

CHAPTER II

COMPARATIVE ANALYSIS ON HOW NETFLIX IS COMPETING AND ITS COMPETITIVE POSITION, NETFLIX'S ACTIVITY RESULT IN GAINING COMPETITIVE ADVANTAGE

2.1 Analysis of Netflix's Position within Digital Media Industry

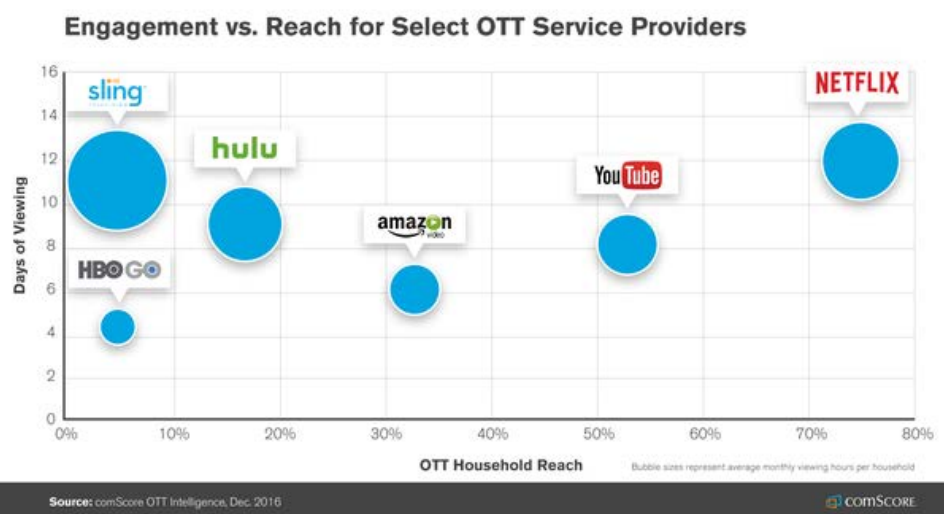
The definition of the digital media industry is an industry that consists of revenues, generated by legal download or streaming of media content, including music, videos and books and sales are recognised in the country where the download is delivered and the values are calculated at a retail price (MarketLine, 2017). The major players in this industry especially in the US market are Netflix, Amazon Prime, and Hulu or we call them as an OTT (over-the-top) provider and they are also the reason why web traffic in the US is increasing drastically this recent year. Started by Netflix's disruptive innovation in 2007 that change how people rent movies and the start of the digital media industry (Mui, 2011).

Porter's five forces will help us to see how attractive Digital Media industry in terms of five competitive forces which are (i) threat of entry, (ii) threat of substitutes, (iii) power of buyers, (iv) power of supplier and (v) rivalry between competitors (Porter, 2008). The threat of entry is hard to smaller new entrants because there are already two big companies in this industry Netflix and Amazon, and Netflix is the leader in the market (Rich, 2017). The threat of substitute is strong in the industry because the low switching cost is low, a customer can easily get their substitute of entertainment needs by changing it from another source like social networking, go to a museum, public attraction and many others. Power of buyers in

this industry is moderate, the switching cost between OTT providers is low and the brand loyalty is weak because people will change the subscription to see the original content.

The power of supplier is moderate to high because Netflix to expand their library they need to get a license to exclusively streaming the video, but Netflix is popular with their original content so they can make their own content without worrying the supplier power even though it is more costly. The rivalry between competitor is moderate because Netflix competes with Amazon Prime Video and Hulu with a relatively same product which is video in form of film and TV series but they differentiate their product from each other with their original content. Netflix is the leader of this industry because they have various original content and like Fast Company (2018) said unlike traditional broadcaster, Netflix's goal is to get their own slot in the audience by offering movie or show that they can't live without.

Figure 2.1
Engagement vs. Reach for Select OTT Service Providers, comScore, 2017.



The data in Figure 1 was collected in December 2016 when there were more than 49 million Wi-Fi connected home in the US and they are accessed more than one OTT providers (Perez, 2017). Figure 1 (comScore, 2011) shows us that Netflix has 75 % of the audience and how the audience engages with Netflix is 12 days viewing in a month which means that the audience is very engaged in Netflix service. The dominance of Netflix is challenged by Amazon Video that offers tie-in product with their Amazon Prime and Fire TV, that consumer will not only get the video streaming services but other offers from Amazon like one-day delivery and other Prime promotion (Rich, 2017).

2.2 Netflix's Competitive Advantage through Internal Resources

Resource-based view is suitable to assess how Netflix competing in a dynamic environment like digital media industry with their internal strength to compete and with resource-based view and in more detail with VRIO framework and 360° business model framework. According to Michael Porter (1985), a sustainable competitive advantage is a fundamental basis of above-average profitability in the long run. Two important things of competitive advantage are to be competitive, which mean a company can compete other must make sure that customers can and will pay more than the cost of supply and to have the advantage a company must be able to create greater value than its competitor (Johnson et al. 2014, p. 193).

