Competitive Advantage and Marketing Strategies in the Entertainment Industry: From DVD by Mail to Streaming Services

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Netflix, the world's largest subscription online movie and TV show streaming company, faces more competition than ever due to changing technology and consumer preferences. In this study, we analyzed Netflix competitive advantage and marketing strategies, performed a situational analysis, and provided potential strategic alternatives for Netflix to be competitive in this fierce and dynamic global environment. This paper uses a case analysis approach to address and analyze marketing strategies in the entertainment industry in general and Netflix in particular. We recommend that Netflix invest heavily in innovation to stay ahead in this global saturated and mature market.

Keywords: Netflix, marketing strategies, Michael Porter's Five Forces, innovation, global, streaming services, entertainment industry

INTRODUCTION

Netflix is an online movie and TV show streaming company. This analysis provides a situational analysis, identified problems, and potential strategic alternatives for Netflix to continue to grow quickly and expand to a greater audience. Within the situational analysis, some threats and opportunities are identified. The threats of Netflix include high rivalry between competitors and high threat of substitution. These threats cause the market environment to be highly competitive for market share and original content.

Additionally, the substitutions are just as much of a threat to stay the market leader and continue to attract new customers. An opportunity for Netflix, is the low threat of new entrants into the market. Due to the high cost of producing original content and/or purchasing rights to existing content, the barriers to enter the market deter many new businesses. Additionally, this analysis contains Netflix's strengths and weaknesses. Some strengths include global reach, exponential growth, strong brand reputation, and affordable pricing. Some of Netflix's weaknesses are limited copyrights, dependence on North American customers, and rising operational cost. Lastly, two problems were identified: A decrease in subscribers and net income and binge-watching causing negative effects on the customers' lives. In conclusion, three strategic alternatives were identified for Netflix to be more profitable and grow: Invest in global targeted marketing to grow its customer base outside of US, create additional content for more of a variety of people, and encourage viewers to take a break from binge watching after a certain amount of time has elapsed.

SITUATION ANALYSIS

Environment

During the beginning of Netflix, the company's main focus was providing a DVD rental service to customers and the biggest competitor was Blockbuster. The business model was a subscription service where Netflix's customers could rent as many DVDs as they wanted without returning late fees. In 2007, Netflix started offering streaming to its customers from its website. Not only does Netflix offer movies and shows from other producers, but now Netflix, has begun producing their own shows and content (Iqbal, 2023). Netflix has "profoundly changed the way we watch television" (Iqbal, 2023).

Economic Conditions and Trends

It can be very expensive for Netflix to keep up with negotiating and renegotiating streaming contracts. Additionally, with the competitive landscape, all major streaming companies compete for sole show licensing. Therefore, Netflix wanted to get ahead of this condition and began producing their own content. While producing original content is more expensive upfront, it is more economical throughout the show's popularity because the company owns all legal rights to the content (Lovely, 2020). Therefore, Netflix has continued to invest deeply in their product creation to own more of the shows they offer customers. Additionally, after COVID-19 in 2020, people are turning to streaming and binge-watching as a way of entertainment. When the whole world was on lockdown for the Coronavirus, people were using the internet and turning to digital platforms, and streaming increased by over 12% compared to the usage before COVID-19 (Beech, 2020). This rise in streaming and the internet is not surprising, as people were locked in their homes and looking for entertainment and a distraction from the world news and uncertainty of the pandemic.

Cultural and Social Values and Trends

In our current culture, everyone wants everything at their fingertips and for it to be convenient. Due to this demand, Technology is evolving quicker than people can upgrade their devices. All aspects of jobs, life, and entertainment use technology to improve the customer experience. One term that has gained popularity in the younger generations is "binge watching," which is when a person will continuously watch episode after episode for hours on end. This is popular for people on weekends, evenings, for college kids between classes, etc. Binge watching is especially popular on Netflix and other streaming sites because there is no waiting period for the next episode of a show. Therefore, people can watch an entire season of a show in one, very long sitting.

Political and Legal Issues

Last year, Netflix was sued for publicizing untrue information hiding the decline of subscriptions (Beech, 2022). Netflix was accused of not being transparent about the subscription decline, which led to the stock price falling. Due to the share price lowering, shareholders were angered and put together a lawsuit to sue Netflix. In the lawsuit, shareholders were looking for monetary repayment for all damages of the stock price from October 2021 to April 2022 (Beech, 2022). Another legal issue Netflix is looking into is password sharing amongst households. From their investigation, over 100 million households use Netflix but aren't paying for the subscription due to sharing login credentials (Beech, 2022). Netflix hasn't taken any action yet, but this problem continues to be monitored.

