FOM Hochschule für Oekonomie & Management

Study Centre Essen

Expose

in the study course Strategic Business Model Development

to obtain the degree of

MSc. in Big Data and Business Analytics

on the Topic of

Analysis on Business strategies and business model of Netflix

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1. Introduction

1.1 Abstract:

The Purpose of this paper is to examine how Netflix adapts the changing environment in the growing world of technology. This study also discusses the penetration of these platform among the audiences which is increasing. The process of change in the current television model has been transferred from the traditional model into an dominant role where there is a competition between the OTT platforms like Netflix, Disney+, Amazon Prime, HBO. Netflix is taken as a reference out here on how it brought the blue ocean strategy into existence and also briefly compares it to one of its competitor Disney Plus.

1.2 Background information on Netflix

Netflix is a subscription based streaming services which was founded in 1997 by Reed Hastings and Marc Randolph. They came up with an idea to rent DVDs by mail. In 1999 Netflix subscription services started offering DVD rentals. In 2007 they introduced streaming media online while retaining its DVD rental service and finally in 2010 they started expanding globally. The company offers on demand streaming and the ability for customers to control their own time. Netflix is also a popular example of Machine Learning topic as well and also has a famous recommendation algorithm system. Netflix adoption of streaming services led a boom to innovation in streaming users and also decline in brick and mortar video stores such as family video and blockbuster. Netflix is an American over the top content platform and production company where it produces its own original content for users. The company headquarters is located in Los Gatos, California, United States. It is the largest entertainment or media company by far with market capitalization. The company introduced the monthly subscription concept in September 1999 and then dropped the single rental model in early 2000. It produces its own original shows which increased the number of original shows from 1500 to 2000 in the year 2020. The first Netflix owned productions appeared in the streaming services in 2013 with a well known series “House of Cards”.

1.2 Problem Statement

Netflix only focuses on adult contents for its subscribers and doesn't have fully owing copyrights as compared to Disney plus. In order of a company to stay ahead in the competition it needs to adapt and implement the rapid changes in the business processes.

1.3 Research Question

What kind of strategy does Netflix use?

How Netflix will survive in the upcoming days with blue ocean strategy and high cost services?

1.4 Objectives of the study:

The methodology I have used for this paper are blue ocean strategy of Netflix and have done swot analysis of Netflix and Disney plus from secondary sources such as articles, case studies, books and journals. Eventually I have taken their business model canvas into consideration for better analysis of my research problem.

2. Theoretical Foundation

2.1 Blue Ocean Strategy for Netflix

Blue ocean strategy was written by professors W.Chan Kim and Renee Mauborgne and recognized as one of the most iconic and impactful strategy books ever written. Blue ocean identifies to swim in open ocean of opportunities without getting into any fight over shrinking profit pool. It is the simultaneous pursuit of creation of differentiation and low cost to open up a new market space and create new demand. Netflix eliminated the physical DVD stores in market at that point of time and make all movies online where they started new market for the competitors and it was a big move it started their own movie platform for users to watch or rent. So finally the price of the licenses went lower than the cost of purchasing DVD for the number of Netflix has.

2.1.1 Value Innovation:

Netflix is now offering their own content for their own subscribers for a reasonable price which is a bit higher as compared to Disney plus and hence it also made the payment method easy as only card number is needed. It has also created online accounts implementing a monthly fee without a limit for watching. The website is also personalized and suggest new movie to user based upon their previous preferences, that's where the movie recommender system comes into picture. Most importantly it is an ad free service.(Csalló and Csalló, 2021)

2.1.2 Analysing the Market for Tools and Framework

- **Four Action Framework**

  Firstly Netflix eliminated all the physical store where DVDs could be bought or borrowed from, comparing this move at that point of time was a big move for the competitors as well. The company also resigned from actual processing of DVDs and made them all available online so henceforth it stopped needing the storage capacity.

Secondly when it comes to raise, the company raised their factor's above the competitors in sense for the comfort of watching movie online. Without stepping out customers can enjoy the new released or old movies comparatively watching online with the facility to stop and resume anytime. The payment method was also easy as it required only the card number.

