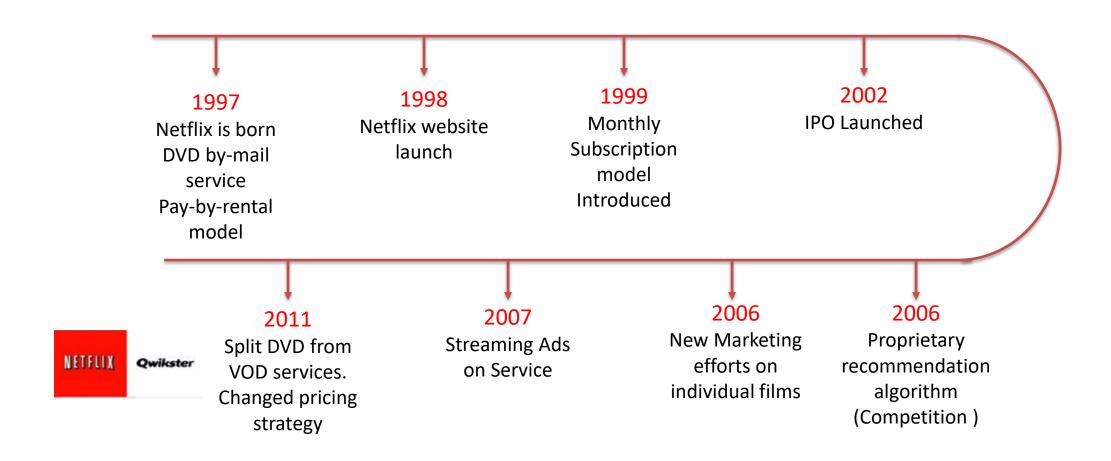
In 2011

TEAM 5

Ganti Venkatesh Shravan Richard Gard

Journey of Netflix Inc.



NETFLIX 5Cs

COMPANY

- Founded in August 1997
- Started as a DVD-by-mail rental service
- \$3.2 Billion in Revenue
- Users spent 0.8 Hours per day
- 23.8 Million users

COMPETITION

Streaming





DVD-by-mail





CUSTOMER

- Primarily 3 types of customers:
 - Streaming only
 - DVD only
 - Streaming and DVD

COLLABORATORS

- Widespread adoption of high bandwidth internet connections
- Movie Studios who provide licenses to stream movies
- USPS for the DVD-by-mail rental service

CONTEXT

- Vast majority of Netflix users stream movies.
- DVD-on-rent business is seen to decline
- Netflix accounted for up to 30% of internet traffic

NETFLIX Porter

Competition from Industry

Large companies such as Amazon, Hulu and Apple launched VOD services to capitalize on streaming

Bargaining Power of Suppliers

Studios have power over distribution of movies and controlling the release dates which is essential for profit.

Bargaining Power of Buyers

Consumers have many options to choose from. These options are competitively priced and they can change services solely based on price (commodity).

Threat from New Entrants

Various new streaming platforms have already indicated their presence. There are low barriers to entry in this market.

Threat of Substitute Product

going back to DVD only service or piracy. While piracy is an increasing concern, regulations about it prevent consumers from choosing that route.

NETFLIX SWOT

STRENGTHS

- Innovative thinking/regular change of strategies
- Leading the understanding of the market
- Proprietary recommendation system
- Sufficient distribution centers and efficient delivery
- Convenience, value, and wide selection

OPPORTUNITIES

- Competitors charge plenty of late fees
- Revenue-sharing agreements with the major studios
- No existing market/ monopoly the early market
- Step into video game market

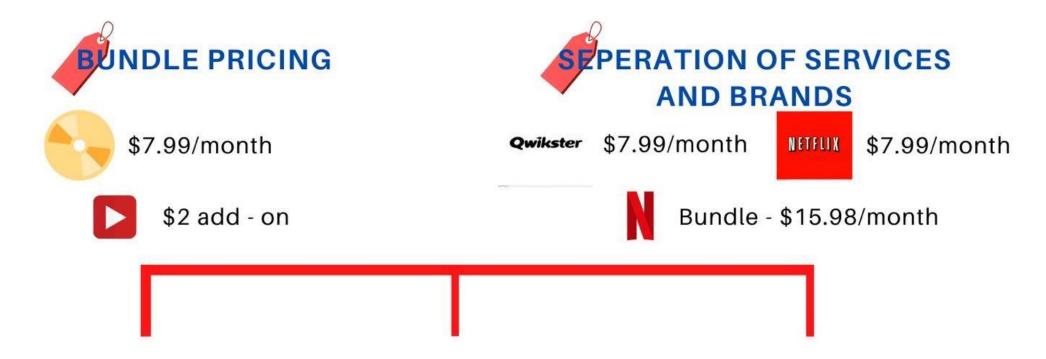
WEAKNESSES

- Lack of traditional storefront
- Limited copyright/resources
- Confusing interface guidelines
- Marketplace limited in north America
- Unfriend to unsubscriber