Summary of Environmental Opportunities and Threats

Using an analysis of Porter's 5 Forces model, Netflix has opportunities and threats to their business. **Opportunities:** Low threat of new entrants – becoming a new entrant into this industry has many barriers. Some barriers include the cost of content being very expensive, the market being saturated with competitors, technology constantly changing, and the competition being very well established. **Threats:** High level of rivalry between competitors – with many big-name competitors of Netflix, Disney+, YouTube TV, Hulu, the market to capture customers is very competitive. High threat of substitution - There is an existing high threat of substitution within the streaming industry. However, substitutes exist outside of streaming too. Some include DVDs and Cable TV.

Implications for Strategy Development

With a high level of competition, Netflix must offer the best all-around experience for the customer. Due to having a digital platform, this entails investing money in cutting edge technology to never be outdated. By investing in the best customer experience, Netflix will increase the entry barrier into the market for new competitors and make the competition work harder to stay competitive. Lastly, to address the high threat of substitutes, Netflix should continue to make their own content which has been greatly accepted by the market and continue to differentiate themselves from other companies. Some differentiation methods Netflix uses include the type of content they offer and differentiate themselves from the competitor by providing the best "recommendations" out of all the competitors, so that a customer knows and trusts Netflix to always suggest a great option.

INDUSTRY

Classification and Definition of Industry

Netflix is a part of the Entertainment / Video Streaming Industry (Netflix, Inc. (NFLX) company Profile & Facts). The entertainment industry includes film, television, video games, streaming, music, radio, live concerts, and print (Media and entertainment - Carnegie Mellon University). Some trends currently visible in this industry are the digitalization of TV/video, which demonstrates that Netflix is at the cutting edge of the trend. It is predicted that this industry will continue to evolve with technology and change with the improvements and overall acceptance of digital media. Online advertisement and subscriptions are the best way to be profitable in the digital entertainment industry. The areas where companies of this industry should focus, and grow is solely on global expansion (Media and entertainment - Carnegie Mellon University). Netflix is one of the top 3 entertainment industry leaders based on the trailing twelve-month revenue (Reiff, 2023). Comcast Corporation, Walt Disney World, and Netflix are the top companies in this industry sector (Reiff, 2023).

Analysis of Existing Competitors

During the early years of Netflix, the biggest competitor was Blockbuster. Blockbuster rented DVDs from brick-and-mortar stores, where Netflix had a subscription service online and would mail DVDs to customers' houses. In 2001, Blockbuster tried to acquire Netflix for $50M and Netflix declined, later putting Blockbuster out of business (Iqbal, 2023). Netflix then rolled out their streaming offering in 2007 differentiating themselves in the market and found success (Iqbal, 2023). In the streaming world, many competitors have started to follow in Netflix's path of streaming shows and content. Some of the competitors for Netflix include Amazon with Prime Video, Disney, HBO Max, Peacock, and Showtime (Iqbal, 2023). Netflix continued to grow with a competitive market and in 2022, this was the first year Netflix saw a decline in North American subscribers (Iqbal, 2023). To stay competitive, Netflix has launched a cheaper subscription tier containing some ads. Regarding content, Netflix isn't the leader in the number of options for shows and movies. Amazon's Prime Video has the largest library of videos with over 26,000 movies and 2,700 TV shows (Iqbal, 2023). Netflix is the second leader of options and HBO Max in third place.

Analysis of Potential New Entrants

The threat of new entrants is low in the short term. Streaming services to start up and gain enough titles to become competitive will take a while. For example, Disney+ had all their content already created, and it has still taken some time for them to gain market share. However, in the streaming and technology world, it is important to always be innovative to stay at the cutting edge. While the chance of a new entrant is low, it is important to always ask "what is next?" Just as Netflix was the gazelle during the early 2000s, a different company can always uncover the next new thing to streaming.

Analysis of Substitute Products

The main substitute products for Netflix are other streaming platforms, such as YouTube TV, Disney+, Hulu, Peacock, etc. Outside of other streaming platforms people can use the substitute of Cable TV and DVDs.

