# NETFLIX INC. ANALYSIS

## BACKGROUND INFORMATION

## Introduction

Netflix Inc. is a company based in America that specializes in the provision of online subscriptions to view movies (Adhikari, et.al, 2012). The clients who subscribe with the service are able to watch television shows and movies over the internet through their computers, mobile devices and televisions. The company was founded by Marc Randolph and Reed Hastings in the year 1997. Its first location was Scotts Valley in California. The company main products are streaming media, DVD by mail and online video sales (Adhikari, et.al, 2012).

## Vision and Mission statement

The vision and mission statements of a business reflect on where the management of the management wants to steer the organization to. They reflect the wishes of the company and what the company intends to do to achieve the goal and objective. The mission statement of Netflix is, “The core strategy of Netflix is to raise the number of subscribers globally and domestically. The company is continuously improving the client experience through the expansion of streaming content, improving the interface and increasing the number of devices that can be used. The company does all this while still ensuring that it is within the parameters of making a profit for its shareholders.” (10-k report, 2016).

The vision of the company is, “to become the top global distribution service of entertainment through licensing content across the globe, creating a market that is accessible to stakeholders in the film industry and helping content creators to have a global audience.” (Netflix Inc. n.d.) It is clear from the mission and vision statements that Netflix want to be the top company across the globe in its industry.

## Organization size

There are various parameters that one can use to define the size of an organization (Reilly & Brown, 2002). In this case we will use figures found in the 2016 10-K report to paint an image of the size of the organization. By the October of 2017 Netflix had reached 109.25 million clients subscribed to their services. The company being based in the United States one would expect that that is where majority of the subscribers come from. The U.S produced 48% of the Netflix subscribers with a total of 52.77 million subscribers. The company endeavors to secure more content and rights for the existing one. This has led to increased debt currently sitting at $21.9 million as of the September 2017 report (10-k report, 2016). The revenue of the company as at 2016 is $8.83 billion (10-k report, 2016). This resulted to an operating income of $ 380 million and a net income of $ 187 million. The total assets of the company are a total of $13.6 billion while the total equity is $ 2.7 billion (10-k report, 2016). The company has a total of 3,500 employees as at 2016. The company has operation in not less than 190 republics.

## Product Portfolio

Netflix has been changing its product portfolio over the years with the intention of meeting the changing demands of the current target market of the company (Jiao & Zhang, 2005). The main product that the company offers is the streaming service (Teece, 2010). This service is accessible in three different plans. The first tier allows standard definition viewing on just one device. The second tier offers high definition. With this plan a subscriber is able to use two devices. The third level branded as platinum allows high definition streaming of up to 4 devices which are supported and connected to the internet. The company also offers disc rental service though it is not very popular. With this service a subscriber creates a list of movies they want to rent and are in default placed in a queue. The film is then delivered to the home address of the subscriber through the USA postal service. To reduce the delivery time the company has regional warehouses.

### **Pricing**

As already mentioned the company`s main service id the online subscription. The company offers a monthly subscription service where its subscribers are required to make a monthly payment depending on the plan that they undertake. The basic plan is charged $ 7.99, the standard plan costs $ 9.99 while the platinum plan will cost a subscriber $ 11.99 per month. This service also comes with a free 1 month trial for the first month. Clients in the disc rental service are charged in between $ 7.99 and $19.99. This service also has a one-month free trial together with unlimited DVD exchanges.

## Target Market

The target market of a company is defined by certain demographics (Wedel & Kamakura, 2012). A company could choose to target people within a certain age group, location or with a certain unique characteristic e.g. soccer fans. In the case of Netflix, the company targets mostly urban developing youth from the age of 18 to 35 through their online subscription service. The older generation is targeted through the DVD rental service. According to a survey by compete.com in 2008 the Netflix website received more than 194 million visitors in a year. The figure could have doubled by now. This goes ahead to proof that majority of the clients are on the internet thereby the said age group which hugely lives in urban set ups.

## Company Financials

When analyzing a company it is important for one to check their performance. This information is released to the public through annual reports and form 10-K among other public documents filed by publicly traded companies with the Securities Exchange (SEC). Below is an analysis of the main figures that one would be interested in.

