NETFLIX Organizational Analysis

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Table of Contents

Introduction

Netflix, Inc. was founded in 1997 after owner, Reed Hastings, incurred a late fee from Blockbuster Videos. This incident developed Rasting's drive to develop a superior video service, free of strict restrictions. A year after operations began, Netflix was offering flat rate DVD rentals; Two years later, they switched to the unlimited rental model, removing late and shipping fees. Ten years after launching, Netflix introduced their online streaming service to further their brand and better service their customers. Netflix experienced immediate success but recognized its long-term growth would be hindered by rising costs for licensing agreements. They began creating their own original content in 2012, with the goal of eventually supplying their content library nearly exclusively with Netflix Originals.

Netflix does not have an official mission statement published, but CEO Reed Hastings has stated that they want to be the best in the entertainment distribution service and help producers make their creation accessible to more people across the world (Farfan, 2016).

Corporate Strategy:

Netflix's corporate strategy migrated towards vertical-backward integration when it began to produce its own original content in 2012 due to fierce competition for licensing agreements. By vertically integrating, they have more creative control of their content and can potentially reduce supplier power over them.

According to the firm's most recent 10-K, Netflix's corporate strategy focuses on global expansion, members' experience, and a user-friendly interface. By expanding internationally, they anticipate increasing exposure for their brand image and increase their subscriber growth and profit margins. Netflix continues to explore potential markets; however, expansion efforts have been slowed by obstacles, mainly government regulations.

In addition to exploring new markets, Netflix is dedicated to providing original content members will enjoy. They have invested billions of dollars over the past six years into their Netflix Original series. Netflix methodically tracks current sociocultural trends and data from member accounts in order to shape their content library for consumer pleasure for appealing entertainment.

Netflix aims to make their services as user-friendly as possible. Taking into consideration that consumers are not always Wifi-enabled, they made all content downloadable while online for viewing later on while offline. Their interface is also easily navigated, previewing last viewed and recommendations new shows to watch based on subscriber preference.

Business-Level Strategy:

Netflix was created based on the low-cost provider strategy by offering economical monthly cost DVD rentals and avoiding surcharges. Subscribers have the freedom to enjoy content without being penalized for keeping DVDs for an extended period of time. This strategy is common for new entrants as they are trying to establish a consumer base. For Netflix, the low-cost strategy provided them with initial sustainability in the market.

In 2013, Netflix took a new direction and focused on a broad differentiation strategy. They began producing original content as opposed to heavily relying on licensing agreements. The licensing agreements became increasingly expensive based on bids received by competitors, which led to the creation of Netflix Originals. By applying a broad differentiation strategy, Netflix must adhere to the needs of a wide variety of consumers. To satisfy this constraint, they based original series on geographical location. This strategy tailors to the taste of their members and is a means to attracting new consumers.

Market Performance:

In the industry of streaming service providers, Netflix dominates at 63% market share. Based on our calculations, competitors rank as followed: Amazon Instant, 18%; Hulu, 15%; HBO Now, 2%; Showtime, 1%; and SlingTV, 1% (IBISWorld).

Financial Performance:

Between 2007 to 2012, Netflix reached many milestones. They implemented their streaming services in 2007 and in 2010, entered their first international market. In 2012, they began developing their first original series, *House of Cards*, and released it in 2013. During these five years, Netflix stock price increased by 336% (Financial Content, 2017) . Behind Netflix's sudden surge was a rapidly increasing amount of debt. In 2012 was 4.33, an extremely high number in relation to industry average which should hover around 2.0. Netflix was financing their assets with debt, leaving that at risk to default on payments long-term (Q4 Letter to Shareholders, 2012). This was not unusual, as they were investing internationally and producing original content and needed to raise capital somehow. As revenues increased, so did their costs, causing net income to fall to about 26% of what it was in 2007 (Financial Content, 2017).

As of mid-2017, Netflix's high equity multiplier of 5.31 and debt-equity ratio of 4.31 reflect that they are continuing to fund their growth through incurred debt (Q2 Letter to Shareholders, 2017). Their debt is due to their original content and diversified content library. The price-earnings ratio of Netflix is 220.54, meaning the company has a huge amount of potential to grow for years to come. Netflix has thrived since becoming a publicly traded company in 2002 and their stock price has increased by around 619% in 10 years, trading above the industry average (Financial Content, 2017).

Major Product Line:

Netflix's major product line consists of three different plans that are based on the quality and quantity of the screens. See Figure 1.1 for information about plan options. By providing multiple plans, members have the freedom to select the one that best suits them. Their branding is another major product line. Netflix is available on several popular devices (i.e. Playstation, Roku, etc.), exposing their brand name and recognition. By being readily available, they are making it convenient for subscribers and prospective subscribers to use their application.

New Developments:

Netflix believes that by funding their business strategies with borrowed capital, they will be the industry giant forever. They have extensively invested in their own movies and shows which are high in quality and attracting more subscribers. Their expansion and investments have led to an increase in revenues yearly.

