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Netflix : Company Analysis

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ABSTRACT

This paper ventures to explain the impact that video streaming technology and how the video streaming service offered by Netflix have made an impact in today's consumers as well as the entertainment industry.

By taking Netflix as a case study I seek to understand how the technology works and how it has turned into such a success among users. The service offered by this website has re-shaped the way users consume media as well as how the entertainment industry approaches its intended market.

How does Netflix acquire new content for its website? Is anyone responsible for regulating the service. How is this affecting the user, is the offer of Spatial and Platform Mobility really benefiting our lives or is it just turning us into isolated beings that are willing to sacrifice social experiences in order to watch content in a smaller screen.

KEYWORDS: Netflix, Video streaming, Internet, Websites

NEED OF STUDY

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By taking this as my case study I want to dig deeper to understand what is it key behind the success of the present day video streaming giants. What is it that makes video streaming better than TV?

With the help of this paper we will look into various marketing and endorsement strategies used and who is the target audience. We will get a closer look into the employee policies, capital investments, share value and the profitability of the company.

OBJECTIVES OF STUDY

- Evaluation of the finance and revenue of the company over the years.
- Sales and marketing strategies of Netflix.
- International Expansion
- Competitor analysis
- Legal issues and controversies of Netflix
- Hypothesis of future aspects of Netflix.

INTRODUCTION

Video streaming: Streaming video is content sent in compressed form over the Internet and displayed by the viewer in real time. With streaming video or streaming media, a Web user does not have to wait to download a file to play it. Instead, the media is sent in a continuous stream of data and is played as it arrives.

Broadband: Broadband is a high-capacity transmission technique using a wide range of frequencies, which enables a large number of messages to be communicated simultaneously.

Video Streaming and broadband connections help users around the globe download and watch large video files from the comfort of their homes. Taking advantage of this technology, the American company Netflix launched a video streaming website on 2009 where users could watch the most recent Television episodes and Hollywood Blockbusters. Netflix changed content consumption models in the entertainment industry and led to the disappearance of the mainstream video rental store in North America.

For today's audiences it's all about immediacy and mobility, the content they are looking for must be just a click away to fit their needs. Now everything is possible. Maybe you want to watch an episode of your favourite show when you are traveling, or maybe each member of your family wants to watch something different in a separate room of the house.

If we want to fully understand the impact of video streaming in society and the entertainment industry we must first look at the technological advancements that paved the road so companies and services like Netflix, iTunes or Hulu could become successful.

1. **From dial up to broadband:** In the early stages of the Internet, a Dial-Up connection was necessary in order to start browsing the web. The user would use a telephone network to establish a connection with the Internet Service Provider. A modem attached to the user's computer would encode and decode information. However, downloading a large data file would be nearly impossible, as a three-minute video would probably take a few hours to download. With the appearance of computers and broadband technologies, the Internet started to acquire status as a place where you could find more and more videos. Broadband solutions such as DSL and cable modems provide greater speed and volume; as a result we are presented with faster and clearer transmission. With high-speed Internet connections, audio and video are largely free of interference, a huge leap away from the dialup connection era.

2. **Streaming videos- Connections in digital age:** Long gone are the days where movie enthusiasts started a DVD or VHS collection and showed it proudly to visitors. With streaming technology and online movies when you buy something you don't really own it. Now everything resides within a cloud storage service where we have a false sense of belonging.

3. **A new way to tell stories:**Whenever a new technology is introduced in the market, both industries and consumers make changes in order to adapt to it. Digital delivery of movies has affected the way we watch movies by transforming the living room into our own personal movie theatre. Social Media now influences how we promote, discuss or share our thoughts on the media industry new releases. Now the screen has become mobile, individual spectators are now capable of watching their personal library of films, television shows and videos wherever they wish, from crowded subway trains to treadmills at the gym. Movies are shifting from a social experience to a mean to fill time in public spaces, to alleviate the boredom of waiting for time to pass, easing the potential discomfort of being alone in public. This shift we are witnessing can be referred as an **"Inter-media fragmentation".**

4. **The audience:** For some people, activities online have become more important that their "offline" lives; constant status updates and tweets seem to come first than other daily activities. We appear to be plugged-in; we are becoming more and more technological dependent as time goes by. For today's audiences,

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everything has to be instant, and everything has to be now or never. The entertainment industry is always adapting to the audience's needs.

