An Evaluation of Netflix Inc.

Thomas Browning

BAM 479 - OA - Strategic Management

Professor Carol Himelhoch

Siena Heights University

November 20, 2016

Case Statement

Netflix has the opportunity to dominate the international streaming media market.

Vision Statement

We will continue to provide customers with a uniquely compelling selection of movies and shows by streaming and DVD service.

Mission Statement

Through the use of technology and strategic planning we will continue to provide our customers with advanced streaming and DVD services. As the customer demands change from primarily DVD subscriptions to streaming, we will accommodate by offering new movies, TV shows, and Netflix original series shows. With the anticipation of greater demand for streaming services, we will focus on expanding internationally and providing superior services.

Mission Statement Components & Rationale for Component Inclusion

Netflix does not have an official publicly available vision or mission statement. Netflix does have a strategy statement that provides a good expiation of the current market trends and anticipated direction. Due to market fluctuations and dependence upon technology, having a strategy statement does suit the company and provide a good understanding of the situation.

1) Customers – Customer satisfaction appears to be the greatest focus for Netflix. They provide services at competitive flat rate prices, advances in technology to ease searching and saving shows, and by providing different platforms to suit the customer’s needs.

2) Products or service – The products and services provided by Netflix are its sole business. Netflix offers multiple ways to provide customers with what they need whether it is DVD

subscriptions or streaming videos. They also have a focus on advancing its services to ensure customers stay with the company.

3) Markets – The markets in this industry are constantly changing with the addition of technology and the changes in demand. Ensuring that employees know and understand the market will ease the transition process as demand and the industry begin to change.

4) Technology – Netflix is leveraging technology in its favor. In an industry such as this, having the leverage can make a huge difference. As Netflix competes with larger companies in must ensure in maintains the lead when it comes to technology. They provide customers with the ability to search quickly and this technology platform also provides suggested movies and shows based upon what the user watches. These advancements show that the company is focused on the ease of use for its program and that these programs keep the customers happy.

5) Concern for survival, growth, and profitability - Netflix is focused on expansion into international markets. Current expansion into Canada has Netflix facing complications. Netflix's focus is to continue expansion but due to various regulation changes and instabilities, the company is facing slowdowns but these complications have not prevented forward movement.

6) Philosophy – Customer driven focus drives the company to continue its operations. There is a clear focus on keeping a step ahead of its competition. Despite its small size in comparison to its competitors Netflix seems to be doing well for itself.

7) Self-concept – Providing better and more adaptable services to its customers. Maintaining a competitive flat rate cost while also providing multiple services.

8) Concern for public image – Netflix has a high regard for its public image. In instances such as legislation being proposed to prohibit internet sharing could impact Netflix negatively. The

company wishes to be viewed as a low cost alternative to its competitors and ability to provide superior services.

9) Concern for employees – In the case of Netflix, there is little mentioned about having a focus on employees.

Milestones

Netflix is an entertainment organization consisting of approximately 4,400 employees. The company focuses on providing a low cost, flat rate combination of DVD and streaming video services. Netflix also provides its viewers with many Netflix Original videos that develop into a series of shows. With low flat rates and original series shows, Netflix has positioned itself nicely against its competitors.

Company milestones include; Expansion into international markets. Proprietary technology that enhances consumers' search process and provides suggestions based upon previously viewed material. Netflix participates in co-operative marketing campaigns with other companies by featuring studios' movies in Netflix promotions. Netflix negotiated a deal with Epix, a premium TV channel provider, to air an expansive collection of titles that paid TV is unable to offer its customers. A deal was negotiated between Netflix and Starz which will allow Netflix to provide its customers with over 2,500 from Disney, Sony Pictures, and other large companies. Reed Hastings, Netflix CEO, was named *Fortune magazine's* business person of the year in 2010 (Copeland, 2010).

Netflix is striving to stay ahead of its competitors in a fierce battle to provide a wide range of content that is not available on other platforms. With constant negotiations, Netflix is fighting an uphill battle in its attempt to stay current and relevant to its customers. Netlix's focus seems to be on the customer and it maintains a small time feel in an industry full of large competing companies.

External Factor Evaluation (EFE) Matrix

	Key External Opportunities	Weight	Rating	Weighted Score
1.	Consumers prefer movies by way of streaming through the internet.	0.07	4	0.28
2.	Competitors do not have specialized technology to offer their customers.	0.06	4	0.24
3.	Customers provide work of mouth advertising.	0.05	3	0.15
4.	International markets lack the ability to provide their customers with DVD and streaming media delivery.	0.04	3	0.12
5.	Consumers want more content.	0.05	3	0.15
6.	Customers want customized searching and suggestions based on what they watch.	0.04	4	0.16
7.	Consumers want a service that provides low flat rates.	0.03	3	0.09
8.	Consumers want to view new titles.	0.05	3	0.15
9.	A rebounding economy means more disposable income that can mean potential revenue.	0.04	2	0.08
10.	Consumers want the ability to watch streaming media from multiple platforms and from different locations at the same time.	0.07	4	0.28
	Key External Threats	**Weight**	**Rating**	**Weighted Score**
1.	Entering international markets, Netflix must deal with different regulations and laws while competing with any local companies.	0.07	3	0.21
2.	Large companies are beginning to make large investments into streaming video services.	0.06	2	0.12
3.	Large American companies have established business ties in international markets and are beginning to invest in streaming media in these international markets.	0.04	2	0.08
4.	Cyber security threats have emerged which endangers security and creates possible privacy issues.	0.05	2	0.10
5.	Legislation is being processed to limit sharing of streaming media.	0.04	2	0.08
6.	If U.S. copyright laws are amended it may allow studios to release DVDs to retailers for initial sale before they are available to rental companies.	0.05	2	0.10
7.	Changes in cost to ship/receive goods.	0.02	3	0.06
8.	Consumers want more content.	0.05	3	0.15
9.	Consumers prefer movies by way of streaming through the internet.	0.05	4	0.20
10.	Consumers will change subscriptions when they become unhappy with the services provided.	0.07	4	0.28
	Total	1		3.08

Note: Weights, ratings, and weighted scores were calculated based upon the author’s views of Netflix Inc. External factors were attained from David, F. R. (2013). *Strategic management: Concepts and cases.* Boston, MA: Pearson.