Thirdly reducing the price for obtaining licenses which can reduce the copyright issues

Lastly Create a robust content delivery market or network where more engaging viewing experiencing is being offered. Customer can enjoy their adult segment movies from 18 to 60 or above that age, where kids also can enjoy their movie preferences for junior segment of customers.(Muzumdar, 2014)

Eliminate Stores DVDs Storage capacity	**Raise** Comfort of watching Easy payment method
Reduce Price for obtaining licenses	**Create** Unlimited number of movies to watch

Figure 1:-Eliminate-Raise-Reduce-Create Grid for Netflix

2.1.3 Formulating Blue Ocean Strategy:

Netflix has created an undeniable marketing space by selling TV shows over the Internet, which nobody was doing at that point of time. In doing so, they made competition negligible by creating and capturing new demand for a service that is currently not available on the market. Thus, they managed to reach a compromise between price and cost, providing a better price than cable TV (as you could watch any program, anytime, without advertising) at a lower price than cable TV. By entering the blue ocean, they were able to achieve a leading position in low cost and alternative product diversification.(Bernat, 2018)

2.2 Analysis of Business Model of Netflix and Disney Plus

2.2.1 Swot Analysis of Netflix and Disney Plus

Strengths	Weakness
Netflix: Huge customer base. High brand value. Zero ad's. Affordable pricing **Disney Plus:** Continuous video playback. Smart search. Well structured User interface. Unique Content. Cheap pricing better than Netflix.	**Netflix:** Imitable business model. Highly dependence on content producers. Limited copyrights. Company mostly depends upon North American customer base. **Disney Plus:** Family friendly content. High cost production. It was late to enter the market
Opportunities	**Threats**
Netflix: Expansion in newer markets. Evolution of product mix. Different language content. **Disney Plus:** Acquiring of companies like 21st Century Fox. Reduce subscription prices. New services for Kids.	**Netflix:** Increased Competition Content piracy. Censorship of content. **Disney Plus:** Competitors. More addiction of children. Restructing Disney Content.

2.2.2 Comparative Study on Netflix vs Disney Plus

Following are the findings based on the comparative study between Netflix and Disney

Disney plus content line up will be less than 20% than Netflix but Disney has higher rated titles because of following reasons

1. Disney will enter the subscription VOD warfare with a narrower content selection than competitors, focusing on quality rather than quantity.

2. Disney is ending its license agreement with Netflix, which previously had an exclusive SVOD window for Disney films in the United States and Canada. All Mouse House properties, including "Captain Marvel," "Toy Story 4," "Avengers: Endgame," "Frozen II," the live-action remakes of "Aladdin" and "The Lion King," and "Star Wars: The Rise of Skywalker," will be accessible to stream exclusively on Disney+ beginning in 2019.

3. Disney is ready to put a lot of money into Disney+. Disney+ is expected to cost $1 billion in cash in the first year, rising to $2.5 billion by 2024,

4. Disney+ is expected to include more than 120 current movie releases and more than 500 library films by fiscal year 2024, as well as over 10,000 TV episodes, more than 50 original series, and 10 original films and specials.

5. According to a recent survey commissioned by OpenX, over-the-top video service users in the United States are willing to pay upwards of $100 per month on average for self-made subscription bundles. People's words and actions can, of course, be extremely different. In any event, Disney+ will be an appealing alternative at $6.99 per month, even if Disney raises the price later. From February 13 to March 6, 2019, Harris Poll polled 2,002 U.S. consumers aged 18 and above who said they had used at least one OTT service. (this survey sounds very interesting)[1]

[1] Todd Spangler, (2019), Disney+ Content Lineup Will Be Less Than 20% of Netflix's but Disney Has Higher-Rated Titles

2.2.3 Analysis of Business Model canvas of Netflix and Disney plus:

Key Partners :

- Investors
- Media Producers
- Film Maker Guilds
- Cinemas, Theatre’s
- TV Networks
- Amazon AWS
- Consumer Electronic Companies
- Regulators

Key Activities :

- Technology R&D
- Content licensing
- Content Production
- Content Distribution
- Data analytics
- Sales and marketing

Key Resources :

- Brand
- Apps/website
- Platform
- Employees
- Film Makers/Producers
- Prizes/Awards

Value Propositions :

- 24/7 On Demand
- View high-definition shows and movies
- Stream Content
- Unlimited access
- Netflix Original
- 30 Day free trial
- No commercials

Customer Relationships :

