Strategic Management and IS

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Purpose of This Document

The purpose of this document is to produce a strategy plan for Netflix through the use of techniques using a specific approach. Using these techniques allows for the collection of data which, in turn, enables the ability to analyse the results and produce a cohesive strategy plan for Netflix.

For this strategic planning process, a set roadmap will be used. The roadmap that will be used is Andrews's Model. This roadmap can be classed as out-dated, but it has been updated to suit the dynamic environment where Netflix exists. Additionally, a roadmap is also much easier to follow. Using this road map also gives the opportunity to explain each phase on the strategic analysis. This strategy document will also follow Michael Porter’s Essential Ingredients. By following these ingredients, it will provide a more cohesive plan. Once the analysis is complete a set of recommendations will be given; specifically, short term and long term strategies for Netflix.

Company Overview

Company Background

Netflix was founded by Marc Randolph and Reed Hastings in 1997 in Scotts Valley, California. Before Netflix was founded, in a world dominated by video rental stores, Hastings experienced personal frustration when paying $40 in late fees for Apollo 13 at Blockbusters. Due to this frustration, Hastings was compelled to find a better solution for customers to avoid late fees; however this type of service did not exist.

DVDs were growing in popularity and Hastings was compelled to create a service to not only take advantage of this growing technology, but to also provide customer service that could not be matched – by eliminating late fees, due dates and the requirement to visit brick and mortar stores. And so Hastings began his journey to not only disrupt the traditional movie rental market, but to also create an entire new industry that changed the way customers consumed entertainment.

Netflix is the leading internet subscription service for movies and TV shows in over 40 countries worldwide to its 33 million subscribers. In the United States, Netflix is the leading provider for DVD-by-mail subscriptions, and also Blu-ray discs, delivered quickly to subscribers’ homes. Netflix also allows subscribers to stream movies and TV shows using a myriad of devices. Netflix also recently launched in the UK, gaining over one million subscribers in its first year.

Business Model

Compared to brick and mortar stores like Blockbusters, Netflix can offer a staggering selection of movies and TV Shows. The difference between the likes of Blockbusters and Netflix, is that Netflix is online based and doesn't have constrains of a physically property and is able to offer subscribers a larger install base of movies and TV shows whenever and whereever. Traditional stores like Blockbusters required customers to physically visit their store to rent a movie. Netflix allows subscribers to select from a range of services – such as DVD-by-mail and online streaming.

Netflix (US Only) ships DVDs and Blu-rays to its subscribers through first class post through the use of pre-paid envelopes. Subscribers can then send back the DVD or Blu-ray back with no additional charges, thus the transaction is free of cost to the customer. Netflix has established relationships with postal companies to ensure timely deliveries and returns. Establishing these relationships enables Netflix access to an extensive distribution network throughout the United States.

Netflix also offer a digital distribution subscription model that allows subscribers to stream content to their Netflix enabled device. Subscribers can also get a 'hybrid' plan where they can rent DVDs and Blu-rays, whilst also having the ability to stream content. To host the digital content, Netflix use third party cloud computing providers,
specifically, Amazon Web Services to efficiently stream their content worldwide. These data centres are scattered around the world to provide customers with the best video quality when streaming.

Andrews’s Model of the Corporate Planning Process

As noted in the previous section, Andrews’s model will be used. The reason for using this model is that it provides a roadmap that is easy to understand and follow. The model below has been constructed based upon the ideas he presents in The Concept of Corporate Strategy (Andrews’s, 1971). However, it should be noted that some additions have been made to Andrews’s Model to suit Netflix’s dynamic environment. These updates will be noted in the model. Additionally, to help employees of Netflix understand the model notes have been added to explain why certain phases were updated and what each phase means. A larger version of the model can be found in appendix 3.

Identify Mission and Aims – This phase was previously named “Identify current objectives, strategy and policies”. This was updated since this is a dated approach as it does not identify a company’s mission and aim. This update was taken from Robson (1997). Once the mission and aim has been identified, then current strategy and policy would be identified. The SW part of SWOT would be used here.

Environmental Analysis – This phase focuses on the External Analysis. This phase allows Netflix to analyse their external environment. This phase increases the quality of strategic decisions. (Robson, 1997)

Resource Analysis – This phase focuses on the Internal Analysis. This allows Netflix to understand its strategic ability. It allows Netflix to establish their strengths and weaknesses within the organisation. Furthermore, it also allows them to assess key areas such as finance, technology and production. (Robson, 1997)

Major Strategic Opportunities and Threats – This phase focuses on the opportunities and threats affecting Netflix. The OT part of SWOT would be used here.

Identify Strategic Alternatives – This phase allows Netflix to identify any alternative strategic approaches based on the analysis in previous phases. The most common answer to this is Porter’s Generic Strategies. (Robson, 1997)

Strategic Making Decision – This phase is where Netflix can look at the strategic recommendations given or alternative options. This phase is also influenced by the Management Values and Social Responsibilities of Netflix.

Revise Actions – This phase was once called “Revised objectives, strategy and policies” however it has been updated from Robson (1997) to represent a move dynamic environment. The previous name suggests that the strategic process is not dynamic and the strategy does not change once it’s implemented. To make it more dynamic it was renamed “Revise Actions” and an addition of a feedback loop allows Netflix to make this a continuous process to help survive in such a dynamic environment.

