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CASE STUDY

Netflix: Strategizing Corporate Resources and Capabilities

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ABSTRACT

The study's aim is to deeply investigate the operations of Netflix, Inc. Established in 1997, Netflix, Inc. (Netflix) is a publicly listed company, engaged in global media entertainment both in the United States and internationally. The Porter Five Forces model was used for analyzing the competitive landscape of the industry. The quantitative analysis between Netflix and Walt Disney provided insights pertaining to profitability, liquidity, leverage, activity, and growth. Functional and VRIO analysis identified strategically important resources and capabilities that Netflix controls. The case study features Netflix, and its endeavors to strategize corporate resources and capabilities in the best interest of its stakeholders.

Keywords: Business strategy, Corporate strategy, Competitiveness, Porter five forces model, Strategic management, VRIO analysis

COMPANY PROFILE

Netflix, Inc. (Netflix) is a global media entertainment company primarily known for its subscription streaming services on demand offering a wide range of movies, television series, and documentaries across various 30 languages and an array of genres (Netflix 2021). It is also a producer and distributor of original content. It operates in 190 countries and is the leader in global consumer video streaming subscriptions with over 209 million paid memberships. It is headquartered in Los Gatos, California, has 14 office locations across 10 countries, and employs 9,400 personnel, having "We want to entertain the world" as its mission statement (Netflix, 2021, para. 1).

Netflix was founded in 1997 by American entrepreneurs Marc Randolph and Reed Hastings with an e-business model designed to disrupt the traditional brick and mortar video rental industry (McFadden, 2020). It was one of the world's first online DVD rental companies renting DVDs from their website to customers and sending them by mail. The strategy was to provide a customer experience similar to movie rental stores, but one that was more convenient. It also offered a far greater selection of movies and television programs than was offered in video stores. In 1999, it launched a subscription service that offered unlimited DVD rentals for one low monthly price, and reached 6.3 million subscribers within the next 7 years.

In 2007, Netflix again disrupted the video rental industry when it launched a video streaming platform offering consumers an entirely new way to watch movies and television shows directly over the internet (McFadden, 2020). It capitalized on its first-mover advantage to dominate the USA video streaming market (Ladha, 2020). In 2010, it also employed an aggressive global expansion strategy, first entering Canada, and by 2018 it was operating in 190 countries, with its services alone constituting about 15% of all global internet bandwidth. With Netflix's current business model members pay a no-commitment monthly fee to

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stream unlimited commercial-free content, on any internet-connected screen. The company still provides DVDs-by-mail membership services within the USA (Netflix, 2021). It pursues a distinctive strategy of not selling advertising space on its site, nor does it sell its user data (Reiff, 2021). This strategy gives the company the freedom to develop and acquire content that offers a more complete user experience.

The primary source of revenue for Netflix comes from subscriptions. The company offers three tiers of streaming subscription services based on streaming quality and multi-platform access (Netflix, 2021). The cost of these plans varies by country. In 2021, it began experimenting with less expensive mobile-only plans to attract customers in new markets as part of the company's aggressive global expansion strategy. Its domestic market is still its largest revenue source, while the Asia-Pacific region is its fastest-growing segment (Stoll, 2021).

Home-confinement measures related to the global COVID-19 pandemic boosted Netflix's paid subscriptions in 2020. Its overwhelming dominance during the pandemic can be attributed to its vast library and consistent supply of original content (Jose, 2021). In the first quarter ending on March 31, 2020, it added 15.8 million subscribers globally, which is more than double the 7.2 million that was forecast for the quarter (Reiff, 2021). Its annual revenue in 2020 amounted to almost $25 billion USD, continuing the impressive year-on-year growth that the company has experienced over the last decade (Stoll, 2021). In the second quarter of 2021, it generated total revenue of over $7.3 billion USD, up from about $6.15 billion in the corresponding quarter of 2020 (Netflix, 2021).

Netflix's common stock trades on the NASDAQ under the ticker symbol NFLX (Netflix, 2021). Its initial public offering was in 2002, for 5,500,000 shares at $15.00 USD. Since then, it has consistently been one of the best-performing stocks in the S&P 500. As of September 3, 2021, its stock was listed at $588.07 USD (Yahoo Finance, 2021). It also consistently has one of the highest market-to-book-ratios of companies of comparable size (Grant, 2018).