Analysis of Suppliers

Netflix suppliers are made up of film makers. Due to Netflix having little control over outside made content and the high expenses of obtaining copy rights, Netflix has moved to making some content in-house. This allows full control over costs, ownership, timelines, etc. Therefore, the more content Netflix makes, the more power they will have over other filmmakers due to the competitiveness of making content. For movies and TV shows already made, Netflix will compete for licensing rights. The more Netflix grows, the greater negotiation power and control Netflix will have in the market due to having the most market share, producers will want their products *on Netflix's site for access to the most viewers.*

Analysis of Buyers

With most of the subscribers being in North America, this allows much opportunity for growth. Netflix could capitalize on using the successful marketing tactics from North America and implement them worldwide. Another consideration is for Netflix to better understand their customer makeup and see who shares or uses family accounts. For example, do parents have accounts and let their adult children have profiles? If so, Netflix should find ways to transition these young adults to their own accounts and subscription.

Summary of Industry Opportunities and Threats

Some of Netflix's opportunities include increase revenue by including adds, expand global customer base, add to content library, and introduce cheaper tired subscriptions (Parker, 2022). Netflix currently has a very strong global reach; however, there is room for customer growth in markets outside of the US. If Netflix could grow their international customer base, this will allow more stability in the business due to having a broader range of customers. Additionally, Netflix could increase their content libraries to hold more new and old titles. Increasing content libraries will allow more shows which could increase their customer following or secure customers due to having more shows and movies of interest. Lastly, Netflix could add more pricing tiers to their model which would allow for cheaper versions, which would be tied to limited devices or limited content, could be more attractive to people who don't have a financial abundance. One company who does this successfully is Spotify. Spotify has cheaper versions for college students; your membership increases after college. This is a smart subscription model because customers are locked in and will most likely make more money to justify the price increase after graduation.

Some of Netflix's threats include competitive pressure, government regulations, and piracy (Parker, 2022). Competitive pressure in the streaming industry is just going to continue to grow. Streaming is the new cable, and all companies are vying for customers subscriptions. Additionally, government regulations are a huge threat. For example, China's regulations will not allow Netflix to their citizens due to their laws restricting foreign content. Lastly, piracy has been around since the start of the internet. Piracy is downloading media illegally without paying for the content. Piracy is a threat to Netflix because if hackers can download the content illegally without paying, it will put Netflix in a risk for losing customers and having potential legal issues.

ORGANIZATION

Objectives and Constraints

Netflix's mission is to "entertain the world, creating great stories from anywhere and offering greater choice and control for people everywhere" (Abbott). This mission statement has two elements: entertainment and global success. By aspiring to provide the best choices in shows and entertainment, Netflix challenges its competitors by providing many options, over 3,600 movies and 1,800 TV shows.

Secondly, by advertising global access, Netflix is available in 30 languages, in 190 countries, attracting 230 million subscribers (Abbott). A constraint Netflix faces is the rise in options for digital streaming. When Netflix first came out, digital streaming was a very small market; however, the accessibility has attracted a large following, which means more competitors. In 2022, Netflix was the leading streaming service (with 230 million subscribers) and Amazon (with 150 million subscribers) and Disney Plus (with 87 million subscribers) followed close behind (Abbott). One way Netflix has kept a competitive edge on competitors is by producing their own shows, movies, documentaries, etc.

Financial Conditions

In 2022, Netflix earned $3.6 billion in revenue, a 6.7% increase yearly (Iqbal, 2023). Netflix's largest market to date is North America producing $14 billion of Netflix's revenue (Iqbal, 2023). EMEA being the second largest market follow by Latin America and Asia Pacific (Iqbal, 2023). Netflix's net income decreased from the previous year by $4 billion in 2022, a 12.2% decline (Iqbal, 2023). In 2022, Netflix saw a decline in over 200,000 subscribers which negatively impacted the stock lowering it by 25% (Iqbal, 2023).

