Strengths and Weaknesses of Netflix

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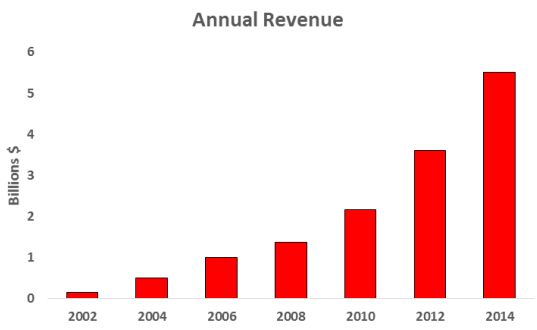
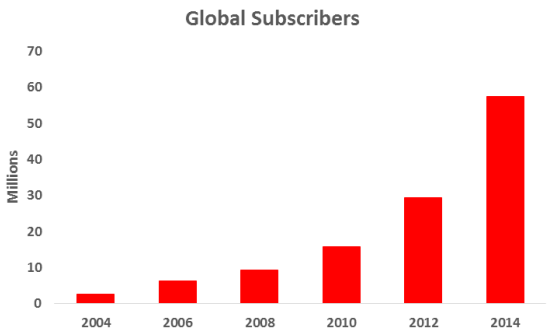
Introduction

Profile. Netflix (NF) has revolutionized video rental and the way consumers watch film and TV. Founded in 1997 as a flat-rate DVD-by-Mail service, its founder quickly transformed NF into a media provider that broke conventional business standards. The company started offering a subscription-based service in 1999 and developed a unique pricing scheme which offers unlimited flat-rate rentals without due dates, late fees, or shipping and handling fees.[1] Unique customer relationship systems built to enhance user recommendation and queueing, as well as implementation of on-demand internet streaming with original content, helped NF establish a strong brand and propel itself to international success. The firm has currently surpassed 50 million subscribers in over 40 countries and its total revenue exceeds $5B.





Overview of strengths and weaknesses. The meteoric success of NF may be attributed partly to its successful organizational strategies. NF has been able to provide unique customer experiences from its inception as a convenient and cost-effective video service to its domineering position in the on-demand internet streaming market. The company has proven incredibly successful at both market penetration and online market development. At the heart of this success lies the firm's overwhelming internal strengths:

Strengths	Weaknesses
Brand recognition/equity	Unavailable titles
Organizational culture	Only offers films
Market share	Reliance on mail carriers
Compatibility	Low pricing power
Responsiveness	Release date window
Long-tail model	Contracts with providers
Loyal target markets	

NF has adopted three main competitive strategies: low cost, responsiveness/flexibility, and differentiation of content offerings. The firm's biggest weakness may be its limited selection of popular titles, but overall

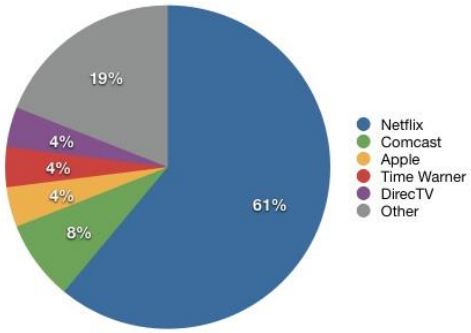
[1] http://en.wikipedia.org/wiki/Netflix

NF's weaknesses pale in comparison to its strengths and the company is stronger than its rivals in several ways.

Analysis of strengths

Brand recognition and loyal target markets. The firm's iconic red envelope is widely recognized by the general public and has been a staple item for every USPS mail carrier for nearly two decades. NF has achieved first-mover advantages when it entered the internet streaming market in 2007 along with competitors Hulu and Amazon, and has solidified a loyal customer base to this day. NF has experienced extremely fast growth through excellent service and operational effectiveness. The company's DVD business unit has separated NF from its competitors. Older customers who were attracted to NF's original distribution model still tend to prefer traditional styles of video entertainment and utilize NF's broad selection of DVDs to find the specific titles they desire. Moreover, NF survived the dot-com crash and possesses valuable market experience compared to rivals such as Hulu. Export development will increase NF's strong and persistent presence – it has aggressively expanded to over 70 countries, including 16 of the 18 highest GDP nations.[2]

Market share. The firm's majority claim of the online streaming market is not only a sign of its long-term strategic and operational success but perhaps its commitment to satisfying customer expectations and developing a strong market orientation. Since 1997, NF has been able to collect and analyze vast amounts of consumer data to help continuously improve service and create customer value for its target segments. Access to such a large share of consumer preference data has provided a competitive advantage.



