

NETFLIX

Business Case Study of NETFLIX

By
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Netflix Background

- Reed Hastings had to provide \$40 as late fees in Blockbuster company, so he got annoyed.
- He made the company Netflix with tagline “No Late Fees”.
- Started out as a subscription based DVD in mail service.
- The rival company was making money keeping late fees, with the pain of the customers.

Blockbuster Company Failure

- Blockbuster failed as they did not use their store networks to deliver DVDs.
- Within one year, they cut down late fees, setting up DVD in mail service.
- They suffer a total \$400 million in debt
\$200 million (late fees loss) + \$200 million (DVD by mail setup cost)

Netflix Discovered Threats

- Blockbuster entering the DVD in mail service, could have delivered a better service using its supply chain.
- Hidden Competition, Walmart pricing model.

Loss Leader Pricing Model

- You sell low cost low margin product.
- You expose your customers buying high cost high margin products.
- Walmart was giving away DVDs on rent at a cheap price.
- It could entice its customers to come to the Walmart store exposing the to shop other products, resulting in more profits.

Loss Leader Strategy



Loss Leader Strategy

['lɒs 'lē-dər 'stra-tə-jē]

Selling a product or service at a price that is unprofitable but attracts new customers or encourages them to buy additional products and services.

Netflix Strategies

- Netflix invested into data analytics, to build a formidable personal recommendation algorithm.
- Used the internet to distribute the content instantly and cost effectively.
- Became the market leader.

Competition against Disney

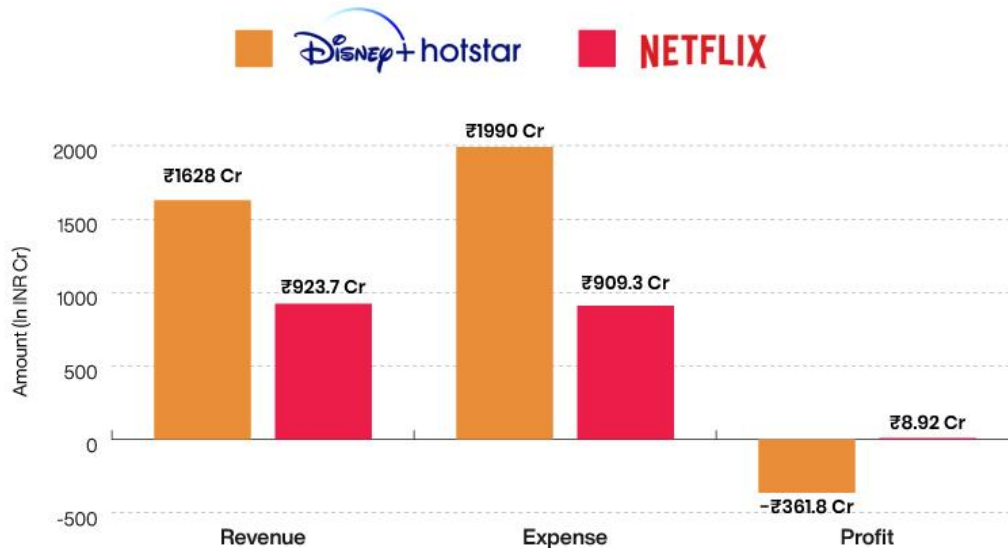
- Disney makes billion dollars through theatre release itself, before the move even comes to OTT platforms.
- They had money, start pulling out content from other OTT platforms and launch in their own OTT.
- Disney had money to invest on original contents, to turn its free viewers into paid subscribers.

Netflix Limitations

- Netflix started original content in response, became a production company itself.
- Their solely dependent on user subscription fees, while others have multiple sources of income.
- It's tough to maintain profitability.