Justification

Further review must be made to determine the higher scored external opportunities and threats that face Netflix to understand how effective the company is at handling these factors. This will be done by assigning a weight based upon the potential impact, assigning a rating for Netflix on its ability to respond to the opportunity or threat, and finally review the weighted scores and what they mean for Netflix.

Opportunities:

1) The movie rental industry has changed drastically in the last 10 years. The current view of the industry is still changing and is headed toward the direction of fully online streaming videos and shows. Netflix is one of the companies that made these drastic changes in the last 10 years by offering customers flat rate DVD and streaming video services. The weight of this industry change is give a 0.07 for its large impact and Netflix is given a rating of 4 for being such an integral part of the change and leading the industry in technology to accommodate the change.

2) As Netflix continues its technology advancements it remains ahead of its competitors. This lead has allowed Netflix to keep a hold of its customers and continually draw in new ones from other companies. Customers desire specialized technology that provides them with quick searches, specialized suggestions, and easy to process formatting. This is weighted at 0.06 and given a rating of 4 due to Netflix pioneering the technology that is desired by consumers.

10) As technology advances people are given more ways to connect to entertainment. This can lead to a single family who utilizes a phone, tablet, and TV to connect to this entertainment. Consumers want the ability to connect by whatever means that they have at their disposal and

need a company who can provide that capability. With this being such a relevant and highly demanded opportunity its weighted at 0.07. Netflix has not only given customers this ability it allows multiple users to connect at the same time on different devices. Netflix is given a rating of 4 for its ability to accommodate and continue advancements in this key opportunity.

Threats:

1) As Netflix continues to develop and it has begun to expand into international markets. This expansion forces the company to face many different risks it is not accustomed to such as regulations and cultural differences. Risks such as regulatory, economic instability, legal complexities, and complex taxation rules. Due to these high threat factors this is given a weight of 0.07 but due to the ability of Netflix to continue expansion in this environment it is given a rating of 3.

9) Netflix provides DVD and streaming video services at flat cost rates. The market is continually changing and the direction is moving away from DVD subscription services. Since Netflix provides both DVD and streaming services it is likely to face reduced revenue from DVD subscriptions. The majority of its subscriptions are for streaming media so the impact will be relatively low and was weighted at 0.05. Netflix has a large focus on continued advancements of its streaming services and anticipates this change by making strategic plans that accommodate. Due to the ability to accommodate these changes Netflix is given a rating of 4 which allows them to counter the industry threat.

10) For most industries customer satisfaction can make a large difference in their survival. Netflix relies heavily upon word of mouth advertising to continue building its customer base. Due to the design of its subscription services Netflix allows users to share their account which tends to lead the trial individuals to purchase their own account. Customer satisfaction is also

determined by a company’s ability to meet customer expectations for content, technology, and ease of use. For these reasons this threat is weighted at 0.07 and Netflix has met all of these demands and is given a rating of 4.

Weighted Score:

These factors were chosen by having the largest combination of weights, ratings, and weighted score. While some weights may be higher than the opportunity or threats chosen, the combination and weighted score determined the largest impact. Each weighted score allows management to determine how the company has handled or will handle the various opportunities or threats that the company faces. These weighted scores should be considered on their own merit since they are not based on solid facts and can change with the industry. The average weighted score represents the overall view of how the company is handling its opportunities and threats. An average number may vary between industries but a general average is 2.5 and anything above that score considers a company is doing well. Netflix was determined to have a 3.08 average which places them above the standard. A score of 3.08 represents a company that is strong, reacts quickly to changes, and maintains the ability to accommodate change.

Internal Factor Evaluation (IFE) Matrix

	Strengths	Weight	Rating	Weighted Score
01.	Proprietary technology enhances consumers search process.	0.09	4	0.36
02.	Netflix negotiated a $1 billion dollar five-year deal with Epix to provide customers with titles that pay TV cannot provide.	0.06	4	0.24
03.	Netflix negotiated a deal with Starz to provide customers with over 2,500 additional movies and shows. These included shows from Disney and Sony Pictures.	0.06	4	0.24
04.	Deals with Paramount Pictures in Canada increased Netflix's library for Canadian viewers.	0.03	4	0.12
05.	Experience in international expansion.	0.04	3	0.12
06.	A high subscription holder recommendation which ensures competitors will have a difficult time displacing Netflix.	0.08	4	0.32
07.	Advanced focus on streaming video services.	0.05	4	0.20
08.	Multiple subscription services that accommodate different tastes.	0.03	4	0.12
09.	Netflix had a reduction in subscriber acquisition costs by 29.2% from 2009 to 2010.	0.06	4	0.24
10.	Netflix does not pay out dividends.	0.07	3	0.21
	Weaknesses	**Weight**	**Rating**	**Weighted Score**
01.	Netflix does not pay out dividends.	0.07	1	0.07
02.	Netflix is bottlenecked at its supply chain. It does not have long standing agreements for DVD or streaming media deployment.	0.05	2	0.10
03.	Heavy reliance upon computer systems and third parties for security and privacy of its customers.	0.06	1	0.06
04.	Unfamiliarity and inexperienced with international business regulations.	0.04	1	0.04
05.	Dependence upon shipping for DVD services.	0.03	2	0.06
06.	Dependence upon the internet to provide the majority or its customer with the services it provides.	0.05	2	0.10
07.	Free subscribers increased from 3.1% to 8.7% from 2009 to 2010.	0.02	2	0.04
08.	Additional fees are charged for Blu-ray DVD rentals.	0.03	2	0.06
09.	Low number of employees compared to industry competition.	0.02	2	0.04
10.	Aggressive pursuit of business deals.	0.06	2	0.12
	Total	1		2.86

Note: Weights, ratings, and weighted scores were calculated based upon the author's views of Netflix Inc. Internal factors were attained from David, F. R. (2013). *Strategic management: Concepts and cases.* Boston, MA: Pearson.

