Case Study: NetFlix

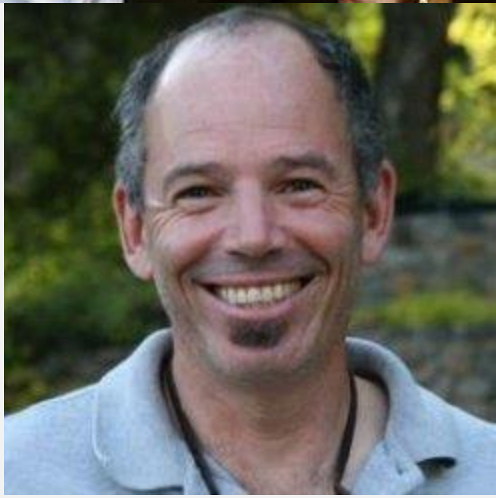
Company Profile

Netflix is the world's leading Internet television network with over 50 million members in nearly 50 countries enjoying more than two billion hours of TV shows and movies per month, including original series. For one low monthly price, Netflix members can watch as much as they want, anytime, anywhere, on nearly any Internet-connected screen. Members can play, pause and resume watching, all without commercials or commitments. - http://ir.netflix.com/

- Netflix is an American company that supplies on-demand internet streaming media available to viewers in North America, South America, and parts of Europe,
- Founded in 1997 in Scotts Valley, CA by Reed Hastings, and Marc Randolph as a pay per rental of flat rate DVD's model through the mail at $.50 a rental, with no late fees
  - Started with 30 employees, and 925 titles
- They continue that service for now in the United States.
- Started subscription based service in 1999
- In 2005, 35,000 different film titles were available, and Netflix shipped 1 million DVDs per day.
- In 2009, they reached 10 million subscribers and had over 100,000 titles on DVD
- Netflix is considered one of the most successful start ups ever
  - In 2000 offered to sell out to blockbuster for $50 million but BlockBuster turned the offer down.
  - The rest of the story is that Netflix put Blockbuster out of business.
- Revenue in 2013; $4.37 billion
- Market Capitalization in November 2014 of $23.2 billion

Founders

- Reed Hastings
  - A Math teacher that founded Pure Software which sold for $700 million in 1997.
  - Made an initial $2.5 million investment in Netflix
  - Claims that he came up with the idea after receiving a $40.00 late fee returning Apollo 13



- Marc Randolph
  - Worked with Reed Hastings at Pure Software
  - Founding CEO of Netflix –left in 2002 and left board in 2004.
  - Co-founder of MicroWarehouse, a computer mail order company;
  - later employed by Borland International as Vice President of Marketing
  - “the story his cofounder Reed Hastings tells about the company's founding isn't exactly true.”
    - http://www.businessinsider.com/netflix-forgotten-cofounder-marc-randolph-2012-10

Netflix Business Model Canvas - http://investazor.com/2013/11/15/netflix-saga-part-1-understanding-business-model/

Key Partners 8
Who are our Key Partners

- Internet providers
- Television networks
- Motion picture studios (Universal, Fox, etc.)

3

Key Activities 7
What Key Activities do our Value Propositions require

- Providing content
- Improving streaming platforms
- Marketing

3

Key Resources 6
What Key Resources do our Value Propositions require

- Top-quality streaming media infrastructure
- Licences for content
- Original own-produced content

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Value Propositions 2
What value do we deliver to the customer?

- Newness
- Convenience / Usability
- Customization
- Price

4

Customer Relationships 4
What type of relationships do our Customer Segments expect?

- Acquisition
- Retention
- Automated Services

3

Channels 3
How do we reach our Customer Segments?

- Online advertising
- Broad-based media(TV and Radio)
- Various strategic partnerships

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Customers Segments 1
Who are we creating value for?

- Mass Market
- -domestic
- -international

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Cost Structure 9
What are the important costs inherent in our business model?

- Technology&development
- Marketing
- Licenses (the price for the exclusive content)

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Revenue Streams 5
What value are our customers willing to pay for?