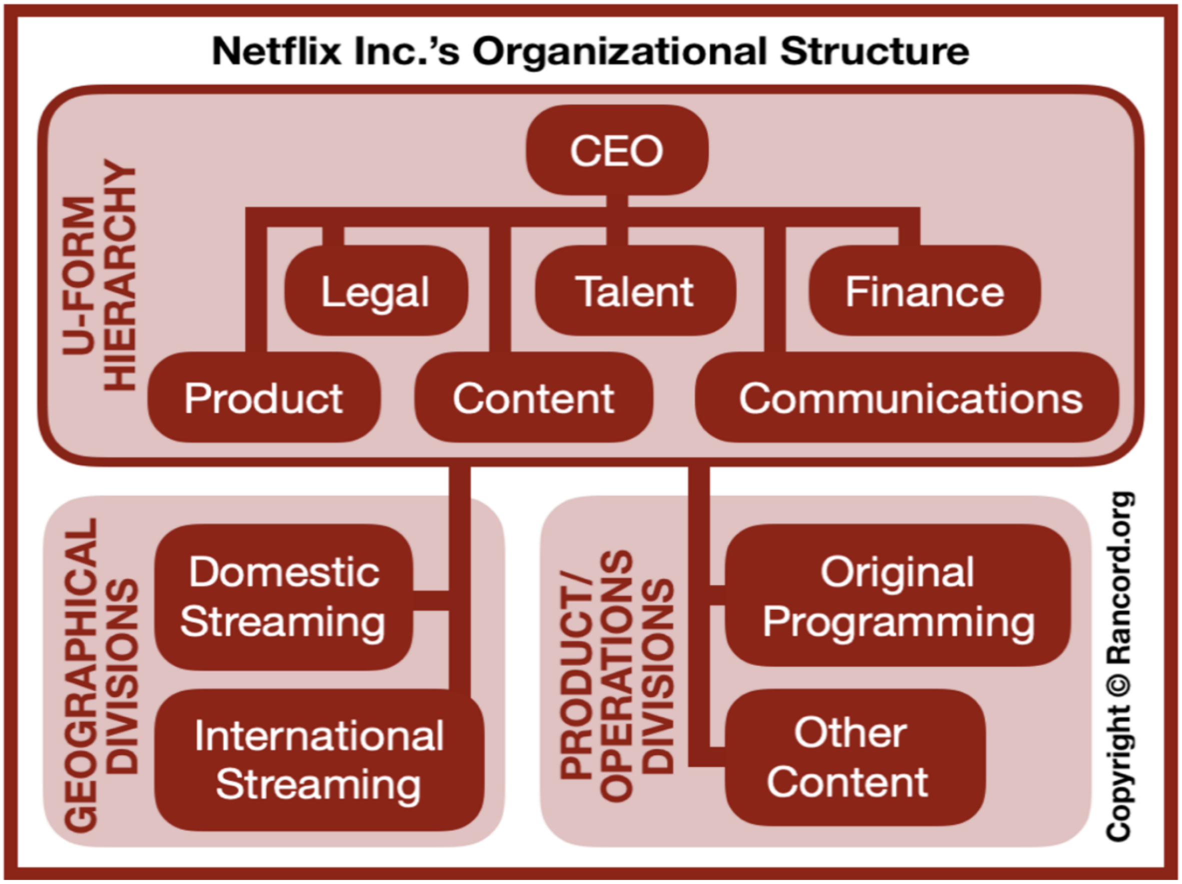
Management Philosophy

The management at Netflix was originally viewed as different compared to other large corporations. However, seeing Netflix's success, companies are beginning to adopt their style. Netflix only wanted to hire and obtain employees who could use common sense to solve problems. While this concept is against many other companies' decision-making protocol, Netflix saw this as an opportunity to get better results for less cost. Employees were told to treat company money like their own and only spend it when necessary. This concept saved the company lots of money in not using expense accounts, travel agents, etc. (How Netflix Reinvented HR). Additionally, the expense policy at Netflix is to act in Netflix's best interest (How Netflix Reinvented HR). This policy applied to many things, including employees' vacation time. Employees weren't restricted by a certain amount of vacation days; instead, they were encouraged to discuss it with their boss and agree mutually. Another business area that Netflix handles differently than other companies is performance reviews. Employees were encouraged to give feedback and reviews informally and frequently by making it a part of every workday, compared to most companies' annual reviews.

Organizational Structure

Netflix has a hierarchical unitary organizational structure with 3 levels, functional groups, geographical divisions, and divisions for products and operations (Anderson, 2019). The hierarchical structure is relatively flat compared to other organizations to allow for Netflix to shift strategy quickly to stay competitive.

FIGURE 1
NETFLIX INC.'S ORGANIZATIONAL STRUCTURE



Anderson, 2019

To describe the grouping in more detail:

- Functional groups are typical business functions, such as Human Resources.
- Geographical divisions focus management on the regional market characteristics.
- Divisions for products and operations focus on the two products: original programming and other content.