Netflix has their own distinctive capabilities from their competitors and this is their strength to achieving competitive advantage, this concept is known as

resource-based view (RBV) strategy. “Resource-based view is the competitive advantage and superior performance of an organization are explained by the distinctive capabilities” (Barney and Clark, 2009). The VRIO analysis will explain Netflix’s distinctive capabilities can contribute to the developing and sustaining of competitive advantage (Johnson et al. 2014, p. 70). These Netflix’s distinctive capabilities or internal resources must have these four characteristics which are valuable, rare, inimitability means that difficult to imitate and organisational support to utilise the resources in order to gain a sustained competitive advantage (Barney, 1991). The sustained competitive advantage is essential to Netflix in order to compete in this Digital Media Industry that the environment is dynamic and a lot of competitors rising up like Amazon Prime Video, Hulu and HBO Now.

The following table shows the VRIO that Netflix has and helps the assessment how the Netflix’s internal resource can gain competitive advantage.

Table 2.1
Netflix’s VRIO Analysis, Barney & Hesterly, 2015

Resource	Valuable	Rare	Inimitability	Organisational Support	Competitive Advantage
Original Contents	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Marketing Skills	Yes	No	No	Yes	Temporary Competitive Advantage
Data Mining	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Unique Features and Layout	Yes	Yes	Yes	Yes	Sustained Competitive Advantage

The first internal resource is original contents which Netflix main distinctive capabilities that make Netflix success in digital media industry. There are 65 original series and the number still increasing until now (Lynch, 2018). Since 2012 Netflix already made a lot of original contents worth hundred of hours and receiving nomination for 45 Emmys, 10 Golden Globe and three Academy Awards (Tsuchiya, 2015). The original contents are very valuable to Netflix because that is the main reason why people subscribe to Netflix and it is very rare and hard to imitate by the competitor because an original content is a protected by copyright. Competitors like Hulu and Amazon Prime Video need to innovate by themselves which very difficult to produce good original contents that can attract people to subscribe to their service. The organisational support itself of Netflix is one of the reasons why Netflix is a success right now because there is a culture in the company that treats every employee is grown up (Stenovec, 2015).

House of Cards is Netflix's first original contents released back on 1st February 2013 that worth mentioning because there are a lot of first from that content (Satell, 2013) and also Kevin Spacey as the lead actor won a Golden Globe Awards (Tsuchiya, 2015). House of Cards tells a story about a ruthless congressman called Frank Underwood played by Kevin Spacey will stop at nothing to conquer Washington, D.C. (Netflix, 2013). Many of firsts of House of Cards are first TV show bypass television ecosystem of network and cable operators, first time a series released an entire season (thirteen episodes) all at once, and first time that a TV series created by help of big data algorithms which connected with other Netflix's resource, data mining (Satell, 2013). Netflix spend at least \$100m to make this

series and the experiment in original television is a major success (Williams, 2013). Even though Amazon Prime Video's original series is a success but not as successful as Netflix ground-breaking success with their House of Cards but still Netflix needs to keep looking to Amazon since they start to close the gap to Netflix in market share (Stolworthy, 2016).

The marketing skill that Netflix has is very valuable but still can be imitated by the competitor easily, with the help of organisational support Netflix can make a unique advertisement that can attract customers to watch their new series. For instance, the advertisement for new Netflix's original series Altered Carbon is very unique, it can be seen in figure 2 and 3 showing a person in a bag.

Figure 2.2
Netflix's Altered Carbon Advertisement, The Sun, 2018

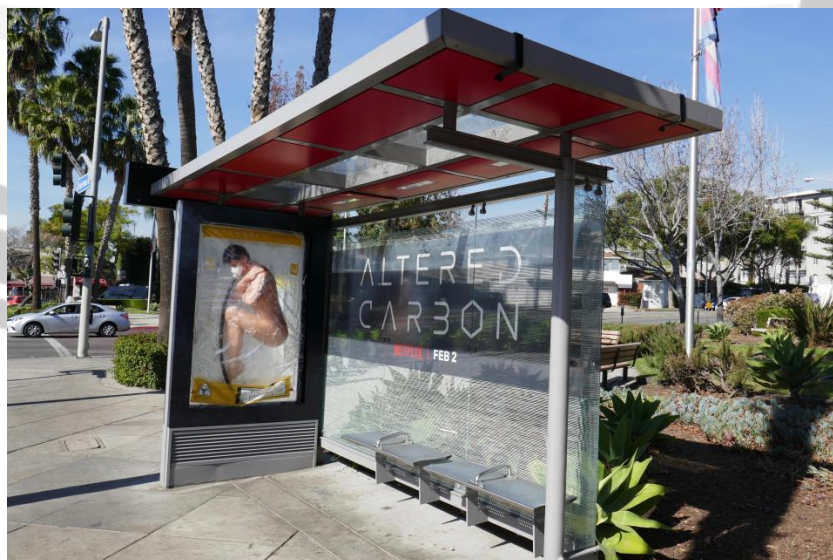


Figure 2.3
Pedestrian trying to poke the advertisement, The Sun, 2018



The billboard is very attractive even though rather bizarre but makes people take a look at even stop to poke the bag (Birchall, 2018). Brilliant and unique marketing will give another competitive advantage to Netflix and will lead people to subscribe to Netflix and watch the series.

