Prakriti Joshi
Entertainment and Media Industries Section 7
4 October 2018

Netflix, Inc. Case Write-Up

Netflix started out as a DVD rental-by-mail business and advanced with video-on-demand and home internet technologies. When Netflix began their DVD rental-by-mail business, they made a deal with manufacturers, so people who bought DVD players would get a Netflix coupon. Since DVDs were not common at the time, manufacturers could provide their customers the ability to view a variety of rental DVDs. Netflix's customers could browse through DVDs on their website which was designed to replicate parts of video in-store experience such as personal recommendations and queues, while also having them mailed directly to the customers' home. Netflix tested different ways to increase rentals. Netflix's Home Rental Library concept sent customers six DVDs at a time for a 20 dollar per month subscription. The Netflix Serialized Delivery concept allowed customers to make a short list of future movie rentals so that when they returned a DVD the next one in line on the list would automatically be sent to the customers' home. The Marquee Plan offered four movies for a per month description. This was a better alternative to Blockbuster because of the due dates and late fees Blockbuster had. Netflix also experimented with the "Netflix Express" which was basically the idea that they could sell their DVDs inside a store, but Reed Hastings, the CEO of Netflix, decided to focus on online distribution. Hastings offered to sell almost fifty percent stake and change their website name to Blockbuster.com, but Blockbuster declined and soon went out of business. Netflix is currently a subscription based streaming service which allows users to stream unlimited movies and tv shows. It has been growing both internationally and domestically. It also creates original content. According to Exhibit 5 in the case study, the paid subscription from 2012 to 2016 has been constantly increasing with both domestic and international streaming. Netflix's ability to be innovative through selling DVDs and a streaming service monthly subscription has allowed it to be the successful company it is today.

While Netflix is a popular company, the company still faces challenges including creating relevant content, facing internet service providers, and continuing to grow internationally, while also having to compete with other streaming services such as the most recent one: Disney's new streaming service. In order to compete with companies like Amazon and Hulu, Netflix invested 6 million dollars in 2017 and plans to invest 8 million dollars this year in creating original content according to a New York Times article: *Netflix Says It Will Spend Up to $8 Billion on Content Next Year*. Netflix is focusing on creating content for children's programming rather than sports and news content. This will also help netflix compete with Disney's new streaming service which will attract many children's parents. In addition, Netflix faces problems with internet service providers. ISPs have shown to be an expensive cost of streaming. Once users go above their data usage, they have to pay much more to use additional data. In a Forbes article, *Here's How Netflix Can Be Impacted by the Decision on Zero Rating,* it discusses that the Federal Communications Commission's new chairman Ajit Pai investigation into the zero rating policy which is basically the practice of not charging customers for data use on specific websites and services by Internet service provider. Pai is shutting down the zero rating policy and the Commision will not take any further action against service providers for this practice. This policy will make viewing Netflix more expensive for users compared to these other streaming services where data charges do not apply. Netflix is also struggling with international growth. To allow people all over the world to watch the movies and tv shows, Netflix currently accommodates over 20 different languages and is planning to add even more in the near future. However, Netflix has still a majority US viewing which is a huge imbalance comparing YouTube which has 20 percent viewing US and 80 percent international.

The first strategic growth opportunity is diversification. Netflix should sell different products relevant to movie streaming such as at home speakers, headphones, and TV screens.

- Pros
  - This would be an industry risk-reduce strategy because it is vertical integration and Netflix will own multiple parts of the supply chain.
  - This will increase loyalty and improve brand recognition thus generating more customers around the world.
- Cons
  - There might be market entry barriers since there is already a large number of companies that sell products to improve streaming.
  - Customers may want to stick with the brands they already use.

Another strategic growth opportunity is market expansion. Netflix should invest in new technologies like virtual and augmented reality. This would be consistent with their past strategies as always being ahead of technology because they were one of the first major company to sell DVDs and start a movie streaming service.