STORY OF NETFLIX

Netflix is one of the most successful companies to emerge in the last 10 years. The proliferation of video content on the internet has made the company Netflix an obvious success story. Netflix is one of the greatest underdog success stories at the crossroads of technology and television.

What started as a DVD-by-mail rental service has now spawned a slew of award winning tv series. Reed Hastings was born in Boston, Massachusetts on October 8, 1960, to Joan and Wilmot Hastings. His father was a lawyer who later worked for the Nixon Administration. After college, he joined the Peace Corps to teach high school math for two years in Swaziland, an experience he's called "a combination of service and adventure." After returning to the States, Hastings earned his master's in artificial intelligence at Stanford. He credits the school with turning him on to the entrepreneurial model. Interestingly enough, Stanford's graduate school of business named Netflix the 2014 Entrepreneurial Company of the Year. The idea for Netflix came after Hastings was charged a $40 late fee for an overdue rental from Blockbuster.

Ironically, Hastings offered to sell forty-nine percent of Netflix to Blockbuster in 2000 to act as an online arm for the video-rental giant. Blockbuster turned them down and Hastings returned home to promote Netflix as the rental underdog. Five years later the tables turned. By 2005, Netflix had 4.5 million subscribers and counting, beating out any online efforts made by Blockbuster. During this time, Hastings, his wife Patty, and their two children were renting a house outside of Rome and he was commuting to Silicon Valley two weeks out of every month. Netflix continued to grow into the online marketplace by offering on-demand streaming services – by 2010 it had 16 million subscribers. After a brief separation of the DVD rental and on-demand streaming portions of Netflix in 2011, Hastings re-joined the twoafter he regretfully admitted the division was a mistake.

In 2013, Hastings moved Netflix into uncharted territory when it premiered its first original television series, "House of Cards." The show was nominated for a staggering nine Primetime Emmy awards and went on to win three – rivaling a number of traditional shows. By the end of that year, Netflix’s stock had tripled in value. Today, Hastings's net worth is $1.54 billion according to Forbes, most of which is tied to Netflix stock.

Outside of Netflix, he's a board member on a handful of organizations, including Facebook since 2011, and is still active in education philanthropy. According to his Facebook page, he also enjoys trips to Monterey with friends and family and is close with the Zuckerbergs.

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NETFLIX

RESEARCH DATABASE

1. **Name of firm:** Netflix
2. **Type of business:** Public
3. **Founded on:** August 29th, 1997 California U.S.A
4. **Founder:** Reed Hastings, Marc Randolph
5. **Industry:** Entertainment
6. **Area served:** 190 countries
7. **Products and Services:** Streaming media, Video on demand, Film production, Film distribution, Television Production.
8. **Employees:** 3500 (2016)
9. **Users:** 109.25 million worldwide.

10.Website: www.netflix.com

11.Revenue: US $8.83 million

12.Operating income: US $380 million

13. Net income: US $187 million

14: Total Assets: US $13.6 billion

15. Total Equity: US $2.7 billion

16. Alexa Rank: 32 (2017)

FINANCE AND REVENUE

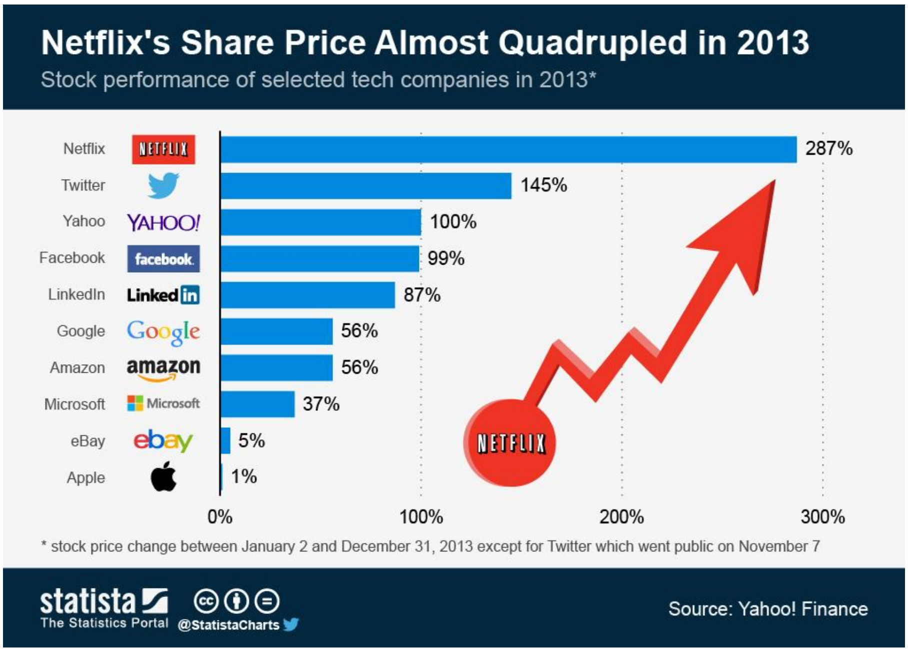
Let us take a closer look at the financial performance of Netflix in the following years.