Additionally, another unique part of Netflix is their top organizational structure, Netflix has co-CEOs, who run the company together.

Organizational Culture

To help Netflix succeed in their objective, they've created and value an unusual employee culture. Their key pillars of culture are to: (1) Encourage decision making by employees (2) Share information openly, broadly, and deliberately (3) Communicate candidly and directly (4) Keep only their highly effective people (5) Avoid rules

Within Netflix, their core philosophy is people over processes, which emphasizes their people first approach. Through this approach, it fosters agility, creativity, and success. They truly value their employees, referred to as the Dream Team. The Dream Team exemplify the following values: judgement, selflessness, courage, communication, inclusion, integrity, passion, innovation, and curiosity (*Netflix Jobs)*. When deciding who to promote, let go or hire within the Dream Team, these attributes are looked for in the person/individual.

Summary of the Firm's Strengths and Weaknesses

Netflix, like any company, has some strengths and weaknesses. Some strengths include global reach, exponential growth, strong brand reputation, and affordable pricing (Parker, 2022). Netflix currently has a global reach due to the translations available in over 30 languages. This is very advantageous to the international customers. With Netflix experiencing exponential growth, it is recognized globally, strengthening its brand reputation. For brand reputation, Netflix ranks #36 and is valued at over $15 billion (Parker, 2022). Lastly, Netflix offers affordable monthly subscription costs starting at $8.99 (Parker, 2022). Some of Netflix's weaknesses are limited copy rights, dependence on North American customers, and raising operational costs (Parker, 2022). Netflix doesn't own the rights to most of their content, so they have begun creating their own material. Not owning the rights to the content can affect the company negatively due to contract ending after a few years and the shows Netflix customers are used to having access to, changes to a different site.

Additionally, the majority of Netflix's customer base is in North America. Netflix needs to focus their efforts on diversifying its customers for stability and security. Lastly, Netflix has experienced a rise in operational costs in the last few years. This is due to adding more content. When more content is added, it costs more to support the content.

Implications for Strategic Development

To focus on strengths and minimize weakness, Netflix should grow their market share globally using their strong brand reputation and affordable pricing while minimizing copy right restraints and lowering operational costs.

MARKETING STRATEGY

Objective and Constraints

The marketing objective of Netflix is to increase subscribers, brand awareness, and draw attention to the shows Netflix has on the website. Netflix has an integrated marketing strategy driven by data. They focus on being agile and customer-focused to have the maximum impact on their current and future customers (Arun, 2020). Netflix shows their priority of being customer centric by recommending shows to each customer based on their viewing history and what each customer has previously liked/disliked. This innovative use of data analytics creates a connection with their customers, makes the customers experience better by finding new shows fast, and allows Netflix to position the shows they have made and own.

The integrated experience is enhanced by allowing each customer to view their platform from many deceives and it is always up to date due to using the internet (Arun, 2020). This enhances the customer experience by never having to update or do maintenance. Rather, Netflix handles all of this; whenever a customer watches a show, it is ready.

Analysis of Sales, Profits, and Market Share

In 2022, Netflix revenue was $31.6 billion, $4.4 billion net revenue (Iqbal, 2023). With 230 million subscribers, 44% of Netflix's revenue comes from North America (Abbott). When looking at market share, research compares and divides total minutes streamed across the streaming companies. 22.4% of the minutes spent streaming were on Netflix, 20.4% of the minutes was on YouTube, 11.2% on Hulu, and the rest of the market was on Prime Video, Disney+, and other streaming sites (Iqbal, 2023).

Analysis of Target Market(s)

Netflix has used data analytics to understand their product's target audience. According to the analytics, the typical user and target market are millennials making under $50,000 is the largest population group of customers (Canales, 2021). Netflix has focused efforts on diversifying its content to appeal to a larger audience. Netflix is trying to make a variety of content to draw more children, teens, and adults all over the world.

Analysis of Marketing Mix Variables

- **Price:** Netflix has a very affordable price per subscription and is competitive compared to other streaming companies.
- **Product**: Netflix offers many movies and tv shows. Netflix has a broad span of different content for all users.
- **Promotion:** Netflix promotes shows on most social media outlets. However, majority of the promoting is done through their website to the consumer. Netflix targets specific audiences by "recommending" shows based on past viewing history. The recommendation typically promotes Netflix original content.
- **Place:** Being a digital company that is global, Netflix is available to most people. With exception to some geographies and restrictions from governments.

