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Part One: Environmental Scanning

Laws and Regulations
Netflix has a terms of use agreement which everyone wishing to use Netflix must agree to. In this document it clearly states the laws in which Netflix abides and what the users also must follow. The regulations also differ from country to country since they have gone international. Netflix must closely follow copyright laws, international laws, and many more put in place by the United States. If a user is thought to have terminated this agreement or performed an illegal act then they have the right to terminate or restrict service. Netflix has to work around many federal laws like the Americans with Disabilities Act. It is a subject that most people would not first think about, but Netflix did get into some legal trouble for not having closed captioning for every internet streaming videos, which they now provide. There are so many areas that Netflix must work with in order follow all the laws and regulations put in place for the internet community, and I assume they will only continue to grow.

The Economy
The economy has a huge effect on how people spend their money and is one of the main reasons that Netflix is beating out all of their competitors. With a mediocre economy, people don’t want to spend at thirty dollars or more per month on cable when Netflix provides an array of popular TV shows for less than ten dollars per month. It is a great alternative for people who cannot afford cable. Netflix hasn’t only been stealing subscribers from the cable companies but many other of their competitors as well, like HBO GO and amazon prime.

Netflix predicted that they will benefit from the bad economy. Not only did they predict this, but there are numbers to back it up. NFLX has a stock price of 454.98 right now, the highest it has ever been. In 2011, there was a drop in the stock prices which has been attributed to the switch in Netflix’s distribution. Instead of receiving a DVD and online streaming, the customer then had to pay for bother separately. This did not leave previous customers and stock holders very happy. Since then, though, NFLX has had a constant increase in their stock prices. With rising costs of gas, education, etc. People want to save a dime anywhere they can and Netflix has definitely hit the target and is helping people save.

Technology
Many technologies have helped Netflix advance to its current position, particularly the Instant Streaming segment of their business. The mainstream availability of high speed broadband has allowed Netflix to become available to the vast majority of Americans. Netflix uses an adaptive technology as well as HTML5 to deliver streaming to its customers. (Watson) This technology allows it to be viewed on the majority of computer systems on most internet networks. The technology automatically changes the quality of the video so depending on available computer resources and internet bandwidth. For the most part, this has allowed most customers to view Instant Streaming with relatively few interruptions. However, the extensive use of the service has caused bandwidth issues with Internet Service Providers (ISP’s) The ISP’s have begun demanding payment from Netflix as compensation to counter the increased traffic, and in return, they would help Netflix deliver smoother streaming to customers. (Ramchandran) This deal represents a fundamental shift in the way the Internet works, and could be a cause for concern in the future. (Lee)
The majority of Netflix’s growth in the past few years has been in its Instant Streaming division. While lots of content is available, one of Netflix’s advantages over other competitors is the online suggestion system. Based on the viewer’s ratings and the videos they have watched, the service uses various algorithms to suggest content the customer may like. These suggestions are available to the customer on all of their platforms, whether it be on a Smart TV, video game console, computer, or even mobile device. The availability of the service on so many platforms has also allowed Netflix to enjoy such a substantial growth in the past few years.

Netflix has also been experimenting with many new technologies, particularly in the mobile application department. With the use of Bluetooth, and Apple’s iBeacon technology, mobile devices can share Episodes and Shows with other users by simply taping the devices together. This would eliminate the need to share personal information in order to watch episodes. Another innovation comes in the form of adapting Netflix’s current use of its’ NextEpisode technology. Currently, the next episode of a television show will play continuously until either a user has stopped it manually, or a predetermined number of episodes has finished. A new sleep technology is being tested that would allow a mobile device to detect if a viewer is sleeping by use of the devices sensors. This would stop play of an episode when a user has fallen asleep, saving the user internet bandwidth and the devices battery as well. (redOrbit)