Most recently, Netflix has partnered with T-Mobile to launch Netflix On Us. Their goal is to increase their subscriber growth, and possibly reduce account sharing, by including Netflix subscriptions in their phone plan. The plan provides one streaming subscription per account. Partnering with telephone networks is especially intriguing, as they are discovering new methods of reaching subscribers.

Internal Analysis

The internal analysis of Netflix shows how effective the company is at managing its resources to create a sustainable competitive advantage and how they enhance the value chain.

The resource based view analysis, the VRIO framework, and the value chains reveal the entire internal analysis on Netflix.

Resource Based View Analysis:

Netflix holds several tangible and intangible resources that give the company a sustainable competitive advantage in the streaming industry. They are Netflix's user experience, brand image, its current market share, total subscriber count of 109.25 million, content library estimated at $2.5 billion, current partnerships, and cash and equivalents of around $1.75 billion (Q3 Letter to Shareholders, 2017). Of the capabilities Netflix utilizes to achieve a competitive advantage in the industry, its core competency is the ability to provide the best content in a convenient and user-friendly way.

The VRIO Framework:

The VRIO framework is an informative tool to help determine what resources and capabilities of Netflix give the company competitive advantage over industry rivals. The company's brand image, current strategic partnerships, large amount of cash and equivalents, large content library, industry leading market share, easy-to-use user-experience, and the company's subscriber amount and growth rate of domestic and international subscriptions are resources and capabilities that give Netflix a sustainable competitive advantage and above average performance implications. See Figure 2.1 for all resources and capabilities. Netflix's streaming capabilities and its pricing model, which has seen an increase in per month subscription prices this past year give the firm competitive parity in the market (Reisinger, 2017). The resources and capabilities that give Netflix a competitive disadvantage are the company's pricing power, DVD by mail service, and total debt of around $13.624 billion (Q3

Letter to Shareholders, 2017). According to their 2017-Q3 report, the total subscriber count for the DVD service steadily declined from 4,194 to 3,520 since 2016 (Q3 Letter to Shareholders, 2017).

Value Chain Analysis:

The first value chain Netflix participates in is their streaming service, and the second is the company's online DVD rental service (Figures 2.2 and 2.3).

Streaming Service Value Chain Primary Activities:

The inbound logistics of Netflix's value chain pertain to the company's multi-year deals for content licenses and production costs for their original content. All costs to pay individuals involved in the production process are included in the company's inbound logistics.

The operations segment of Netflix's streaming value chain involve the use of external cloud services to store and prepare the content for delivery to the customer's preferred device (Brodkin, 2016). Netflix developed their own content delivery network, called Open Connect, that launched in 2012 and has helped speed up the process of getting the content ready for delivery, making it a much more seamless process (Florence, 2016).

The outbound logistics of Netflix's streaming value chain involve the company's content delivery network that transports content to the customer's preferred device. Netflix has mobile applications and a website customers can access to connect to the company's Open Connect application and retrieve their desired content from the cloud server (Florence, 2016).

The marketing and sales aspect of the streaming value chain for Netflix involve all forms of advertising the company engages in. These activities range from no-cost word-of-mouth, to

TV and online advertisements, totaling $312.49 million during quarter three of 2017 (Q3 Letter to Shareholders, 2017).

The service activity of the company's value chain involves offering three different subscription options, Figure 1.1. After the customer has enrolled in one of the options, Netflix has an algorithm that identifies content they have watched, and then offers suggestions it believes the memer would enjoy in the "Recommended For You" section. If the member is unsure of the options and wants to try one of them out, Netflix offers a one-month free trial period and if members are not satisfied, they may cancel their subscription at any time at no cost.

DVD Service Value Chain Primary Activities:

The inbound logistics of the DVD value chain is comprised of the cost of purchasing licenses for the content, production fees for their original content, and purchasing the physical DVD for storage. Total acquisitions of DVD content assets has declined from 58,380 this time last year to 10,217 this year (Q3 Letter to Shareholders, 2017).

The operations activities of this value chain include the costs of keeping the most popular titles, and an appropriate quantity to meet demand, stocked in the warehouses throughout the United States. Cleaning, packaging, and storing the titles in the warehouses as well as the operating costs of the factories all are included in this segment of the value chain.

The outbound logistics of the DVD value chain include guaranteed two-day shipping by the company to anywhere in the United States (DVD.com, 2017). This service is only available within the U.S. and its territories.

The marketing and sales activities of the DVD service are included in the "Marketing" section of the company's income statement, and would be word-of-mouth and online advertising.

Service activities of this value chain would include a free-trial period lasting one month and three subscription options, with customers being able to cancel at any time for no cost.