Justification

Further review must be made to determine the higher impacting internal strengths and weaknesses that face Netflix and examine how effective the company is at handling the situation.

This will be done by assigning a weight based upon the potential impact, assigning a rating for Netflix on the severity of the strength of weakness, and finally review the weighted scores and what they mean for Netflix.

Strengths:

1) Netflix owns proprietary technology which enhances customers search processes. This technology covers other areas including operations, the company web page, order processing and various customer services (David, 2013). Customers want a company who can provide them with each search options and suggestions based upon shows they already watch. Based upon this advanced technology this factor is weighted at 0.09 and given a rating of 4. This is due to the advanced technology allowing Netflix to stay ahead of its competition.

6) Many businesses strive for customer satisfaction, Netflix relies upon it for its survival. With many options on the market Netflix has put a large amount of effort into customer satisfaction. Netflix currently maintains above a 90% subscriber recommendation which benefits them in more than one way. A high satisfaction and recommendation rate means that most of those customers will provide advertisement for Netflix and will bring them continued subscriptions. This high recommendation also benefits the company by ensuring it does not lose current customers to its competition. This factor was weighted at 0.08 for its large impact and warranted a rating of 4.

Weaknesses:

1) Unlike most companies, Netflix does not pay out cash dividends and never has. The company utilizes these funds to finance operations and fuel growth and development of the organization. To some this may make sense but to investors this can cause them to pull their funding since the

company is not providing incentive for investors to stay. This is a high risk concepts which warrants a weight of 0.07 and rating of 1 for it could prove to be a problem.

6) Netflix is confined to two specific markets. The first being the DVD rental market and second is streaming media. Streaming media is fully reliant upon the internet. This could be considered betting fully upon one source of technology and source of income. While Netflix is looking at other avenues of income its primary income stream is from streaming media. This factor is given a weight of 0.05 because Netflix does have other sources of income. Netflix is also given a rating of 2 due to its limited weakness.

10) Netflix and its CEO, Reed Hastings, have a reputation for aggressive bargaining to make deals with studios, TV producers, and other media sources. This has caused many to question if they should join Netflix or to go against them. Netflix has attained many deals regardless of its tactics but would have likely not gained much ground had it not utilized this tactic. Based on the success and possible failures this factor was weighted at 0.06 and given a rating of 2.

Weighted Score:

As with the EFE matrix, the IFE matrix factors were chosen by having the largest combination of weights, ratings, and weighted score. While some weights may be higher than the strengths or weaknesses chosen, the combination and weighted score determined the largest impact. Each weighted score allows management to determine how the company has handled or will handle the various factors. In this IFE matrix, Netflix was given a weighted score of 2.86. The average score for the IFE matrix is a 2.5 which means Netflix is sitting just above average for its internal strength. As with the EFE matrix the IFE matrix is designed by an individual’s view of each situation and how the company performs against its strengths and weaknesses.

Management should proceed with caution when utilizing these figures and should reference financial data to gain a better perspective.

SWOT Analysis Summary

Netflix performs at an above average pace in dealing with its external threats and capitalizing on its external opportunities. Netflix has established a strategic plan geared around its anticipation of industry changes away from DVDs and have invested heavily into streaming media technology which allows Netflix to stay ahead of its larger competitors. There has also been a successful focus on providing technology that allows customers to utilize various platforms simultaneously from the same account. Netflix capitalized on its threats when it entered the international market in Canada. Netflix learned the laws and regulations all the while it exceeded all financial expectations. With its continued expansion into international markets Netflix is likely to gain better perspective on overcoming those threats. Additionally, Netflix should continue their customer driven focus to increase its ratings.

In evaluating the internal factors, Netflix what determined to be slightly above average in its weighted score total. This shows that the company has a slightly positive internal strength. There are many aspects of the strengths that drive the company forward. As the IFE matrix shows, most strengths are weighted quite high and 8 of 10 are rated with a 4. This is a substantial strength that is pushing the company forward. In comparison to its weaknesses, there are some weighted rather high and were given a strong weakness of the company. These major weaknesses include not paying dividends and its heavy reliance on third parties for security. The company has a great focus on their strengths but could use some cleaning up on its weaknesses which would propel them quickly into an internally strong company.

Porter's Five Forces Model

Porter's five forces model allows for a multi-point evaluation of a company's market. This evaluation is done by looking directly at competitors in the market, the possibility and ability for new competitors to enter the market, a company's ability to develop new substitute products, the bargaining power of suppliers, and the bargaining power of the customers (David, 2013).

In evaluating the market competition against Netflix, there are many strong competitors. The largest and most prevalent company who is in direct competition with Netflix is Amazon. Amazon has strong brand recognition, established online history, large customer base, greater financial resources, marketing platform, and human resources. Amazon provides software, data processing, and cloud storage services.

In addition to Amazon, Hulu and Warner Brothers are both invested heavily into streaming media. Hulu is considered one of the leading streaming video companies while Netflix was even not rated in the top 10 (David, 2013). Netflix is also competing with Redbox and Blockbuster in the rental movie market. Redbox and Blockbuster provide many local vending machines that provide people with immediate rentals. Netflix does offer videos that are not available to other companies and depending upon the package they have regularly reoccurring packages available to customers.

The video streaming industry is still believed to be early in its overall development which can lead to many openings for new competitors (David, 2013). There are some well-established and powerful companies involved but with the increases in demand, new competitors may find a niche and enter the market with force. Much of the industry relies upon word of mouth advertising and reliance upon ground breaking technological developments which could allow for a new company offering what others do not to get a foothold into the industry and begin taking customers from the more established and less conforming companies.

Additionally, new companies have a good opportunity to undercut the competition in pricing availability due to their relatively small startup cost. While new companies may not hold as much or as new of content they can take advantage of the larger companies by sourcing their material from companies who are known to avoid business with Netflix, Amazon, and Hulu. This may give an opportunity for new and powerful partnerships between new companies and established studios or premium TV companies.