The above chart shows how 61% of online movies were downloaded or streamed by NF users in the U.S.[3] Additionally, 63% of respondents surveyed by PricewaterhouseCoopers used NF to access online TV content compared with 35% for Hulu and 28% for Amazon.

Compatibility and responsiveness. Being able to deliver content across multiple platforms in a timely manner is key to success in a competitive environment. NF not only retains its core business model of flat-rate DVD delivery, which rivals do not offer, but it manages this service with efficiency and outstanding customer service. According to NF, most customers receive next-day delivery but may sometimes wait two or three business days. A remarkable point of difference for NF's streaming service is

[2] www.nscreenmedia.com
[3] www.npd.com

its compatibility with a wide variety of platforms such as TVs, tablets, game consoles, media players etc. which rivals such as Amazon lack.

Organizational culture. Reed Hastings, the founder and CEO of NF, has emphasized the importance of harnessing a high performance culture to achieve competitive advantage and spur innovation. He has created a culture which he claims adheres to the firm's explicit core values of freedom, responsibility, judgment, communication, passion, and curiosity to name a few.[4] The company strives to hire the best talent, offer them top compensation, and allow them to freely express their opinions and work on independent projects. Although the company's standard business process are effective, the organizational culture acknowledges that processes can limit the individual's capacity to be innovative and proactive, so a philosophy of not enforcing processes exists. It is perhaps the company's strong attraction of talented and like-minded individuals who are strategically "aligned, but loosely coupled" which has kept NF on the rise for nearly two decades.

Brand equity and long-tail selection. The value NF has realized from its brand extends beyond the recognition of the name and service itself. The company has bolstered brand equity by developing its own award-winning production unit which has licensed out popular original content and increased customer loyalty. NF also offers a wide selection of titles including many independent and obscure offerings that have made its long-tail model a unique point of difference compared to competitors. According to various sources such as MoneyCrashers.com, NF maintains the largest overall content library which far surpasses those of Hulu Plus and Amazon Prime.

Analysis of weaknesses

Low pricing power. NF offers low-cost services but not at a competitive advantage. The availability of many respectable substitute providers offering similar competitive prices increases the buying power of consumers. The most controversial example of this low pricing power was when a 2011 price-hike resulted in the loss of over 800,000 customers.[5]

Unavailable titles, long release date window, *and limited to films.* Many titles remain unavailable for a long and seemingly indefinite amount of time and users have to wait nearly one month to access new releases, whereas Hulu and other rivals can provide content much sooner. NF does not provide other forms of media, such as video games and e-books, which may highlight a potential gap.

Contractual restrictions and limited streaming content. NF offers a very wide range of titles in DVD and streaming formats but the selection is far from exceeding consumer expectations. NF simply cannot afford to provide online access to many in-demand titles.[6] The company has lost out on several deals to broaden content selection and is also restricted by existing contracts. Consequently, it is unable to flexibly expand its online offerings to exceed customer expectations. Expiring contracts may pose setbacks as well.

Shrinking DVD segment and reliance on mail carriers. The fact that NF incurred zero marketing expenses for its DVD unit in 2014 is a sign that the company is focusing almost completely on streaming services.[7]

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[4] http://recombo.com/2013/02/netflix-business-processes/
[5] http://www.bloomberg.com/news/articles/2011-10-24/netflix-3q-subscriber-losses-worse-than-forecast
[6] http://www.bloombergview.com/articles/2014-01-14/netflix-is-caught-between-a-dvd-and-a-hard-place
[7] http://www.theguardian.com/media/2014/jul/22/netflix-dvds-mail-subscription

Yet, there still exists slightly over 6 million DVD subscribers – down from roughly 15 million subscribers in 2011. Physical formats like Blu-Ray do provide superior audio and visual quality but the future of the DVD service remains uncertain. Reliance on mail carriers is an added cost and delivery on weekends has been abolished.

Concluding remarks

The reality is that NF is shifting its business portfolio towards online streaming services to reduce costs and capitalize on future trends. Its DVD subscriber base has been falling for many years and may continue to do so. Aggressive international expansion will tie up resources but the company's scalability is improving as it continually decreases marketing expenses and cost of revenue.[8]

[8] http://iveybusinessreview.ca/blogs/lbolukhba2010/2014/07/22/checking-netflixs-economies-scale/