


SWOT analysis of

Company Background

Key Facts

Name	Netflix, Inc.
Founded	August 29, 1997, Reed Hastings & Marc Randolph
Logo	
Industries served	Media: Cable, Satellite TV, Internet Streaming
Geographic areas served	Global: Over 190 countries

Headquarters	Los Gatos, California
Current CEO	Reed Hastings
Revenue	\$15.8 Billion USD as of 12/31/2018
Employees	7,100 Full-Time Employees
Main Competitors	Amazon, Hulu, Apple, Disney, WarnerMedia

Summary of the company:

Founded in Scotts Valley, CA. in 1997 as a competitive DVD-by-mail business, co-founders Reed Hastings and Marc Randolph transformed Netflix's business model into the largest online video subscription-based streaming service in the world. With revenue generated through its large subscription base, Netflix has been able to expand globally by acquiring online broadcasting licenses in other countries. Netflix has three main business segments: domestic streaming, international streaming and domestic dvd. They stream the largest library of online content, from movies, television shows, and original programming, both domestic and foreign. Every streaming device, from smartphones to gaming consoles, has provided Netflix with a powerful marketing platform for continued growth.

SWOT

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Strengths	Weaknesses
<ul style="list-style-type: none">• High customer service (customer relationship management)• Access on all platforms (global business opportunities, technological environment)• Brand recognition (marketing)• Large movie and tv show selections (market segmentation)	<ul style="list-style-type: none">• Monthly subscription price (Competitive Environment)• Dependence on other devices (Distribution)• High cost of content they don't own (Pricing)• Maintaining consumer loyalty through content (Customer Loyalty)
Opportunities	Threats
<ul style="list-style-type: none">• Original content (competitive environment)• Emergence of new markets (emerging economies)• Partnerships (inflow of innovation)• Advertisements (target marketing)	<ul style="list-style-type: none">• Competitive market pool increase (Supply and Demand)• International government regulations (Free Trade/International Trade)• Reliance on credit (Debt Financing)• Piracy (Protecting Intellectual Property)

Strengths

With over 150 million subscribers, Netflix must ensure their customer service is on standby if any streaming problems occur. Netflix maintains strong customer relationship management. Customer relationship management is learning about the consumers in effort to exceed their expectations; therefore, it builds long-term relationships. Marketing is key when it comes to attracting new customers and maintaining the relationships. Netflix's brand recognition is very popular among millennials because it is

all about influencing others to watch the same shows. nScreenMedia explains that Netflix's success is all because of their increased social presence, through word of mouth and social media sharing. Accessibility is the main goal for Netflix as it is able to be used on any device that has internet. In effort to strengthen their presence, they know offer the opportunity to download their content onto the devices. Their competitors Hulu and Amazon Prime do not provide these options; therefore, this keeps the technological environment constantly changing. Netflix has a large movie and tv show selection along with their own original content, which is comparable to their competitors.

Weaknesses

Netflix has raised its monthly subscription prices four times in the last 12 years. From \$8.99 in May 2014 to \$12.99 in January 2019. Although these \$1 to \$2 price increases are justifiable to subscribers because of quality content, this trend won't last for long as new competitors enter the video-streaming market with competitive pricing. Netflix does have a physical distribution network. They rely primarily on third-party providers such as Roku to distribute their product to existing and potential new customers through pre-installed apps already on the devices. Netflix spends approximately \$8 billion on show content, as well as \$2 billion on advertising causing them to take on more debt. But they don't have complete ownership of their original programming. Instead, Netflix has exclusive licensing agreements with production companies and studios. These agreements, when ended, can negatively affect customer loyalty with programming that is endearing to fans.

Opportunities

Netflix has been focused on the capturing the attention of the emerging new markets. These new markets are emerging economies, such as Brazil and India. Foreign franchising has allowed to create more original content, based upon the consumers wants, depending on the country. This creates a new profit for Netflix because new subscribers come strictly for the original content provided. Partnerships with production companies help provide the consumers with more options; however, creating new companies would allow an influx of new content and new shows, that the competitors do not have. Netflix could become like their competitors and add advertisements, in effort to increase their revenue and capture more subscribers. Advertisements tailored to each consumer, also known as target marketing, would influence more purchases from those companies and encourage them to keep watching their Netflix content.

Threats

Netflix, albeit a pioneer in the video streaming service world, faces many threats from outside sources that could cripple the company. The competitive market base that Netflix was once used to is steadily increasing; companies such as Disney, NBC, Apple, WarnerMedia, and Discovery/BBC are starting their own video streaming services. With

this increase in competition, not only is Netflix at risk but the video streaming service market at large could be facing a bubble very soon. The supply will increase but the demand by the consumers is likely to stay the same which could lead to a list of problems for Netflix. One major problem could be the loss of subscribers, being that there is a high possibility these companies will pull their content from Netflix for their own services. The need for original content from Netflix will be an even greater necessity than ever before. To offset their spending on creating original content there is a high possibility of price increasing out of necessity which could be an incentive for some of its 150 million subscribers to unsubscribe. In the United States alone, Netflix has reported difficulty adding subscribers based on the most recent quarter reports of 2019 and they faced a drop with their last price increase.