Summary of Marketing Strategy's Strengths and Weaknesses

Netflix has a strong marketing mix for being a digital company. By experiencing fast growth, Netflix has strengths of being reasonable priced and available internationally. The weakness Netflix runs into is gaining a larger customer base in all geographical markets.

Implications for Strategy Development

Netflix should develop a marketing strategy that not only attracts and retains their customers but also influences people in other geographies to pay for the subscription.

Problems Found in Situational Analysis

Statement of Primary Problem (s)

Reduced North American subscription accounts in 2022 and decrease in net revenue. ***Evidence of problem (s):*** In 2022, Netflix's net income decreased 12.2% from the previous year (Iqbal, 2023). Additionally, in 2022 Netflix saw a decline in over 200,000 subscribers especially in the North American market.

Effects of Problem (s)

Due to the number of streaming services and substitutions, Netflix has seen a subscription drop. Financially, this effected the company by over $4 billion.

Statement of Secondary Problem (s)

From the ease of watching series of shows on Netflix, Binge Watching is causing many negative effects in people's life.

Evidence of Problem (s)

Netflix has full seasons (sometimes multiple seasons) of shows. People get caught "binge watching" when they are watching many episodes in one sitting. In a "2018 poll, [it] found that 60% of American adults who use on-demand streaming services binge watch" (Barhum, 2022). With younger aged adults and teens, the percentage of people who binge watch increases to 73% (Barhum, 2022). By binge-watching, people are replacing healthy habits of exercising, socializing, or sleeping with being sedentary and watching their computer/tv screen (Barhum, 2022).

Effects of Problems (s)

Health experts are seeing a rise in heart disease, depression, abnormal sleep problems and behavior addictions linked to binge watching (Barhum, 2022).

Strategic Alternatives for Solving Problems

- ***Description of strategic alternative 1:*** Invest in global targeted marketing to grow customer base outside of US.

- ***Benefits of alternative 1:*** By expanding their customer base geographically, Netflix with diversify their customers, making the company more stable when trends change/shift within regions**.** ***Costs of alternative 1:*** By focusing on the global market, the US customer base might grow slower. Marketing to a broader customer base internationally will have greater financial costs.
- ***Description of strategic alternative 2***: Create additional content for more of a variety of people.
- ***Benefits of alternative 2***: Creating more content variety will draw attention and viewers that might not already be captured in the current customer base.
- ***Costs of alternative 2***: Creating more of a variety of content will cost more to produce and/or license.
- ***Description of strategic alternative 3***: Encourage viewers to take a break from binge watching after a certain amount of time has elapsed.
- ***Benefits of alternative 3***: Customers will be healthier and will appreciate the company's actions encouraging them to stop bad habits. Another benefit will be a healthier society/customer.
- ***Costs of alternative 3***: Potentially annoying customers who binge watch frequently and losing customers.

Selection of Strategic Alternative and Implementation

Statement of Selected Strategy

Invest in global targeted marketing to grow customer base outside of US.

Justification for Selection of Strategy

If Netflix can grow their global customers in addition to growing the US customers, Netflix will see an influx in revenue that they can invest into producing more original content.

Description of Strategy Implementation

Netflix should evaluate their marketing strategy in each region and decide what has worked and not worked. Then, Netflix should evaluate the current trends in shows/genres of shows for each region and for each age group. Netflix should then take this information and target customers by age, preference, and region to better convert potential customers to subscribers.

CONCLUSION AND RECOMMENDATIONS

For many years, Netflix been the leader in streaming services and has a high US customer base. However, the current trends reveal a reduction in subscriptions in the last year. One of the drivers behind this trend has been increased streaming options and content availability. To resolve this problem, it is that Netflix should grow their international customer base which will create more revenue and increase the company's stability by diversifying customers. Then, Netflix can invest the earnings into creating more content to please more customers. We identified and provided strategic alternatives for Netflix to be more profitable and we recommended that Netflix should continue to create more content for a diverse global market. We also recommend that Netflix should grow its international diverse customer base customers by creating more content. We also concluded that Netflix should invest heavily in innovation to stay ahead in this global saturated, mature market.

