

Marketing Paper

Founded in 1997 by Reed Hastings and Mark Randolph, Netflix is the world's largest online DVD movie rental service. ("History of Netflix, Inc.," 2011) With more than 75 million members in 190 countries, Netflix offers thousands of titles to choose from at low monthly costs with no commercials, commitments, or late fees. ("Netflix: Overview," n.d.)

When Netflix first began, DVDs were a new thing, less than 1,000 titles were even available and DVD players were expensive things only few households owned. Hastings and Randolph saw the potential for these disks and figured because of their small size they could be mailed out. At first Netflix only offered a 7-day rental period for \$4 plus \$2 shipping. It was not until 1999 did they implement the Marquee program which allowed customers to pay a flat monthly fee of \$15.95 to rent 4 disks as long as they wanted. ("Netflix, Inc. History," n.d.)

Today Netflix is worth 25.5 billion dollars and employs 2,450 customers. ("#27 Netflix," 2015) With over 100 shipping centers across the U.S., customers who receive DVDs usually get them within a few days. ("Netflix locations," n.d.) Netflix is a company that is determined to grow and by examining their strengths, weaknesses, opportunities, and threats it can help determine what they should continue doing, areas they need to improve on, ways to make the company better, and things they should watch out for along the way.

One of the strengths Netflix has is brand loyalty. In 2007 Netflix decided they wanted to take the next step in changing how people watched movies, so they came up with the idea to let customers stream them. By being one of the first companies to offer streaming Netflix gained a first movers advantage. ("Netflix, Inc. History," n.d.) People who were already Netflix customers, service got even better, and those who hadn't signed up yet might have been given a

reason to join. Over seven million customers that were members in 2007 (“Netflix,” n.d.) likely stayed members and will stay members because they know the company. Today the word Netflix has almost become a verb, “Netflix and chill”. Most people you talk to know what it is and have a positive association with it. (Nemcick-Cruz, 2013)

Another thing Netflix really has going for it is its original content. Offering a wide variety of TV series, movies, children’s shows, and documentaries Netflix is investing hundreds of millions into their content. Some of the most popular content includes, “Orange is the New Black,” “House of Cards,” “Marvel's "Daredevil,” and “Unbreakable Kimmy Schmidt” (Stenovec, 2015) The streaming company’s chief content officer Ted Sarandos said in 2016 Netflix will have 600 hours of original programming, coming in at a price of around 5 billion dollars. (Hibberd, 2016)

Netflix is available in more than 130 countries around the world: however, there are a few that are not on the list, one being China. (*Netflix Is Now Available Around the World*. (2016, January 06) China ranks number one for population with 1,376,048,943 People in 2015. This is nearly 20% of the world’s population, causing this to be one of Netflix weaknesses.

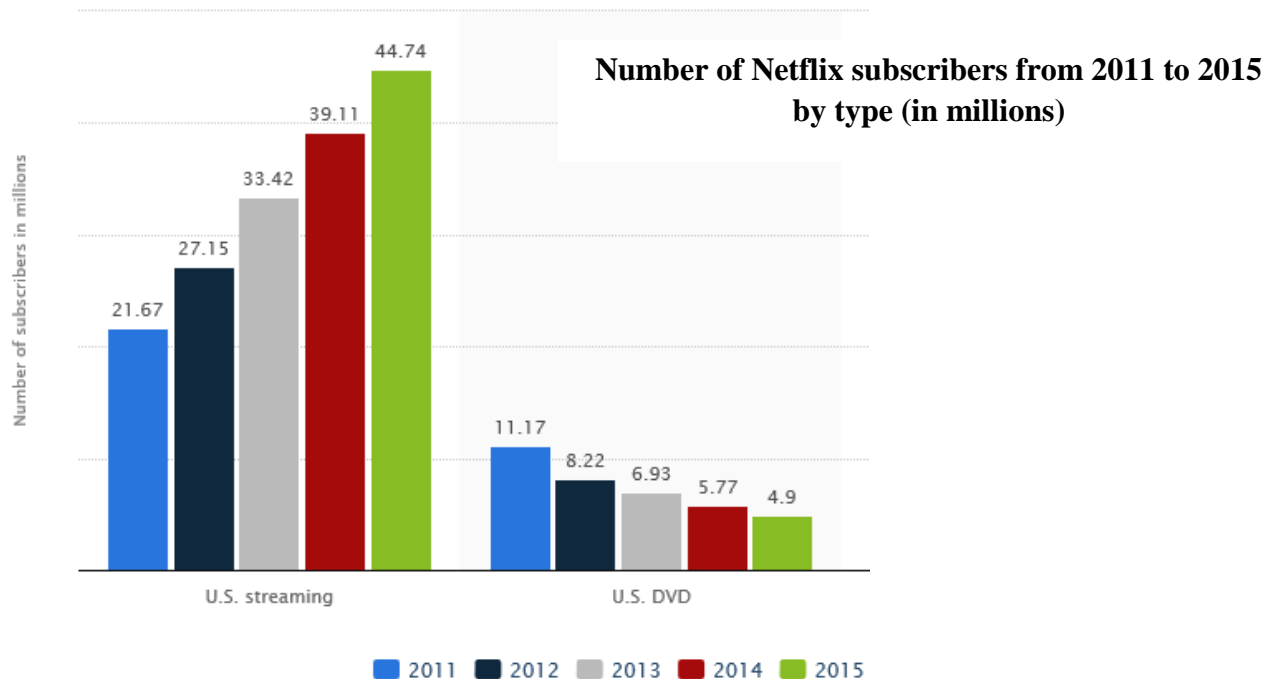
(Worldometers, n.d.) Netflix is giving up a lot of potential income by not including China. Other countries Netflix does not reach include Crimea, North Korea and Syria. While these are also missed opportunities, service in these countries is not provided due to U.S. government restrictions on American countries. (*Netflix Is Now Available Around the World*. (2016, January 06).

