NETFLIX

by Group 8

PORTERS 5 FORCE MODEL

- Porter's five forces are used to identify and analyze an industry's competitive forces

- The model guides businesses in determining the intensity of competition and potential profitability within their market, helping them better understand where power lies in their sector.

- The five forces are competition, the threat of new entrants to the industry, supplier bargaining power, customer bargaining power, and the ability of customers to find substitutes for the sector's products.

NETFLIX

Netflix Inc. started as a DVD rental and selling service in 1997. However, Netflix came to the limelight in 2010 when they redesigned their business model and ventured into Video on Demand Streaming. With this new operation, they expanded exponentially in over 190 countries and were listed at New York Stock Exchange (NYSE) with a market cap of 65.41B USD

THREATS OF NEW ENTRANTS

- **Capital Requirements:** High: Entering the streaming industry requires significant capital investments, not only in content production but also in technology infrastructure (servers, streaming technology, etc.). Netflix spends billions on content each year, which can deter new players without the necessary funds.

- **Economies of Scale:** Strong for Netflix: Netflix benefits from economies of scale by serving a global audience. As its subscriber base grows, the cost of delivering content per user decreases. New entrants would struggle to achieve similar cost efficiencies initially, making it hard to compete on price and content volume.

THREATS OF NEW ENTRANTS

- **Brand Identity:** Strong: Netflix has a well-established, global brand. Its original content and recommendation algorithms have created strong brand loyalty, making it difficult for new players to establish a comparable reputation quickly.

- **Switching Costs:** Low: Switching costs for consumers in the streaming industry are low. Users can cancel one service and subscribe to another with minimal friction, posing a challenge for Netflix to retain its subscriber base against new entrants.

- **Possibility of Aggressive Retaliation:** High: Netflix has significant resources and could engage in aggressive pricing, increased marketing, or exclusive content deals to fend off new competitors. This possibility can act as a deterrent for smaller firms considering entry into the market.

THREATS OF NEW ENTRANTS

- **Access to Distribution Channels:** Low Barrier: In the streaming industry, distribution channels are largely internet-based, which are accessible to new entrants. However, securing partnerships for exclusive content or integrations with devices (e.g., smart TVs) can be challenging for new entrants.

- **Product Differentiation:** Moderate: Netflix differentiates itself through exclusive content like "Stranger Things" and original movies. However, other platforms like Disney+ and HBO Max also offer exclusive, differentiated content. While differentiation is possible, newcomers would need unique, compelling content to compete.

BARGAINING POWER OF BUYERS

- **Buyers Forming Groups:** Moderate: Consumers of streaming services rarely form groups or cartels. Each user typically subscribes individually, reducing collective bargaining power. Unlike industrial products, Netflix faces a large number of individual buyers rather than organized buyer groups.

- **Buyers Influencing Prices:** Moderate: While individual users have little influence on pricing, the threat of switching to cheaper competitors like Disney+ or ad-supported tiers on other platforms puts indirect pressure on Netflix to maintain competitive prices. However, Netflix has been able to raise prices periodically without significant subscriber loss due to strong brand loyalty and differentiated content.

BARGAINING POWER OF BUYERS

- **Knowledge of Substitutes:** High: With numerous competitors like Disney+, Amazon Prime Video, and HBO Max, buyers are well aware of alternative streaming platforms. This puts pressure on Netflix to continuously offer fresh and compelling content to retain subscribers. The ease of switching between services makes buyers more powerful.

- **Big Buyers:** Low: Netflix deals with individual subscribers, not large institutional buyers, which means no single buyer can exert a significant amount of pressure. This reduces the overall bargaining power of buyers.

BARGAINING POWER OF BUYERS

- **Buyers Bargaining for Better Services:** High: Buyers expect constant improvements in the platform, such as personalized recommendations, high-quality content, and new features. This pushes Netflix to continually invest in user experience, driving up operational costs. This expectation for better services means that Netflix must allocate significant resources to content creation and platform enhancements to keep subscribers happy.