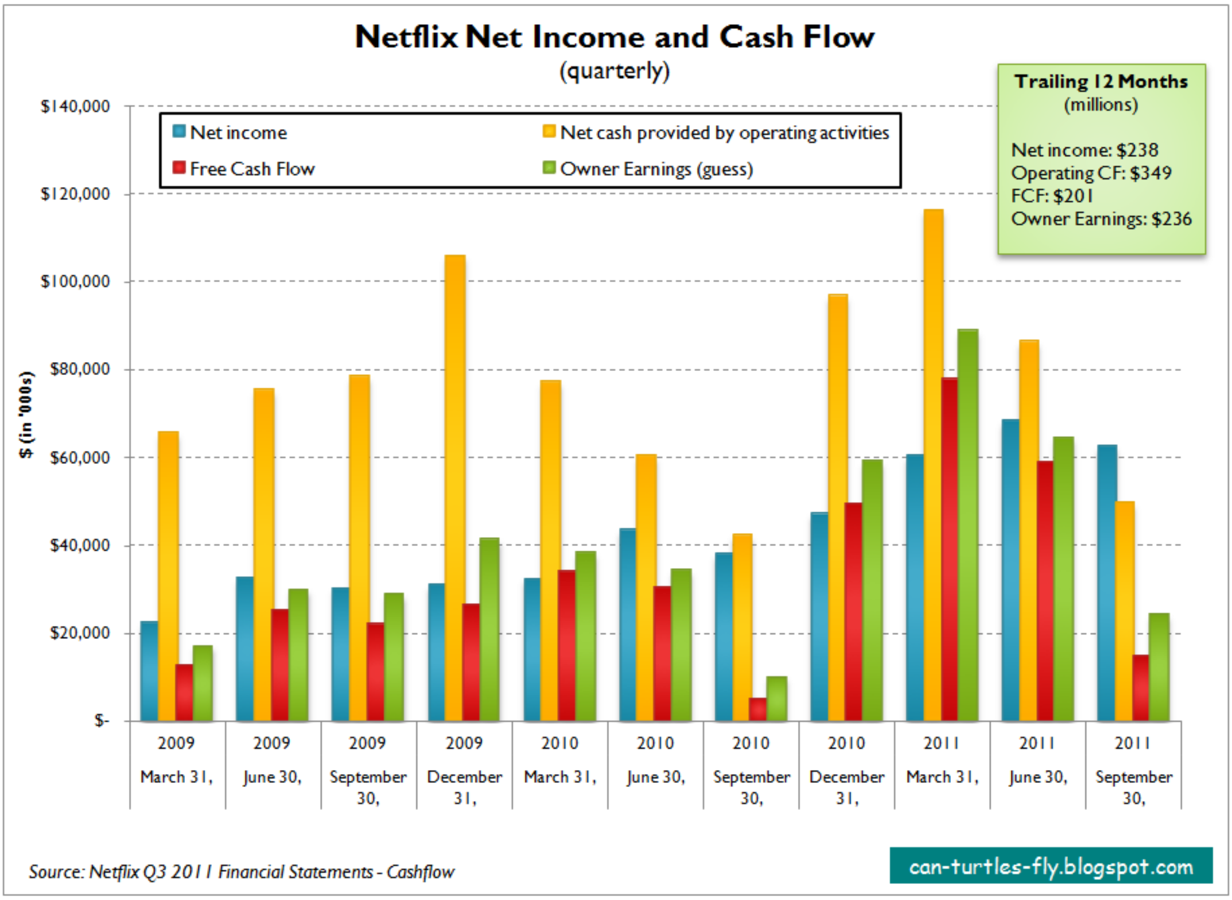
2010: In 2010, Netflix's stock price increased 219% to $175.70 and it added eight million subscribers, bringing its total to 20 million. Revenue jumped 29% to $2.16 billion and net income was up 39% to $161 million.