Value Chain Support Activities:

Netflix's firm infrastructure that supports their streaming and DVD products are what Netflix refers to as "Nerds" who function as technical support for the company's customers, are available 24/7, and can assist with any technical issues (Netflix Jobs, 2017). The corporate structure gives Chairman and CEO Reed Hastings direct control over each department, with a manager in charge of each department. The department's structure is then left up to the manager's discretion (Netflix Inc., 2017).

Netflix's Human Resources department provides some of the most progressive and employee-friendly benefits employees can find in a multi-billion dollar company and are meant to enhance overall quality of life (Netflix Work Life Philosophy). Netflix has no prescribed time-off or set hours for work policy, no set paternity leave policy, pay top market compensation, and will match donation contributions up to $10,000 (Netflix Work Life Philosophy, 2017).

The technology and development activities of Netflix came out to approximately $255.236 million during the third quarter of 2017 (Q3 Letter to Shareholders, 2017). Netflix is constantly undergoing processes to enhance the picture quality of their content and their algorithm for recommended content. Another area Netflix has recently shown interest in is the use of virtual reality for storytelling, according to Chris Jaffe, Vice President of Product Innovation (Roettgers, 2016). A less-recent area of improvement is Netflix's adoption of a second screen for their mobile application, which allows the user to view details about the show and the actors on screen (Petts, 2016). All technical developments that would apply to the company's online streaming service also apply to Netflix's DVD by mail service.

The procurement activity of Netflix's value chain involves the purchase of content licenses and creating multi-year contracts with production companies to stream the content and provide DVD options to subscribers (Q3 Letter to Shareholders, 2017).

External Analysis

Netflix is in the streaming video service provider industry; the internet publishing and broadcasting industry; and the DVD, game and video rental industry. Their major industry is the streaming service.

Competitors in the industry are developing original content to attract subscribers. Firms have come to the realization that there is greater benefit in practice than paying for licensing agreements. Corporations are leasing less of their content to online service, preferring to host it or charging more for it. Technology is assisting in the growth of this practice. Constantly improving infrastructure has increased quality and thus growth. Firms are proactively investing in their technology in order to remain competitive in this industry.

A potential issue for Netflix is server malfunction. If the servers responsible for sending traffic over from member devices to their servers went down, they would be unable to provide content until the servers are restored, which could take an unspecified amount of time. This could become a major issue for Netflix if another firm in the market is more consistent with its content delivery.

Porter’s Five Forces:

The streaming service industry’s rapid growth has led to aggressive competition, resulting in intense rivalry amongst the major competitors, Amazon Prime, HBO, Hulu and Netflix. Each firm has implemented different strategies, offering a combination of services to position themselves in the market in order to become the industry leader. For example, Hulu has partnered with HBO to offer popular channels to their services. As well, Netflix has invested billions in producing original content to offer unique content. Even though competition has risen, Netflix continues to be the dominant player in the industry.

In this industry, the power of suppliers is high. If the suppliers’ content is unique or popular, buyers will be willing to pay a premium amount for the agreement in order to stream that content, and for this reason, many licensing agreements are costly and can lead to fierce competition. There is also the risk of the supplier vertically integrating, a prime example being Disney. Disney licensed content to Netflix so they can stream certain Disney films, however, they have chosen to create their own platform and sell directly to consumers in order to potentially cut out the middleman and become a major competitor.

Buyer power in this industry is high. One of the challenges faced in this industry are the low switching costs for consumers. Most competitors offer cancellation at anytime with no cancellation fees, making it easy and convenient to switch. Additionally, major competitors in the industry offer a free trial of their services to reel in prospective consumers. The free trial leverages the consumers’ power, as they can try different service with no strings attached, leaving the consumer with many options.

The threat of new entrants in this industry is high. In 2011, Amazon expanded into the video streaming service and was a major competitor due to their market position. Another prospect competitor will be Disney, as they have informed Netflix that they will no longer stream their content.[1] In 2019, Disney will have a platform to stream content as opposed to licensing the rights. Due to their current market position, they will be a major player in the video streaming industry with potential of dominating the market.

The threat of substitutes is low in this industry. As technology advances, kids are learning about mobile devices and applications at a young age. In some cases, they will learn about these things prior to attending school. The rapid growth with technology has led parents to the realization that their children may spend too much time on those devices and not enough outside. This would be a threat to Netflix, as they depend on consumers to binge watch, this may reflect a change in tastes, but only time will tell.

Macro-environments

There are political and legal forces that restrict Netflix's capabilities from entering certain international markets. In 2016, Netflix proposed entering China's market, but they were unsuccessful due to digital content service regulations. They bypassed this restriction by partnering with Chinese firms and allowing them to license Netflix Originals as a way to enter the market. However, being unable to fully enter the market limits their ability of deriving market share and revenue growth.