Netflix vs Disney

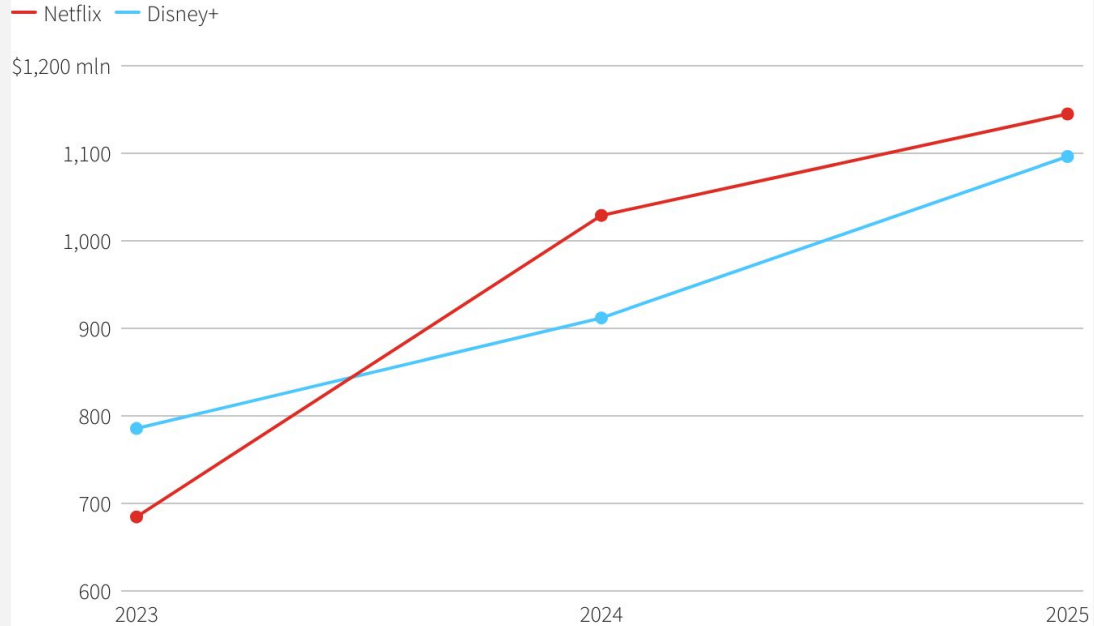
Disney+ Hotstar Revenue And Expenses Tower Over Netflix India In FY20



Source: Financial Statements Of Netflix India And Disney+ Hotstar India
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Netflix vs Disney

Netflix to surpass Disney+ US ad revenue next year



By Chavi Mehta
Source: Insider Intelligence

Arrival of Amazon Prime

- Amazon prime using same loss leader strategy against Netflix.
- No matter whether they have subscription, as long as the customers have an account, they will buy from Amazon.