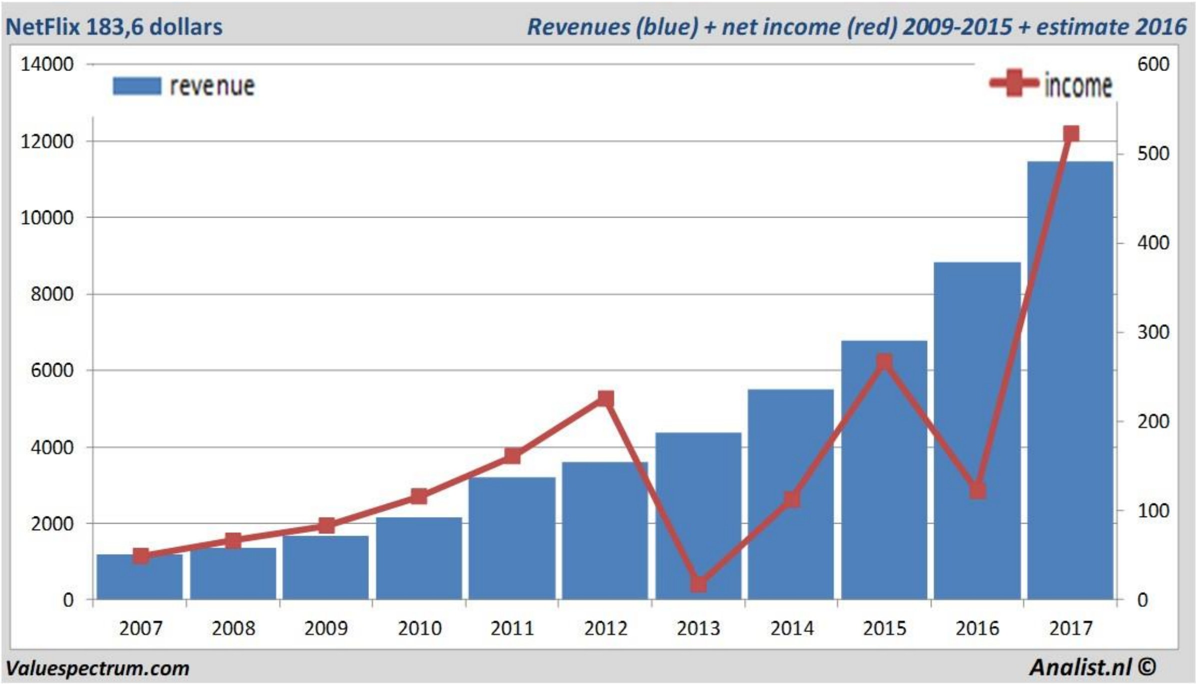
2011: In April 2011, Netflix was expected to earn $1.07 a share in the first quarter of 2011 on revenue of $705.7 million, a huge increase compared to the year-earlier profit of 59¢ on revenue of $493.7 million, according to a survey of 25 analysts polled by FactSet Research. At their peak, in July 2011, Netflix shares were trading for $299. Following the customer dissatisfaction and resulting loss of subscribers after the announcements by CEO Hastings that streaming and DVD rental would be charged separately, leading to a higher price for customers who wanted both (on September 1), and that the DVD rental would be split off as the subsidiary Qwikster (on September 18), the share price fell steeply, to around $130. By December 2011, as a consequence of its decision to raise prices, Netflix had lost over 75% of its total value from the summer.

