONCLUSIONS

Keys of success and future of the company

Keys of success

- **Advantage of the pioneers** - first movers advantage: intercepted the demand of streaming contents, especially series
- **Customer data**: recognised the power of data and analytics (Cinematch) before they were in vogue
- **Accessibility** of the platform through services at an **affordable price**, flat-fee unlimited viewing commercial-free, for all the series and films.

Future strategies

- Necessity of financial resources to support its stand-by-alone business (it does not have other activities that can provide financial resources)
- **Focus** on **original programming**

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