INDUSTRY ATTRIBUTES

The media entertainment streaming industry is intensely competitive. The industry is in the growth phase, and the pace of technological evolution within this industry is rapid and ever changing (Alexander, 2020). This industry is also highly fragmented due to the presence of significant global competitors and smaller domestic-based contenders. Through new and existing distribution channels consumers also have increasing options to access online-only streaming entertainment (Netflix Inc., 2020). Some of these streaming possibilities include subscription video on demand (SVOD), ad-supported video on demand (AVOD), transaction-based video on demand (TVOD), premium video on demand (PVOD), hybrid video on demand services, Virtual Multichannel Video Programming Distributors (vMVPD), and piracy-based models. Each of these models has the potential to capture meaningful segments of the media entertainment streaming industry.

SVOD services are a type of video on demand economic model where users acquire access to a content providers' library by paying a monthly or yearly subscription fee upfront. Subscribers are not shown any advertisements as part of their fee and can access a large library of original and licensed content at any time (Vijayanagar, 2020). It utilizes an SVOD business model. Conversely, with ad-supported video-on-demand (AVOD) services consumers pay no fee to stream ad-supported content. The Roku Channel, Peacock, and Tubi offer a limited selection of ad-supported content entirely free of charge (Ravenscraft and Barrett, 2021). Many streaming companies also offer a hybrid of AVOD and SVOD options. Hulu for example offers an ad-free SVOD subscription as well as a lower priced ad-supported one. The Roku Channel and Peacock also offer free ad-supported content and then charge users a subscription fee if they wish to access more premium content (Ravenscraft and Barrett, 2021). vMVPDs follow a similar SVOD economic model but stream live television content from broadcast channels and on-demand television services for paid subscribers. YouTube TV, fuboTV, Sling, and DIRECTV Now, all offer linear content from broadcast television networks as well as a variety of other specialty television channels (Vijayanagar, 2021). In the United States, pirated subscriptions can be purchased through storefront websites, on social media pages, or online marketplaces like eBay. Pirated streaming services are a billion-dollar industry in the US with profit margins ranging between 56% to 85%.

The media streaming market is projected to grow at a compound annual growth rate (CAGR) of 23.2% during the forecasted period from 2020-2025 (Businesswire, 2021). The expansion of the market is fueled by the growing demand for subscription video-on-demand services (SVOD), the increasing availability of region-specific and original content, and the popularity of live sports. These drivers are changing the strategies adopted by SVOD companies with an emphasis on enhanced customer experience through personalization. The number of SVOD users is projected to grow to over 1.5 billion by 2025 (Ladha, 2020).

The ongoing spread of COVID-19 had a positive impact on the SVOD industry both domestically and internationally. Firms experienced a spike in the number of subscribers, a peak in viewership across regions, and an increase in demand for online streaming because of home confinement measures (Jose, 2021). However, vertically integrated SVOD companies that produce their own content were adversely affected by lock-down measures with some experiencing production schedule delays of more than a year.

INDUSTRY ANALYSIS

The Porter Five Forces model brings together several distinct factors to analyze the basic competitive landscape of an industry. The model identifies five main sources of competition including: bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitute products, and competition among existing companies (Visual Paradigm, n.d.).

Bargaining Power of Suppliers

The bargaining power of suppliers in the SVOD market is high due to the growing number of SVOD competitors and the reduction in content licensing available by third parties (McFadden, 2020). In 2013, Netflix began investing in the creation of original content, and by 2019 it had spent more money producing original content than any of its direct competitors (Quain, 2018). However, it still relies heavily on licensing deals for content (Brumley, 2021). Already several major media conglomerates, like Disney and NBC, have pulled their popular content from Netflix to compete directly with their own SVOD platforms (McFadden, 2020). Additionally, production of Netflix original content was severely reduced in 2020 due to COVID-19 pandemic restrictions (Brumley, 2021). However, it had an advantage over other SVOD companies during the pandemic, as they had already built-up supplies of original content and were better prepared to withstand production shutdowns. It produced its content farther in advance than its competitors, which put the company at an advantage to deliver fresh content (Jose, 2021).

Bargaining Power of Buyers

Low-switching costs from the absence of long-term contracts and the freedom to cancel subscriptions at any time means buyer bargaining power is high in the SVOD market (Quain, 2018). Additionally, several new SVOD competitors are already offering low monthly subscription prices to attract customers. For instance, Disney+ currently offers monthly subscriptions at half the cost of Netflix (Reiff, 2021). The bargaining power of buyers will only increase as competition within the SVOD market intensifies, and Netflix will need to continue to produce innovative content to retain and attract customers or lower its tier pricing strategy in key markets (Quain, 2018).