2014: In May 2014, Netflix increased the fee for UK subscribers by £1. Netflix applied similar increases in the United States (an increase of $1) and the Eurozone (an increase of €1). According to Forbes "Netflix can add roughly $500 million in annual incremental revenues in the U.S. alone by 2017 with this move" and "roughly $200–250 million in incremental revenues from price changes in international markets".

2016: In April 2016, Netflix announced it would be ending a loyalty rate in certain countries for subscribers who were continuously subscribed before price rises. Netflix spent about $5 billion on original content in 2016; this compares to a 2015 revenue of US$6.77 billion (2015).




Netflix Net Income and Cash Flow
(quarterly)
Net income
Net cash provided by operating activities
Free Cash Flow
Owner Earnings (guess)
Trailing 12 Months
(millions)
Net income: $238
Operating CF: $349
FCF: $201
Owner Earnings: $236
$ (in '000s)
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
2009 March 31,
2009 June 30,
2009 September 30,
2009 December 31,
2010 March 31,
2010 June 30,
2010 September 30,
2010 December 31,
2011 March 31,
2011 June 30,
2011 September 30,
Source: Netflix Q3 2011 Financial Statements - Cashflow
can-turtles-fly.blogspot.com


NetFlix 183,6 dollars
Revenues (blue) + net income (red) 2009-2015 + estimate 2016
revenue
income
14000
12000
10000
8000
6000
4000
2000
0
600
500
400
300
200
100
0
2007
2008
2009
2010
2011
2012
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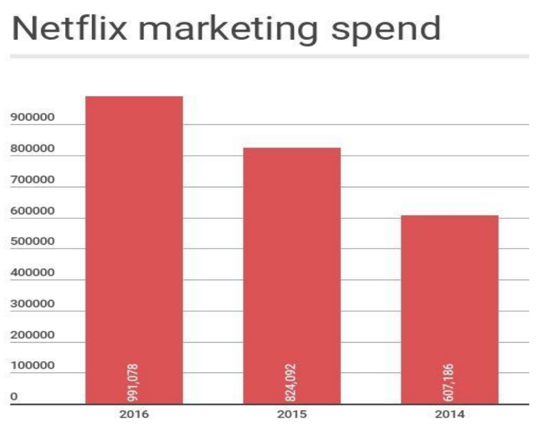
SALES AND MARKETING

Netflix's website attracted at least 194 million visitors annually, according to a Compete.comsurvey from 2008. This was about five times the number of visitors to Blockbuster's main website.

During Q1 2011, sales and rentals of DVDs and Blu-ray discs plunged about 35%, and the sell-through of packaged discs fell 19.99% to $2.07 billion, with more money spent on subscription than in-store rentals. This decrease was attributed to the rising popularity of Netflix and other streaming services.

In July 2012, Netflix hired Kelly Bennett – former Warner Bros. Vice President of Interactive, Worldwide Marketing – to become its new Chief Marketing Officer. This also filled a vacancy at Netflix that had been empty for over six months when their previous CMO Leslie Kilgore left in January 2012.



INTERNATIONAL EXPANSION OF NETFLIX

2007: Netflix began streaming in the United States.

2010:The company first began offering streaming service to the international market on September 22, 2010 in Canada.

2011: Netflix expanded its services to Brazil, Hispanic America, Caribbean and the Guianas.

2012: Netflix started its expansion to Europe in 2012, launching in the United Kingdom and Ireland on January 4.[191] By September 18 it had expanded to Denmark, Finland, Norway and Sweden. 2013: The company decided to slow expansion in order to control subscription costs.[193] It only expanded to the Netherlands.

2014: Netflix became available in Austria, Belgium, France, Germany, Luxembourg, and Switzerland.

2015: Netflix expanded to Australia and New Zealand, Japan, Italy, Portugal, and Spain.

2016: Netflix announced at the Consumer Electronics Show in January 2016 that it had become available everywhere worldwide outside of Mainland China, Syria, North Korea and the territory of Crimea.

2017: In April 2017, Netflix confirmed it had reached a licensing deal in Mainland China for original Netflix content with iQiYi, a Chinese video streaming platform owned by Baidu.

As of July 2017, Netflix officially supports 21 languages for user interface and customer support purposes: Arabic (Modern Standard), Bulgarian, Chinese (Simplified and Traditional), Danish, Dutch, English, Finnish, French, German, Hebrew, Italian, Japanese, Korean, Norwegian (Bokmål), Polish, Portuguese (Brazilian and European), Romanian, Spanish (Castilian and Standard), Swedish, Thai and Turkish.