![Figure 1: Updated Andrews Model](image)
Porter’s Essential Ingredients

In Michael Porter’s (1987) *Corporate Strategy: The state of strategic thinking*, he lists a number of ingredients that should be used in order to make a good strategic plan for a business. It has been decided that these ingredients will be incorporated into Andrews’s model to not only help create more cohesive plans, but to also make Andrews’s Model more relevant to the strategic process. Below are the ingredients Porter (1987) suggests:

I. **An analysis of the industry in which the firm competes** – Strategic planning initially overlooks attractiveness which is important to success of a company’s position. A good strategic plan must assess the potential changes in the industry future, whilst factors such as technological changes, substitute changes and government policy are taken into account.

II. **Sources of competitive advantage** – To have a good strategic plan, it must have an explicit awareness of the competitive advantage within the industry. Typically, this comes in two basic types: lower cost, or differentiation. A good strategic plan must reflective these factors that determine a business’s cost position.

III. **An analysis of existing and potential competitors** – An analysis of rivals must move being press clippings on competitors to analysis their financials, logic of competitor’s strategy, how they think and what their future strategic moves are.

IV. **An assessment of company’s competitive position** – This analysis must move away from a vague notion of strengths and weaknesses, but also contain an estimate of the relative cost position and where the company stands in all areas of importance to buyers.

V. **Selection or ratification of strategy** – The strategy chosen should be built on competitive advantage, which requires continuous improvement and change. Adding a feedback loop to Andrews’s model enables this.

VI. **Actions** – The strategy chosen must be translated into action, whilst also taking into consideration the staff training, development and financial capital.

Most of these ingredients will be incorporated into Andrew’s Model. Unfortunately, some specific information is not available to make full use of these ingredients. It is assumed that whatever strategic choice is made, that Netflix has the resources to execute the strategies recommended. The following tools will be used to achieve some of the aforementioned ingredients:

I. **SWOT** – This tool will be used to measure the Strengths, Weakness, Opportunities and Threats. The SW part of SWOT will be used in the first phase. OT will be used in the Major Strategic Opportunities and Threats phase.

II. **Porter’s Five Forces** – This will be used in Environmental Analysis, and it also gives some industry analysis.

III. **PEST** – Will be used in Environmental Analysis to measure Political, Economic, Social and Technological factors.

IV. **Value Chain** – Will be used in Resource Analysis to measure where value can be added in Netflix.

V. **BCG Matrix** – Used in Resource Analysis and examines Netflix’s product line.
Phase 1: Identify Mission and Aims

This phase identifies the Mission Statement and Aims of Netflix. Additionally, the Strengths and Weaknesses internally are also identified.

Mission Statement

Netflix does not have an official published mission statement. However, CEO Reed Hastings expressed a clear vision for Netflix:

“We promise our customers stellar service, our suppliers a valuable partner, our investors the prospects of sustained profitable growth, and our employees the allure of huge impact.”

Aims

Netflix have expressed a number of aims for the future in their latest Annual Report. Netflix’s current business strategy is to grow their streaming subscription business within the US and globally. Their aim is to continuously improve the experience for their customers, specifically focusing on expanding their streaming library, enhancing the user interface on Netflix ready devices and extending their streaming service to even more internet-connected devices.

Strengths and Weaknesses

SW of SWOT enables the ability to classify a number of internal circumstances of Netflix. This is fundamental since identifying the internal Strengths and Weaknesses will help dictate the strategies appropriate for Netflix. (Robson, 1997) A more detailed explanation of SWOT can be found in appendix 1. Larger version can be found in appendix 4.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strong brand awareness</td>
<td>1. Damaged brand image in 2011 when they tried to changed DVD brand name to Qwikster. Lost over 800,000 subs in one month due to backlash</td>
</tr>
<tr>
<td>2. Strong brand identity</td>
<td>2. DVD segment is declining, lost 3.0 million DVD-by-mail subscribers in 2012.</td>
</tr>
<tr>
<td>3. World’s leading internet television network; over 33 million subs in over 40 countries.</td>
<td>3. Streaming business making less money than DVD segment despite increase in streaming subscribers.</td>
</tr>
<tr>
<td>4. Compelling value proposition: $8/$6. monthly subscription</td>
<td>4. Limited by content licensing agreements; can’t release all content in all countries</td>
</tr>
<tr>
<td>5. Unique Value Proposition: low monthly price and unlimited viewing of all content</td>
<td>5. Studios define release; movies and TV shows are released when distributors want them to be available, loss of control for Netflix</td>
</tr>
<tr>
<td>6. DVD-by-mail profitable, makes up 50% of Netflix profit</td>
<td>6. Excessive spending on content licensing, over 2 billion $ a year.</td>
</tr>
<tr>
<td>7. Largest content library of any online streaming service</td>
<td>7. Losing out on 10 million potential subscriber’s due to users sharing their account with others.</td>
</tr>
<tr>
<td>8. Most exclusive content of any online streaming service.</td>
<td></td>
</tr>
<tr>
<td>9. No advertisements</td>
<td></td>
</tr>
<tr>
<td>10. Strong application presence on video game consoles, Smart TVs, smartphones and Blu-ray players.</td>
<td></td>
</tr>
<tr>
<td>11. Strong personalisation algorithms</td>
<td></td>
</tr>
<tr>
<td>12. Integration with social networks like Facebook</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Internal Strengths and Weaknesses of Netflix
Phase 2: Environmental Analysis

This phase will focus on the External environment of Netflix, using Porter’s Five Forces and PEST analysis. The reason for this is to gain information on competitors or other factors to help increase the quality of strategic decisions.