Threat of New Entrants

The threat of new entrants in the SVOD industry is medium. It takes a great deal of upfront investments to start a global SVOD company that can rival giants like Netflix, Amazon Prime, and Disney+ (Businesswire, 2021). Additionally, new entrants will have to deal with growing government regulation and bureaucracy as more countries gain an understanding of the rapidly expanding SVOD industry and seek to exploit it (Frater *et al.*, 2021). As a first mover, it has also built up a large base of experience and brand loyalty with customers that a new entrant, outside of a large media conglomerate, is likely not to possess (Ladha, 2020).

Threat of Substitute Products

The threat of substitutes in the SVOD market is high and comes from several sources. According to Netflix (2021) this includes "watching content on other streaming services, linear TV, DVD or TVOD, but also reading a book, surfing YouTube, playing video games, socializing on Facebook, going out to dinner with friends or enjoying a glass of wine with their partner, just to name a few" (para. 17). Netflix is also seeing an increased threat of substitution from Netflix piracy in international markets. In addition to competition from SVOD providers, it is also facing an increased threat of substitutes from Advertising-Based Video on Demand (AVOD) and Free Ad-Supported TV (FAST) (Netflix Inc., 2020). Online streaming paid-TV services have also grown significantly from players such as AT&T, Dish Network, Comcast, Charter, YouTube TV, and Philo (Marcellus, 2018).

Competition Among Existing Companies

The media entertainment services market is becoming highly fragmented and intensely competitive as more firms enter the industry (Businesswire, 2021). For over ten years Netflix faced no serious competition in the SVOD market, aside from Amazon Prime Video, and capitalized on its first-mover advantage (Brumley, 2021). Nevertheless, by 2019 some of the biggest media conglomerates, such as Apple TV+, Disney+ and HBO, had launched their own platforms to take advantage of the lucrative SVOD business model (Ladha, 2020). Taken together, the competition among existing companies within the SVOD industry is high.

THREATS AND OPPORTUNITIES

Threats

Netflix faces both threats and opportunities within the SVOD industry. One of its biggest threats is the rapid growth of direct SVOD competition. Its success has spawned dozens of direct competing services. These firms are concentrating on providing high-value bundles, innovative features, high quality content, at a significantly reduced price domestically as well as in select international markets (Businesswire, 2020).

Another threat that Netflix faces comes from changing regulatory laws for streaming services in many international markets. There is growing government regulation and bureaucracy as more countries gain an understanding of the rapidly expanding SVOD industry and seek to exploit it (Frater *et al.*, 2021). For example, the European Parliament instituted a quota in 2018 for international streaming services that required all streaming companies operating in the EU to carry at least 30 percent of content from the region (Alexander, 2020).

Changing international data privacy laws are also a threat to Netflix. U.S. and international laws and regulations regarding data privacy and data protection are rapidly changing as companies come under increased regulatory scrutiny relating to the collection and use of data (Frater *et al.*, 2021). Consumer data is a significant part of its strategy to deliver personalized content to its users. Changes in how the company collects and utilizes data could have a significant and adverse impact on its operations. Another threat that it faces is the global piracy of its original content. Netflix claims that one of its biggest competitors is the global piracy of its original and licensed content (Netflix Inc., 2020). The global spread of the coronavirus (COVID-19) and the various attempts to contain it have created significant volatility, uncertainty, and economic disruption (Netflix Inc., 2020). Continued economic disruption due to virus variants could have a significant and adverse effect on Netflix's current operations.

Opportunities

There is rapidly growing global demand for subscription video-on-demand SVOD services. The number of SVOD users is projected to grow to over 1.5 billion by 2025 (Ladha, 2020). Netflix has positioned its global operations to meet market specific content demands better than its competition.

India has 1.4 billion people and is projected to have 900 million internet users by 2025. This is a massive new SVOD customer base (Patel, 2021). In 2019, Netflix launched a low-cost mobile-only plan in the country and there are projections that India could produce 100 million new customers.

Consumer tastes and demand for online content changes rapidly (Jose, 2021). Netflix's vertical integration into the production of original content gives the company the flexibility to quickly adapt to these changes.

The global digital media market has been consistently growing, with gaming accounting for the biggest share of market revenues. In 2020, the global online gaming market generated approximately $21.1 billion USD in revenues (Clement, 2021). Netflix recently announced its planned entry into this market utilizing its content delivery system and massive global internet infrastructure (Patel, 2021).