- Self service
- On-demand
- Ease of Use

Channels :

- Any Device
- Netflix App
- Word of mouth
- Online advertising
- Offline advertising
- Social Media

Customer Segments :

- Micro-segmentation
- 2000 preference clusters Usage
- Usage segmentation geographical
- Content/languages

Cost Structure :

- Production
- Research and Development
- Licensing
- Infrastructure – AWS
- Marketing
- Payment Processing Fees
- General/Admin

Revenue Streams :

- Subscription Model
- Product Placement
- DVD Rental
- Future Model – licensing Netflix owned content

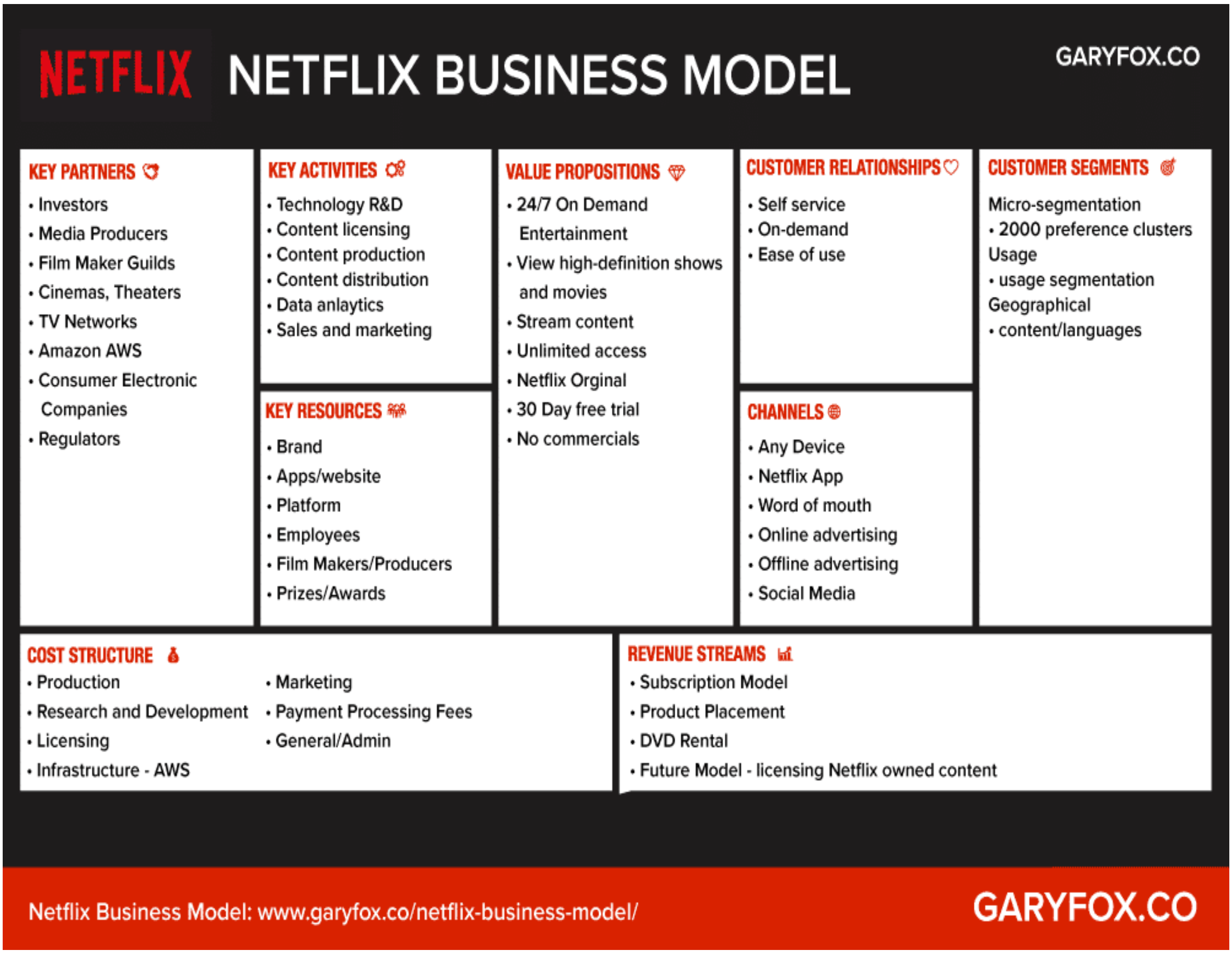

Figure 2 :- Netflix Business Model Canvas

Disney Plus

Key Partnership :