Porter’s Five Forces

Robson (1997) states that Five Forces models the competitive world in which any organisation exists. The current competitive position of Netflix will be the net force of the five forces. With this model, it will give a clear understanding of where the competitive power lies and it enables Netflix to take advantage of any of its strengths and, in turn, improve its weaknesses by building defences. A larger model can be found in appendix 5, and a more detailed description in appendix 2.

![Figure 3: Five Forces of Netflix](image)

From the model we can see that the competitive rivalry is high due to the large number of content providers that exist. This is due to the fact that many of the content providers already have their own streaming alternatives, and Netflix heavily depends on licensing agreements, as stated in the Supplier Power force. Because the content providers make money from the content they provide, the barrier to entry of lower since they can afford to offer a streaming alternative for a bundle package deal. The biggest outside influence affecting Netflix is the suppliers. Netflix heavily depends on licence agreements and they do not own the content. This could be a huge problem, since a supplier may enter an exclusive deal with another content provider. Thus, the customer is more likely to move to another content provider if they offer richer content. Additionally, because Netflix offer a DVD service they must pay for additional license rights. The DVD margin of their business is the most popular, and with
the decline of DVDs and increase of streaming, this could greatly affect their future margins. Furthermore, there are already cheaper alternatives to watching content. Hulu offers a free service where users can watch the latest TV shows, (shown one day after they have aired on TV) for free. Hulu profits are earned from advertisements and an additional subscription-based model that has no advertisements at all. This is damaging to Netflix since Hulu have more up-to-date exclusive content and offer a free service with an additional revenue stream. The next step is to further assess the external environment through PEST Analysis.

**PEST Analysis**

PEST Analysis is a framework that lists the potential major changes facing an organisation though Political, Economic, Social and Technological factors. (Robson, 1997) The reason for using this model is that it gives an overview of the micro environmental factors that Netflix must take into consideration when making strategic decisions. This can also be classified as opportunities and threats, so both of these models work well together within the analysis. Larger version of this model is in appendix 6.

<table>
<thead>
<tr>
<th>Political</th>
<th>Economic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copyright, trademarks, patents and licensing restrictions</td>
<td>Large Capital is required to enter the market</td>
</tr>
<tr>
<td>Film standards are evolving</td>
<td>Fluctuation of currency in international markets, potential obstacle of growth into international markets</td>
</tr>
<tr>
<td>International policies can affect growth</td>
<td>The market is driven by low prices</td>
</tr>
<tr>
<td>Relationships with suppliers</td>
<td>Operational costs of sending out DVD-by-mail</td>
</tr>
<tr>
<td>International laws can affect software features</td>
<td>Cost of running distribution centres for DVD-by-mail service</td>
</tr>
<tr>
<td>Internet Service Providers blocking access to Netflix</td>
<td>Cost of hiring third party to host content</td>
</tr>
<tr>
<td>Internet Service Providers throttling bandwidth usage of Netflix</td>
<td>Cost of licensing content distribution</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social</th>
<th>Technological</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-the-go streaming is more convenient</td>
<td>Competing technology, like Video on Demand through cable and satellite</td>
</tr>
<tr>
<td>People are more reliant on smart devices to consume media content</td>
<td>Growing expansion of LTE and 4G offers larger bandwidth to stream content on the move</td>
</tr>
<tr>
<td>A need for recent video content</td>
<td>Technology to cut bandwidth requirements in half for HD content</td>
</tr>
<tr>
<td>Subscribers internationally using VPN services to access content from United States</td>
<td>Wi-Fi is more common than it was 10 years ago</td>
</tr>
<tr>
<td>Piracy</td>
<td>Broadband internet speeds are always increasing with the introduction of Fibre optic</td>
</tr>
<tr>
<td>Ethical and religious factors relating to the internet may prohibit use of Netflix</td>
<td>3D video is a popular method of consumption</td>
</tr>
<tr>
<td>Popularity of streaming content could decline</td>
<td>Introduction of 4K TVs in the future</td>
</tr>
<tr>
<td>Popularity of consuming content by DVD could decline</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 4 – PEST Analysis**

**Political** – This factor is where government intervenes. This can include areas such as distribution restrictions. In Netflix’s case, International law and policies could intervene with the growth of Netflix. Netflix may not be able to distribute some violent content in Germany for example. Germany has a strict rating system for violent movies and TV, which is the primary content that Netflix provides. These laws could intervene in the type of content that Netflix can provide to its customers.

**Economic** – This factor can include interest rates and exchange rates for example. For Netflix, an obvious drawback to economic growth is the fluctuation of currency in its international markets. Since Netflix is American based, when converting international currency into American dollars, this could affect profit margins since the international currency may be weaker than the dollar.

**Social** – This can include cultural aspects, which can include trends within social factors which could potentially affect Netflix. For example, consuming content using a physical disc is decreasing whilst consuming content by streaming online is growing. For Netflix this is potentially dangerous since DVD-by-mail is their strongest segment.
Technological – This also has many aspects, including the growth rate of change within the technology space. An example of this is the growing expansion of 4G networks. This benefits the customer since they can watch better quality videos on the move, but also a threat to the network providers since it could throttle their network speed.

Phase 3: Resource Analysis

This phase allows Netflix to focus on analysis internally, primarily focusing on the resources it has. Normally financial analysis would feature here, but due to not being able to obtain this type of information it will not be analysed. The reason for doing this phase is that it allows Netflix to look at its resources and further understand its strategic ability. This resource analysis will focus on the Value Chain and the BCG Matrix. Larger version of both models can be found in appendix 7 and 8.