Demographics**,** in 2007, Netflix had 7.48 million subscribers U.S. subscribers. By 2016, subscriber numbers increased to 93.8 million. Of these subscribers, 53% were from the U.S. and the remaining 47% were international (Statista, 2017). In a 2016 survey, results showed that of

Netflix subscribers, 49.43% are men and 50.57% are women. The largest age group that subscribes to Netflix is 25-34, which makes up for 24.3% of viewers and the smallest group is 65+ at 11.76%. The smallest income range of subscribers was $20,000-$29,999, at 5.64% and the largest was $75,000-$149,999, at 35.87%. There appears to be no relation to income range/social class in incomes less than $59,999 (University Reporter, 2016).

Socio-cultural trends are constantly changing and firms such as Netflix must be able to adapt. The popularity of social media and binge watching are important factors that could drive a firm's profit margin. Binge watching has become a social trend as people spend countless hours watching films and shows. Netflix has taken advantage of the social trend by providing a vast amount of content. They release shows with many seasons in order to provide for this phenomenon. Social media can drive a firm's profitability to allow for a firm to be promoted and exposed without overspending on advertisements. Netflix uses their social media as a means of advertising and engaging with subscribers in a positive way. They keep their subscribers up to date by posting their new shows and release dates. According to CNBC, new Netflix Original shows generated more than 30% mentions on Twitter (Frank, (2017)).

Economically speaking, inflation can rise and fall, but Netflix subscription prices have remained constant, which shows that they are investing to keep prices the same. They offer competitive pricing at multiple price points to keep a competitive edge. Despite economic changes, consumers are inclined to keep their Netflix subscriptions due to affordability and customer loyalty.

Across the global emerging economies give a company an opportunity for growth. Consumers in these types of economies begin to have more discretionary income. This is an opportunity for companies to pursue because there may be only a few competitors in emerging markets. For this reason, Netflix continues to explore international markets in hopes of increasing subscriber growth.

Technology and environmental issues are limited, given that technology always changes and given that this is primarily internet based company environmental issues are limited. Since the customer based and technology changes have made it much easier to get content to the consumer while removing the need to drive a DVD to the house of a customer.

Strategic Issues Faced by Netflix

Netflix has several strategic issues that must be addressed by management. These each come from weaknesses within the company, threats they are facing, opportunities they are not taking advantage of, and/or strengths they are not using correctly.

Netflix faces is the threat of new entrants to the on-demand streaming market. This industry has grown to acquire many new organizations and Netflix must watch the moves of these companies. In addition to this, many existing companies are extending their capabilities in order to successfully exist in the streaming market. According to comScore, Netflix is used in 75% of U.S. households that have Wifi, yet the company should still be proactive to new and existing competitors (Perez, 2017). These competitors include YouTube TV (in 53% of households), Amazon Prime TV (33%), Hulu (17%), Sling TV, Vudu, HBO Now and Go, Vimeo, Facebook Video, GooglePlay, PlayStation Vue, and DirecTV Now. Many of these competitors are part of conglomerates, which gives them more operating capital than Netflix, a standalone company. Some of these firms have access to more licensing rights and spending power and can use their spending power on live-streaming and original content.

Netflix does not currently provide live-streaming, which a weakness for the company. Many of the company's competitors offer live-streaming to subscribers. This is a disadvantage because consumers can seek out other services who do provide live-streaming for less than the price they pay for Netflix. The scope of competition with live-streaming capabilities that Netflix faces ranges from new streaming services to cable television companies. Many networks offer live-streaming through apps or websites if the cable subscriber logs in with their credentials.

Netflix is in significant debt and currently owes about $15.7 billion in streaming content obligations, with $13.3 billion due in the next three years (Ovide, 2017). Many firms in the entertainment industry have acquired significant debt, however, these competitors make enough to cover their costs. As Netflix adds more popular television series and movies to its regimen, it will also produce more original content in hopes to increase its subscriber base. Netflix believes that spending more money now will allow them to make more in the future to cover their costs. This could be a successful strategy as long as Netflix does not lose its dominance in the industry.

Piracy of movies and television shows has always existed, but is easier than ever to accomplish. This is yet to be a major threat for Netflix, however still affects company revenue, since some potential subscribers may take the route of illegally copying or viewing shows and movies rather than paying for Netflix.

A significant amount of Netflix's budget is used for licensing third party content from major producers. However, many of these production companies have increased supplier power and no longer need Netflix to supply their content to consumers. Netflix is having to pay more for rights and faces the risk of losing popular movies and shows to competitors.

Netflix is attempting to expand into international markets but has not been as successful as the company would like. Currently, Netflix has a presence in 190 countries, yet these subscribers only account for a little more than 50% of their subscribers. Subscribers from the U.S. account for 53 million of the total 109 million subscribers. Much of the issue that comes with international expansion is due to strict government programming regulations. Markets such as China, South Korea, and India could bring in significant revenue for Netflix, but their governments hold strict regulations on television and internet. In addition to this issue, Netflix would have to create more content that would appeal to people in these international markets.