Globally, the barrier to entry into the SVOD industry has become high. Various parts of the world have elicited varying degrees of regulatory response. Government responses in local investment quotas can range between 12.5%-20% (Frater *et al.*, 2021). Netflix global operations are far better positioned than any of its competitors to meet these country-specific content quotas.

About 27% of consumers do not pay for a typical TV service (Jose, 2021). Forecasts are suggesting this trend will continue to increase with Millennials and Gen-Y'ers. Netflix has strong brand recognition and its entry into the online gaming market gives the company a pipeline to access this demographic for its SVOD content.

Quantitative Analysis between Netflix and Walt Disney Co.

Most subscription video on demand (SVOD) companies that compete directly with Netflix are part of an entertainment services conglomerate that offer streaming services in addition to a variety of other entertainment products and services. At the end of 2018, Walt Disney Co. launched its own SVOD, Disney+ which is projected to be the biggest direct competitor for Netflix within the next few years (Jose, 2021). Within 16 months of launching Disney+, the service had reached over 100 million subscribers. Disney also owns ESPN+ which has 12 million streaming subscribers. The company also owns a 67% share in Hulu, which has 38.8 million subscribers (Bowman, 2020). In 2024, Disney will assume the remaining 33% share of Hulu from Comcast.

The Walt Disney Co. was hit hard by the COVID-19 pandemic, however. The company suffered substantial losses in its entertainment theme parks, hotels, and cruise ships divisions, and related retail sales. Disney+ was one of the few segments in the Disney empire to see significant growth in 2020. By 2024, Disney predicts that all three of its streaming services will have a combined customer base of 300 million to 350 million.

Profitability

In 2020, Netflix earned a slightly higher return on its total investment with a Return on Assets (ROA) of 7.3% over 5.5% in 2019. Disney earned a negative return on its total investments in 2020 due to closures and attendance restrictions of its main assets, its domestic and international theme parks and cruise ships, due to the pandemic. Its ROA fell from 5.5% in 2019 to -1.41% in 2020.

Netflix earned 25% Return on Equity (ROE) in 2019 and again in 2020. Its Return on Common Equity rose slightly in 2020 to 29.61% from 29,12% in 2019. It is effectively using stockholder funds on its investments. Again, Disney suffered due to the pandemic in 2020. Its ROE in 2019 was 11.73%, and it plummeted to -3.39% in 2020. Disney's ROCE was 15.15% in 2019, falling to -3.28% in 2020.

Netflix's Return on Sales (ROS) rose slightly in 2020 where the company was earning around 11 cents of after-tax profit on every dollar of sales. It outspends all its competition on original content to up to half of its yearly sales. Unsurprisingly, in 2020 Disney's ROS plummeted to -4.35% where it was losing 4.35 cents for every dollar of sales. Again, closures of its main assets affected the company in 2020. The company's SVOD operations also contributed to a lower ROS in 2020 owing in part to increased expenses from the expansion of SVOD operations into India.

Netflix's operating profit margin rose significantly from 12.92% in 2019 to 18.34% in 2020 because of a huge increase in new subscriptions due to stay home measures as a result of the global pandemic. Disney's operating margin fell in 2020 to 5.49% from 16.87% in 2019. Disney took significant steps to reduce its expenses in 2020 including significant employee layoffs and other cost-cutting measures.

Liquidity

In response to the pandemic, both Netflix and Disney took steps to increase their liquidity to meet their short-term debt obligations. Both its current and quick ratios rose from 0.9 to 1.25. Of note, it does not carry inventories on its balance sheets. Therefore, its current and quick ratios are the same. Disney increased their liquidity in 2020 with its current ratio rising from 0.75 in 2019 to 1.24 in 2020.

Leverage

Netflix carries a high Debt-to-Total Assets ratio. Almost 75% of the firm's assets are funded by creditors. However, this is due to its high content budget and its aggressive international expansion efforts. It predicts that it will be able to completely fund its $13 billion USD content budget without debt by 2021. It also has extremely high Debt-to-Equity ratios. For every dollar of stockholders' equity in 2020, the company borrowed $2.55. This was lower than in 2019 where the company borrowed $3.28 for every shareholder dollar. Its Long-term Debt-to-Equity fell in 2020 to 160% from 213% in 2019. Disney has had comparatively better leverage ratios. Prior to the pandemic, Disney's Debt-to-Equity ratio was in-line with the rule of thumb of a 1 to 1 debt to equity ratio at 103% in 2019. All its debt funding increased in 2020 due to the pandemic.