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COMPETITORS

Netflix's success was followed by the establishment of numerous other DVD rental companies, both in the United States and abroad. Walmart began an online rental service in October 2002 but left the market in May 2005. However, Walmart later acquired the rental service Vudu in 2010.

Blockbuster Video entered the United States online market in August 2004, with a US$19.95 monthly subscription service. This sparked a price war; Netflix had raised its popular three-disc plan from US$19.95 to US$21.99 just prior to Blockbuster's launch, but by October, Netflix reduced this fee to US$17.99. Blockbuster responded with rates as low as US$14.99 for a time, but, by August 2005, both companies settled at identical rates. On July 22, 2007, Netflix dropped the prices of its two most popular plans by US$1.00 in an effort to better compete with Blockbuster's online-only offerings. On October 4, 2012, Dish Network scrapped plans to make Blockbuster into a Netflix competitor. (Dish bought the ailing Blockbuster, LLC in 2011 and will continue to license the brand name to franchise locations, and keep its "Blockbuster on Demand" video streaming service open.)

In 2005, Netflix cited Amazon.com as a potential competitor, which until 2008, offered online video rentals in the United Kingdom and Germany. This arm of the business was eventually sold to Love Film; however, Amazon then bought love Film in 2011. In addition, Amazon now streams movies and television shows through Amazon Video (formerly Amazon Video On Demand and love Film Instant).

Redbox is another competitor that uses a kiosk approach: Rather than mailing DVDs, customers pick up and return DVDs at self-service kiosks located in metropolitan areas. In September 2012, Coin star, the owners of Redbox, announced plans to partner with Verizon to launch *Redbox Instant by Verizon* by late 2012. In early 2013, *Redbox Instant by Verizon* began a limited beta release of its service, which was described by critics as "No Netflix killer"[212] due to "glitches [and] lacklustre selection."

CuriosityStream, a premium ad-free, subscription-based service launched in March 2015 similar to Netflix but offering strictly nonfiction content in the areas of science, technology, civilization and the human spirit, has been dubbed the "new Netflix for non-fiction".[214]

Hulu Plus, like Netflix and Amazon Prime Instant Video, their own deals for exclusive and original content", requiring Netflix "not only to continue to attract new subscribers, but also keep existing ones happy."

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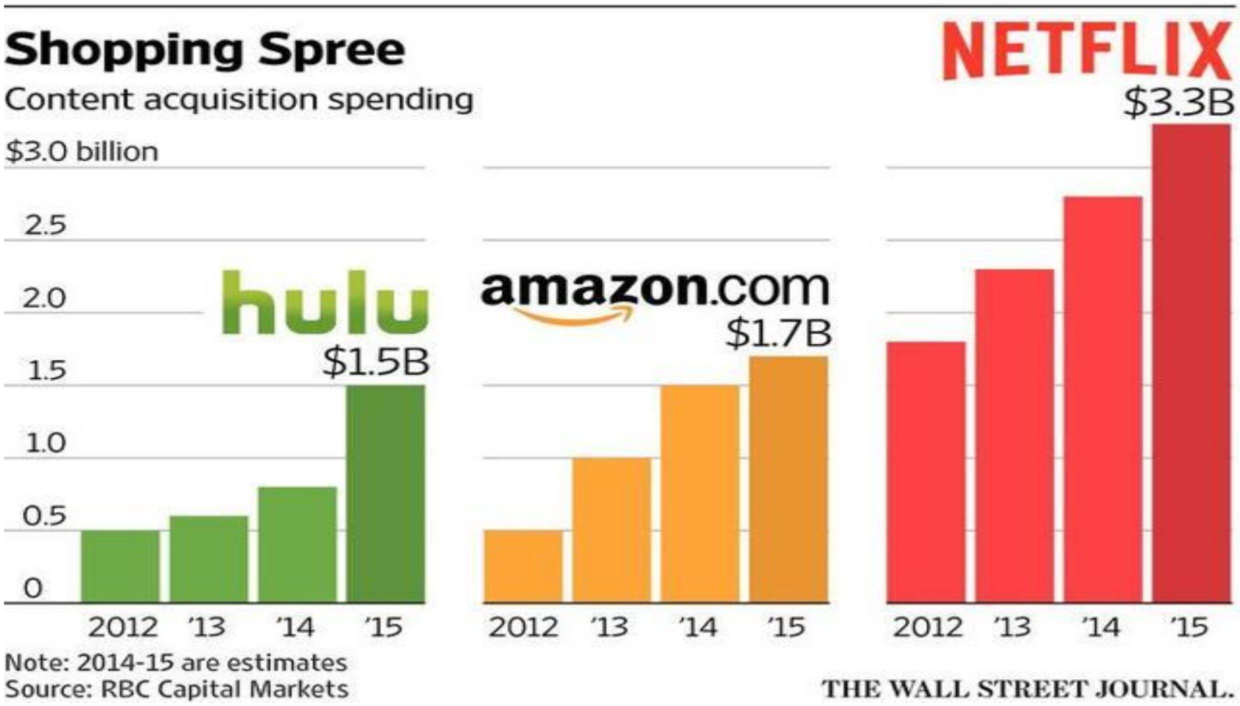
Comparative analysis