- Pros
  - Netflix would be one of the first large streaming company to enter the augmented/virtual reality market share. This helps Netflix differentiate themselves from the other streaming service companies.
  - By adding augmented and virtual reality to their brand, it can improve their content because augmented and virtual reality is more interactive and engaging it may persuade customers to buy Netflix versus Disney's streaming service.
- Cons
  - Augmented and virtual reality is still fairly new so customers may not be ready to start implementing it in their entertainment.
  - Being the first major company makes it high risk because no one has ever done it before, so the company cannot be sure of the customers reactions and ultimately do not know for sure what the outcome will be.

Lastly, in regards to the internet service providers policy, Netflix should create partnerships with major broadband providers.

- Pros
  - Netflix's content can be watched by customers who will not have to pay extra data usage charges if they have the broadband provider.
  - The quality of video will be better than other streaming services which also does not require the customer to pay more for data charges.
- Cons
  - This limits the focus on customers because only customers with the server provider will benefit.

- It is extremely difficult to make partnerships with major broadband providers.

Using market expansion as a growth opportunity, Netflix should invest in and incorporate virtual and augmented reality into their company. I chose this strategy because according to Appendix A, virtual reality's revenue is going to go from 6.1 billion dollars in 2016 to 18.6 billion dollars in 2021 and augmented reality is going to go from 0.2 billion dollars to 48.7 billion dollars. I also chose this strategy because it sticks to the theme of the business of Netflix which is to be ahead in technology before other companies. Investing in virtual and augmented reality will also make Netflix stand out from all the streaming companies. They should use the same strategy they used when they used when they sold DVDs and partnered with the manufacturer to give discounts on Netflix's DVDs. So whoever buys virtual or augmented reality receives a discount for a Netflix subscription for a year. Furthermore, investing in virtual reality will be killing two birds with one stone because not only will it expand their market, but virtual and augmented reality will also improve their content because these technologies automatically make the movie more engaging and interactive. Netflix can even focus their virtual and augmented reality usage specifically for younger audiences to directly compete with Disney's new streaming service which is targeted towards children. Another way they could invest in these technologies is by acquiring a virtual/augmented reality startup.

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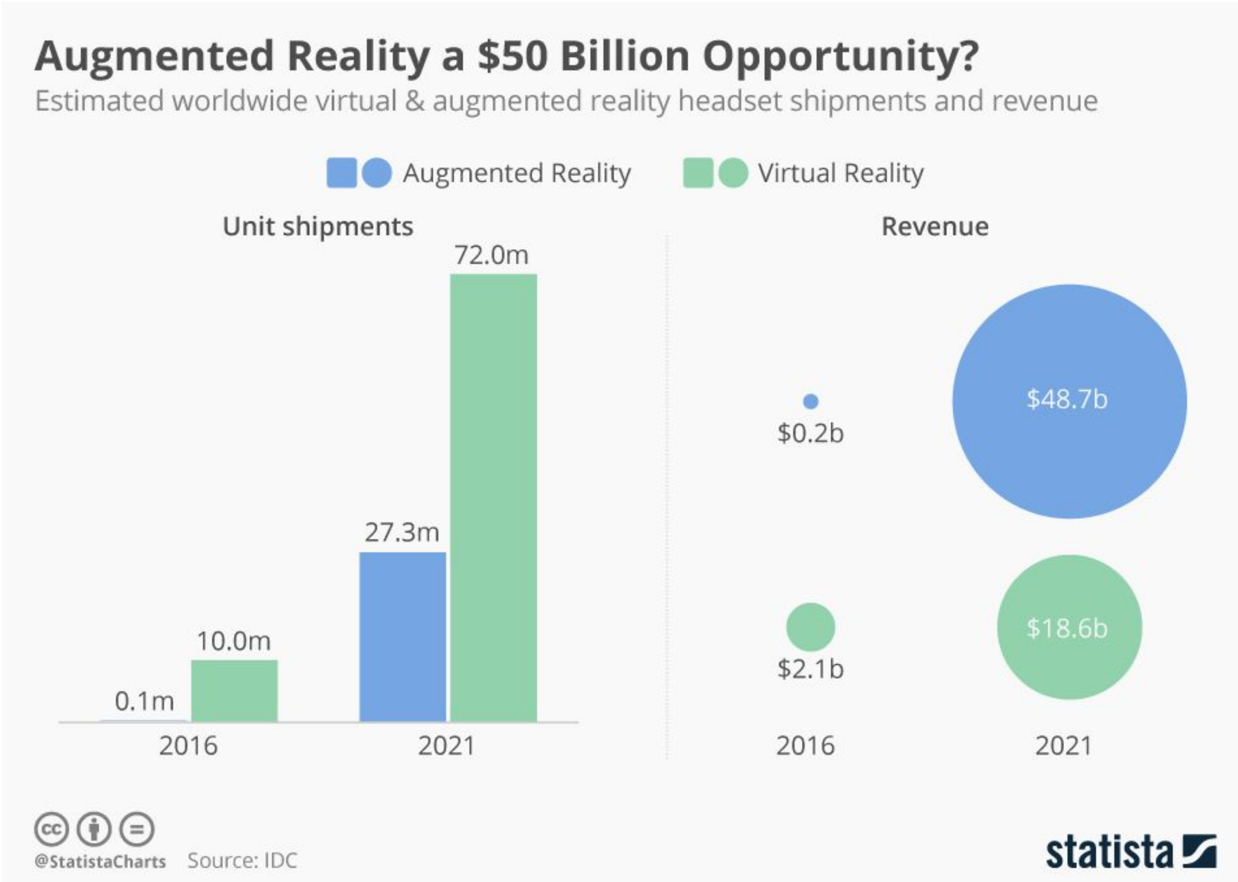
Appendix A