SWOT Matrix

S-O: Netflix must use the entirety of its brand name to pursue global expansion opportunities. The company has done a masterful job of intertwining both visual and sonic elements into its logo mnemonic; the Netflix "boom-boom" is globally recognized and is a simple yet effective branding tool for the firm.

Netflix has been the global leader in online streaming services since it introduced streaming media in 2007. They must use that strength and expertise, along with the strength of their brand name, to venture into live-streaming services and dominate that portion of the industry.

W-O: Netflix is set to pay several billions over the next few years to debtors and toward licensing agreements for both original and outside content. Netflix can overcome this debt through global expansion efforts to increase partnerships and subscribers, allowing the firm to become more profitable over the long term.

Currently, Netflix is at a disadvantage in its industry due to consumers' preference for less expensive, quality, up to date content. They can overcome this weakness by ridding their catalog of older movies and updating it with recent content, which will allow them the opportunity to grow their subscriber base.

S-T: With many new entrants to the streaming services industry is facing the threat of losing major swaths of their market share. Netflix can use its 10 years of expertise to have the most effective on-demand and live-streaming service in the industry, reducing their vulnerability to losing subscribers to new entrants.

Netflix can use their budget-friendly price plans to cater to the varying income levels of their subscribers in order to neutralize the threat of competitors capturing more of the market share.

W-T: As more firms are entering the industry, Netflix is facing more competition for licensing agreements for content. In the event that Netflix loses a contract bid, they can agree to the rights for a cheaper contract and build momentum for the content through aggressive marketing strategies. This would prevent their weakness from becoming a threat of lost market share.

Netflix can discontinue its DVD service – which includes the purchasing of blank DVDs, copying content onto them, packaging, storing, and shipping them – and using that portion of the budget for other operating costs in order to prevent other firms from pulling ahead of Netflix.

Alternative Strategies

Based on the SWOT analysis, it would be in Netflix's best interest to consider these strategies for implementation.

Netflix has been the global leader in on-demand streaming services for over a decade. They have built a trusted brand name which they must use as an opportunity to introduce their live-streaming capabilities. Of the top firms in the industry, Netflix is the largest that does not offer this capability. Integrating live-streaming into its services would allow the firm to cater to the needs of existing and prospective subscribers, especially those looking to customize their members experience.

Walt Disney Studios announced that in 2019, the company will be launching an on-demand streaming service with live-streaming capabilities following shortly after. With its massive capital and strong brand name, Disney is going to immediately challenge Netflix for licensing contracts and market share. Netflix has solidified itself as the premier streaming service and has built strong connections with content providers – they must use this strength to gain momentum and more of the market share before Disney enters the industry.

As more firms are electing to enter the streaming service industry, Netflix will face even more competition for licensing agreements. Should they lose out on major contracts, it would significantly inhibit their ability to provide the quality content demanded by their subscribers, leading to a possible decline in overall subscribers. Netflix could prevent this weakness from becoming a threat by abandoning pursuit of expensive licensing agreements, instead opting for less expensive content that offers fresh plots and storylines. A portion of the money saved on the licensing contract could be used to formulate an aggressive advertising campaign to build momentum for the content.

Netflix's final alternative strategy is to completely gut their current catalog and refresh it with recent content, which would allow them to grow their subscriber base. Netflix's library features out-of-date content, which is a weakness in terms of attracting new subscribers. Netflix's consumers prefer inexpensive content but are willing to pay for quality. The firm could increase subscribers by replacing old seasons and movies with more up-to-date options.

Recommendations & Implementation Strategy

Primary Recommendation

With many video streaming options available, Netflix needs to find more ways to differentiate themselves from their competitors. We would recommend Netflix enter into the live-streaming market in conjunction to their on-demand streaming market. Our primary strategy is for Netflix to use their expertise in streaming services and their strong brand name to help them expand into the live-streaming sector. Currently, Netflix only has previously aired shows, however they do not have the newest episodes, which is a big disadvantage. Live-streaming shows as they air on television networks would help Netflix retain subscribers who consider the option of utilizing a competitor such as Hulu to complete their binge watching.

In order for Netflix to implement this strategy, they would need to contact television providers, such as ABC or CBS to submit a proposal for a partnership that allows them to live-stream shows. Netflix would need to have sufficient funding which could be collected by raising their prices. Netflix would also need to update their system so they are capable of live-streaming. The expected time it would take for Netflix to establish and complete the agreement would be one year.

In order for this strategy to be effective, Netflix would likely need to establish a partnership with a major company or television network. This would be an expensive strategy to pursue due to financial situation with debt. The strategy would lead to fierce competition between streaming services that currently provide live-streaming of shows, for example, Hulu. This intense competition could potentially cause price competition that Netflix potentially would not be able to handle.

Many subscribers go to Netflix to binge watch, however at this time, they are not able to completely finish their binge because they have to wait for new seasons to be posted. This new strategy will help Netflix retain their subscribers and improve their members' experience. By providing live-streaming, consumers will be less likely to venture off to different competitors. They will contribute to customer loyalty which will give original content more views.