Netflix is in a far better position to meet its interest payments than Disney. In 2020, It could meet its interest obligation almost 6 times over. While Disney could still meet its interest obligations at slightly 2 times over in 2020, the company could meet its interest obligations almost 9.5 times over in 2019. It could meet all its fixed charge obligations including lease payments almost 2.5 times, while Disney could meet its fixed coverage charge over 4 times over in 2020.

Activity

Netflix carries no inventory so no turnover ratio can be calculated. Disney turns over its inventory consistently. In 2020 it was 41 times a year which was a slight decrease from 42 times a year in 2019. Its Fixed Asset Turnover fell slightly in 2020 to 8.34 from 9.61 in 2019. However, its Total Asset Turnover is much the opposite. Each dollar of its Total Assets produced only $.64 of sales in 2020, slightly above $.59 in 2019. Disney in comparison had a low Fixed Asset Turnover of 1.8 in 2020, down from 2.20 in 2019. Disney has a lot of fixed assets with its theme parks, hotels and cruise ships and this ratio is in line with this sector of its holdings.

The average length of time for Netflix to collect payments after sales rose slightly in 2020 to 19.76 days from 17.73 days in 2019. Disney surprisingly has a very low collection period. In 2019 the average length of time to collect payments after sales was only 4.48 days while in 2020 it rose slightly to 5.12 days. This is due to the nature of Disney's operations. Consumer payment is made at the time of the sale with the majority of Disney's theme park admissions, cruises, and hotels.

Growth

The ongoing spread of coronavirus positively impacted the subscription streaming industry due to enforced home confinement measures (Reiff, 2021). Strictly comparing growth of Netflix to Disney+ shows a rapid ascent for Disney's SVOD services. In the first quarter of 2020 ending on March 31, Netflix added 15.8 million subscribers globally, which is more than double the 7.2 million that was forecasted (Jose, 2021). It reached 209 million subscribers as of September of 2021. As of May 4, 2020, Disney Plus had attained an astonishing 54.5 million subscribers worldwide, a mere six months after it launched. Disney+ has revised its subscriber projections to between 230 to 260 million by 2024.

Walt Disney Co. intentionally lowballed the price of Disney+ in comparison to Netflix to gain rapid market penetration, and this strategy worked very well (Jose, 2021). This low-cost pricing strategy means Disney's streaming business will not be profitable until at least 2024. However, the Walt Disney Co. can offset the losses in its streaming segment via profits generated from its cruise ship, amusement park attractions, and retail merchandise segments once the pandemic subsides. Moreover, Disney will raise its prices after its customers get hooked on the depth of the library and the continuous flow of new quality content (Del Vecchio, 2020). Financially, Netflix has no other business to draw on while Disney+ has deep pockets to fund a rapid global expansion and other acquisitions.

Disney+ does face one significant disadvantage against Netflix which goes beyond quantitative financial performances; Walt Disney Co. is an operating organization while Netflix is an innovating organization (Grant, 2018). Disney's business units follow the same rigid Disney organizational and operational formula that has made the company one of the most valuable brands in the world (Grant, 2018). This operational hierarchy could inhibit the Disney+ business unit from adapting in a rapidly changing, technologically based SVOD industry.

Netflix has capitalized on technology to twice disrupt the industry in which it operates, and the company's corporate culture revolves around continuous innovation (McFadden, 2020). This kind of organizational ambidexterity allows it to exploit existing competencies while at the same time search for new opportunities (Grant, 2018). This has also been a significant factor for the company's successful rapid international expansion.

Functional and VRIO Analyses of Key Resources and Capabilities

A functional analysis has identified several strategically important resources and capabilities that Netflix controls. These include the company's significant financial resources, innovative technology, massive subscriber base, enormous library of original and licensed content, high performing human resources, strong brand, unique corporate culture, and global first mover advantage. The following analysis using the VRIO (valuable, rare, imitable, organized) framework identifies whether each of these resources and capabilities create a competitive disadvantage, competitive parity, temporary competitive advantage, or a sustainable competitive advantage for Netflix.

Financial Resources

Netflix earns substantial revenues and can also access both short-term and long-term financing. These are valuable because the company uses its financial resources to fund its operations, produce and license its original content, and support its rapid international growth (Perez, 2019). However, its financial resources are not rare and are highly imitable. Netflix's largest competitors like Disney+ and Amazon Prime Video have ample sources of internal and external funding.