**Demographics**

While the growth of Netflix has been substantial in since its inception, taking a look at the demographics of Netflix’s customer base shows some interesting facts, and how the company could be hitting a crossroads in the near future. Because of its nature as a new technology, a large portion of Netflix’s growth has occurred in the younger segment of the population. A study conducted by Harris Interactive last year found that 43% of people between the ages of 18-36 subscribe to Netflix. (Levine-Weinberg) This is a remarkable statistic, and shows how saturated the market is in the younger population, however, if the company wishes to obtain its target goal of 60 to 90 million subscribers (they are currently at 33.1 million in the US, they are going to need to make some changes to their service. Only 31% of those ages 37 to 48 also subscribe to Netflix, only 21% of adults 49 to 67 and 13% of those 68 and older are subscribers. (Bloomberg) These markets are where Netflix is going to be targeting, however, they are in stiff competition.

Contracts with content providers, such as MGM or Viacom, are what give Netflix the ability to have certain shows or movies on their service. While Netflix might want to have certain movies available for their customers to view, it’s up to the content providers if they would like to give Netflix access to their titles. Just in the in 2013, Netflix lost some key content when Warner Bros, MGM, Universal, and Viacom let their licenses expired, and the titles were then removed from Netflix. This radically changed Netflix’s ability to cater certain demographics, with younger children being the big loss. One key to Netflix’s success into expanding into the older market was to capture the children, with shows such as Dora the Explorer, SpongeBob Squarepants, and Blues Clues. (Pachal) Parents would subscribe to the service simply to entertain their kids, and this was an effective strategy for obtaining more market penetration, that is, until the titles were pulled. While Netflix is still growing, they aren’t at the rate they could be. Getting exclusive titles is going to be an important task for not only Netflix, but their competition as well. Customers will only sign up for services that have the content they want, and content can become exclusive if the contract is written so. A competing service, such as Amazon Instant Video, still has access...
to MGM videos. (Masnick) Netflix is going to have to work hard to acquire the content that older customers are going to want, otherwise, not only will growth be difficult, but customers might switch to competing services.

**Social Issues**

Netflix has started a lot of controversy recently around their lack of care toward social trends and issues of today. So let’s look at these in both of these categories separately.

Social trends can be defined as anything from current events to social media channels utilized by society today. And one of the biggest mistakes that Netflix has made is their underutilization of Facebook and Twitter. When they increased their billing rates by 60% before sharing the why behind the decision, customers expressed their opinions through social media as if it was a “Megaphone” (forbes.com). In today’s market, not having “handles” and “domain names” can harm a company’s reputation because it allows others to slander or belittle an organization’s name to the public.

A trend resulting from the recession suffered by the U.S. was the need for entertainment at a “discount” cost. While this need is what allowed Netflix’s well marketed approach to gain so much interest, it was its inability to expand to meet other social needs (mobile device usage, newer films, etc.) beyond movies/TV shows through internet streaming that was its overall downfall. With so many new competitors in the market, Netflix lost too many customers too competition because of its rate increase to maintain a stable, dominant, role. It then was unable to quickly and effectively communicate to its customers and actively use input from consumers. While this did not kill Netflix, it does show the power of consumers in today’s globally communicated market. Netflix’s ability to update so quickly to changing needs keeps it on the market as a contender. Our example of incorporating films in other languages that viewers cannot get at your traditional movie theatre does add value to the company.

**Suppliers**

While recently losing Starz, a company providing roughly 22% of movies on Netflix (mostly newer ones), it is safe to say that Netflix is on a downward path with their suppliers (netcompetition.org). Partially due to their extreme need for more modern content to please customers, but mainly due to their belief in pushing more of this purchasing cost on their customers. Most suppliers are realizing that many new entrants are joining the “cloud-based entertainment business” which translates into a split market, not a monopoly. Something that Netflix has not accounted for according to their demand models of both their customers and suppliers. On a more recent and positive note, ABC News has reported that Netflix has paired up with Comcast, an internet provider, to allow smoother streaming and a much simpler payment process. While this scares many internet vendors that payment for individual service could be a resultant trend, this is a strong move by Netflix that it could result in an edge for them by expanding supplier bases away from just video digitalization and movie networks.