Value Chain

The Value Chain was introduced by Porter and Millar. The reason for using this model is that it helps Netflix to gain an understanding of their internal nature by structuring a picture of its capabilities using the value chain. This model also models the flow of the activities within Netflix that add value to the business, which contributes to the willingness of a customer to subscribe to Netflix. (Robson, 1997)

![Value Chain Diagram](image_url)

Figure 5 – Value Chain

This model allows Netflix to distinguish the primary activities, which contribute to getting the product closer to the customer, from the secondary activities, whose role it is to support the primary activities within Netflix. (Robson, 1997) Essentially, the main focus of this model is the links between the activities in order to highlight potential strategic strength, weakness, opportunity or threats.

Secondary Activities

Firm Infrastructure – In this section management is involved and supports the entire value chain. This focuses on the general management of Netflix as a business entity, for example planning and finance. (Robson, 1997) This level is also aware of the potential threats and opportunities. In Netflix’s case management have an open and transparent, creating a good public image of the company.
Human Resource Management – This section focuses on the activities associated with the recruiting of employees, training, rewarding, promoting and appraisal (Robson, 1997) Netflix take an innovate approach by allowing brain storming and creating potential ideals for the company and rewarding these employees. Those employees who do not work to their standards are fired imminently.

Technology Development - This section focuses on R&D and includes all the activities that relate to develop the technology of a product. Additionally, also includes the development of a new product. (Robson, 1997) For Netflix they are developing a technology that allows customers to stream high quality content at a lower bandwidth rate. ISPs would approve of this since it would not throttle their networks as much and customers receive better service overall from Netflix. Conversely, it could also have a pitfall for the ISP. More people will mostly likely use Netflix since they have access to higher quality content at a lower bandwidth rate.

Procurement – This section focuses on the activities that support the inputs for all the activities within the value chain and Netflix. This can range from raw materials, production equipment through to office supplies. (Robson, 1997) For Netflix, the main procurements to provide value to the customer is to source distribution rights to provide more content that is in demand, thus providing more value. Additionally, Netflix must source distribution centres for physical and digital content to provide a high quality service.

Primary Activities

Inbound Logistics – This section focuses on the processes of receiving and storing inputs to the production process of the service Netflix provides. (Robson, 1997) For Netflix, they focus on gaining the distribution right of physical and digital goods. Additionally, Netflix have created a company-wide standard of receiving physical goods and for sending out said physical goods to customers.

Operations - This section focuses on the processes involved with the transformation of inputs to outputs (Robson, 1997) For Netflix, the management of the distribution centres and also the products coming out of the centres is key. This may involve putting the DVD into pre-paid envelopes, or receiving the digital content and preparing it for deployment for subscribers to their digital distribution centres.

Outbound Logistics – This section focuses on the activities concerned distributing the service that Netflix provides to its subscribers. (Robson, 1997) For Netflix, this would involve serving more digital distribution centers for better access, shipping out DVDs from distribution centres from customers, and also building more partnerships in order to provide a better service for subscribers.

Marketing and Sales – This section focuses on the activities that provide opportunities for potential customers to subscribe to Netflix and offer inducements to do so. (Robson, 1997) For Netflix, they depend on a word of mouth model from subscribers to gain more customers. Additionally, Netflix offer a One Month free trail for new customers to give them the opportunity to try out the Netflix eco system.

Service – This section focuses on the processes concerned with the provision of service for customers. Activities must be in place to enhance or maintain value of the service of Netflix once the customer has subscribed. (Robson, 1997) Netflix offer free shipping and returns for its DVD-by-mail service, which saves the customer investing in postage prices. Netflix also offer their service on countless devices giving customers the freedom to watch content from any devices that they desire. Additionally, 24/7 customer service is provided and customers are not charged with late fees or switching costs, thus making it more attractive.
BCG Matrix

The BCG matrix was created by the Boston Consulting Group. The reason for using this model is because it models the relationship between a division of an organisation or current products or future potential and the appropriate management stance. (Robson, 1997) This model also integrates well with SWOT analysis, which has been completed in various strategies of this strategic document. Using this model will also allow Netflix to distinguish between their cash generators and the cash consumers. It also enables Netflix to use this as a predictive device as the segments of the BCG Matrix essentially summarise the expected profit, cash flow and recommends an outline strategy to follow. (Robson, 1997) Due to not having specific information, it is difficult to place the data appropriately on the diagram. But based on previous analysis, the data has been represented in the appropriate segments. Larger version can also be found in appendix 8.

![Figure 6 – BCG Matrix](image)

**Market Growth and Share** – Growth is the overall growth of the industry and an indicator of a market’s future potential. Share is the relative market share of each product.

**Stars** – Products or divisions provide significant revenue and expected to continue to do so in the future. Netflix can seek opportunities to increase profit or extent the life of their service. (Robson, 1997)

**Question Mark** – Products or divisions within this segment are services that contribute very little revenue now, but are expected to in the future. Typically these are areas that are still being developed. (Robson, 1997)

**Cash Cow** – Products or divisions that are the highest income earners currently for the organisations. They provide the major part of the profits and form a source of funding for future developments. (Robson, 1997)

**Dogs** – Divisions or products that provide little to no contribution to the profits and it is not expected that this will change. This should be removed or take steps by reducing the cost. These segments have lost market share or profits compared to competitors. (Robson, 1997)

The online streaming in general and on devices such as smartphones and game consoles have very high growth rate and market share. By releasing applications for popular mobile devices and consoles, it has put Netflix in the leading position of available streaming services on devices. The cash cow is the DVD segment which is the foundation the company was built upon. This is where the majority of profit is earn, which can be spread to other segments such as the Question Mark. This is potentially a high grown market, and with the popularity of 3D and the imminent launch of 4K, Netflix could potentially be the leading provider of these technologies. The dogs are offline
The most interesting part of this is that DVD rentals is the cash cow for Netflix, but it is a market that is declining in subscribers, as shown in the strengths. However, streaming is growing but making less money. Through the strategies recommended, Netflix must figure out a way to make more money from the rising star before the DVD rental model becomes unpopular due to social factors or technology factors.