Netflix is well organized to capture substantial value from its financial resources as evidenced by the company's 2020 net income of $2.761 billion USD. The company has also had an enormous head start in the SVOD industry over its direct competitors and will be able to generate higher margins due to its established infrastructure and market share. Nevertheless, its financial resources only put it in a position of competitive parity, as the company's direct competitors are projected to generate significant revenues and returns in the SVOD industry in the coming years (Jose, 2021).

Innovative Technology

Netflix focuses on continuous technology creation and improvement. The company has built and deployed its own content-delivery network, as well as its unparalleled content platform. In addition, its complex customer recommendation algorithm drives almost 75% of Netflix viewer activity (DeAsi, n.d.). Its proprietary recommendation system also saves the company an estimated $1 billion per year through reduced churn, which is the rate at which customers cut ties with a service during a given period.

Netflix's innovative technology offers a superior customer experience which creates value for the customer. it creates customer value through its multiple interface content delivery system, unmatched SVOD content platform, and its complex content recommendation system. Its innovative technology is rare and unmatched within the industry (Pratap, 2020). The company is also continually innovating its technology to differentiate itself from other SVOD competitors. Moreover, the Netflix platform and supporting technology is costly, difficult to imitate, and protected intellectual property.

Netflix is also organized to capture value from its innovative technology. The company has a culture which embraces constant innovation, and it retains top industry talent that is empowered and provided with internal support to continue to innovate. The company also spends heavily on research and development. Therefore, its innovative technology is a sustainable competitive advantage because it adds value for customers, is unique, inimitable, and the company is organized to capitalize on this capability.

Massive Subscriber Base

In 2021, Netflix had the most subscriptions of any SVOD service at 209 million paid subscribers globally. Moreover, 60% of all US households have a Netflix subscription (Ladha, 2020). Its revenues are generated entirely from its paid subscriptions. As such, having the highest number of paid subscribers is valuable because it provides funding to grow operations, generate original content, and provide innovative technology for customers. While valuable, its massive customer base is not a rare or inimitable resource. Industry projections see the Walt Disney Co. reaching over 300 million subscribers by 2024 (Jose, 2021).

Netflix is organized to capture value from its massive number of paid subscribers. The company invested heavily up-front in developing technology and building infrastructure around the globe. As a result, the cost of providing services to its subscribers is now minimal. Most of the revenues generated from its customer subscriptions can go directly to content development. Despite being valuable, the massive number of subscribers puts the company at a competitive advantage parity because other competitors are projected to surpass its subscription base (Jose, 2021).

Original and Licensed Content

Netflix currently outspends its competition by almost 75% to both produce and license original content (Pratap, 2020). It also currently offers customers the highest selection of multi-award-winning TV series, documentaries, and feature films than any other SVOD company (Jose, 2021). Quality, original content plays a vital role in driving its paid subscriptions and user loyalty. It also aims to create content to attract an audience not only locally where it is produced, but also for other international markets. As such, Netflix reaps the benefits of investing in local content all around the world.

Netflix creates value for customers through its extensive product mix of content which appeals to a variety of demographics in a large number of markets. This creates value for both the company and the consumer because it can spread out its massive content budget to be relevant and appealing to a larger customer base (Ladha, 2020). Additionally, original programming, either through content production or exclusive licensing, is difficult and costly to imitate. It has a huge customer base for its original productions and retains the licensing to this content to ensure that it is only found on the Netflix platform (Toonkel, 2021).

Netflix is organized to capture value from its original content library. The company has established structures and processes for creating and licensing original content in over thirty different languages that appeal to a wide range of demographics in a large number of markets. The company also invests considerable money towards producing and acquiring programming (Ladha, 2020). Its original content is a sustainable competitive advantage because it creates value for the consumer, is scarce due to limited distribution, and cannot be imitated due to licensing and ownership.

Human Resources

Netflix's human resource management (HRM) strategy completely reinvented HRM practices within Silicon Valley and has created the distinctive Netflix culture (McCord, 2014). Its human resources strategy was built on the idea that one exceptional person will do the work of many (Hastings, 2020). Consequently, the company pays tremendously to attract and keep top talent. As a result, the company's human resources have exponentially increased its speed of innovation and output.

Netflix's human resources create value for the company through continuous innovation and high productivity. Its employees create value for customers by creating distinct products and services which differentiate it from the competition. It focuses on hiring elite, high performing employees. While such rock star talent is rare, the competition can also source and attract these employees, as it has no exclusivity. Additionally, this HRM strategy is highly imitable. Amazon has borrowed directly from its HRM playbook to hire and retain their own top talent (McCord, 2014).

