Group Project: Strategic Management Plan

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This analysis determines the appropriate course of action Netflix should take to maximize strategic management formulas that enable the growth of the company. It is determined through careful examination of the external and internal environments present in the industry and within Netflix that the acquisition of the company VRV would benefit Netflix by expanding its audiences to the niche markets of anime watchers and gamers. Several other potential strategies are presented in this analysis that could be implemented; however, it is deemed that the Acquisition strategy holds the most value for the foreseeable future of Netflix.

Keywords: Netflix, Strategic Management, Strategy Formulation, Custom Content, Business Analysis

I. Strategic Profile and Case Analysis Purpose

(Megan Andree) Netflix, Inc is one of the most popular entertainment streaming services in the world with more than 167 million paid subscriptions in over 190 countries (Netflix, Inc, 2020). Netflix is publicly traded on the NASDAQ under the symbol (NFLX). In addition to offering commercial free streaming services, Netflix also offers DVD-by-mail services to over 2 million subscribers in the United States (Netflix, Inc, 2020).

(James Brede) Netflix Inc.'s corporate mission is "To entertain the world (Rivera, 2019)". The core tenants of Netflix's mission statement are concepts of entertainment, and a global or worldwide presence. Netflix Inc.'s corporate vision is "To continue being one of the leading firms of the internet entertainment era (Rivera, 2019)". The core concepts of the firm's vision are again entertainment, but also an online presence and leading or leadership. Both the mission statement and vision of Netflix support an overall ambition to provide global leadership in online entertainment (Rivera, 2019).

(Kristina Brock) Netflix is an innovative company that has changed the landscape of movie rentals and the consumption of television series. Originally, Netflix was a DVD rental company that shipped movies and television series directly to consumer homes, eliminating the need to go to a movie rental store. With its subscription service, users were able to enjoy unlimited rentals by checking out movies, much as one does with library books at the local library. In recent years, Netflix has moved away from physical rentals and have instead focused on streaming services and original content provided through its online apps and browser portals. Since this switch to streaming, they have continually developed original content that sets their platform apart from competitors like Amazon Prime, HBO Now/Go, and Hulu. Other companies are now developing custom and original content. Therefore, it is vital for Netflix to target a broader audience with custom content instead of focusing solely on streaming content that can be found on any platform. Instead of focusing solely on streaming content that can be found on any platform. This will provide a strategic advantage for Netflix moving into the future.

(Ciji Burnup) This strategic management plan will contribute to the organization by identifying key areas that the company can focus on to help it achieve its vision of entertaining the world and its mission of becoming the leading entertainment distribution service. The strategic management plan will provide a clear path for success for Netflix and highlight areas that need to be focused on, such as marketing, threats, and their strengths and weaknesses.

II. Situation Analysis

(James Brede) A. General Environment analysis: Netflix, Inc. is a media services provider and production company. The Political trends impacting media services providers and production companies include laws and regulations related to the internet and other areas in which entertainment companies disseminate their products. A predominant concern of online and media companies in the modern world is a firm's legal right, or lack thereof, to "collect and utilize information supplied by customers, which may include personal information (Netflix, Inc., 2020)". Further, globally governments can restrict content, internet speeds, and costs. For example within the European Union online media firms must ensure at least 30% of content offered is produced in European Union countries (Kasi, 2017). In general the political environment supports continued growth in online media services; however, risk exists with concern to increased cost of conducting business through compliance in regulations.

Economic trends impacting media services providers and production companies include competition for highly-skilled labor and competitive pricing of content. Netflix produces original content, therefore, they are a production company with exposure to "substantial and continuous competition for highly-skilled business, product development, technical, creative and other personnel (Netflix, Inc., 2020)". During economic booms and times of low unemployment media services providers and production companies compete for technical and creative talent. Additionally, media services providers and production companies are highly competitive with regards to pricing there services. Globally, streaming media services can be considered a luxury due to requirements for internet infrastructure and subscription fees (Kasi, 2017). Economic trends support continued growth in the market as globalization reduces poverty and economies grow positively allowing for amenity services to be purchased.