### **Revenue**



Above chart shows the sales/revenue (in millions of dollars) of Netflix Inc. for the last ten years. As is clear from the chart the sales of the company have been on the increase year on for the last ten years. The company has been growing tremendously and opening up its coverage to more and more countries. This has helped the company to remain positive on the sales front. The increase in the geographical presence of the company has also come at a cost for the business. This can be seen in the growing debt in the company`s books. However this has not affected the profitability of the company as shown below.

### **Share Price and Net Income**



The above chart shows the net income of Netflix Inc. and the share price of the company for the last 10 years. From the chart it is clear that the net income and the share price have been on an upward trend except for the deep in net income in 2012. This did not however affect the share price of the company. Typically speaking from the above two charts it is clear that Netflix is a company on an upward trajectory.

## Environmental analysis

It is important to also check on some of the factors that are most likely to affect a company before doing business with it (Schiffer & Weder, 2001). In this case we will focus on the internal and external factors that would influence the business of Netflix Inc.

### **Internal Factors**

Internally the company is faced by factors that could interfere in how it goes about its business. One of the internal factors that the company has to deal with is the soaring debt that the company has accumulated in the recent past. This debt is likely to influence some of the key decisions that the management takes based on corporate strategy.

#### **Strengths**

One of the key strengths of Netflix is its well-known brand. Most of the target market for the industry is aware of the existence of Netflix making it hard for other competitors to join the industry. The second strength that the company enjoys is derived from the business model it uses. Through the use of subscription as a pricing model the company is able to ensure that it receives revenue that is measurable on a month on month basis.

#### **Weaknesses and threats**

Netflix has been in operation for many years and has seen tremendous growth. The company however faces immense competition from other players in the industry. The company has a weakness due to the high cost of operating its business. The cost of producing content and getting rights is too high which in one way works for the company. However, this has led to the company acquiring a lot of debt while at the same time these costs eat deeply into the revenue of the company.

### **External Factors**

A business cannot do much to change what happens outside its premises (Schiffer & Weder, 2001). However, the business needs to monitor the external environment so as to protect itself in case there is an upcoming tragedy. To understand the external environment of Netflix we will use a model known as PEST.

#### **Political**

Netflix Inc. operates in majority of the countries in the world. The company operates in an industry hugely regulated by governments as a way of preserving the local entertainment industry and prevention of copyrights. The company is also not able to operate in China, Crimea, Syria and North Korea due to political reasons.

#### **Economy**

Operating in almost the entire globe poses economical risks to Netflix. Some of the economic risks that the company faces include, exchange rate risk, inflation and interest rates risk. Due to its operations in various different countries and charging its services with dollars the company would be hugely affected if the dollar exchange rate was to surge.

#### **Socio-Culture**

Art either through music, video or plays will in one way or the other be influenced or influence the culture of a society. Through streaming movies and more so, American movies, Netflix Inc. is transferring the American culture to the world. This is bound to meet challenges due to resistance. A good example is the fact that Netflix Inc. still cannot be able to access the Chinese market which has over a billion people.

#### **Technology**

Netflix Inc. being a tech company is bound to be affected by technology. One of the most challenging factor related to technology that Netflix Inc. faces, is the dynamic nature of technology. Everyday technology is changing and accessibility is becoming hard to stop. In future it could be hard to limit access of videos, films and TV shows.

# MANAGEMENT STRATEGIES

 There are three key management areas that are prime to the management of Netflix Inc. The performance of a company is determined on how it handles its employees and other human resources (Afuah, 2004). We will focus on the three areas where we will use certain theories to expound on how Netflix handles the three management areas to ensure productivity of its employees.

## Motivation

An essential management area of any organization is motivation. Four factors ultimately influence the performance of any employee; motivation, ability, role perception and situational factors (MARS) (Baumeister, 2016). Motivation is a lashing force behind every task. Once an individual has a sense of direction, it becomes easier for them to complete a task as required and do it well. Also, motivation also leads to persistence of voluntary behavior. If a company offers incentives for any good work done, it is highly likely that the affirmative act will persist and in turn increase in intensity. In general, motivation serves to give the employees a sense of direction, intensity and as mentioned earlier, the persistence of voluntary behavior.