Augmented Reality a $50 Billion Opportunity?
Estimated worldwide virtual & augmented reality headset shipments and revenue
Augmented Reality
Virtual Reality
Unit shipments
Revenue
72.0m
27.3m
10.0m
0.1m
2016
2021
$0.2b
$48.7b
$2.1b
$18.6b
2016
2021
@StatistaCharts
Source: IDC
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Prakriti Joshi
Entertainment and Media Industries Section 7
1 November 2018

Spotify Case Write-Up

In 2006, the founders of Spotify, Daniel Ek and Martin Lorentzon, decided to create a service to make music constantly available. At the time most people were pirating music which was hurting the music industry as a whole, so the founders of Spotify wanted to create a product so people wouldn't have to steal music and were able to revolutionize the music industry through streaming. Spotify allows users to stream music on their desktop computers, tablets, and smartphones. Spotify has multiple features that makes it efficient for users to listen to music. First, users can search for individual songs, create their own playlists, or listen to a playlist that Spotify curates for their users. Users can also click on a playlist and listen to in on shuffle or select the individual songs, making the experience truly on demand and thus constantly available. In addition, users can share songs with their followers and keep track of what songs the people they followed to listen to. Overall, the exceptional user experience and convenience led Spotify to becoming the global lead in the market share. Currently, Spotify has also begun to develop its own content. It has 'Spotify Sessions' which is basically where artists visit their venues it hosts and records performances and make them available on their site. 'Spotify Landmark' is another way they create their own content and includes documentary like pieces about the history of well known artists in the music industry. There are two versions of Spotify: the $9.99 a month premium version or the free version. The Premium version give the users a variety of options without ads and allows them to download songs to their device which users with the free version are not allowed to do. Revenue sharing is a key component to Spotify's business model and earns revenue through subscription and advertising. Advertising has multiple options including choosing from audio or video ads and can even create their own page on the application or site. Each month spotify pays 70% of its revenues to right holders and each of them receive a share of revenues that is comparable their artist's streams as percentage of the total streams to spotify. Most artists expect to receive 15 to 20 percent of the sum Spotify paid to the right holders. Artists who are fully independent receive 100% of the money.