Factors impacting sociocultural attitudes towards media services providers and production companies include generational factors which impact adoption of technology and types of media consumed. According to Dick (2017), the streaming media service populations showed signs in 2017 of becoming much more gender-balanced across user-ships. Additionally, Dick (2017) noted a jump in parents using streaming services; increasing from 32% in 2015 to 48% in 2017. This data suggests that while older generations have lagged behind younger generations in adopting streaming media content, they are catching up. Also the means in which people consume media is changing from traditional television sets to mobile devices and phones (Kasi, 2017). Distributing media services globally requires content that comes from different regions and provides different languages (Muzumdar, 2014). Additionally, diverse customers coming from different regions demand different movie collections (Muzumdar, 2014). Advances in economic and technological reach improve sociocultural attitudes towards media services providers and production companies as long as content remains diverse enough to attract the maximum number of customers possible.

Media services providers are impacted by the technology that provides access to their service. For example, many streaming services are offered as third-party apps to many smart TVs and gaming councils. Further, the nature of online streaming services makes it vulnerable to hacking and/or disruptive malicious actions. Also, the service relies on a network which can be adversely impacted by natural and man-made disasters. “Interruptions in these systems, or with the internet in general, could make service unavailable or degraded or otherwise hinder an ability to deliver service, (Netflix, Inc., 2020)’. Positive technology factors include the development of high resolution screens on TVs, computers, and mobile devices. The advancement of 4K technology supports media services providers and production companies because it enhances the user experience and supports consuming media at home.

Legal factors support media service providers through anit-piracy laws which prohibit illegal file sharing websites and enforce copyright content, which if left unchecked directly erodes legally provided media services market share (Muzumdar, 2014). Further, recent changes to European law enables individual member states to impose levies and other financial obligations on media operators located outside their jurisdiction (Netflix, Inc., 2020)”. In addition, all global companies face challenges imposed by taxes, changes in tax laws, and how tax laws differ across jurisdictions.

Media services providers and production companies have exposure to negative physical environmental impacts. There is a carbon footprint associated with the establishment and operation of online data warehouses and server locations. According to Kasi (2017), “all the technological companies will be paying an environmental bill by 2025 as required by global governments”.

(Megan Andree) *B. Industry analysis:* The threat of new entrants in the entertainment industry is low as the cost and startup expertise required for a streaming and production company is high. Any company attempting to enter this industry would require certain agreements to

stream content from other large entertainment companies. This is a significant barrier to entry and is what keeps the threat of new entrants low.

The threat of substitutes in this industry is high as there are options that consumers could turn to in place of Netflix. The most common and easiest option would be traditional cable providers who provide live TV and movies/shows on demand. The benefit of traditional cable over Netflix is that cable subscribers would have access to local channels which Netflix does not provide. Additionally, consumers could use physical DVD rentals as a substitute service from providers like RedBox.

Buyers have a pretty substantial amount of bargaining power due to the high amount of competitors and substitutes. If one streaming company raises their prices, consumers can switch providers to get their content. Additionally, because most streaming companies do not charge cancellation fees, consumers can easily switch back and forth between the different providers. This helps keep the price of streaming services in check.

The bargaining power of suppliers is exceptionally high as companies like Netflix need to obtain contracts and licensing agreements with entertainment creators to stream their content. Netflix is constantly in the process of negotiating contracts with entertainment companies for both existing and new licensing agreements (Beers, 2020). Licensing agreements can be non-exclusive in which multiple platforms can stream the same content or exclusive in which one platform has the exclusive rights to that content (Beers, 2020). Due to the fact that Netflix is at the mercy of content creators, the supplier's bargaining power is high.

(Kristina Brock) C. Competitor analysis: Netflix's primary competitor in the market is Hulu. Hulu does not offer rentals but does create its own custom content. Hulu offers expansions on its services with access to prime channels like HBO and Showtime on its platform.

In May of 2019, Disney bought out Comcast's share in Hulu (Disis, 2019). While they will not wholly own that share of Hulu for another four years, they have taken control of Hulu now and began to change its strategy moving forward. Hulu's future objective is to integrate into the Disney streaming strategy and increase subscriptions in spite of the loss of content from losing NBC with the sale.

Hulu's current strategy has been to increase custom content and integrate with Disney by bundling together the two streaming platforms. This enables Hulu to provide more content to customers that are proprietary and original.

The following assumptions can be made based on the future looking objectives and the current strategies of each platform. Hulu will increase original content and include Disney content on its platform. Hulu will continue to offer third party channels like HBO and Showtime as part of their content.

Hulu offers access to HBO and other prime time show channels. This is a market that Netflix does not have a market share in.