The industry that Netflix is in, is rather limited in the ability to develop or produce substitute products. In actuality, the current industry of streaming media is the substituted option to rental movies and can provide a much broader platform to provide content to their subscribers. As the market moves away from rental movies to streaming media, there is a larger emphasis on technology and expansion. It is known in the industry that content is king so the more a company can provide to their wide range of customers the better their odds are at success (David, 2013). In advancing technology and the recent developments of 3D technology, companies are likely to pursue this form of advancement.

Suppliers in many industries control costs as do the manufacturers. This trickling down effect can have a great impact on the consumer. In the case of the subscription and rental movie industries there are many different suppliers at many different levels. When evaluating a suppliers bargaining power there are some major limitations such as multiple companies selling similar products or other supplies who produce better items for completive prices. Additionally, in some cases major bargaining power is in the hands of suppliers if they are the only or one of a limited number of companies able to supply the items needed.

Companies involved with rentals face limited supplier pushback due to shipping services and supplies are provided to a large variation of people and companies. There is a limitation on a supplier's ability to force higher prices unless specific services are sought after by the company such as special packaging or rapid pickup and delivery.

Online media service providers are limited in more specific cases to their suppliers. Many streaming media companies require large amount of internet services, storage services, and have a heavy reliance upon technology suppliers. Due to the high reliance upon these services and technology improvement demands, suppliers are given substantial power over the market.

Netflix's supplier for software, data processing, and cloud storage is one of its competitors, Amazon (David, 2013). This gives Amazon substantial power over Netflix aside from its contractual obligations. Additionally, Netflix has many contracts with movie channels, studios, and other premium TV channels to provide a mixture of content to its customers. These deals are subject to ending and changes which gives the power to the suppliers of the content.

As the industry grows customers are the driving force. There are also many companies that are competing which allows them to easily change providers when they are not happy with services, prices, or the content provided. Customers have quite a bit of power in this sense which means the company must ensure they keep customer satisfaction high.

There are the more predominant subscription VOD customers and falling behind are rental and subscription rental customers. This change in demand falls upon the companies to provide the required services in order to retain customers who are already satisfied with the company's other services.

The industry Netflix operates within consists of many companies which compete for video-on-demand (VOD), ad supported, and subscription service. There is a great deal of large and powerful companies involved in this market which can it rather difficult for smaller or new companies to capitalize on any opportunities to allow for a truly positive foothold into the industry. While there are some opportunities, they are fairly limited in availability let alone having the resources to capitalize on any given opportunities. There is not much movement in the market since it revolves around providing video services and the loss of interest in DVD and Blu-ray videos.

Technology and content have been the largest driving forces in the video streaming industry (David, 2013). With such a focus on content there is a strict focus and hardline negotiations between competing companies and various studio, TV, and production companies. With so many companies competing for the same content, deals often reach into the millions of dollars (David, 2013). Companies are struggling to draw in customers from Netflix due to their high rate of customer satisfaction. These factors make this market highly competitive and small advances can shift the tide.

SWOT Analysis

	Strengths	Weaknesses
	1. Proprietary technology enhances consumers search process. 2. Netflix negotiated a $1 billion dollar five-year deal with Epix to provide customers with titles that pay TV cannot provide. 3. Deals with Paramount Pictures in Canada increased Netflix's library for Canadian viewers. 4. Experience in international expansion. 5. A high subscription holder recommendation which ensures competitors will have a difficult time displacing Netflix. 6. Advanced focus on streaming video services.	1. Netflix is bottlenecked at their supply chain. It does not have long standing agreements for DVD or streaming media deployment. 2. Heavy reliance upon computer systems and third parties for security and privacy of its customers. 3. Unfamiliarity and inexperienced with international business regulations. 4. Dependence upon shipping for DVD services. 5. Free subscribers increased from 3.1% to 8.7% from 2009 to 2010. 6. Aggressive pursuit of business deals.
Opportunities 1. Consumers prefer movies by way of streaming through the internet. 2. Competitors do not have specialized technology to offer their customers. 3. International markets lack the ability to provide their customers with DVD and streaming media delivery. 4. Consumers want more content. 5. Consumers want the ability to watch streaming media from multiple platforms and from different locations at the same time.	SO Strategies 1. Provide advancements in streaming media and capitalize on technology advantages over competitors to continue winning over customers. (O1, O2, O5, S1, S5, S6) 2. Forcefully expand into international markets lacking the high quality streaming media Netflix can provide. (O3, O4, S4) 3. Provide services that allow families to simultaneously view media from multiple platforms. (O1, O5, S6)	WO Strategies 1. Customers want more media via streaming internet, focus on advancing technology to meet demand. (O1,W1, W4) 2. Know and understand what foreign markets need the services Netflix can provide and learn best practices for entering international markets already pursued. (O3, W3) 3. Provide customers with large quantities of new and popular content while minimizing the possible offensive nature of negotiations. (O4, W6)
Threats 1. Large companies are beginning to make large investments into streaming video services. 2. Large American companies have established business ties in international markets and are beginning to invest in streaming media in these international markets. 3. Consumers want more content. 4. Consumers prefer movies by way of streaming through the internet. 5. Consumers will change subscriptions when they become unhappy with the services provided.	ST Strategies 1. Continue expansion into international markets utilizing best practices from previous experiences to stay ahead of competitors. (T2, S4) 2. Provide customers with regularly updated and fresh content. (T3, T5, S2, S3) 3. Stay ahead of competitors in technology and customer satisfaction by providing specialized search and recommendation menus. (T1, T5, S1, S5)	WT Strategies 1. Hire individuals with extensive international expansion experience in the countries of interest. (T2, W3) 2. Remove the reliance upon DVD & Blu-ray subscription sales. (T1, T2, T5, W1, W4) 3. Consolidate security and privacy companies to advance defenses against threats. (T3, W2)

	4. Keep up with the customer's demands for internet based media services. (T4, S1, S6)	

Note: Strengths, weaknesses, opportunities, and threats are based upon the author's views of Netflix Inc. External factors were attained from David, F. R. (2013). *Strategic management: Concepts and cases.* Boston, MA: Pearson.