Next internal resource is data mining which very valuable and it is rare at the same time. It is hard to imitate too by the competitor and with the help of good organisational support, this resource can be utilised in making original contents, advertising, and making unique features and layout in the websites. According to Witten and Frank (2005), data mining is solving the problem by analysing data already present in the database. As mentioned above House of Cards is the originals series that created by help of data mining because Netflix made it based on the viewing habits of its 33 million users, data mining allows Netflix to know how

many people watch Kevin Spacey, how many sat through political dramas and other factors that help to create House of Cards (Leber, 2013). With data mining, Netflix can engage and advertise to people through Twitter by tweeting unique facts that can be possible by data mining only like in figure 4 and also there is the negative side of it that some people saying Netflix misuse the user data (Maheshwari, 2017).

Figure 2.4
Netflix engage with the customer through Twitter, Twitter, 2017

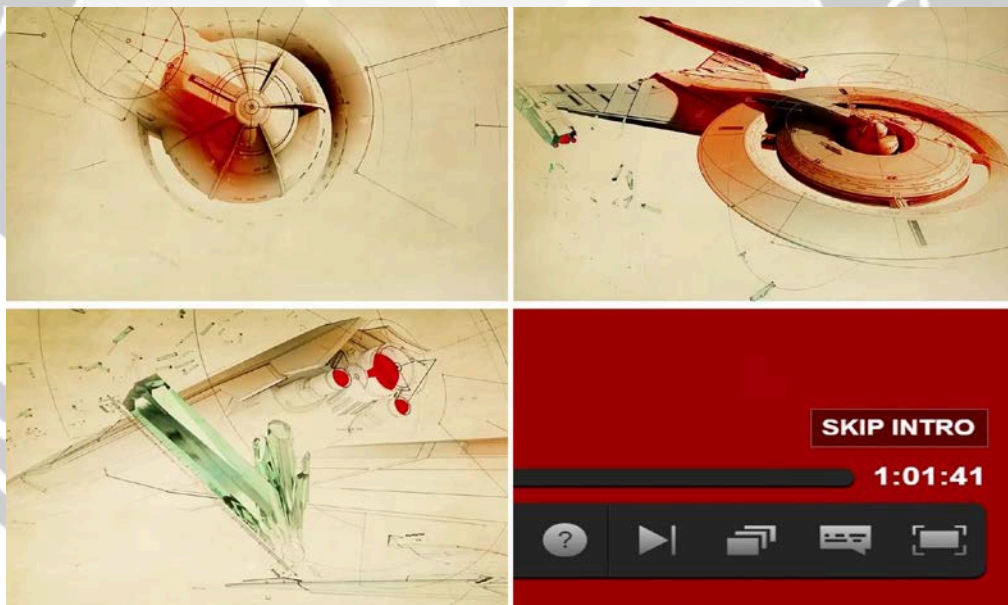


The last resource is unique features and layout which very valuable, rare, hard to imitate, and Netflix has the organisational support to utilise this resource. One of the unique features is effective recommendation system that offers a suggestion for a user may enjoy based on the previous movies they already watched (Hegde, 2014). This recommendation system is built on the help of data mining and according to Rayna and Striukova (2016), Netflix can improve their 360° Business Model Framework which they increase in value in both value proposition and

capacity for value creation through the strengthening of Netflix's core competencies, key resource, and value networks.

Another unique feature is Netflix's "skip intro" button that places nicely within in the layout of the website as shown in Figure 5. This magical button will allow the user to skip intro scene which usually just contain repetition of music and same scene over and over again which people found it as the greatest invention of the 21st century so far (Heritage, 2017).

Figure 2.5
Skip Intro Button on Netflix, The Guardian, 2017



Through distinctive capabilities Netflix had now, Netflix will prevail in this dynamic industry because Netflix constantly innovating from big thing like an ambitious investment for original series that according to Duberstein (2018) Netflix's negative cash flow \$3 billion to \$4 billion, to small things like "skip intro" button. In addition to past years, Netflix has never been afraid to make a dramatic

change which also backed up by their rare and valuable data mining which proven as the main reason their major success.