- Monthly no-commitment membership fee

1

A Changing Business Model

- Blockbuster and other vendors would rent video tapes to homeowners who would need to return them or incur a late fee.
- Videotapes were later replaced with DVD’s but the model of rental remained the same.
- Netflix introduced a business model in which DVD’s were mailed to subscribers and there were no late fees. Viewers no longer had to go to a store to get the disc. Blockbuster went bankrupt.
- Digital delivery of Video then began to displace video disc mailing and video was delivered over he network directly to the viewer.
- Netflix managed to get through this change in business models –at least to this point.

- Investment in streaming process
  - “For every additional dollar invested in new streaming content Netflix brought in 4 subscribers more”(Investazor)
- 2. Continuous Service Improvements
  - Enhancing member’s retention and satisfaction by refining the user experience (i.e.minimizing loading and buffering times)
- 3. Expanding Internationally
  - International expansion strategy is costly because Netflix not only invests in improving user interfaces, but also in setting up new online infrastructure outside United States
  - “International subscribers market share went from 13% at the end of September 2012 to 21% at the end of September 2013, which is a 58% growth”(Investazor)

Value Chain

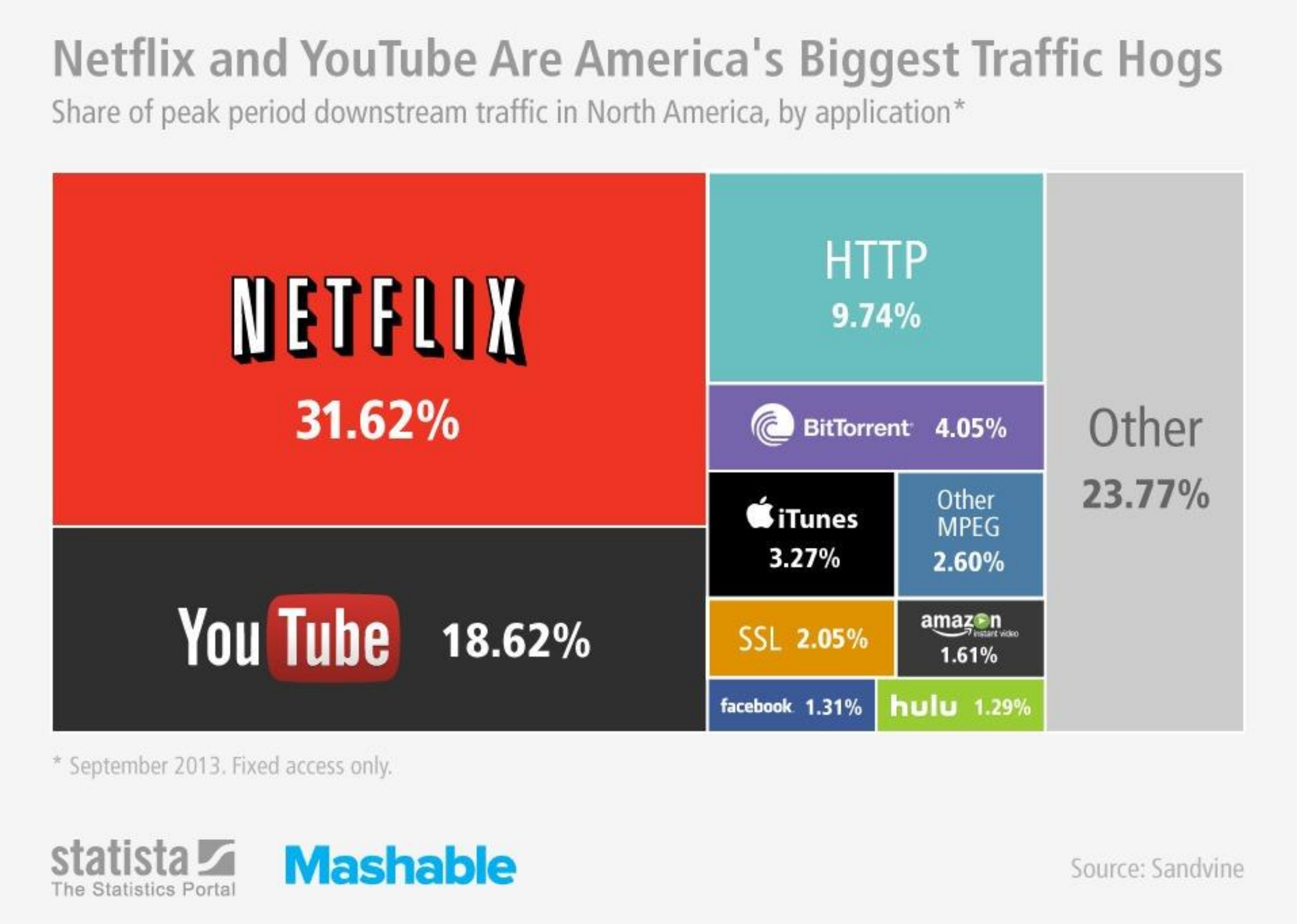
- 1. Inbound Logistics (inputs)
  - Gaining licensing of popular tv/movie titles
- 2. Operations
  - Building, managing website
  - Improving streaming platform
- 3. Outbound Logistics
  - Making sure servers, and website function properly
- 4.Marketing and Sales
  - Online, Television advertising
  - month free trial
- 5. Service
  - Maintaining customer relationships by providing top rate titles and website functionality (speed, usability, customer service)