The Strengths-Weaknesses-Opportunities-Threats (SWOT) matrix was chosen because it allows for direct comparison between the Externa Factor Evaluation (EFE) and Internal Factor Evaluation (IFE) matrices'. The SWOT matrix allows for clear description of the strategies best suited to take advantage of opportunities or diminish the impacts of possible threats based upon internal strengths and weaknesses (David, 2013).

The SWOT matrix above shows a condensed version of the EFE and IFE matrix which allows for focus on high value factors. Many of the listed factors are involved in the various strategies and vary few involve only two factors. The listed strategies incorporate various techniques that Netflix could implement in either taking advantage of opportunities, what could be done to build upon weaknesses to take advantage of opportunities, how strengths can be used to combat industry threats, and what mitigation techniques can be used to limit the impact of threats against Netflix's weaknesses.

It is suggested that the comparison and strategies for WO, ST and WT be produced prior to and designed to supplement the SO strategies (David, 2013). The WO strategies were developed by reviewing the external opportunities and determining what can be done to improve the listed weaknesses in order to take advantage of the market opportunities. The factors selected in determination of possible strategies were the most relevant factors.

The ST strategies were developed by evaluating market threats and determining the appropriate internal strengths that may be used to minimize or possibly eliminate the threat. This section provided more immediate strategy possibilities due to the forceful nature of these factors.

Much of the ST strategies are focused around keeping ahead of the competition in areas such as technology, international expansion, and customer demands.

When evaluating the weaknesses and the threats there must be special determination in the strategy formulation because of the overall negative impact of both sides of these factors. The WT strategies must include ways to minimize the impacts on the company. The best way to approach this topic is to determine strategies that can accomplish more than one mitigation. For instance to mitigate competitors having established lines in foreign country markets and Netflix's lack of experience with injecting itself into international markets, Netflix can hire individuals with extensive international expansion experience. This strategy can help Netflix minimize the impacts of both the current weakness and the external threat.

With all strategies considered the Strength-Opportunities SO strategies must now be established. The most effective SO strategies will have an impact on other sections so great care should be taken when deciding what is the best approach. What is meant by impacting other sections is that a truly positive SO strategy will not only move the company forward but it should also work to mitigate threats and create more opportunities. An example of this is by considering the WT strategy of hiring individuals with international extensive expansion experience and utilizing is best practices for expanding into Canada, Netflix may utilize the SO strategy of forcefully expanding its presence in international markets. This tactic will also offset the threat of competitors who are already in international market but are lacking focus on expanding those footholds. By catching a competitor off guard and being forceful about it Netflix has the opportunity to accumulate a large customer base before major competitors are able to begin services.

The SWOT matrix gives managers to develop a strategy basis to combat and enhance their company's position. When utilized correctly, the SWOT matrix can provide many more benefits than simply the combined factor strategy formulated. As described before, each of the SO, WO, ST, and WT strategies should be formulated to provide maximum benefit to the organization. Strategies should not be evaluated in the sense one factor simply eliminates another but that the strategy determined positively effects another which compounds its effect on the over position of the company.

Financial Analysis

The evaluation of financial ratios can give management a good view of their company by providing information on different areas. Ratios should not be considered a sure thing due to the nature of the content and how it can be construed to look like there are problems when placed side by side with other companies. Caution should be considered when evaluating financial ratios and supporting information should be referenced when ratios warrant further investigation.

Key Ratios	**Netflix**	**Amazon**	**Apple**	**Time Warner**
Gross Margin	37.2	22.3	39.4	44.1
Operating Margin	13.1	4.10	28.2	20.2
Earnings Per Share	0.42	2.53	2.16	2.25
Book Value Per Share	0.79	15.22	7.45	29.97
Profitability				
Earnings Before Tax (EBT)	12.38	4.38	28.42	14.58
Return on Assets	2.60	7.07	22.84	3.90
Return on Equity	3.38	19.01	35.28	7.77
Return on Invested Capital	35.38	17.56	34.69	6.82
Interest Coverage	14.64	39.38	0.00	4.07
Growth				
Revenue - Year over Year	29.48	39.56	52.02	4.28
Revenue - 3-Year Average	21.51	32.11	39.54	-16.68
Revenue - 5-Year Average	25.95	32.14	36.17	-9.24
Financial Health				
Current Ratio	1.65	1.33	2.01	1.52
Quick Ratio	0.90	1.00	1.72	1.17
Financial Leverage	2.38	2.74	1.57	2.02
Debt/Equity	0.81	0.09	0.00	0.50
Efficiency Ratios				
Inventory Turnover	0.00	9.89	52.51	8.21
Asset Turnover	2.60	2.10	1.06	0.41

Note: Ratios and statistics were based upon the author's selection. All ratios were collected from 2010 listings to match content utilized from (David, 2013). Ratios retrieved fromhttp://financials.morningstar.com/ratios.

Key Ratios:

In evaluating gross margin, it is understood that Netflix is doing rather well. When comparing Netflix against its competitors, it is clear to see that Netflix is keeping pace. The gross margin shows the difference between revenue and the cost of goods sold. Although Netflix provides essentially two services, its competitors provide many more. Considering the vast differences in overall product cost, each company is doing rather well.

The operating margin shows management what level of revenue is remaining after payment of variable costs. Netflix had a 13.1% operating margin in 2010 (Morningstar, 2016). This figure places Netflix below both Apple and Time Warner. The operating margin is the type of ratio that can prove misleading since the total revenue and cost of goods sold values would provide more reliable data.

Earnings per share shows an organizations stock profitability. This is the portion of profit that is assigned to each outstanding stock. This figure is represented in dollar value and while Netflix earns $0.42 per outstanding share they do not provide dividends to shareholders. This funding is reinvested into the company operations. Unlike its competitors, Netflix would retain these funds to invest in future operations and expansion thus likely providing shareholders with a higher share value.