Secondary Recommendation

Netflix has been focused on its streaming service since 2007. While very established in the industry, they are continually trying to maintain competitive advantage. The secondary strategy would be for Netflix to use their strong position in the industry to help alleviate the threat of Disney's new streaming platform, arriving in 2019. Netflix will need to distribute content that similar to Disney's and will appeal to this consumer segment.

In order to implement this strategy, Netflix will need to contact their suppliers to compare their pricing options. They will need to determine whether purchasing content from suppliers or producing their own content relative to Disney's will be more cost effective. Netflix will need prepare sufficient funds to invest in either purchasing or producing new content. An additional resource required is data that tracks consumer preferences. This will ensure that the new investment will contribute to their members' experience. Disney will be a large threat to Netflix starting in 2019. Netflix will need complete the tracking of consumer preferences by 2018 so they can implement their strategy by 2019.

It will be difficult and expensive for Netflix to produce content that will be similar to what Disney produces. Disney is such a diverse and large company that can invest significant funds into their content. In addition, Disney holds a very strong market position in their industry, making it easier for them to begin a successful streaming service. However, Disney is very cautious about their brand image because they must maintain their family friendly reputation. Their content is already very limited due to their restrictions. They do not introduce or distribute many of the things Netflix does, such as adult comedy, horror, dramas, documentaries, and sci-fi.

This weakness for Disney is an advantage to Netflix. Disney is taking content away from Netflix, but Netflix has the opportunity to produce original content relative to Disney's. The content library that Netflix offers is so diverse, which attracts a wide consumer base.

Conclusion

Netflix is a successful streaming company that has started to put more of a focus onto its own original content in response to expensive licensing agreements. Implementing backwards vertical integration has given Netflix more supplier bargaining power.. Currently, Netflix is focusing on global expansion, members' experience, and a user-friendly interface. The company entered the market as a low-cost provider, but has since adopted a broad differentiation strategy with the production of Netflix Originals, shown based on consumers' geographical locations. While Netflix's stock price has increased over the years, the company has found itself in an increasing amount of debt. Despite this debt, Netflix still sees potential growth in the years to come. Netflix is successful at enhancing its value chain and managing resources to create a sustainable competitive advantage and the company's core competency is the ability to provide the best content conveniently and in a user-friendly way. The industry in which Netflix competes is very competitive, has powerful suppliers, high buyer power, high threat of new entrants, and a low threat of substitutes. Netflix faces political and legal forces that challenge them when entering international markets however, these markets are an opportunity for the company. Issues that Netflix faces include the threat of new entrants, not providing live-streaming, significant debt, piracy, and the struggle to expand internationally. The primary recommendation is for Netflix is to use their expertise in streaming services and brand name recognition to expand into the live-streaming sector. Netflix should establish a partnership with a major television provider in order for this strategy to be successful. The secondary strategy Netflix should consider is using their strong position in the industry to alleviate the threat of Disney's new streaming platform. Netflix can use its expertise in producing original content to create shows and movies that are tailored to and relate to the same viewers that Disney has.

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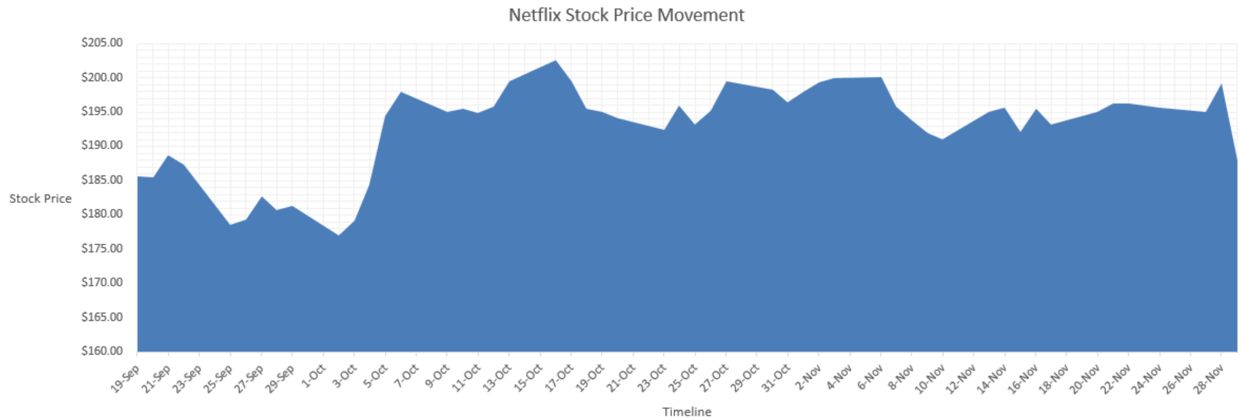
Appendices

Netflix Stock Price Volatility (9/19 - 11/29)