Competitors

- Hulu: 7.99$ per month (Hulu),
  - In 2007, NBC and Fox—joined, two years later, by ABC—created Hulu, a Web site that lets viewers watch current and many past television shows but is subsidized by the same complement of commercials seen on broadcasters' Web sites.
  - Five million viewers subscribe to Hulu Plus, which, for eight dollars per month, offers more current content and past shows, on multiple devices and with fewer commercials.
- Amazon Prime: costs $79 a year or $6.60 per month)
  - The advent of the Internet and streaming video brought new competitors. In 2011, Amazon made its streaming-video service, Instant Video, available free to every customer who signs up for its Amazon Prime program, which, for seventy-nine dollars a year, also provides free two-day shipping.
  - The arrangement inverts the traditional advertising model: instead of forcing you to view commercials, video is the gift you get for shopping.
  - Amazon Prime subscribers number about twenty million, although the number of those who are Instant Video viewers is certainly smaller.
  - Last fall, Amazon released its first original series, "Alpha House," created by Garry Trudeau.
- YouTube -owned by Google:
  - A billion unique visitors watching six billion hours of video every month. Ynon Kreiz, the executive chairman of Maker Studios, the world's largest provider of online content, noted that its series "Epic Rap Battles of History," broadcast on YouTube, and which offers comical face-offs between, say, a faux Miley Cyrus and Joan of Arc, attracts on average forty million viewers—almost four times the viewership of the finale of AMC's "Breaking Bad."
- Netflix competes both on its brand and on the fact that it has an extensive content library.
- Netflix now offers in-house produced content such as "House of Cards."

Statista's chart, which uses data from Sandvine's Global Internet Phenomena Report,

-shows which shares of U.S. downstream web traffic can be attributed to different properties



Looming Challenges

- Not enough money for Exclusive content
  - House of Cards and Orange is the New Black are top offerings but
  - Not enough money to make exclusive content
  - Licensing of popular TV series can be expensive
  - Competitors - Amazon and Google are providing cheap alternatives
- It may be expanding Internationally too fast
  - Setting up the infrastructure to stream world wide is a costly process
  - Potential issues in content because they have to now get licensing for new shows
  - They have to add these shows to make these new international clients satisfied with service

References

- http://en.wikipedia.org/wiki/Netflix
- http://ir.netflix.com/
- http://www.newyorker.com/magazine/2014/02/03/outside-the-box-2
- http://investazor.com/2013/11/15/netflix-saga-part-1-understanding-business-model/

Key Questions

1. What are some important strategic alliances Netflix has built and why are they key to Netflix success? How does this enhance or detract from expanding internationally?

2. Are there any other customer interfaces Netflix can use besides mail, and streaming online through the internet?

3. Why did Blockbuster fail while Netflix prospered? Was is unsound economics, a misread of consumers, or just disruptive innovation?

4. Has Netflix created a sustained competitive advantage? Will it last?