A weakness in Hulu is its user-friendliness. The platform is challenging to navigate to find the content you want quickly. Hulu is lagging on subscriptions in comparison to Netflix. "Hulu has roughly 27 million paid subscribers on its service. It still lags far beyond chief competitor Netflix, which has nearly 150 million subscribers globally, 60 million of whom are from the United States. Hulu is only available in the United States." (Disis, 2019). Because Hulu is only available in the United States, it does not compete for the global market share that both Amazon and Netflix have a stake in.

D. Internal analysis: (James Brede) An analysis of Netflix balance sheets indicate tangible assets categorized by land, buildings, leasehold improvements, furniture and fixtures, information technology, corporate aircraft, machinery, equipment, and capital work-in-progress amounting to a net value of $565.221M in 2019 (Netflix, Inc., 2020).

(Megan Andree) The main capability that Netflix has developed is the ability to master the user experience. The primary intangible to consider is software code and information technology that Netflix has used to pave the way in terms of the ease of use, variety of content, and exceptional customer service. Netflix focuses on proprietary software which leverages data management in order to analyze rental and user streaming patterns. Once these patterns are understood the firm is able to use its algorithms to suggest future media that is tailored to each specific user and their preferences. (James Brede) Additionally, instances in which Netflix obtains exclusive rights to new media content are key intangible assets for the firm. For example Netflix brokered an exclusive deal with Epix for a period of time gaining access to films from Paramount, Lionsgate, and MGM (Steadman, 2015).

(Ciji Burnup) Original content creation, and easily usable global platform are Netflix's core competencies due to its consumer value and benefit compared to its competitors. The popularity of the brand is what allows it to be a leader in entertainment as well as its ability to infiltrate the current markets, globally. The ability for Netflix to create original content gives them another source of revenue, other than their streaming services and DVD services. Their ability to create original content also allows them to have a significant global platform. Because Netflix produces its own original content and can control the release of said content, said media licensing should also be considered an intangible asset that translates to a core competency.

III. Identification of Environmental Opportunities and Threats and Firm Strengths and Weaknesses (SWOT Analysis)

(Kristina Brock) Netflix strengths include competitive pricing, original content, the largest market share of the streaming market, and services in a global market. There proprietary software and applications make for a positive and easy to use user experience. Deals which garner exclusive rights to media content Netflix can currently be viewed in over 190 countries worldwide with custom content for each country (Parker, 2020).

(Kristina Brock) The primary weaknesses that are presented by Netflix is its lack of connection with third party channels like HBO, Showtime, or Cinemax. Both of its primary competitors Amazon Prime Video and Hulu have incorporated added subscriptions to these services included on their platforms. Currently, most of its content is not owned directly by Netflix. This means Netflix must obtain the rights to stream the non-original content, and the rights to that content are not indefinite. Thus, Netflix must renegotiate for each show that they do not produce themselves every few years.

(Ciji Burnup) Opportunities include using demographic data from user experiences to tailor content offerings and maximize usability of software and applications. Additionally, creating unique content decrease dependence on suppliers and licensing. New technology such 4K streaming and virtual reality enhances the user experience in homes, decreasing competition from theaters. There is a growing global market for streaming content in foreign languages and potential for high revenues for advertisements in all markets

(Ciji Burnup) Threats within the market include exclusivity rights of programming being refused or taken away, video piracy, deregulation of the industry, and foreign government legal action, censorship, exchange rates, and taxation (Pelts, 2016). New technology creates rapid changes in the market, and competition media companies can limit firm's ability to purchase rights to their content. The market is very cost competitive and any changes to subscription rates canceled to consumers switching to competitors. Competitor alliances such as Hulu and HBO, or Amazon Prime and Starz and Showtime offer unique offering that are exclusive.

IV. Strategy Formulation

A. Strategic alternatives: (James Brede) A cost leadership strategy could be considered since Netflix commands the largest market share of the streaming market and already services the majority of the global market. The strategy would focus on providing and array of content, which appeals to customers globally, and at lower cost than all competitors.

(Megan Andree) Alternatively, Netflix could employ a focused differentiation strategy. This would allow Netflix to focus its resources on a target market so that they can better meet user specific user needs. Such a strategy would focus on target demographics and would rely on original content creation and strategic licensing deals to appeal to specific customers.

(Ciji Burnup) An alternative strategy for Netflix would be to employ an integrated cost leadership/differentiation strategy. This strategy is known to be employed by firms, such as Netflix, that adapt to new technologies and external market pressures quickly (Hitt et al., 2020). (James Brede) This multipronged approach would require the firm to consider pricing strategies which reduce subscription prices; however, they need not be the lowest in the market. Additionally, Netflix should consider multiple options to differentiate itself through original content releases.