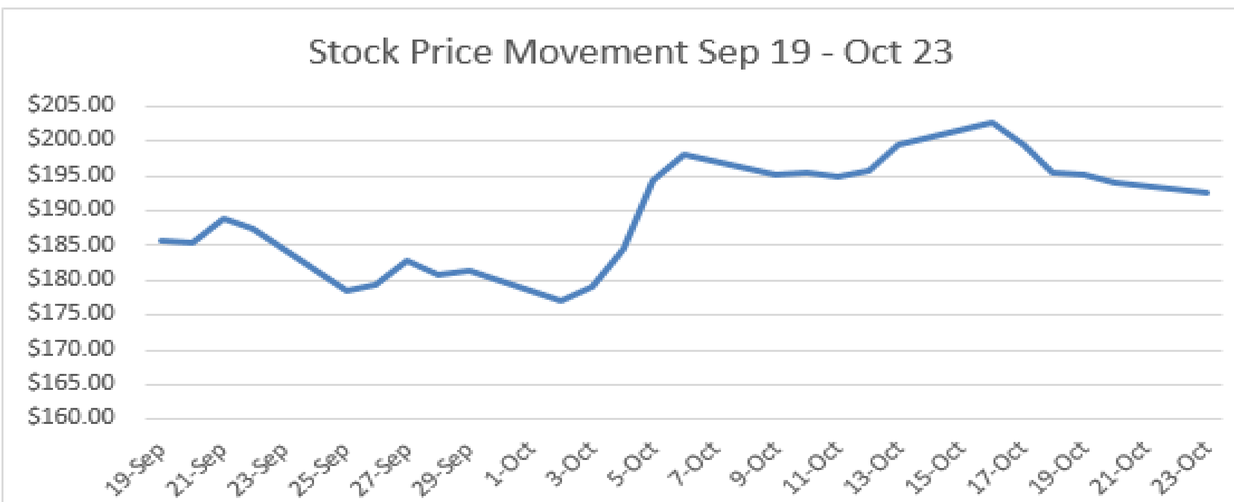


Figure 1.1: Streaming Options

	Basic	Standard	Premium
Monthly price after free month ends	$7.99	$10.99	$13.99
HD available	✖	✔	✔
Ultra HD available	✖	✖	✔
Screens you can watch on at the same time	1	2	4
Watch on your laptop, TV, phone and tablet	✔	✔	✔
Unlimited movies and TV shows	✔	✔	✔
Cancel anytime	✔	✔	✔
First month free	✔	✔	✔

Figure 2.1: VRIO Analysis

Resource/ Capability	Valuable?	Rare?	Costly to Imitate?	Exploited by Org?	Competitive Consequences?	Performance Implications?
User Experience	Y	Y	Y	Y	Sustainable Competitive Advantage	**Above Average Returns**
Streaming Capabilities	Y	N	-	Y	Competitive Parity	Average Returns
Pricing Model	Y	N	-	Y	Competitive Parity	Average Returns
Brand Image	Y	Y	Y	Y	Sustainable Competitive Advantage	**Above Average Returns**
Netflix's Partnerships	Y	Y	Y	Y	Sust Comp Adv	**Above Average Returns**
Pricing Power	N	-	-	N	Competitive Disadvantage	Below Average Returns
DVD by mail service	N	-	-	Y	Competitive Disadvantage	Below Average Returns
Large amount of cash and equivalents	Y	Y	Y	Y	Sust Comp Adv	**Above Average Returns**
Total Debt	N	-	-	Y	Competitive Disadvantage	Below Average Returns
Content Library	Y	Y	Y	Y	Sust Comp Adv	**Above Average Returns**
Current Market Share	Y	Y	Y	Y	Sust Comp Adv	**Above Average Returns**
Subscriber Count and Growth	Y	Y	Y	Y	Sust Comp Adv	**Above Average Returns**