Book value per share represents the total money a shareholder would receive if a company were to liquidate its assets while it was shutting down. This figure is computed by including all debts required to be paid by the company and funds provided to common stockholders. The level of debt and amount of assets can greatly affect the outcome of this ratio. Netflix has a $0.79 book value per share which puts the company far below its competitors.

Profitability:

Earning Before Tax (EBT) is a widely used factor that shows a company's financial performance. While it is similar to operating margin, the EBT shows the remaining funds after all expenses have been paid with an exception of the tax. Netflix currently maintains a 12.38% retention of revenue funds prior to taxation. In comparison to Netflix's competitors, the company is lacking but maintains an acceptable margin.

A company's Return on Assets (ROA) is described as a company's ability to use assets to generate revenue. This factor is displayed in percentage form and is figured by evaluating how much in assets is required for each dollar earned. Netflix has a 2.6% ROA which translates into

Netflix requiring $38 in assets to acquire $1 of revenue. This is a very poor factor considering Apple requires only $4.37 to acquire $1 of revenue.

Return on Equity (ROE) is represented by a percentage and describes the amount of shareholder equity that is required to earn revenue. Netflix is rather low compared to its competitors with a 3.38% return. Apple does a great job by acquiring a 35% return on shareholder equity. While Netflix has a low percentage this could be contributed to immediate reinvestment into the company operations prior to factoring the balance sheet. Since no dividends are produced to shareholders the ratio may provide a false negative by portraying very low turnover use of invested funds.

Along the lines of ROE the Return on Invested Capital (ROIC) is the return earned by the utilization of invested capital from bond or shareholders. This ratio shows how much revenue a company generates by the utilization of the capital provided. As with the other return ratios, the ROIC shows how much it would take to generate one dollar. Netflix generates a 35% return on invested capital which surpasses its main competitors. It takes $2.82 in invested capital for Netflix to generate $1 in revenue.

Interest coverage ratio shows how easily an organization is able to pay its debt interest. Alternatively, the interest coverage describes how many time over a company is able to pay its debt interest. Netflix has a 14.64 meaning it is able to pay 14 times its debt interest in any given period. In evaluating Netflix's competitors there is substantial variance in this field. For instance, Apple maintains a zero times interest coverage which means Apple is at financial risk to pay its debt interest if it encountered financial difficulties. On the other hand Amazon maintains a 39.38 interest coverage ratio.

Growth:

The year over year, 3-year, and 5-year evaluation of revenue evaluates a company's standing from one year to the next and over the course of a set amount of years. This process allows investors to evaluate a company's short and long term ability to manage itself and if there is potential for growth. Netflix has a year over year growth rate of 29%, a 3-year growth rate of 21%, and a 5-year growth rate of 25%. These numbers provide investors with the knowledge that Netflix has maintained continual and most of all stable growth over a period of five years but Netflix has a higher short term growth rate which is promising.

In comparison of Netflix's competitor's year over year, 3-year, and 5-year growth rates, it is clear all companies have benefited in 2010. Time Warner is the only competitor who had experienced major losses and a fluctuation of increases, but as with other companies, Time Warner experienced increases during 2010 and it placed the company into a positive overall gain. This is a factor that cannot be relied upon since the actual data must be evaluated to determine the extent of which these percentages increased the company's overall gains.

Financial Health:

The current ratio measures a company's ability to pay current liabilities by utilizing their current assets. It is known that "a ratio under 1 indicates that a company's liabilities are greater than its assets" (Investopedia, 2016). In comparison, Netflix and its 1.65 current ratio is sitting comfortably in the upper range of its competitors. This equates to Netflix is financially healthy and is able to pay of more than its share of current liabilities.

Quick ratio determines an organizations ability to quickly pay off short-term obligations. This type of figure removes hard to sell or inventoried items and focuses on easy access forms of money. This factor measures the amount of liquid asset value against each dollar in current liabilities. Netflix has a 0.90 quick ratio which falls below its main competitors. This 0.90 ratio means that Netflix has $0.90 of liquid assets that are easily available against every $1.00 of current liabilities. In short term, Netflix would not be able to pay off current liabilities and could face a tough financial situation. Netflix's competitors all maintain a quick ratio above 1.0 which ensures their ability to quickly pay off current liabilities if needed.

Financial leverage is the amount of funding that is acquired by the use of debt. This ratio is determined by the amount of debt financing a company utilizes. This ratio is displayed in terms of the more debt financing, the larger the financial leverage will be. While debt financing can provide a company with usable funds, the higher the amount financed the more the company must pay in interest. Netflix has a 2.38% financial leverage which means the company utilizes a low amount of debt financing to operate.

The debt to equity ratio represents how much a company uses debt to finance its operations. Netflix maintains a 0.81% debt to equity ratio, this means less than 1 percent of all operating funding is financed by debt. Netflix's competition is even less reliant upon debt to finance their operations but this could be due to the companies being more established than Netflix.

Efficiency Ratios:

Inventory turnover shows how many times a company is able to sell its inventory over a set period of time. This is one of the few ratios that Netflix does not compare well to its competitors. Netflix does not sell products so they maintain a 0.00 inventory turnover ratio.

Asset turnover ratio represents how many times a company's revenues exceed its assets value. Netflix has an asset turnover ratio of 2.60 which exceeds its competitors. This ratio allows investors to see how profitable a company is in its ability to produce revenue based upon its assets. Netflix produced 2.6 times revenue as it maintains in assets.

Netflix appears to vary in its position against the industry competitors. Since the industry competitors compete in areas the Netflix does not it's difficult to really gauge how Netflix is doing against its competitors. The overall picture of Netflix is positive and with an exception of per share statistics the company is performing remarkably well.

Finance/Accounting Audit Checklist:

1.) Where is the firm financially strong and weak as indicated by financial ration analysis?

Financial ratios must be taken with caution since the ratio may present itself as a positive or negative factor. Due to this caution, management personnel should reference the true numbers to gain a full understanding. Netflix maintains a steady return on assets, equity, and invested capital. The company also does not rely upon debt to finance their operations and continues to produce high revenues without the need for inventory.

2.) Can the firm raise needed short-term capital?