- **Importance of the Product:** Moderate to High: Streaming services are seen as non-essential but highly desirable, especially for entertainment during leisure time. However, since it's not critical to survival, subscribers can easily cancel or switch to alternative services if they perceive Netflix to be too expensive or lacking content they enjoy.

BARGAINING POWER OF SUPPLIERS

- **Supplier Power Based on Limited Numbers:** Moderate to High: In the content creation industry, top-tier content producers (e.g., major studios, acclaimed directors, and actors) are relatively few in number. These suppliers can exert considerable power over Netflix because exclusive, high-quality content is crucial for its success. This gives content creators, production companies, and even technology service providers (like cloud providers) leverage in negotiations.

- **Crucial Products and Lack of Substitutes:** High: The primary "raw material" for Netflix is content, which includes licensed TV shows, movies, and original productions. High-quality, exclusive content is crucial for Netflix’s competitive edge, and there are limited substitutes for working with established production houses or popular creators. This dependency gives these suppliers significant bargaining power.

BARGAINING POWER OF SUPPLIERS

- **Switching Costs:** Moderate: The switching costs for Netflix to change content suppliers (production studios or talent) can be substantial. Long-standing relationships with major content creators, contracts, and the reputation of suppliers like top directors or actors make it costly for Netflix to move to less recognized or lower-quality suppliers. This strengthens the supplier's power.

- **Supplier Concentration vs. Buyer Concentration:** High: There are relatively few major suppliers of blockbuster movies, popular TV shows, and high-profile actors compared to the large number of streaming platforms and viewers. Since Netflix competes with other platforms like Disney+, HBO Max, and Amazon Prime for the same premium content, suppliers have more leverage.

THREATS OF SUBSTITUES

- **Number of Competitors:** High: The streaming industry has seen an influx of new players, which diminishes Netflix's ability to exert pricing discipline. With more platforms offering a variety of subscription tiers and bundles (e.g., Disney+, Apple TV+, Peacock), the number of competitors has increased, intensifying rivalry. Each competitor also has its own exclusive content, which puts pressure on Netflix to continuously invest in original productions.

- **Fixed Costs:** High: Netflix operates with significant fixed costs, primarily related to content production and infrastructure. Given the large investment required for original content, it must ensure a high subscriber base to spread these costs. This drives Netflix to maintain or grow its user base, but it's cautious about price drops, focusing instead on content differentiation to avoid lowering prices.

THREATS OF SUBSTITUES

- **Exit Barriers:** Low: There are relatively low exit barriers in the streaming industry, as companies can scale down content production or pivot to other forms of digital media. However, the sheer investment in content creation and subscriber acquisition makes it difficult for major players to exit. For Netflix, this means rivalry remains intense, as competitors are unlikely to leave the market.
- **Product Differentiation:** High: Netflix successfully differentiates itself through exclusive original content (e.g., "Stranger Things," "The Crown") and a global content strategy, offering series and films in multiple languages. This differentiation helps insulate it from direct price wars, as users subscribe for unique content that competitors may not offer. However, differentiation has become more difficult as rivals also invest heavily in exclusive content.

THREATS OF SUBSTITUES

- **Industry Leader:** Strong Leader: Netflix is a clear leader in the streaming industry with a large subscriber base and strong brand presence. This leadership allows Netflix to discourage price wars to some extent. For example, instead of engaging in aggressive price cuts, Netflix often competes through content quality and innovation, such as introducing an ad-supported tier. However, it is facing growing pressure from competitors like Disney+, Amazon Prime Video, and HBO Max.

- **Slow Growth:** Moderate: In some markets like the U.S., the streaming industry is reaching saturation, which intensifies rivalry as companies compete for a finite pool of customers. However, in international markets, there is still room for growth, allowing Netflix to focus on expanding its presence globally, which somewhat mitigates the rivalry in these emerging regions.