**Phase 4: Strategic opportunities and threats**

This phase focuses on the Opportunities and Threats of Netflix. Using the OT section of the SWOT model, it allows Netflix to gather data and dictate the strategies appropriate for Netflix based on the information gathered. For a more detailed explanation of SWOT, look at appendix 1. A larger version can be found in appendix 9.

**Opportunities and Threats**

<table>
<thead>
<tr>
<th>External Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Produce original content for Netflix</td>
<td>1. Suppliers have control over content</td>
</tr>
<tr>
<td>2. Expand into more international territories</td>
<td>Netflix provides</td>
</tr>
<tr>
<td>3. Secure deals with Smart TV manufactures to have Netflix</td>
<td>2. Contractual restrictions on streaming</td>
</tr>
<tr>
<td>built-in</td>
<td>content</td>
</tr>
<tr>
<td>4. Penetrate UK market by securing deal with BSkyB to have</td>
<td>3. DVD and Blu-ray may have staying power</td>
</tr>
<tr>
<td>Netflix in Sky Boxes</td>
<td></td>
</tr>
<tr>
<td>5. Expand Netflix applications into more products, like</td>
<td>4. PC is slowly declining, more users using</td>
</tr>
<tr>
<td>video game consoles</td>
<td>smart devices like iPhone/iPad</td>
</tr>
<tr>
<td>6. Offer new business model like Hulu</td>
<td>5. Internet Service Providers blocking</td>
</tr>
<tr>
<td>7. Offer 3D streaming</td>
<td>users from accessing Netflix</td>
</tr>
<tr>
<td>8. Offer 4K streaming in the future</td>
<td>6. Internet Service Providers throttling</td>
</tr>
<tr>
<td>9. Offer video game streaming service like On Live or</td>
<td>bandwidth of users</td>
</tr>
<tr>
<td>Gaikai</td>
<td>7. Suppliers offer their own alternative to</td>
</tr>
<tr>
<td>10. Offer shared subscriptions for households with multiple</td>
<td>streaming their own content</td>
</tr>
<tr>
<td>Netflix users</td>
<td>8. Competitors offer free alternatives with</td>
</tr>
<tr>
<td>11. Offer ability to download movies for users who travel</td>
<td>ad-support and more up-to-date content</td>
</tr>
<tr>
<td>to areas without internet connection</td>
<td>9. Competitors may have exclusive rights to</td>
</tr>
<tr>
<td></td>
<td>content Netflix customers want</td>
</tr>
</tbody>
</table>

**Figure 7 – Opportunities and Threats**

With the collective analysis, the opportunities and threats are now formed for Netflix. The most prominent opportunity for Netflix is to provide original content. This is perhaps due to the fact that Netflix spends a large amount of their profits on distribution rights. However, if Netflix were to invest more in original content that is exclusive to Netflix; potential customers may be more inclined to subscribe to Netflix to view the exclusive original content and the content from suppliers. This opportunity is essentially a reaction to the biggest threat; suppliers have complete control over the content on Netflix. With the information collected from the analysis, a set of strategic alternatives will be presented. Following this, the strategic recommendations are also presented.
Phase 5: Identify Strategic Alternatives

Robson (1997) states that the best known answer for strategic alternatives is Porter’s seminal classification of three possible ways for an organisation to outperform its competitors. The reason for using these alternatives is that it gives Netflix a picture of the possible ways to respond to their situation based on the analysis data. In Porter’s (Porter M. E., 1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, he presents the following three generic strategies (Note that these are in relation to Netflix):

**Differentiation (Industry Wide)**

If Netflix were to follow this strategy, Netflix would hope to win customers by offering better services that are different from their competitors to gain competitive advantage. To do this, Netflix must focus upon building a unique service that can provide protection against a rival. This means that it can reduce their need to lower their prices to beat competitors because they could potentially offer better services.

**Cost Leadership (Strategic Target)**

If Netflix were to follow this strategy, Netflix would seek to win the customers on the basis of cost for a given level of quality and service. This can be accomplished by focusing on cost control, for example, providing a more efficient and effective way of shipping DVDs-by-mail, or distributing content over the internet. This enables Netflix to provide services of value to customers but at a lower cost.

**Focus (Segment only)**

If Netflix were to follow this strategy, Netflix must target specific parts of the market where it exists, such as regional areas or specific customer groups. By focusing on this Netflix may achieve lower costs or differentiation because they are focusing on a specific target.

The next phase will detail the strategy. For this strategy Differentiation will be chosen. The reason for this is that due to not being able to obtain certain information (financial information) it is not possible to recommend a Cost Leadership strategy. It is assumed that Netflix have the capital required to take action with the differentiation strategy provided in the next phase.
Phase 6: Strategic Decision Making
Including: Social Responsibilities, Management Values, and Actions

This section presents the short term and long term strategies recommended for Netflix. Now that the analysis has been completed, all of the data from the techniques is used to help suggest the best recommendations for Netflix.