Netflix vs Amazon Prime

Chart of the Day

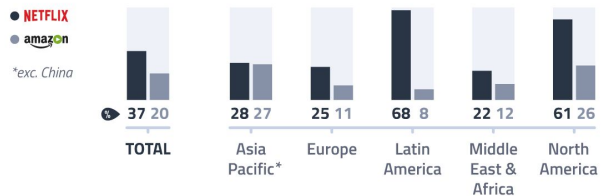
7 SEPTEMBER 2017



Netflix vs Amazon Prime Video: A Global View

Netflix vs Amazon Prime Video Across the World

% of internet users aged 16-64 who have watched each service in the last month



Top 5 Markets

NETFLIX

	Mexico	72%
	Brazil	67%
	Argentina	63%
	USA	62%
	Canada	56%

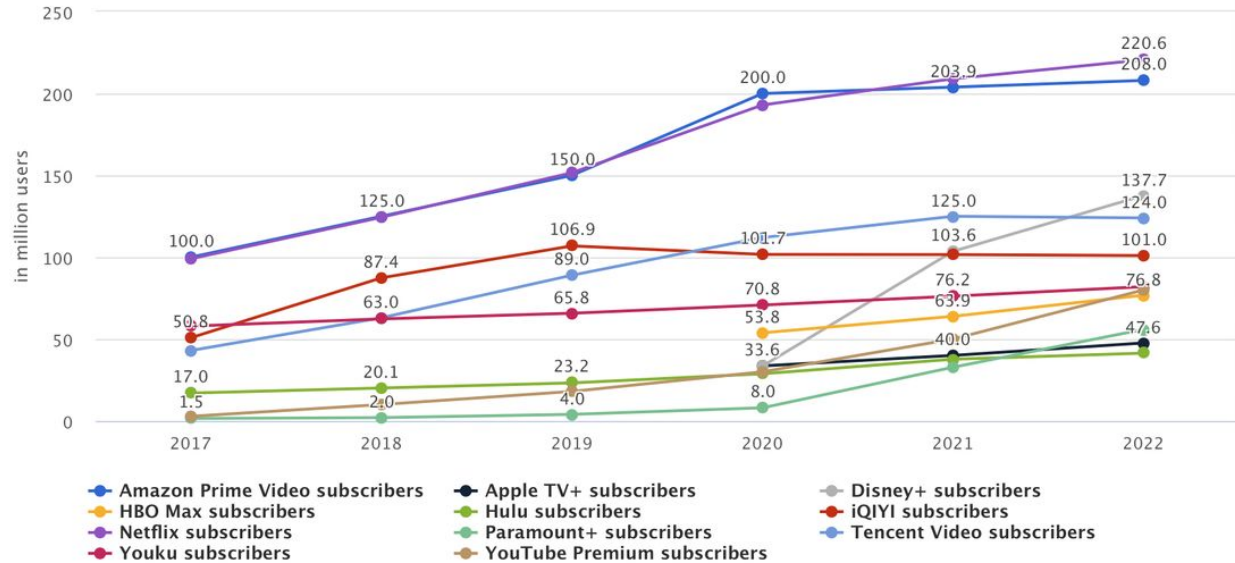
amazon

	India	45%
	USA	28%
	Germany	27%
	Vietnam	25%
	UK	25%

Question: In the last month, which of these services have you used to watch/download TV shows, films or videos? | **Source:** GlobalWebIndex Q2 2017 | **Base:** 34,078 Internet Users aged 16-64 from Outside China

Netflix vs Amazon Prime

SUBSCRIBERS BY SERVICE



Most recent update: Mar 2024

Source: Statista Market Insights

Netflix SWOT Analysis

SWOT ANALYSIS OF NETFLIX

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Strengths

- Favorable Brand Positioning
- Rapid Growth
- The Company Offers Its Service To a Wide Range of Customers
- Their Ability To Offer Exclusive Netflix Original Content
- Their Capability for Rapid Customer-centric Adaptation
- The Company Has a Strong Influence on Consumer Culture

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Weaknesses

- Restricted Copyright Policies
- Worrying Relationship With Debt
- The Company Has Lost Its Price Competitiveness
- Recent Subscriber Loss
- Over-reliance on their North American Market

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Opportunities

- Strategic Re-branding
- There Is Still Further Room for Expansion
- New Innovative Customer-centric Services
- Offering More Local Content

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Threats

- Rising Competition from Other Streaming Services
- Rampant Content Piracy
- Password Sharing
- Failure to Invest In a Greener Future
- Slowing Growth in the North American Market
- Rising Operational Costs



Challenges for Netflix

- How will Netflix build another stream of income? (ads/theatre release, increasing subscription price)
- Can Netflix match content production with Disney?
- Will Netflix become yet another app and lose its market leader position?
- Could it become a loss leader for another giant? (like joining Walmart to help them compete with Amazon)

Business Lessons

- History always repeats itself. (Whatever happening to a particular company today, has either happened to same company before or any other company in any other domain.)
- Every giant company has their own vulnerabilities from time to time.
- Business ecosystem from 21st century is getting more and more complex. (E-commerce vs Entertainment Companies)
- Calculation and strategy matters.