Netflix is organized to capture value with its top talent through its innovative HRM practices. The company engages employees through empowerment, only hires the best talent and rewards these employees with top pay and benefits, quickly removes the underperformers, and cuts out rigid policies and process to facilitate innovation and high performance (McCord, 2014). Despite being valuable and rare, Netflix's human resources put it at a temporary competitive advantage because its top competitors can imitate its HRM practices.

Brand Equity

The Netflix brand is the most recognizable in the SVOD industry due to the company sustaining its first-mover advantage for over ten years (Jose, 2021). The company has also built a positive brand image domestically and internationally and benefits from a large social media presence, word of mouth marketing, and ongoing publicity from its award-winning content. As a first mover, it has been able to create a strong and recognizable brand in the SVOD industry. A strong brand creates incredible value for the company (Grant, 2018). The Netflix brand creates value for the customer through exceptional user experiences, content quality and variety, and reliability. Strong brands are rare because it takes considerable time and cost to develop a brand's equity (Grant, 2018). Moreover, the Netflix brand name cannot be imitated because of trademarks, copyrights, and the unique characteristics that make up the brand. Netflix is also organized to capture value through its brand name. Its strong brand recognition makes it easier for the company to grow its market share, enter new markets, attract new suppliers, and retain customers (Patel, 2020). Its brand is a source of sustained competitive advantage because it is valuable, rare, costly, and difficult to imitate.

Global First-Mover Advantage

Netflix launched a calculated global expansion strategy in 2010 and enjoyed global first-mover advantage for over ten years. The company has established global infrastructure, partnerships, and processes that will take its competitors years to develop. It currently operates in 190 countries, produces original content

17 different markets and in over 30 languages. It has also achieved high market penetration in many of its global markets. By comparison, the company's largest competitors currently operate in less than one-third of these international markets (Pratap, 2020).

Netflix's global expertise creates value for the company because it can quickly expand into other international markets, increase subscribers, and grow market share rapidly. This creates consumer value by offering relevant content to a large customer base. While Netflix's global first-mover advantage and acquired expertise in global markets is valuable and scarce within most SVOD competitor operations currently, Amazon Prime and Disney+ are rapidly expanding into more international markets. Therefore, its global first-mover advantage is only a temporary competitive advantage.

Corporate Culture

Netflix has disrupted the industry twice with ground-breaking business models. The company has a capacity for innovation which is at the heart of its corporate culture (Pratap, 2020). Its unique corporate culture creates value because its growth has been driven by its focus on high performance and continuous improvement through innovation. Its corporate culture is rare; however, it is built around the company's unique human resources management practices which can be imitated. Amazon Prime Video, for example, has recently followed in Netflix's hiring footsteps in an attempt to replicate its unique corporate culture (McCord, 2018).

Netflix has two sustainable competitive advantages, the company's innovative technology and its original content. Its success has spurred many competitors who are attempting to imitate these strategically important resources and capabilities. Netflix's technological capabilities may not be so easy to reproduce. Its complex recommendation system and content platform are more than just algorithms and intricate proprietary software. This competitive advantage is multidimensional and based on complex bundles of its resources and capabilities which can be difficult for rivals to replicate (Grant, 2018). What their competition may be trying to replicate, it may be already altering and extensively patenting to sustain its technological competitive advantage (Grant, 2018).

Netflix can sustain its original content competitive advantage by outspending its rivals to develop and acquire high quality, original and region-specific content which will continue to differentiate the company. It has achieved economies of scale and can spend more than its competitors on content (Patel, 2021). There are also niche areas for media streaming like live events that remain unexplored and which it can exploit (Alexander, 2020).

Netflix is already employing a few new strategies to increase its revenues as competition intensifies. In 2021, it expanded into the retail business by launching an online store called Netflix.shop. Netflix has made licensing deals with Walmart, Sephora, Amazon, and Target to sell clothes, toys, beauty kits, and housewares, among other items, related to its series and films (Koblin and Maheshwari, 2021). Sales of licensed products tied to shows, films and characters were about $49 billion in the United States in 2019, and $128 billion globally. It hopes the popularity of its original content will lead to sales of its licensed content both domestically and globally.