Netflix is unable to raise enough short-term capital to cover current liabilities. Due to the fact that Netflix does not require large amounts of liquid assets they are unable to acquire enough funding to meet their current liabilities if they were facing hardships. With a quick ratio of 0.90, Netflix could only produce $0.90 from liquid assets for every $1.00 in current liabilities.

3.) Can the firm raise needed long-term capital?

Netflix does a very good job at earning returns on invested capital. This is a great tool for the company to utilize when looking for new investors willing to provide capital vs becoming a standard shareholder. Additionally, Netflix has a regular increase in revenue each year and since the company does not pay back dividends it is then able to invest the differences back into operational needs which include long-term capital.

4.) Does the firm have sufficient working capital?

In 2010, Netflix current assets of $640,967 and current liabilities of $388,579. The working capital is figured by subtracting the current liabilities from the current liabilities which gives Netflix $252,388. Netflix does have sufficient working capital of which can be applied to long term debt or other areas.

5.) Are capital budgeting procedures effective?

It is safe to conclude that through evaluating Netflix's financial ratios that its leadership has a rather effective capital budgeting process. The combination of low debt and high returns shows that Netflix is moving in the right direction and utilizing capital properly.

6.) Are dividend-payout policies reasonable?

Netflix does and does not provide reasonable dividend-payout procedures or policies. Although it would depend on who you ask. This is due to the fact the Netflix does not pay out dividends to shareholders but rather reinvests those dividends back into the companies operating funds. This process improves the company's position in the industry while increasing the overall value of the stocks that are outstanding. It is really left upon the individual shareholder to state whether the policies are reasonable or not.

7.) Does the firm have good relations with its investors and stockholders?

There tends to be a good relationship between Netflix, the investors, and the stockholders. As with the policies for dividend payout are regarded, investors are more likely to make more money due to the increasing value of their investments by allowing Netflix to reinvest what would be considered dividends. There is also no shortage of interested investors to provide capital or equity with the well-known fact of no dividend payout.

8.) Are the firm's financial managers experienced and well trained?

It appears that Netflix has financial managers who really know the direction the company plans to go. There is a great understanding in the overall strategy and how senior leadership wishes to proceed. Assets and capital are utilized very well and there is no projected expectation that Netflix will encounter any financial woes that may jeopardize forward movement in the market.

Strategy

Netflix is entering a world of unknowns and is facing a large amount of new complications. The focus now is upon expansion into international markets. To successfully implement a strategy, Netflix must evaluate multiple options geared toward international expansion. With a focus in market penetration, market development, and product development, Netflix can being to position itself on the path to successful strategy implementation. The strategy options can all provide a smooth entrance into international markets, gains customers before the competition, and builds experience in international expansion. By utilizing a Quantitative Strategic Planning Matrix (QSPM), multiple strategy options can be evaluated simultaneously to see what strategy options work best with the factors determined in the IFE and EFE matrices.

Quantitative Strategic Planning Matrix (QSPM)

			Invest in International Infrastructure		**Team With International Market Leaders**		**Retrieve the Content Consumers Demand**	
	Key External Opportunities	**Weight**	**AS**	**TAS**	**AS**	**TAS**	**AS**	**TAS**
1.	Consumers prefer movies by way of streaming through the internet.	0.07	2	0.14	3	0.21	-	-
2.	Competitors do not have specialized technology to offer their customers.	0.06	1	0.06	-	-	-	-
3.	Customers provide word of mouth advertising.	0.05	-	-	-	-	-	-
4.	International markets lack the ability to provide their customers with DVD and streaming media delivery.	0.04	3	0.12	2	0.08	3	0.12
5.	Consumers want more content.	0.05	-	-	3	0.15	4	0.20
6.	Customers want customized searching and suggestions based on what they watch.	0.04	2	0.08	-	-	2	0.08
7.	Consumers want a service that provides low flat rates.	0.03	3	0.09	3	0.09	-	-
8.	Consumers want to view new titles.	0.05	-	-	3	0.15	4	0.20
9.	A rebounding economy means more disposable income that can mean potential revenue.	0.04	-	-	-	-	-	-
10.	Consumers want the ability to watch streaming media from multiple platforms and from different locations at the same time.	0.07	2	0.14	2	0.14	-	-
	Key External Threats	**Weight**						
1.	Entering international markets, Netflix must deal with different regulations and laws while competing with any local companies.	0.07	2	0.14	4	0.28	-	-
2.	Large companies are beginning to make large investments into streaming video services.	0.06	4	0.24	4	0.24	3	0.18
3.	Large American companies have established business ties in international markets and are beginning to invest in streaming media in these international markets.	0.04	4	0.16	4	0.16	4	0.16
4.	Cyber security threats have emerged which endangers security and creates possible privacy issues.	0.05	4	0.20	3	0.15	-	-

5.	Legislation is being processed to limit sharing of streaming media.	0.04	3	0.12	2	0.08	-	-
6.	If U.S. copyright laws are amended it may allow studios to release DVD's to retailers for initial sale before they are available to rental companies.	0.05	2	0.10	3	0.15	-	-
7.	Changes in cost to ship/receive goods.	0.02	2	0.04	3	0.06	-	-
8.	Consumers want more content.	0.05	1	0.05	2	0.10	4	0.20
9.	Consumers prefer movies by way of streaming through the internet.	0.05	3	0.15	1	0.05	-	-
10.	Consumers will change subscriptions when they become unhappy with the services provided.	0.07	-	-	2	0.14	4	0.28
	Total	**1.00**						
	Strengths	**Weight**						
1.	Proprietary technology enhances consumers search process.	0.09	-	-	-	-	-	-
2.	Netflix negotiated a $1 billion dollar five-year deal with Epix to provide customers with titles that pay TV cannot provide.	0.06	-	-	-	-	3	0.18
3.	Netflix negotiated a deal with Starz to provide customers with over 2,500 additional movies and shows. These included shows from Disney and Sony Pictures.	0.06	-	-	-	-	3	0.18
4.	Deals with Paramount Pictures in Canada increased Netflix's library for Canadian viewers.	0.03	3	0.09	4	0.12	4	0.12
5.	Experience in international expansion.	0.04	4	0.18	1	0.04	-	-
6.	A high subscription holder recommendation which ensures competitors will have a difficult time displacing Netflix.	0.08	-	-	-	-	-	-
7.	Advanced focus on streaming video services.	0.05	3	0.15	-	-	-	-
8.	Multiple subscription services that accommodate different tastes.	0.03	3	0.09	-	-	-	-
9.	Netflix had a reduction in subscriber acquisition costs by 29.2% from 2009 to 2010.	0.06	3	0.18	-	-	-	-
10.	Netflix does not pay out dividends.	0.07	-	-	-	-	-	-
	Weaknesses	**Weight**						
1.	Netflix does not pay out dividends.	0.07	-	-	-	-	-	-
2.	Netflix is bottlenecked at their supply chain. They do not have long standing agreements for DVD or streaming media deployment.	0.05	3	0.15	4	0.20	-	-
3.	Heavy reliance upon computer systems and third parties for security and privacy of its customers.	0.06	4	0.24	2	0.12	-	-