Although Spotify is continuing to thrive with its streaming service, it still faces challenges from record labels, artists, and other competitors. One of the major challenges Spotify faced was when Taylor Swift, one of the world's largest pop stars, and her record label, Big Machine Records, requested immediate removal of her entire catalogue from Spotify's popular music streaming service. Initially Big Machine Records only wanted to release Swift's album to the paid subscribers and wanted to withheld it from people within the United States, but that went against Spotify's policy of making music constantly available to everyone so they didn't allow for it. However, Spotify was worried that other big artist's like Taylor Swift would follow her. Other artists and label executives insisted on windowing strategies that made users wait longer before they could find their new songs or albums. In a NPR article titled *Taylor Swift Returns To Spotify, Amends Her Relationship To Streaming*, it explains how Spotify recently lowered their policy on windowing in return for paying lowered fees to labels to appeal to the artists and executives. In 2017, Taylor Swift also returned to Spotify and allows all of Spotify's users to listen to all her music. Spotify also secretly made licensing deals with a couple of independent artists which helps the artists when pitching for important playlists. This means that artists do not have to go through a record labor and can just go through Spotify playlists to be discovered. According to a New York Times article, *A New Spotify Initiative Makes the Big Record Labels Nervous,* this is creating tension with the major labels as they have hinted at by saying they can punish Spotify by withholding the licenses the company needs to expand. Thus another challenge is that it takes a long time and is extremely difficult to get licensing from other countries. The other main challenge Spotify faces is with their current competitors: Apple, Amazon, and Google. These companies are giant tech companies which are much more diverse and profitable compared to Spotify. This means that Spotify's competitors are much more experience and have more control over everything thus having a much greater advantage.

One strategy Spotify should use in order to differentiate itself from these tech giant companies is to continue to create more of their own music and other content like podcasts. Currently, Apple Music, Amazon Music, and Google Music mostly have the same music and an extremely small percentage of the music on Spotify is their own.

- Pros
  - Spotify will be able to create a stronger relationship with music artists since the artists will be able to own their music recordings.
  - This will differentiate itself from competitors because other competitors are currently not focused on creating their own content
  - This will improve expanding into other countries because Spotify will not have to go through a "middleman" and will not need as many licenses.
  - This will also help them reduce their overall costs.
    - According to a Billboard article, Spotify lost $470 million last year on $4.7 billion in revenue and since they won't have to go through major record labels it won't cost them as much money.
- Cons
  - This will create more tension with record labels because artists will not have to go through them to make money with their music.
  - This is a higher risk because if the music does not gain attraction they will lose money.

Spotify should invest more in artificial intelligence and machine learning to make their service smarter and more personalized.

- Pros
  - It will help improve user experience. Spotify's main success is due to the ability to make listening to music so convenient and hence the user experience is extremely important.
  - This will keep users using spotify instead of switching to the main tech companies.
  - Using artificial intelligence, they can also save money by automating routine processes and tasks.

- Cons
    - It is expensive to invest in and they could be using the money for something that will directly give them profit instead.
    - It takes a long time to implement it in the business.
    - Artificial intelligence is still relatively new so it faces concerns like customer privacy and potential lack of transparency.

Lastly, Spotify should sell its own hardware/speaker that only allows you to stream Spotify content to compete with Apple's home pod system which only allows you to stream Apple music.

- Pros
    - Spotify will be able to own multiple parts of the supply chain thus being able to use the industry risk-reduce strategy.
    - This will also improve brand recognition because they are selling another product and can attract more customers in different countries.
    - This will allow Spotify a chance to directly compete with these giant tech companies who also sell multiple different products and services.
- Cons
    - There might be market entry barriers since there is already a large number of companies that sell speakers that dominate the market.
    - Customers may want to stick to these well known brands that have proven to be good products instead of buying Spotify's speakers.
    - This will take a lot of resources to create along with a large amount of money and time.