**Competitors and New Entrants**

Netflix dominates the visual entertainment industry, with nearly one-third of all downstream Internet traffic at homes utilizing Netflix (Gutelle). Despite this, there are many competitors and new entrants to the industry that are trying to compete with Netflix’s instant and DVD video services.
Amazon Prime Instant Video
A relatively new entrant to the market, Amazon Prime Instant Video offers an instant video service after getting an annual subscription to Amazon Prime, which costs $79 ($6.67 each month) (Stenovec). This subscription also includes free two day shipping for many Amazon products and a free Kindle book to borrow every month (Fierce Online Video). A subscriber can stream over 40,000 titles on 650 different types of technologies; however, the only device currently with this technology is Amazon’s Kindle Fire (Stenovec).

Google Play
Since few streaming services offer full functionality to all Android devices, Google’s Android has entered the video streaming field with Google Play (Isaac). This service streams to all Android firms and some tablets, with users paying between two and five dollars in the Google Play store for each movie.

Comcast Xfinity
In February 2014, Comcast and Netflix announced that they had partnered together to provide a direct connection to Netflix via Comcast’s broadband network (O’Toole). Despite this new relationship, Comcast’s Xfinity and Netflix are still competitors. The Xfinity allows users to stream videos via tablets, smartphones, or Comcast’s cable boxes (Ungerleider). The company has also made significant investments in cable boxes and remote controls for customers, including creating a technology in which the user can change the channel with their phone. A subscription to Xfinity is built into a package with Comcast, starting at $59.99/month (Comcast Xfinity).

HBO
HBO recently launched a new online program, allowing viewers to watch any HBO series or show online (HBO Watch). This service can be utilized on computers, iOS and Android devices, and Xbox, as well as various televisions as downloadable/built-in software.

Hulu Plus
If customer was looking for a service in which they could watch television shows the week that they aired, Hulu Plus would be where to subscribe (Flacy). With episodes from five of the six top United States networks, including ABC, NBC, and Fox, the company has large amounts of watching material available, including over 86,000 episodes from over 2,900 television series (McGrath). The service costs $8 every month and streams to all iOS devices and some Android devices (Isaac).

Redbox
With over 30,000 kiosks across the nation, Redbox is a well-known brand in our culture (Isaac). Many users prefer the convenience and speed factors with the ease of selecting a movie in the moment (Brooks). Each kiosk offers 50-200 recent titles that are updated weekly (Isaac). Redbox has partnered with Verizon Wireless to provide Redbox Instant, which starts at $6/month for limited streaming options (Lawler). Increasing the price per month increases the amount of streaming options you have and gives you free access to Redbox kiosk rentals.
**Substitutes and Complements**

Netflix has an enormous amount of users and continues to get new users every single day. Within the past couple of years, the amount of online TV show and movie watchers has increased dramatically and Netflix has really began to boom. Netflix is starting to have a very loyal and demanding customer base. Although Netflix has customers of all ages, a lot of the customers are younger. Keeping these customers loyal is extremely important since there are so many different other substitutes for their customers such as Video on Demand, Hulu Plus and so many different sites that can give the same things that Netflix does.

Not only does Netflix have online competitors but also in the DVD rental industry as well. “A number of other small and large competitors such as Amazon.com are in the online rental service, in addition to Blockbuster and other brick-and-mortar stores.” (Hitt, 2009) As listed above, there are so many other options besides that are much cheaper than Netflix, such as Redbox, which is only a dollar per movie. “Netflix recently announced price increases that upset customers, to say the least.” (Rhee, 2011) With the prices increasing, not only once but multiple times, these cheaper and more attractive looking options are becoming a lot more popular and people are substituting Netflix with these different options to save money.

Although Netflix may have a lot of substitutes for it, there are a lot of complementary products that suggest an opportunity for collaboration with Netflix since it’s in the world of technology. Netflix can be advertised anywhere and can easily attack anyone to start using it. Netflix can be show on television ads, magazine ads or even newspaper ads and target the right customers since so many different types of people use Netflix.