Social Responsibilities of Netflix

Netflix wish to provide local employment in areas where the distribution centres for their DVD-by-mail exist. Additionally, Netflix like to make the viewing experience of movies and TV shows seamless and convenient for subscribers. Furthermore, Netflix like to provide viewing experiences for American soldiers in war efforts to provide entertainment.

Management Values of Netflix

Netflix sets targets and long-time goals for its software development staff and factory worker staff. Additionally, employees who work hard are rewarded, and those who don’t are fired. Netflix only employs motivated and talented people. Furthermore, factory works go through hourly exercises to avoid repetitive strain injury.

Short Term Strategy Recommendations

By taking into account the data found through analysis, Social Responsibilities and Management Values; the following strategies will now be presented. These recommendations address the short comings of their existing business processes and present some strategic opportunities through differentiation.

Produce Original Content

It is imperative that Netflix offer more original content on its platform. Currently Netflix heavily depend on the content of their suppliers to provide their customers with content to watch. Netflix could potentially lose out on the rights to distribute their suppliers' content and result in losing customers. If Netflix create their own content, it could potentially make it more attractive for customers since the only place to consume the content is on Netflix. The obvious benefit of this is gaining more subscribers. By advertising the original content, it would expose the customer to the current content offered and potentially the customers will continue to subscribe. The obvious pitfall is that Netflix are not content creators, but content providers. Netflix would need to invest in experienced content creators in order to provide exclusive content. This could take time and may be expensive.

Gain Distribution Rights over newly released content

For Netflix to compete with services that offer the most recent TV shows available one-day after airing time, it must also adapt to this model as an additional service for customers. This approach is beneficial since subscribers are more likely to use Netflix for their consuming compared to the likes of Hulu. However, this would require more investment in distribution rights and capacity to store the most recent TV shows.

Partnership with BSKYB in UK

BSKYB are the largest content provider in the UK and offering a partnership would be beneficial for existing Netflix and Sky customers. However, Sky currently offer their own alternative streaming service for content that is exclusive to Sky, but it is worth the investment to truly penetrate the UK market and gain more subscribers.
Long Term Strategy Recommendations

Provide Video Game Rentals

Netflix have established a strong foothold in streaming movies and TV shows to video game consoles. However, there is an opportunity to offer video game rentals to these consoles. This is beneficial since it adds another segment to the business that many people would find attractive, however it does present some drawbacks. For example, Netflix would have to spend more money in distribution rights of games and the cost of sending out more than just movies and TV shows from distribution centres. There is potential for Netflix since they have such a strong brand name and presence on existing consoles.

Provide Alternative Business Model for Streaming

As stated in the analysis, the growing segment of Netflix is its streaming service. However, despite the growth it is still earning less money that it's DVD-by-mail counterpart. Netflix could potentially offer a free streaming service with advertisements. This would increase the likely hood of potential customers using Netflix. The model would also allow customers to subscribe for the standard monthly amount if they wish to prevent advertisements. Hulu in the US offers a similar business model, however Hulu Plus (a paid subscription version) still has advertisements. If Netflix were to offer a free advertisement driven model, with an additional subscription based model with no advertisement that is currently available, combined with distribution rights over newly released content – Netflix could gain a large market share. There are obvious drawbacks, such as marketing companies may not take an interest in such an opportunity. Additionally, Netflix would need to change how it delivers the content and update the applications to suit these multiple models.

Offer 3D and 4K Content

The 3D movie market has grown in popularity, and 4K content and television are soon on the horizon. If Netflix were to gain a strong foothold in this market, it could be extremely beneficial. However it is still risky since the adoption of 3D TVs and 4K TVs is very gradual and is unlikely to reach the popularity of current high definition televisions. Additionally, providing this content requires large bandwidth which customers may not have.

Actions

All points made in the short term strategy are to be implemented as soon as possible. However, long term plans should be investigated further and be discussed with managers at all levels within the organisation. Furthermore, the strategic plan should be a continuous revision procession and should not be left untouched. It is important for Netflix to quickly adapt and strategise to be successful.
Critical Appraisal

This section presents the critical appraisal of the value of the techniques used throughout this plan.

For this strategic plan it had been decided early on in the process that a roadmap would be used for the strategic making process. A number of roadmaps were available, such as Galliar's Scenario Planning and Robson's (1997) model. However, an older model named Andrews Model (1971) was selected. The reason for this was because it was much easier to follow and represent each phase in a way that was easier to understand compared to the other models. For example, compared to Robson's model it is more complex; however it does give a richer insight into the types of analysis and information that is required to create a strategic plan. Robson's (1997) model does not suggest that analysis must be undertaken to create a strategic plan, compared to Andrews that suggests Environmental Analysis and Resource Analysis. Conversely, Andrews model can be classed as completely out-dated. To make it more current and relevant to the strategic process, some aspects of the Robson (1997) model were taken to update it to make it more suitable for the modern business environment. Mission Statement was added in from the Robson (1997), so too was Actions. Andrews model (1971) previously did not represent these. Additionally, both models suggest that the strategic process is static and does not repeat. To counter this, a feedback loop was added to Andrews model (1971) to suggest that strategic analysis is an on-going activity within the business and should not be ignored once a strategic decision has been made. With these changes, it was decided that this would suffice and the strategic process would begin.