NATURE OF RIVALRY IN THE INDUSTRY

- **Existence of Substitute Products:** High: Substitute products for Netflix include other forms of entertainment such as traditional TV, YouTube, gaming platforms (like PlayStation or Xbox), social media, and even live events like sports. These alternatives offer varying degrees of entertainment, creating a substantial threat to Netflix as users can easily switch between different platforms for similar entertainment needs.

- **Price Advantage or Performance Improvement:** Moderate to High: Many substitutes, such as YouTube (free) and social media platforms, are either free or have lower cost structures. While Netflix offers exclusive premium content, these alternatives can often satisfy the same demand for entertainment at a fraction of the price. Other competitors, like Disney+, offer lower-cost tiers or bundle services with other products (e.g., ESPN+ and Hulu), increasing the threat from lower-priced substitutes.

NATURE OF RIVALRY IN THE INDUSTRY

- **Substitutes Performing Similar Functionalities:** High: Substitutes like other streaming services (Amazon Prime Video, Disney+, Hulu) offer nearly identical functionality—on-demand video streaming with high-quality content. These platforms have begun to mirror Netflix's model of original content creation, increasing the competitive threat. Gaming platforms and social media, though different in nature, also compete for the same limited leisure time of consumers, further broadening the range of substitutes.

- **High-Tech Industry Nature:** High: The high-tech nature of the industry makes it susceptible to disruption. New technologies or platforms, such as interactive streaming or virtual reality (VR) entertainment, could emerge as strong substitutes, potentially altering user preferences and behaviors. For instance, interactive content like Netflix's own "Black Mirror: Bandersnatch" hints at how substitutes could evolve.

QUESTIONS

- What makes it difficult for new streaming services to compete with Netflix?
- Why do you think Netflix subscribers might switch to other services?
- How can Netflix keep working with top content creators without paying too much?
- How can Netflix stay ahead of its streaming competitors like Disney+ and Amazon Prime?
- What other entertainment options could make people stop using Netflix?

ANSWERS

What makes it difficult for new streaming services to compete with Netflix?

- Netflix has differentiated itself by becoming TV and film production studios themselves, creating original, high-quality content in-house that rivals that of traditional studios
- Brand Recognition: Netflix is a well-known name, making it hard for newcomers to gain visibility.
- 89% of people choose a streaming service because of the content variety, and Netflix delivers exactly what they want.
- With smart algorithms, a user-friendly app facilitating offline viewing,

Why do you think Netflix subscribers might switch to other services?

- Price disadvantage: New streaming platforms like Disney+ offers monthly subscriptions for £5.99 or yearly for £59.99, but a pre-order discount lets you get a year for £49.99. This price includes 4K streaming, which Netflix doesn’t offer in its basic package.
- Multiple users cannot binge watch on Netflix as it allows only a one-viewer subscription

How can Netflix keep working with top content creators without paying too much?

- Netflix exercises decisions on what to produce (or continue producing) based on the success of past content and trends in the industry.
- Both Netflix and creators analyze metrics and decide to move forward with content that proves to be successful for their brand.

ANSWERS

How can Netflix stay ahead of its streaming competitors like Disney+ and Amazon Prime?

- Netflix has invested a lot of money in original content, which has led to hit shows and award nominations and wins
- Netflix's recommendation engine collects data to create tailored customer journeys for each user.
- Netflix has launched an ad-supported streaming plan to increase revenue and combat rising content spending.

What other entertainment options could make people stop using Netflix?

- Netflix cancels moderately to good content shows every yearr which makes the audience lose interest in their platform
- After password-sharing bans being implemented in Netflix most of the consumers have limited their habits of binge-watching which has caused a loss viewership
- Other big powerhouses of streaming such as Hulu and Disney+ seems to have free content option which attracts more consumers and makes Netflix’s premium content less atrractive

THANK YOU