In addition to selling merchandise to increase revenues, Netflix is also exploring the option of licensing some of its original content to other TV outlets owned by companies like NBC/Universal and Viacom/CBS (Toonkel, 2021). Over the past few years, it has retained all rights to shows it financed to ensure they did not appear elsewhere. Now it is looking to offset its massive content budget by licensing some of its popular shows.

Business Strategy

Firms compete on two general dimensions; the sources of competitive advantage which are either low cost or differentiation, and the scope of operations which are either broad or narrow (Grant, 2018). Netflix uses elements of both low cost and broad differentiation strategies. While not entirely low-cost, it uses pricing plans to reach a larger customer base both domestically and worldwide. It offers three tiers of streaming subscription services based on streaming quality and multi-platform access (Netflix, 2021). It also recently began offering less expensive mobile-only plans to attract customers in new international markets.

Netflix uses a broad differentiation competitive strategy to position itself within the mass market spanning multiple demographic, geographic, and socioeconomic segments (Grant, 2018). It has differentiated itself by establishing the company as an ad-free, on-demand content provider. The company has also differentiated its service by offering a wide selection of high-quality, original content that satisfies diverse tastes. It also aims to create content to attract an audience not only locally where it is produced, but also for other international markets. In addition to its original content, it offers services such as additional languages, subtitles, and dubbing to improve its viewers' experiences across the globe. All these features differentiate it from its competitors and appeals to a broad customer base.

Corporate Strategy

Corporate strategy is concerned with where a firm competes (Grant, 2018). These strategic decisions include product scope, vertical scope, and geographical scope. Currently, Netflix operates with a limited product scope as a creator and distributor of online entertainment services (Netflix Inc., 2021). It has recently diversified into licensing agreements for merchandise based on its original productions (Koblin and Maheshwari, 2021). It also recently announced plans to enter the online gaming market using its content delivery network and infrastructure (Jose, 2021).

Netflix was originally a distributor of licensed content over the internet. In 2012, it changed its strategy and utilized backwards vertical integration to begin producing its own exclusive content in addition to its licensed content. It began investing heavily into the production of its own original content when it predicted the impending threat of major media conglomerates pulling their content to add to their own streaming services (McFadden, 2020). Since then, Netflix has continuously increased its investments into Netflix originals, which is a marked departure from its previous strategy.

Netflix utilized a rapid internationalization strategy beginning in 2010 and now operates in 190 different countries. Despite its very rapid internationalization, it implemented the same customer-centric model of operations that had been key to its success in the United States (Netflix Inc., 2020). However, it is a multidomestic rather than a transnational company because it customizes its content, pricing, and other variables to adapt to different international markets (Grant, 2018). It also utilizes direct investment through the production of local content in over seventeen international markets.

RECOMMENDATIONS

Netflix must continue to offer a broad offering of high-quality, original, and region-specific content to maintain its competitive advantage. It must also focus its attention on new global niches such as content production in international non-English markets that have high broadband penetration and in mobile-focused countries such as India, Asia, and Africa (Alexander, 2020). It must also examine the opportunity to expand its content mix to include live sports and news to compete directly with huge entertainment conglomerates like Viacom/CBS that have the breadth of live television content. It must continually innovate its technology and utilize isolating mechanisms to sustain its technological competitive advantage (Grant, 2018).

Netflix has a significant competitive advantage over its competitors with its expertise in global markets and must exploit this knowledge by continuing to grow its market share within its current international operations and by expanding into new countries ahead of the competition. It must also look to diversifying through partnerships or acquisitions of complementary resources. Virtual reality (VR) and augmented reality (AR) technology is becoming more widely available to consumers. For example, at the end of 2020 it was estimated there were a total of 598 million AR active devices, and this is projected to increase to 1.73 billion by 2024 (Reydar, 2020). As a technology company it makes strategic sense for it to examine VR or AR technology as a new dimension for differentiation.

Netflix must also remain firm to its strategic focus of providing on-demand commercial free viewing rather than ad-supported programming. This strategy should continue to differentiate it from its competitors and attract more subscribers. It must also pay close attention to the strategies of its competitors in the domestic market and look to altering its pricing strategy as the market becomes more saturated. Americans are only prepared to pay an average of $44 per month on video streaming services and not every company will be able compete for a piece of the domestic market (Jose, 2021). It must continue to examine technological resources as well as strengthen partnerships with international authorities to reduce the global piracy of its original and licensed content.

As the streaming wars accelerate from growth to maturity Netflix must continually develop new dimensions for differentiation. It must also be prepared to once again entirely change its business model to find another blue ocean strategy.

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