To perform that strategic process a number of tools were selected to best represent the type of analysis required. SWOT was used to identify the Strengths, Weaknesses, Opportunities and Threats for Netflix. SWOT was chosen because it enables the ability to understand the business that is being analysed and help develop business goals and strategies. (Robson, 1997) Additionally, as noted by Kock (2000) it is a very simple and strikes a nice balance between analysis and intuition and also allows creativity since it is so easy to understand and use. However, the technique can cause some issues. As noted by Robson (1997) there is a tendency when using this technique to “be less than honest in the appraisals and feel the need to cover up feared weaknesses by proclaiming perceived strengths.” This can have a knock on effect, when trying to avoid the weaknesses the results of the SWOT analysis tend negative in bias (Robson, 1997). Furthermore, the technique does not have any built-in mechanisms for handling any uncertainty, nor does it produce a holistic model of the organisation being analysed. Another valid criticism from Kock (2000) is that the technique assumes that the strategists will know about the technological factors or social factors that could impact the organisation. Additionally, the content produced within

PEST was also used in conjunction with SWOT. PEST was chosen since lists the potential major changes facing an organisation though Political, Economic, Social and Technological factors. The reason for using this model is that it gives an overview of the micro environmental factors that organisations must take into consideration when making strategic decisions. It looks very similar to SWOT and can even generate the same ideas; however it also has some of the same pitfalls. Again, like Kock (2000) said about SWOT, it assumes that the strategists will know about the technological factors or social factors that could impact the organisation. Additionally, the content produced within
the diagram is constructed purely based on assumption without any proof. Basing a strategy based on these assumptions is dangerous and could seriously harm the business. However, using this technique and SWOT analysis helped uncover some interesting information about Netflix that directly influenced the recommendations given.

The BCG matrix was used because it models the relationship between a division of an organisation or current products or future potential and the appropriate management stance. (Robson, 1997) This model also integrates well with SWOT analysis, which has been completed in various strategies of this strategic document. The comments mentioned about SWOT or PEST can also be applied to this model. The most is fairly simple and is easy to use; however it does have a fundamental problem. The advice given throughout this diagram tends to be one dimensional and no comment made on the value of the content within the diagram added by combination or relating to a long term strategic decision. (Robson, 1997) The only commented content within the diagram is the financial gain. Furthermore, one issue with using this technique for this analysis was not having sufficient information to accurately represent the content against the market growth and share. So it was assumed that whatever strategic recommendations were made based on using this model and previous models is that Netflix can afford to implement the recommendations suggested.

Porter’s Value Chain was also used. The issue with using this method was that an Information Intensity matrix was not created in conjunction with this. Porter would argue that the plan would have benefited from using this as it illustrates the relationship between the information intensity in the value chain of work to produce the product and the intensity of the product itself. The reason for this was due to the uncertainty of the content provided in the value chain analysis. Instead, as previously discussed, a BCG matrix was created instead to examine the product line of the company.

Porter’s Five Forces was used in conjunction with PEST and SWOT. Using Five Forces was beneficial since it provided some industry analysis with the strategic document, thus providing more valuable information on how to strategise to beat competitors. Additionally, it was useful since Netflix only focusing on providing two products, where as if Netflix had a more complex set of products this model would become very complex and bears the risk of missing important elements. Another issue with Five Forces that affects the value of this plan is that it assumes the market is static. Netflix exists in a dynamic environment where business models can change completely in a short space of time, so five forces would have some use later in the analysis stage of a new situation. One of the suggestions in the strategic plan was to assign partnerships with companies to gain more customers. However, this model tends to focus on pure competition and does not allow the opportunity to create strategies of strategic alliances. To make this model more relevant, perhaps an updated model would be best suited.

Despite using an older, albeit updated model with some older techniques that have some issues, the plan can still be of value to Netflix. The tools used clearly provided information to help gain competitive advantage and they also helped produce recommendations. Following Porters ingredients did help create a more valuable strategy plan, as it gave an idea of what a good strategic document should provide. With the addition of Porter’s Generic Strategies, this also helped the document to be of more value. The generic strategies clearly defined routes to take when creating a set of recommendations for Netflix to follow. Following the Differentiation strategy suggested by Porter (1985), allowed the strategist to focus on specific strategy that would help differentiate Netflix from its competitors using the analysis from the techniques described.

In conclusion, by using some updated techniques like the virtual value chain and combining that with the I-I Matrix would be more beneficial overall, however the content provided does clearly state the issues and the recommendations address some of their business processes.
References


Appendices

Appendix 1

Further Details on SWOT Analysis

SWOT Analysis defines the relationship between internal and external appraisals within the strategic analysis for Netflix. Using SWOT must be based on a realistic appraisal of the past and present performance of Netflix; it is not possible to purely create a strategy purely based on opportunities and threats from SWOT analysis. Therefore the strategy will emerge the results from all the techniques used to measure the market attractiveness and the businesses strength. Using this tool will allow Netflix to identify existing opportunities, create new opportunities, to identify the threats and help counteract them, whilst also repairing the weaknesses for better defence against competitors. The strengths within this model must be realistically identified and assessed. (Robson, 1997)

Appendix 2

Further Details on Porter’s Five Forces

Using this model allows Netflix to model the competitive world in which it exists and the forces that play upon them.