B. Alternative evaluation: (Ciji Burnup) According to Fiorillo (2020), the prices of competitor streaming services in May of 2020 ranged from a low $4.99 a month with Apple TV to a high AT&T Max account service at $80 a month. A basic Netflix account costs $8.99 a month, increasing to $15.99 a month for a premium account that offers HD and 4K viewing on four simultaneous screens. Netflix could capitalize on a first-mover benefit by choosing to provide HD and 4K services that do not require a premium price and thereby lower consumer cost. This cost leadership strategy is the most likely to capture market share within Millennial and Gen-Z demographics who have less disposable income; however, it comes with risk in reduced revenues which will impact Netflix's ability to both created original content and obtain licensing agreements. (James Brede) Reduced revenues are likely to impact Netflix's ability to negotiate for high priced licensing agreements. As competitors pull their content into their own streaming services Netflix's media offering are reduces, and they would lack the capital to offer a premium licensing fee. Further, revenues would not be available to produce Netflix original programming which further reduces Netflix media offering appeal. Thus, a cost leadership strategy may capture market share initially, long term the strategy is likely to disastrous as content provided is likely to be of low quality.

(Megan Andree) A focused differentiation strategy would likely be centered on Netflix's ability to create original content that appeals to broad demographics, globally. For instance, on March 20th, 2020, Netflix released a docuseries titled "Tiger King: Murder, Mayhem and Madness," which detailed the life of big cat zookeeper, Joe Exotic. The show was a massive hit and garnered around 34 million viewers during the first ten days of its release (Pallotta, 2020). The show was eccentric and appealed to the Millennial and Gen-Z generations because of its intriguing characters and scandalous plot lines (Robichaud, 2020). More importantly, the show experienced a massive online cult following that flooded social media accounts and drove even more young adults to watch the show. The wave of social media posts on Tiger King reinforced the need for all generations to watch; because otherwise, those individuals would be left out of a cultural discussion. (Kristina Brock) Netflix already intends to spend roughly 15 billion on original content creation in comparison to competitors which will spend a fraction of that on content creation in 2019-2020 (Neiger, 2020).

Globally, each countries content should be created that caters to that country's language and culture. (James Brede) A risk is such a strategy can suffer from competitors out focusing

Netflix and can cause competitor pursuit. The risk that original programming does not meet demographic expectations will result in decreased viewing, popularity, subscription, and revenues. Netflix incurs high costs for production of original content to include promotion, production, actor and actress contracts, post-production, distribution, and guild payments (Netflix, 2020). Investment in original content requires higher cash upfront relative to licensed content, which has traditionally been provided by Netflix (Netflix, 2020). Ultimately, this is a new product for Netflix, who is and will continue to be, in a highly competitive rivalry with long-established major film studios and premium pay studios. Without significant attention to talent pool management in the areas of creative, marketing, legal, finance, licensing, and merchandising, Netflix content could fail to resonate with the intended audience.

(Kristina Brock) Additionally, international markets present unique risk because the needs of the narrowly defined segment can overshadow the needs of the broader market. This is because globally the various needs and desires of Netflix subscribers can be segmented based on language, culture, and legal and political leanings of each region, decisions concerning those regions must be made at a local level. This presents unique challenges as Netflix decides which original content to produce. If Netflix assess incorrectly market share is certain to be lost. While a production that resonates widely is likely to result in regional market share that expands. Collaboration between global and regional business units can develop, and custom content that does well in one region can then be released to the other areas based on desire. For example, Korean content is popular with viewers in the United States (Katz, 2020). This content published first in Korea and then to American audiences merges the differentiation strategies on the domestic business level and global multi-domestic level. A powerful incentive that allows Netflix to get more mileage out of its custom content.

(James Brede) An integrated cost leadership/differentiation strategy is multifaceted and perhaps takes key befits from the two alternative strategies already analyzed. Netflix could conduct a first-mover benefit cost cutting initiative, but they do not necessarily need to be the cheapest on the market. Additionally, licensing agreements are going to increasingly become difficult to obtain as studios and media conglomerates pull content from Netflix and start hosting it on there on exclusive services; therefore, Netflix also needs to diverges from the distribution of licensed content and operate more like major movie studio. Further, Netflix can further differentiate themselves if they consider expanding the entertainment that it offers to include more obscure television and movie offerings, gaming, and music. A likely way to quickly do so is through a strategic acquisition or partnership

C. Alternative Choice: (James Brede) Netflix should pursue a integrated cost leadership/differentiation strategy. To do so Netflix could offer HD and 4K services at entry level prices. This strategy would capitalize on a first mover benefit. Enough of the technology has proliferated the market that it is a viable option to attract market share but the technology has not saturated the market.