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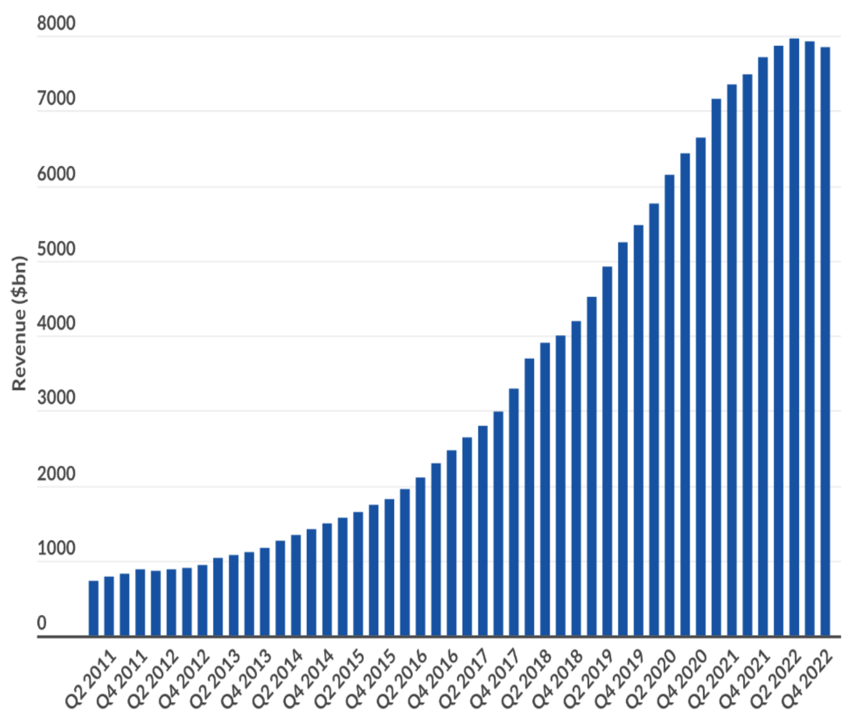
APPENDIX

FINANCIAL ANALYSIS

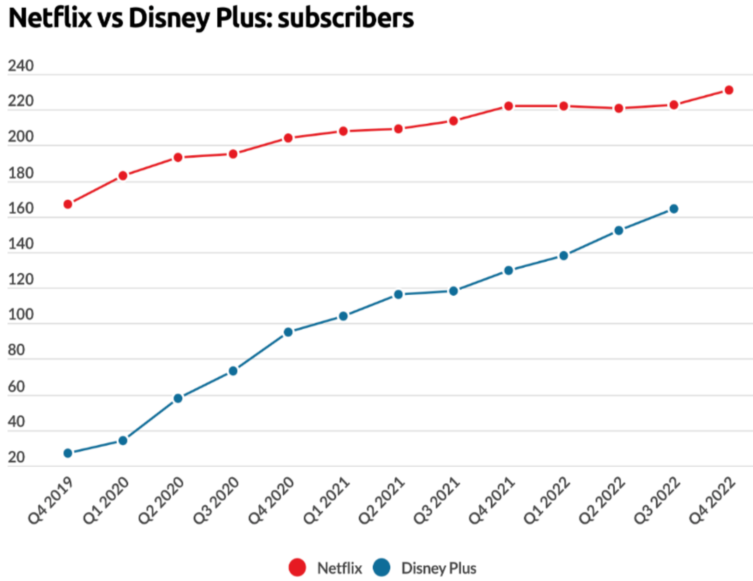
Netflix quarterly revenue 2011 to 2022 ($mm)



Netflix annual revenue by region 2018 to 2021 ($bn)

Year	US & Canada	EMEA	Latin America	Asia-Pacific
2018	8.28	3.95	2.22	0.94
2019	10.05	5.54	2.78	1.46
2020	11.45	7.77	3.13	2.37
2021	12.97	9.69	3.57	3.26
2022	14.08	9.74	4.06	3.57

TECHNICAL ANALYSIS



Netflix annual subscribers by region 2018 to 2021 (mm)

Year	US & Canada	EMEA	Latin America	Asia-Pacific
2018	64.7	37.8	26	10.6
2019	67.6	51.7	31.4	16.2
2020	73.9	66.7	37.5	25.4
2021	75.2	74	39.9	32.6
2022	74.2	76.7	41.6	38

US audience streaming minutes 2022 (%)

App	Percentage of minutes spent
Netflix	22.4
YouTube	20.4
Hulu	11.2
Prime Video	7.8
Disney+	6.1
Other streaming	33.3