Rivalry between competitors – This can range from an intense to mild affluent and affable industry. If the rivalry is high in this segment, profits tend to be low. (Robson, 1997)

Threats of new entrants – This is the height of barriers that Netflix could potentially face against their threats and determination to get over them defines the industry’s profitability. (Robson, 1997)

Threat of substitutes – When these threats are high Netflix’s safe profit margin is low as customers more readily change when prices are high. (Robson, 1997)

The power of buyers – This depends on the price sensitivity and their bargaining leverage. (Robson, 1997)

The power of suppliers – This is the differentiation of the inputs and the matters when Netflix’s process needs a rare commodity to compete with competitors. (Robson, 1997)

Using this model for Netflix allows us to concentrate on how to exploit a powerful position or to protect from a weak position. (Robson, 1997)
## Weaknesses

- Over 2 billion future subscribers
- Excessive spending on content licensing
- Studios' release of films and TV shows
- Limited by content licensing agreements
- Dvd segment despite increasing in streaming
- Streaming business making less money than creditors

## Strengths

| 1. Strong brand awareness |
| 2. Strong brand identity |
| 3. World's leading internet television networks |
| 4. Over 33 million subs in over 40 countries |
| 5. Unique value proposition: $5/65 monthly subscription |
| 6. Dvd-by-mail profitable, up to 50% of |
| 7. Largest content library of any online streaming service |
| 8. Most exclusive content of any online streaming service |
| 9. No advertisements |
| 10. Strong application presence in video game players |
| 11. Strong personalization algorithms |
| 12. Integration with social networks like Facebook |

## Internal

| 1. Damaged brand image in 2011 when they |
| 2. Widely available, loss of control for Netflix |
| 3. Dvd segment declining, lost 3.0 million |
| 4. Monthly to boxshin |
| 5. Unique value proposition: low monthly price |
| 6. Dvd-by-mail profitable, makes up to 50% of |
| 7. Largest content library of any online streaming service |
| 8. Most exclusive content of any online streaming service |
| 9. No advertisements |
| 10. Strong application presence in video game players |
| 11. Strong personalization algorithms |
| 12. Integration with social networks like Facebook |
Appendix 5

**Threat of Substitution**

- Streaming services are more affordable than traditional TV services.
- Many alternatives to streaming are available, such as Netflix, Hulu, and Disney+.
- Customers may prefer these streaming services due to lower costs.
- Some streaming services offer unique content not available elsewhere.

**Competition Intensity**

- Streaming services must compete with traditional TV providers.
- Different license requirements to distribute content.
- Limited number of suppliers compared to traditional TV providers.
- Limited number of suppliers with high entry barriers.

**Buyer Power**

- Customers have more bargaining power due to increased choice.
- Streaming services may be more loyal to existing brands.
- Streaming services can offer unique content not available elsewhere.

**Supplier Power**

- Streaming services often control the supply of unique content.
- The supply chain for producing and distributing content is complex.
- Streaming services may have exclusive deals with suppliers.

**Rivalry Among Competitors**

- Many streaming services are available, increasing competition.
- Different license requirements to distribute content.
- Market fragmentation among different providers, making it challenging for new entrants.
<table>
<thead>
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<th>Political</th>
<th>Economical</th>
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| • Copyright, trademarks, patents and licensing restrictions  
• Film standards are evolving  
• International policies can affect growth  
• Relationships with suppliers  
• International laws can affect software features  
• Internet Service Providers blocking access to Netflix  
• Internet Service Providers throttling bandwidth usage of Netflix | • Large Capital is required to enter the market  
• Fluctuation of currency in international markets, potential obstacle of growth into international markets  
• The market is driven by low prices  
• Operational costs of sending out DVD-by-mail  
• Cost of running distribution centres for DVD-by-mail service  
• Cost of hiring third party to host content  
• Cost of licensing content distribution |
| Social | Technological |
| • On-the-go streaming is more convenient  
• People are more reliant on smart devices to consume media content  
• A need for recent video content  
• Subscribers internationally using VPN services to access content from United States  
• Piracy  
• Ethical and religious factors relating to the Internet may prohibit use of Netflix  
• Popularity of streaming content could decline  
• Popularity of consuming content by DVD could decline | • Competing technology like Video on Demand through cable and satellite  
• Growing expansion of LTE and 4G offers larger bandwidth to stream content on the move  
• Technology to cut Bandwidth requirements in half for HD content  
• Wi-Fi is more common than it was 10 years ago  
• Broadband Internet speeds are always increasing with the introduction of Fibre Optic  
• 3D video is a popular method of consumption  
• Introduction of 4K TVs in the future |
<table>
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<th>Threats</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td>- Internet connection: Users who travel to areas without an Internet connection.</td>
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<tr>
<td>- Competition: Netflix customers may have exclusive rights that competitors cannot replicate.</td>
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<tr>
<td>- Support and more up-to-date competition: Netflix provides a more updated competitive landscape.</td>
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<td>- Streaming third-party content: Netflix streaming their own content as an alternative to Netflix.</td>
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<tr>
<td>- Supplier's ability to deliver streaming service: Third-party suppliers offer their own alternative to Netflix.</td>
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<td>- Internet service providers' throttling: Internet service providers block Netflix from accessing its content.</td>
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<td>- Smart devices like phones, tablets, and computers: Netflix is slowly decimating more users using these devices.</td>
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<td>- Power: Netflix provides its own streaming content.</td>
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<tr>
<td>- Content restrictions: Netflix provides content restrictions on streaming.</td>
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<td>- Netflix providers: Suppliers have control over content.</td>
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<th>Threats</th>
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<td>- 1. Expand into more international territories</td>
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<td>- 2. Netflix to have Netflix built-in</td>
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