**Customers**

There are so many different characteristics of Netflix’s customers. Since Netflix’s customers are so young, that means their customers are always looking for the next big change, looking for change and always wanting what’s “hot” at the time. These different characteristics of our young generation is what is keeping Netflix on their toes and making sure that they are up-to-date on all the new, favorite shows and movies while still saving money. Netflix must stay ahead of the game to be able to keep the interest of all of their customers, which so far they have been able to do.

Also, since their customers are must younger, lower-cost is another important factor in keeping their customers happy and loyal. In the book Strategic Management: Competitiveness and Globalization, Concepts it states that “Although Netflix is in a rather unattractive industry, given the industry forces that threaten its dominant business, the cost leadership strategy has helped to sustain Netflix performance in the face of these threats.” (Hitt, 2009) Keeping their customers happy by keeping their prices low has showed great results and kept the company on top in a very hard market. Although they have had to raise their prices, with these prices changes they added much more to keep their customers happy, like more episodes of shows and newer movies that people enjoy.

Technology is always changing and there is always a possibility for threat in an industry that involves technology. Netflix may be big now, but in a few years there may be a new, cheaper and faster way to
watch the shows that you want to watch. Netflix must make sure they are ahead and see these changes so that can keep their customers when these changes happen. Netflix is in an extremely competitive market and if it doesn’t keep up with what its customers want, such as more recent movies and shows, it may crash and burn and no longer exists in just a few years.
Part Two: SWOT Analysis

Strengths
Netflix has a lot of different strengths and weakness, but the strengths really out-weigh the few weaknesses that it has. Netflix currently has the largest market share, which puts them on top and really makes them look good to not only their customers, but their potential customers as well. Netflix also is an extremely well-known name. Today, it seems like you can go anywhere and someone know exactly what Netflix is and can name three shows on Netflix that they have already seen the entire season of. Netflix has a new Comcast deal, which is getting their name out even more which makes this new deal a huge strength for them. Last but not least, Netflix has one of the best-designed apps. It’s easy for all different age groups to use and to navigate on which keeps their customers happy.

Weaknesses
Netflix has many strengths, but does have some weaknesses as well. Netflix is more expensive than amazon prime and many of its other competitors. When families are looking where they need to cut costs to save money, especially in today’s economy, entertainment is one area that they look at first. If switching to a similar way of watching shows and movies that is cheaper than Netflix, then many people may do that. Another weakness of Netflix is that they are too focused on attracting the younger generation of people rather than the older population that can also easily use Netflix. If they broadened their focus, they may be able to generate more profit and make it not as expensive for their customers.

Opportunities
Netflix has a lot of different opportunities in the environment they are in. They have the opportunity to increase social media visibility, which is possible by simply putting their name on Facebook, twitter, Instagram and any other popular social media sites (Aria). Today, so many people sit on social media for hours every day and it’s becoming a main way to advertise your company. If Netflix did this, they could possibly generate a lot of profit. Another opportunity that Netflix could look into is having more original content. If Netflix looked more at these opportunities it could really make Netflix grow even more than it has in the past couple of years.

Threats
Netflix, especially in the recent years, has seen a great amount of threats. Competition is one of its main threats and one of the most important ones that they need to think about when they make all of their decisions. Netflix has so many different competitors that are cheaper, faster and may have more options for shows and movies than Netflix does and it is starting to steal some of their customers away. These threats are hurting Netflix and is the main reason why they are losing some of their customers. Two other big threats are the increasing laws and the broadband issues. These threats are making it hard for Netflix to further its company and really make it thrive. If Netflix can overcome these threats, it can come out on top and stay on top for as long as the company is still running.
Part Three: Recommendations

Netflix is a strong company that is worth investing in, but our group has several recommendations. With a large amount of new growth in the near future, Netflix needs to adapt to the evolving market. This market is being flooded with many new entrants and existing competitors. We are concerned that Netflix lost a key demographic after losing Starz and Disney, so if the new productions and shows do not appeal to these customers, there will be additional customers lost. Increasing social media presence for the company would also increase their potential customer base, especially with Twitter and Facebook updates to announce new updates and movies to Netflix.
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