- Content partners : PIXAR, MARVEL, STAR WARS, National Geographic, STAR

Key Activities :
- Platform Development

Key Resources :
- Streaming Platform

Value Proposition :
- The greatest stories, all in one place
- Download movie and watch on the go.
- Host virtual movie with friends

Customer Relationship :
- Emotional Effects
- Price Effects

Channels :
- Website
- Mobile App
- Social Networks

Customer Segments :
- Young people
- Adults
- People with children

Revenue Streams :
- Monthly and yearly subscription

Cost Structure :
- Platform Development
- Marketing and Sales
- R&D
- General and Administrative

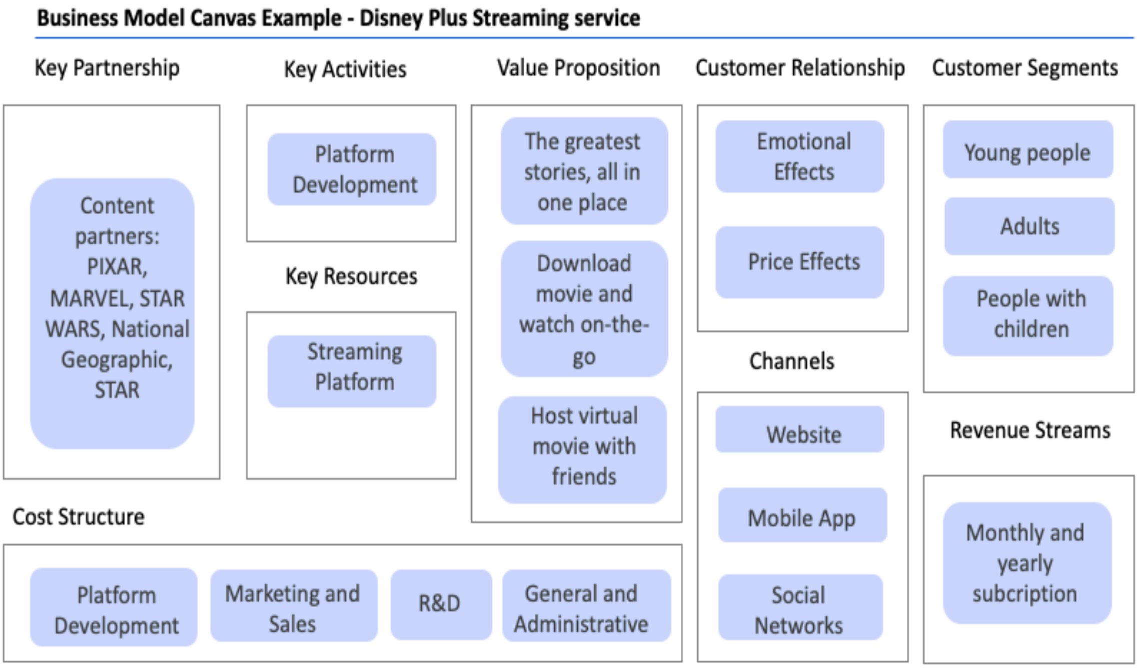

Figure 3:- Business model canvas for Disney Plus

Conclusion:

This report finds that Global business is becoming more competitive in terms of business strategies and business model. It can be identified that Netflix biggest strength is the customer base of subscribers with high brand value. It started as an DVD rental company and later turned into a huge brand worldwide for streaming services. This year in 2020 Netflix got it's one of the biggest competitor Disney Plus which is sharing the same platform and also with some flexible and award winning contents. Netflix also paved the way to introduce Blue Ocean strategy by starting online movie services with a bit expensive price tag than Disney Plus. Netflix is rich in movie library as compared to Disney Plus. It is now spending a lot for it's own content which is again a fear for exploiting its financial boundaries as it is backed up by some big giants. Whereas Disney Plus is a sub branch of Walt Disney which has its own contents that can be seen only through Disney plus but Netflix has to purchase copyrights from time to time.

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Sagnik Patra

Essen, December 13, 2021

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