Netflix availability



(“Where is Netflix available?,” n.d.)

Another weakness Netflix faces is DVD mail subscribers. As seen below, the number of people who are subscribing to the mail service is steadily dropping while the number of people who sign up for streaming are on the rise.



(“Number of Netflix

subscribers from 2011 to 2015, by type (in millions),” 2016)

This is not good for Netflix because they do not make as much money on customers who just stream. To be able to stream content on two devices cost \$7.99 per month in the U.S. It costs \$11.99 per month to subscribe to two DVDs at a time. (Saito, 2015) This is a potential \$4 loss for

Netflix. If DVD subscribers continue to drop and customers opt to stream their content, Netflix will continue to face these losses.

Because there are countries where Netflix is still not available, expansion is one of Netflix's opportunities. China is the main opportunity for expansion because their population is so large and they are on good terms with the U.S. Expanding Netflix streaming services with China would mean Netflix having to partner up with a Chinese film company. This is because China has limitations on the number of foreign TV shows and content that can be shown. Censorship issues also present a problem. If Netflix could get past these road blocks there is potentially a lot of money to be made. According to Forbes.com "a larger portion of Hollywood earnings are coming from, and will keep coming from, China." The Chinese want to see Western content and although the idea of streaming has not fully evolved, they are willing to pay for tickets to go see movies, so why not bring those movies straight to their screens? (Prins, 2015)

A second opportunity for Netflix is a new rating system. Netflix Chief Product Officer, Neil Hunt explains when customers rate a movie, "they fall into trying to objectively assess the "quality," instead of basing the stars on how much "enjoyment" they got out of it." This can lead to faulty ratings because even though someone might have had fun watching a movie, they give it a low rating because they do not think it was a good quality movie. The new rating system would ask viewers to rate the enjoyment of a movie rather than its quality. By implementing this new system, viewers would be able to choose a movie based on how much other viewers have enjoyed watching the movie, rather than if other viewers thought it was a "good movie" or not. Bell, K. (1016, January 10)

Netflix has one major threat, competition, and it comes in the form of Amazon Hulu and Redbox. Staying ahead of the rest, 2014 data indicates American households stream Netflix over Amazon and Hulu Plus. Netflix dictated 36% followed by Amazon at 13% and Hulu Plus at 6.5%. Moskowitz, D. (2016, March 15). There is some price competition among the three, with Netflix and Hulu both costing \$7.99 per month and Amazon not far behind at \$8.25 per month. Hulu has the advantage when it comes to timing. Some TV shows are available to stream 24 hours after their original airing, where as it might take Netflix months to get it. Netflix is officially the only one that has no ads and as for original content and movie selection Netflix has the others beat. Amazon does have original content that is expanding, but its shows are not nearly as popular and well known as the ones produced by Netflix. Along with having the biggest selection of movies, Netflix also has the most documentaries. (Burks, 2015)

Although Redbox is not a streaming service they should still be considered a competitive threat. At each Redbox location there is a large selection of all genres of movies as well as some videogames. \$1.50 for a regular DVD and \$2 for a Blu-ray disk, Redbox kiosks offer customers a convenient way to just pull up and rent a movie. The rental period for a Redbox disk is from the time you rent it, to 9:00pm the next day. Disks can be returned to any Redbox location and if the disk is not back by 9:00 the customer will be charged another day. ("OUR PRICES ARE INCREASING A LITTLE.," n.d.) The threat Redbox has is instant gratification. If a customer wants to see a movie (that is not available to stream) they can just go pick it up verses waiting a few days to receive it in the mail from Netflix.

To conclude Netflix is an established and growing company with millions of loyal customers. They have a wide variety of content to choose from including lots of their own strong original content, which they should continue to produce because of its popularity. Netflix should

consider expanding their service to China in order to increase the number of customers. Another thing Netflix should try and do is expand their library of streaming content. With more and more customers switching from mail order DVDs to just streaming, customers would be happier and might be willing to pay a little more to have more content.

Implementing a new rating system for their movies would be a good thing to try. Customers might be able to find more movies they like if the system is recommending movies based on their enjoyment of movies they have seen. To stay ahead of the competition Netflix needs to keep their prices low, stay commercial free, and keep producing original content. They need to work on their timeliness by trying to make new movies and TV shows available sooner.

If Netflix puts these ideas into action they can increase their number of customers, make their current customers happier, and maybe even convert customers of their competitors.

Resources

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