Currently in the United States, Netflix owns roughly 67% of the market share but internationally that number is far smaller sitting at 8%. Domestically they may face a drop in their market share once their competitors begin to release their services, but they have a huge opportunity for growth in the international market; if they can break into it. In the US, Netflix has the benefit of running as completely self-regulating with its content, being that it does not fall under the scope of the Federal Communication Commission agency because they are considered an edge provider which is a company that utilizes an internet service provider to deliver content to consumers. With this in hand, they can operate and provide content as they see fit so long as they do not violate any policies set in place by the Federal Trade Commission. Internationally they do not have the same freedoms as they do domestically, in part due to the fact that the countries they provide their services to are not as liberal with the use of internet and its content as the US is. For example, in India Netflix was asked to sign a "code of best practices" which allows Netflix to still self-regulate if they do not stream any content that disrespects the national emblem or flag of India. The consequences could be either the content will be blocked, or India can stop Netflix from doing business all together in the country. India is a huge market for Netflix to grow in being that mobile phones subscribers are on the rise, so the loss of that could negatively impact the company's profit margin growth. Furthermore, China is a major market in Asia they are facing resistance from breaking in to, being that China's government has heavy control over what is distributed through the internet. With that said, Netflix may never be able to break into the Chinese market, unlike their soon to be competitor Disney which already has relationships with China and its government which in turn can lead to a large drop in market share for Netflix on the international stage.

Just any business, Netflix has acquired debt in order to operate. In this case the company accrued a large amount in order to create its content both original and not. It is projected that by the year's end Netflix will \$12.3 billion in long term debt with an interest of \$135.5 million debt. It has been reported that the company has not paid down any significant amount of their debt. As long as Netflix continues to grow its subscriber base, they should not face any immediate problems; that is if they can continue that growth. If they are unable to maintain that subscriber growth, they could be facing bankruptcy. Although their debt is an immediate threat, it is still looming over the company.

Long before video streaming services even existed the movie and television business faced this same threat; piracy. The act of illegally copying, reproducing, and redistributing copyrighted content without any payment to the original content creator is against the law and harms not only the company which created the content but everyone that is involved. With the world moving online piracy has become easier than ever; there are now websites which allow peer2peer sharing of torrent files from one person to another or allow webhosts to stream movies or tv shows freely. Ultimately, this threat could effect Netflix' subscriber base by potential consumers not needing a Netflix subscription to view their content. This could also lead to a drop in the amount subscribers because these consumers may not want to pay the fee if they can find the content for free online.

The Future

One Netflix' biggest strength is its brand recognition; it has become a part of pop culture's lexicon through the innuendo "Netflix & Chill" made popular by the internet about 4 years ago. Aside from being ingrained in our pop culture, its brand recognition has mass appeal both domestically and internationally in the business world. Which is why they have had some much success with its licensing agreements to stream some the most popular television shows and films today, both current and classic. The bottom line of the company's threats and opportunities is based on subscribers and the potential loss of them. Their brand recognition can play a huge part in combatting the potential loss and actually help them gain and/or retain the subscriber base they currently have. Their clout carries a lot of weight in the video streaming world and some business moves they have made and will continue to make, internationally and domestically to help with their growth, are as followed:

Co-Production: Netflix has made a lot of "original" content but some of that content is not necessarily original to Netflix. The company has reached out to non-US based production companies that have made successful tv shows and given them the option to break into the US market through the video streaming service. It is essentially a win-win for both Netflix and the foreign production company by giving exposure in both of their respective markets. That is not to say they have not done the same domestically by bringing back tv shows that have been cancelled by their original parent company such as NBC Universal or Fox and brought it to Netflix as a "Netflix Original" giving incentive for new subscribers and/or maintaining their current base.

Global Reach and Acquisitions: Netflix is currently the only video streaming service that has a truly global reach outside of the United States. They have extensively researched their global markets to see what works and what does not. They have found that in certain areas such India, which is an emerging market for them, that Hollywood productions do not do as well and domestic Bollywood productions are what the majority of what the market craves. That is why they have gone on to acquire Indian

made tv shows and films that translate well both for the Indian and non-Indian markets they distribute to. This type strategy through market research could help them gain more traction in growing their international subscriber base giving them the opportunity to increase their market share on the global stage.

High Profile Directors and Producers: The company's namesake, and of course its money, has allowed it to attract Oscar-winning directors and producers to create original content. With names like Damian Chezelle(Director of "La La Land"), Joel and Ethan Cohen(Directors and adapted screenplay writers of "No Country For Old Men"), and Guillermo Del Toro(Director of "The Shape of Water") on their pay role, Netflix has the potential to only add to it's own profile. The company's biggest win and show for potential growth outside of being just another video streaming service, was hiring Alfonso Curon(Director of "Gravity") to create the film Roma which Curon wrote, directed, co-produced, and co-edited for Netflix. It was the company's first theatrical release, aside from being available for streaming, and its first Oscar winning non-documentary film. This was an upset to the film world which gave an enormous amount of publicity for Netflix. It could potentially move more film makers off the big screen and on to streaming services, of which Netflix could be the pioneer henceforth giving incentive to potential subscribers to pay that fee to view these films.

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