One of the motivation theories supporting the MARS model is the four drive theory. The theory is based on four underlying drives, the drive to acquire, bond, learn and defend (Baumeister, 2016). The drive to acquire is the most common as it involves monetary incentives and base pay. For instance, Netflix offers its top performers a very generous severance package (McCord, 2014). The main idea behind the theory is that all four drives are required for a company to succeed in motivating their employees. Therefore, team building exercises are a high drive to bond while providing the employees with opportunities for growth serve as an excellent drive to learn. Motivation also comes in the form of securing the reputation and moral bearing of the company.

The expectancy theory, on the other hand, works on the assumption that individuals make the conscious choice to act or behave in a way that maximizes pleasure and minimizes pain. This is a mental process involving choice and choosing. In essence, with the right motivating factor, the employees will almost always decide to focus on the outcome (Mihrez & Thoyib, 2015). Therefore, the idea is that increased effort will lead to an increased performance level. This, in turn, is dependent on the level of motivation, skills, knowledge, and experience. Sometimes, the motivation comes in the form of respect. At Netflix, their employees are treated with respect and their opinions highly valued. Also, they are also aware that poor performance will lead to the immediate termination of their contract.

## Communication

Communication, effective communication, is essential when transmitting information, achieving coordination, building commitment and shaping the image of the company or organization. Whether done verbally or non-verbally, communication is key to securing deals, investors, and stakeholders as well as maintaining an active presence both in social media and real life (Young & Pieterson, 2015). There are many different ways of communicating. Very often, companies can get the mode of communication wrong. As such, it is essential to determine the categories of organizational stakeholders and how best to communicate with them to get the right response. Communication can be formal or informal, internal or external.

Internal communication occurs among the employees of the company while external communication takes place between both the employees within the organization and the outside world. In essence, internal communication includes scheduled meetings and project groups at Netflix that are centered on different aspects of the company. Mainly done through emails, memos, mobile messaging, and in-house magazines, these include keeping the investors updated and informed. External communication essentially involves letting the public as well as the stakeholders in on any new changes or updates affecting the company. For instance, Netflix uses Facebook, Instagram, and other social media platforms to inform the public of any new episodes or series that have been or are about to be released.

For companies like Netflix, communication, both external and internal, is very important. Cultivation analysis and organization information theory are some popular communication theories. According to cultivation analysis, the television, as well as other media, play a significant role in how people perceive the world. Netflix, as an online movie and rental service, has the power to single-handedly change the way people think through the information and productions that they put forth (McCord, 2014). Organization information theory, on the other hand, supports the fact that communication is a particularly important aspect of managing an organization. Making sense of the goals, values and project deliverables through both internal and external communication will help put everything into perspective. Therefore, whether formal or informal, internal or external, the key to effective communication is the identification of the groups of focus and appropriate platforms of communication.

## Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a self-regulatory mechanism for companies where they ensure that they are doing right by the law, national or international norms and ethical standards (Tai & Chuang, 2014). There are two ways to view CSR; this can be through the stewardship principle or the charity principle. The charity principle, also known as the Friedman Doctrine or the Amoral View, refers to a situation in which the primary responsibility of the organization is to generate wealth for the shareholders. In contrast, the stewardship principle, also well-known as the stakeholder's view, refers to a situation where both the customers and employees are treated with dignity. The company in question believes in fair economic competition, and that relationship should be based on mutual trust. CSR can be philanthropy, charity, environmental or ethical.

In ethical responsibility, the company focuses on doing what is right at all times regardless of whether or not it is required by the law. Here, the focus is on creating a culture in which the employees can act in the best interest of their customers at heart even when they are not required to. Netflix has adopted a Code of Ethics that includes a written account of the written principles that every manager, director, and employee is expected to follow at all times (McCord, 2014). The primary purpose of their Code of Ethics is to help the groups mentioned to distinguish right from wrong and be able to tell the difference. It is also aimed at promoting honest and knowing what is expected of them as ambassadors of the corporation.

Like their ethical responsibility, Netflix also has an environmental responsibility to the society. Several companies have come up with the new-found need to leave the world in a better place than they found it. They believe that their goal is achievable in several ways, including preserving the environment. For Netflix in particular, they began recycling the old DVDs in their library and private and personal collection instead of discarding them anyhow. They, instead, donate them to other libraries and services that use or provide DVDs. This step has not only helped in safeguarding the environment but has also improved its overall reputation as a corporation.

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