	Netflix	Amazon	Facebook	Twitter	Linked In
Price*	$348.50	368.92	$46.70	$42.06	$220.61
EPS (ttm)	$1.20	$0.28	$0.39	N/A	$0.22
PER (ttm)	291.63	1,336.67	119.44	N/A	993.74
ROE	7.48%	1.59%	7.65%	N/A	2.05%
Operating Margin (ttm)	4.00%	0.91%	33.52%	N/A	4.56%

*closing price 21 Nov 2013 ttm=trailing twelve months

NETFLIX Competitive Analysis

CURRENT COMPETITORS	Pricing Plan	Archive (TV shows/Movies)	Interesting Fact
NETFLIX	$7.99/Month, Stream $9.99/Month, Mail	100,000	20 % of bandwidth during peak hours
hulu PLUS	$7.99/Month	TV Show Episodes	Full Series Runs but still watching ads?
amazon video on demand	$.99 - $1.99/TV show $4.99-$9.99/Movie	75,000	Disc+ On Demand digital copy
at&t U-verse	$4.99 ($1+ HD)/ 2-day Rentals	100,000	1st TV provider with mobile app manager
BLOCKBUSTER ONDEMAND	$1.99 - $3.99/Rent $7.99 - $15.99/Buy	95,000	Viewable on 100 different devices
Comcast xfinity	$3.99 - $4.99/Rent $7.99 - $17.99/Buy	25,000	Comcast cable box subscription= Free?
BESTBUY CinemaNow	$2.99 - $3.99/Rent $9.99 - $19.99/Buy	10,000	Download content using BestBuy.com
DIRECTV ON▸DEMAND	$4.99 - $5.99/Rental, Subscription plans	400 new releases	4,000 TV shows and movies free



LEGAL ISSUES AND CONTROVERSIES

In 2004, Netflix was sued for false advertising in relation to claims of "unlimited rentals" with "one-day delivery".

Also, in 2015, Netflix was caught up in a copyright lawsuit of international scope involving the 1948 Italian film Bicycle thieves.

Netflix was also sued in 2016 because Netflix told subscribers in marketing material that they "would not increase monthly subscription prices as long as the subscribers maintained the subscription service continuously," However, Netflix announced that it would "phase out this grandfathering gradually over the remainder of 2016, with our longest tenured members getting the longest benefit." The according to the class action, "Netflix has broken its contract with these subscribers by unilaterally raising monthly subscription prices".

LATEST CASE: OCTOBER 31, 2017Netflix has suspended filming of the sixth and final season of its hit drama House of Cards as the fallout from sexual misconduct claims against Kevin Spacey, the show's leading man, widens. The streaming video company and Media Rights Capital, the programme's producer, issued a joint statement on Tuesday saying: "MRC and Netflix have decided to suspend production on House of Cards season six, until further notice, to give us time to review the current situation and to address any concerns of our cast and crew." The suspension comes a day after Netflix said the sixth season, which is due to air in 2018, will be the series' last. House of Cards was Netflix's first investment in original programming and its success has served as a template for the company's ballooning investment in content over the last six years. Mr Spacey has been accused of making sexual advances towards the actor Anthony Rapp at a party in 1986, when Mr Rapp was 14. Mr Spacey said he did not remember the incident but apologised to Mr Rapp. Netflix's decision to end the show was made before the allegations became public, it said it and MRC had sent executives to the shoot in Baltimore "to meet with our cast and crew to ensure that they continue to feel safe and supported." The company said Mr Spacey is not working on set. Mr Spacey is the latest prominent man to be accused of inappropriate behaviour in the weeks since dozens of women accused Harvey Weinstein, the powerful Hollywood producer, of serial sexual harassment and assault. Mr Weinstein has denied non-