Figure 2.2: Streaming Service Value Chain

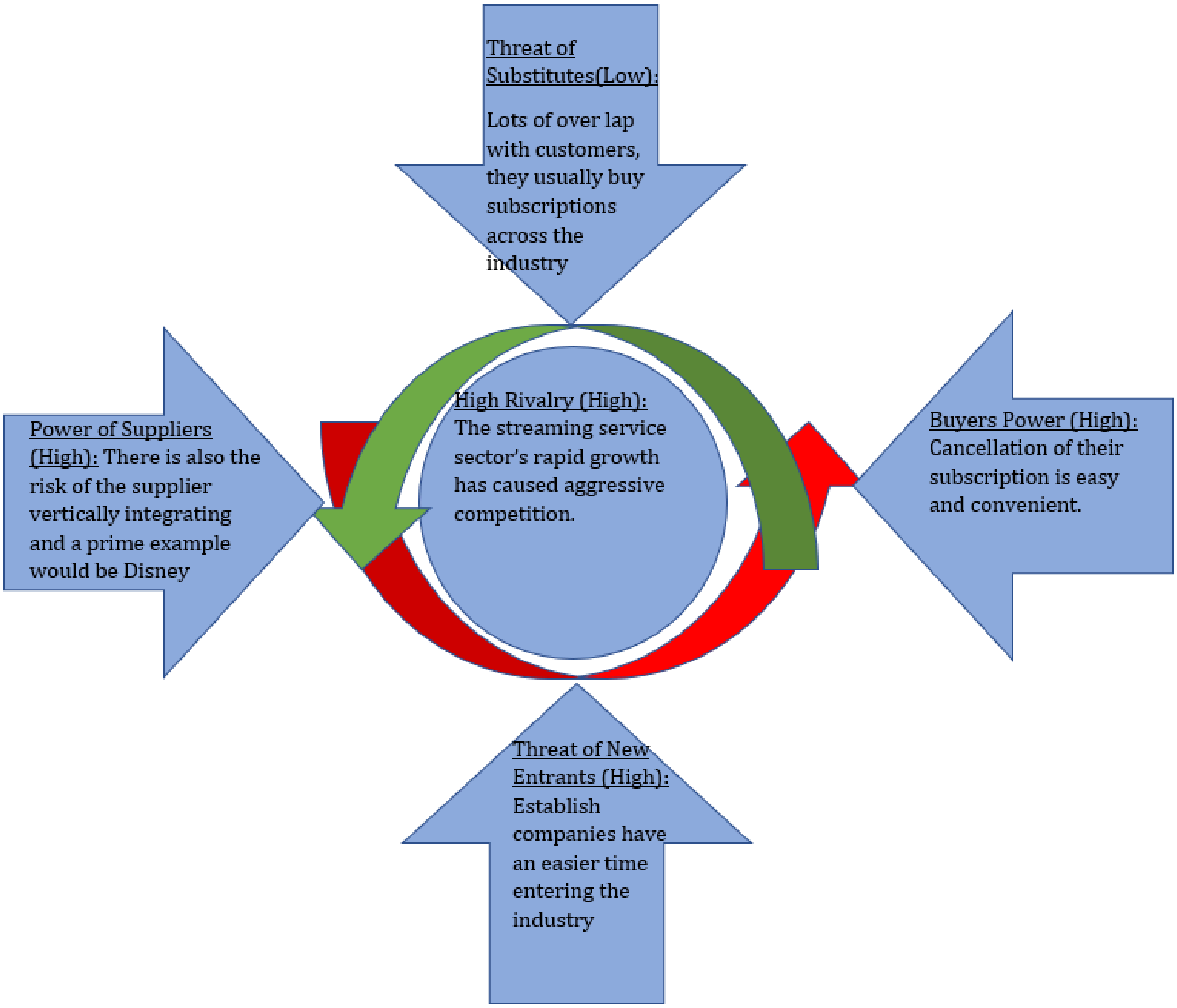
Primary Activities	Information Moving From Top to Bottom
Inbound Logistics	Licensing fees from producers, production fees for original content,
Operations	AWS to store content and prepare for distribution
Outbound Logistics	CDN, website, mobile app, partnerships
Marketing and Sales	Word-of-mouth, online advertising, TV advertisements, 2017 Q3 cost: $312,490,000
Service	3 subscription options, “recommended for you” section, Free-trial period

Support Activities	Information Used to Assist Primary Activities
Firm Infrastructure	Netflix Nerds, Functional Internal Structure
HR Management	Unique benefit plans, competitive pay, charitable donation match
Technology Development	Second Screen, Improving “Recommendation” algorithm, 2017 Q3 cost: $255,236,000, Virtual Reality
Procurement	Licensing fees for the rights to content

Figure 2.3: DVD Service Value Chain

Primary Activities	Information Moving From Top to Bottom
Inbound Logistics	Licensing fees from producers, production fees for original content
Operations	Storing, cleaning, packaging discs, operating the factories that have them stored
Outbound Logistics	Guaranteed 2-day shipping,
Marketing and Sales	Word-of-mouth, online advertising
Service	3 subscription options, one-month free-trial period

Support Activities	Information Used to Assist Primary Activities
Firm Infrastructure	Netflix Nerds, Functional Internal Structure
HR Management	Unique benefit plans, competitive pay, charitable donation match
Technology Development	2017 Q3 cost: $255,236,000, Virtual Reality, Improving “Recommendation” algorithm
Procurement	Licensing fees for the rights to content


Threat of Substitutes(Low):
Lots of over lap with customers, they usually buy subscriptions across the industry
Power of Suppliers (High): There is also the risk of the supplier vertically integrating and a prime example would be Disney
High Rivalry (High): The streaming service sector's rapid growth has caused aggressive competition.
Buyers Power (High): Cancellation of their subscription is easy and convenient.
Threat of New Entrants (High): Establish companies have an easier time entering the industry