THREATS

- Fierce competition: Blockbuster Online, Youtube
- Customer churn
- Redbox's dominance in the video game market and lack of opportunity for Netflix

Netflix in 2011



Focus on DVD-by-mail Huge Customer Backlash
Unlimited Viewed as increase in price without
Fixed cost investments high- any value addition
packaging, shipping, supply centersLoss of over 800,000 users

Drop in stock price from\$300-\$77

New streaming only customers do
not have to pay for the bundle
"Unlimited" streaming and rentals
continue
Different brand umbrellas threaten
brand dilution



NETFLIX

Member Sign In

Instantly watch as many TV episodes & movies as you want! For only \$7.99 a month.



- Watch on your PS3, Wii, Xbox, PC, Mac, Mobile, Tablet and more.
- √ Choose from thousands of TV episodes & movies
- Instantly watch as much as you want it's unlimited
- √ No commitments, cancel anytime with just 3 clicks online.

Start Your 1 Month Free Trial | Browse Selection | How It Works

Gifts:Buy/Redeem | About Us | Affiliates | Blog | Contact Us | Investor Relations | Jobs | Media Cente

Natch instantly on your TV with devices that stream instantly from Netflix

Use of the Nethits service and this Net site constitutes acceptance of our Terms of Use and Privacy Policy.

© 1997-2012 Nethix, Inc. All rights reserved. U.S. Patent Nos. 6,684.460, 7,024,381; 7,631,323, 7,403,910; and 7,617,127. (us-eaz-1 6a/87c13 US) [

Customer Backlash

Netflix failed to understand its customers

Their choice was taken away

Split the main brand - leading customers to split their accounts

Did not market/communciate any value addition



Made it hard for the customer to do business with Netflix

Did not address customer pains, but focused on their own

Made it hard for the customer to do business with Netflix

Reminded customers of the frequency at which they used their service - prompting them to revaluate the value of the service to them

Pricing Strategies - Way Forward

STICK-IT-OUT

SINGLE BUNDLE

ABANDON "UNLIMITED"

Price



\$7.99/month



\$7.99/month



Bundle - \$11.99/month

Pay-per-view model

Charecteristics

Better cater to the mass market - as it separately addresses 2 segments. Gives people more choice.

Diversified experience with lower cost

More economical for customers who do not watch movie frequently

Charecteristics

Friendly to people who only use one way of entertainment. Early mover into the future of entertainment.

Recover customer churn to some extent since many customers are dissatisfied with the separate business The total cost increases for customers who watch multiple movies per month

Charecteristics

More focus on quality streaming content through studio deals and Netflix originals

Multiple choices with unlimited attract more customers

Not aligned with company's core strategy

Charecteristics

More scope for international expansion

Easy to generate loyal customers

Scraps away the competitive advantage and sets them back in the streaming business

Charecteristics

More operation cost for company to manage two totally seperate branches

Not scalable internationally

Consumption mode to attract price sensitive segment

Our Recommendation

Netflix needs to let customers know that it can predict what is the best form and delivery of entertainment for them

FOLLOW THE STICK-IT-OUT STRATEGY





"Unlimited" Streaming

Offer a free streaming trial for DVD-by mail consumers - if they convert within the first 10 days, they get streaming at the same price

Retain DVD under the Netflix brand

Focus on international expansion for streaming

Additional cost to customer wrt to older pricing strategy	Bundle priced at \$11.99	Individual services priced at \$7.99 each
People who'd like both the services	2	5.99
People who'd like only the DVD-by mail service	4	0
People who'd only like the streaming service	2	-2

WHY THIS STRATEGY?

Early mover into the future of entertainment streaming

Value to people who only want one form of the service

2010 - Netflix Streaming Customers > DVD DVD projected to decline in the future More revenue from relevant product

Aligned with company's core motto - "best home video viewing". Netflix encourages customers to shift to the future of home entertainment

Free trial - will pacify agitated customers and help them evaluate the two offerings

Opportunity to grow streaming content through studio deals and Netflix originals

NETFLIX 4Ps

Price

- \$7.99 for DVD
- \$7.99 for Streaming

Place

- Internet streaming (tie with Xbox, ROKU, other brands offering internet access)
- DVD-by-mail

Promotion

- One stop entertainment shop
- Convenience, selection, value

Product

- Streaming
- DVD

WHY SHOULD GCI INVEST?

- Netflix can predict the future of entertainment
- Has the first mover advantage
- Has the potential to be a global steaming giant
- Netflix understands customers more than they do themselves