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consensual sexual contact. The growing scandal has shined a light on the persistence of the entertainment industry's "casting couch" culture and the routine harassment women and many men face in the workplace.

A hypothesis of future prospects of Netflix

1. People love TV content, but they don't love the linear TV experience, where channels present programs only at particular times on non-portable screens with complicated remote controls. Now internet TV - which is on-demand, personalized, and available on any screen - is replacing linear TV. Changes of this magnitude are rare. Radio was the dominant home entertainment media for nearly 50 years until linear TV took over in the 1950's and 1960's. Linear video in the home was a huge advance over radio, and very large firms emerged to meet consumer desires over the last 60 years. The new era of internet TV, which began a decade ago, is likely to be very big and enduring also, given the flexibility and ubiquity of the internet around the world. Netflix hopes to continue being one of the leading firms of the internet TV era.

2.In 2017, Netflix expect to spend over $6B on a P&L basis on content for our members. In addition, we'll spend over $1B on marketing in 2017, getting people so excited about our content that they join Netflix.

3. We think we can grow to 60-90 million members in the US, based upon our trajectory to date and the continued growth of internet TV. Netflix US contribution margin structure is set mostly top down. For any given future period, we estimate revenue, and decide what we want to spend, and how much margin we want in that period. Competitive pressures in bidding for content would lead us to have slightly less content than we would otherwise, rather than overspending. The same is true for our marketing budget. The output variable is membership growth that those spending choices influence.

Netflix started in 1997 as a DVD-rental-by-mail firm, and spent the first five years struggling to get to a sustainable model that was cash flow positive. They spent most of the next five years fighting with Blockbuster in the US. They began streaming in the US in 2007, and internationally in 2010. Our sobering Qwikster DVD misstep was in 2011. Our first original series debuted in 2013. Netflix became global in 2016, nearly twenty years after starting Netflix. Over the following decades, internet TV will replace linear, and it hopes to keep leading by offering an amazing entertainment experience.

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REVIEW OF LITERATURE

1.CNN money: Netflix's more than 100 million subscribers will have many new original shows to binge watch in the next few years. The company has $15.7 billion in obligationscommitted to streaming content deals.

2.Netflix.com: People love TV content, but they don't love the linear TV experience, where channels present programs only at particular times on non-portable screens with complicated remote controls. Now internet TV - which is on-demand, personalized, and available on any screen - is replacing linear TV.

CONCLUSION

Video Streaming is a technology that has completely changed the entertainment industry as well as consumption models among audience members. A lot has changed since that very first Real Player transmission in 1995. Since then, technology has been constantly improving, making content delivery and access easier no matter the platform trying to access it.

Netflix, Inc. is one of the best examples regarding commercial applications for Video Streaming. With millions subscribing to the service all over the world, the company has found a way to capitalize it services using its title stock and outsourced infrastructure.

Recently, Netflix sparked some debate around the "open internet" topic. Other companies have complained that Netflix is getting revenue by using Internet services provided by third parties. And while the discussion appears to be settled, Net Neutrality and Open Internet is now in everybody's mind.

We have seen some repercussions appear regarding Video Streaming. Film experts fear audiences may be turning "platform agnostic" consuming content regardless the size of the screen or the image quality. Nonetheless, audiences have proven they are willing to return to cinemas if the movie is worth the price of admission.

However, content abundance has made audiences "socially autistic". Always connected to a device and somehow always isolated from others. Apparently, audiences are willing to sacrifices social experiences "offline" in sake of personalized content.

With other big players like HBO, Amazon and XBOX starting to produce their own versions of original content and streaming service the competition for audience's attention is just starting.

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