One recommendation I would give to Spotify is to invest in creating their own content. Creating new content has been shown to be extremely successful with other streaming companies like Netflix and Hulu. Therefore I believe if Spotify can get their own artists they can create a music version of Netflix by following Netflix's content strategy. Based on Netflix's content strategy, Spotify should also target their content to 18-49 age range based Spotify should target their content to 18-49 age range because that is the most common ages that use streaming the most. Also, since Spotify already develops individual playlists according to the users preference, Spotify can figure out what the most popular types of music so they can create similar types of music. This will reduce the risk of creating their own content and they will be able to deliver higher quality music be able to engage in more content promotion. In addition to creating music, Spotify can also create podcasts and short videos depending on the users' preferences. According to Appendix A, weekly and monthly podcasts have risen dramatically. Weekly podcasts in the US have risen from 7% in 2013 to 17% in 2018 and monthly podcasts have risen from 9% in 2008 to 26% in 2018. This shows that there is a huge opportunity in investing in podcasts as they are continuing to become more popular. Overall, Spotify should create their own music by targeting their audience on age and the popular types of playlist while also creating podcasts and short videos. This will help them reduce costs and provide an easier way to expand to more countries because they won't need as many licenses.

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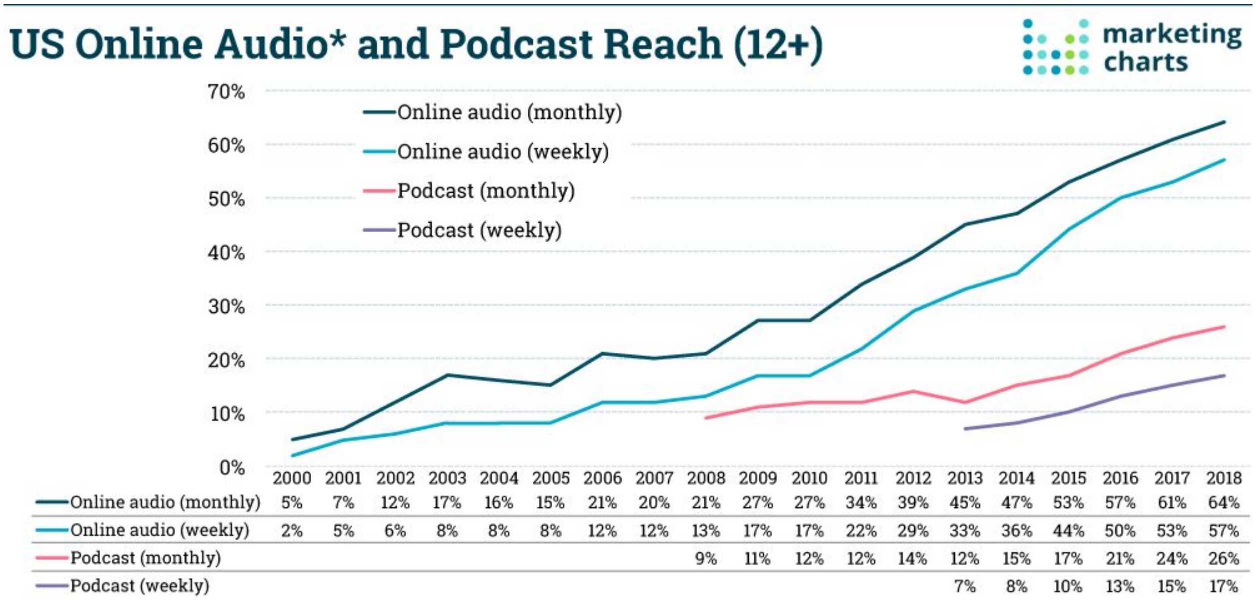
Appendix A



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Online audio (monthly)	5%	7%	12%	17%	16%	15%	21%	20%	21%	27%	27%	34%	39%	45%	47%	53%	57%	61%	64%
Online audio (weekly)	2%	5%	6%	8%	8%	8%	12%	12%	13%	17%	17%	22%	29%	33%	36%	44%	50%	53%	57%
Podcast (monthly)									9%	11%	12%	12%	14%	12%	15%	17%	21%	24%	26%
Podcast (weekly)														7%	8%	10%	13%	15%	17%

Published on MarketingCharts.com in March 2018 | Data Source: Edison Research / Triton Digital

Figures from The Infinite Dial 2018 report, which is based on telephone interviews conducted among 2,000 Americans ages 12+

**Online audio refers to listening to AM/FM radio stations online and/or listening to streamed audio content available only on the internet*