Netflix should also move to deviate from the distribution of licensed content and alternatively operate much more like a major movie studio. To do so, Netflix can consider expanding the entertainment that it offers to include more obscure television and movie offerings, gaming, and music. A likely way to quickly do so is through a strategic acquisition or partnership. (Kristina Brock) Using a strategy of a related acquisition will be exceptionally beneficial to Netflix as it will create value for the company via synergies that can be produced by integrating their resources and abilities (Hitt, Ireland, & Hoskisson (2020). Netflix can leverage its existing supply chains to facilitate in the streaming of the new content while leveraging the new platform of releasing content weekly. Netflix also has vast amounts of experience and leadership that can be integrated across the new streaming platform. Additionally, using this strategy, Netflix will drastically increase its market power by entering into a market that they had not been fully capturing previously.

V. Strategic Alternative Implementation

A. Action item: (James Brede) ultimately, this is a new product for Netflix, who is and will continue to be, in a highly competitive rivalry with long-established major film studios and premium pay studios. To create original continent that differentiates Netflix from competitors requires information management systems that support talent management and supply chain considerations to capture talent, including actors and actresses, promotional staff, producers, and directors that can create content that resonates with the target segment. Operationally, Netflix has invested in a studio campus on Apple's former campus in Cupertino, California. However, additional space may be required. Distribution considerations are likely to be of little concern to this strategy specifically. Streaming services are the backbone of Netflix's capabilities. However, marketing and merchandising are likely to be new areas for the firm. Netflix will need to consider where they market original content to resonate with the intended younger audience. Obvious areas include social media, although these avenues are over-utilized and flooded with competitor marketing.

(Kristina Brock) A potential acquisition that Netflix could consider in line with this diversification strategies, is the streaming platform VRV. VRV is a unique platform that has a target audience of gamers, anime fans, and fans of sci-fi and fantasy shows. The average viewer of anime and game related content is young teens to college age students (Sunsetanimation, 2016). Anime and game content viewers consume not only large amounts of online content, they are also notoriously large spenders on show related merchandise. This opportunity for entering the exclusive merchandising industry associated with licensed content only available on their platform is a yet untapped potential for Netflix (Sunsetanimation, 2016). Netflix is already delving into the realm of creation of in-house anime shows and acquiring license to stream popular anime shows already well known to fans; however, they are making several mistakes concerning these shows (Orsini, 2018). First and foremost is lack of understanding of how anime viewers consume content. They prefer to watch shows on a weekly basis (known as Simulcast). However, Netflix has stuck to it's binge watching model for anime on its platform. This has resulted in viewers going elsewhere to access these shows as they are released. If Netflix were to acquire VRV, this issue would be resolved, as VRV is already well equipped to release content as soon as it is produced, allowing fans to view it on a weekly basis. (Megan Andree) Through implementing more diversification into their portfolio, Netflix would create value for the company by establishing economies of scope (Hitt, Ireland & Hoskisson, 2020). Even though Netflix would be diversifying their portfolio, their core competencies would still be linked. Netflix has very established core competencies in their main products lines that would be able to be transferred to its newer product lines. The core competencies would include its managerial knowledge, production knowledge, experience, and expertise that come from successfully managing a corporation

B. Action plan:

(James Brede) Netflix will need to assess if the leadership team that has led to VRV's success are able to accept the culture, values, mission, and vision of Netflix; and vice versa. This assessment also considers synergy as described by Hitt, Ireland, and Hoskisson (2020) specifically of people and their ability to work together. Netflix should consider signing contingency offers with top VRV leadership to ensure continuity of operations for VRV products, and to assist in folding the VRV product offerings into a larger Netflix vision. If it is assessed that the leadership teams are too far apart in vision and ideals, specifically for what VRV can offer to Netflix, then it may be advisable to forgo the acquisition altogether. Also, if top management at VRV is unwilling to support operations after the acquisition for a period of time, i.e. one year, then it may be in Netflix's best interest to not acquire VRV.

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