4.	Unfamiliarity and inexperienced with international business regulations.	0.04	2	0.08	4	0.16	-	-
5.	Dependence upon shipping for DVD services.	0.03	-	-	3	0.09	-	-
6.	Dependence upon the internet to provide the majority or their customer with the services they provide.	0.05	-	-	2	0.10	-	-
7.	Free subscribers increased from 3.1% to 8.7% from 2009 to 2010.	0.02	3	0.06	-	-	-	-
8.	Additional fees are charged for Blu-ray DVD rentals.	0.03	-	-	-	-	3	0.09
9.	Low number of employees compared to industry competition.	0.02	3	0.06	2	0.04	-	-
10.	Aggressive pursuit of business deals.	0.06	-	-	2	0.12	3	0.18
	Total	**1.00**		**3.11**		**3.22**		**2.17**

Note: Weights, attractiveness, and total attractiveness scores were calculated based upon the author's views of Netflix. Factors were obtained from David, F. R. (2013). *Strategic management: Concepts and cases.* Boston, MA: Pearson.

The case statement was Netflix has the opportunity to dominate the international streaming media market. Based upon this statement, Netflix's strategies should be geared toward taking advantage of this great opportunity. The strategies suggested covered areas such as market penetration by way of establishing infrastructure in preparation of expanding into that country, market development by establishing ties with industry leaders within the prospective country of expansion, and product development by acquiring content and establishing content deals in preparation for insertion into international markets.

The QSPM above illustrates the various strategy options and how they would impact Netflix from internal and external aspects. This type of evaluation allows Netflix to pick a strategy that will likely provide the greatest outcome against all key factors. This QSPM determined that market development in terms of connecting with industry leaders in the target market region is likely to benefit Netflix the most. There is only a slight difference from market development to the next option which is to establish infrastructure within the market.

If Netflix was to implement the market development strategy, it could impact all areas but most of all it will mitigate external threats. Currently, the United States market is set with many available companies providing services and these companies are battling for the same customers. Many international countries do not have these services so there is a whole areas of possibilities. This makes the external threats one of the most relevant sections of the factors facing Netflix. By establishing links with industry leading companies in these international markets Netflix has the opportunity to get ahead of competitors and gain loyal established customers.

All areas including opportunities, strengths, and weaknesses are addressed at varying levels. This strategy allows Netflix to become established with strong partners who can also allow for additional content. By partnering with local industry leaders, Netflix will also be able to observe local and cultural preferences which can allow for modification in any ethical or controversial areas which will allow for the company to strike a positive note with consumers.

Implementation Plan

The QSPM identified partnering and working with local industry leaders as the most likely beneficial strategy that was presented. This strategy requires a larger financial base than other strategies. There is a debatable argument whether the use of debt financing from the start is more beneficial than slowly integrating into the location utilizing content it already owns. This may be a better strategy from a financial point of view. On the other hand if Netflix wishes to acquire a maximum number of customers in a short period of time, providing them with local content may prove to better suit the company.

Netflix’s existence is dependent upon expansion and acquiring new customers. The most viable processes were examined by utilizing a Quantitative Strategic Planning Matrix (QSPM). This matrix identified a slight advantage to the company if Netflix were to establish teams or deals with target market industry leaders.

These international industry leaders in the target market will provide the initial push needed to establish a good foothold into the country. By partnering with industry leaders Netflix may be afforded with the limited opportunity to tap into the content needed to gain the maximum number of customers as possible. With the variation is language, culture, and content interest of various countries citizens, Netflix will need to provide a broad amount of content including what it can legally utilize from content already purchased from other countries where it operates.

This form of expansion will require organizational leadership to have the ability to communicate with the intended host country. Netflix will then need to develop agreements while ensuring the company can operate within the country. The market leaders will already have an understanding of desired content within the culture so agreements will be constructed and deals made for content licensing. Begin advertisement to get the word out with support from industry teams and leaders. Implementation to purchase the means to operate within the region. Finally, building the customer base in which marketing will come into full swing.

Departmental Implementation Impacts:

Implementation of strategies impacts many operational areas of a business. Netflix will see large impacts and involvement with the company’s financial department. The first step in determining the companies financing strategy is to determine the amount needed. This process is handled by both market leaders input, company leadership, and the contracting department.

Impacts with be from the cost associated with licensing, regulatory fees, capital requirements, and content needs. Netflix will face the decision whether to finance the expansion with current capital, debt, or stock.

Human Resources (HR) with be utilized to recruit the appropriate people or organization to assist Netflix communicate with the host country and market leaders. Recruitment efforts will focus on a person or persons with experience in international expansion, a minimum of working knowledge in the target locations market, and ability or history in working with the market leaders. A person or company who has these traits can become one of the most important assets to the company and the key to Netflix's successful expansion. Additionally, HR will need to determine the personnel requirement at the new location to ensure proper staffing. With the new location and personnel, additions to organizational structure will be made to include the international areas as a whole branch which should operate independently and free of direct supervision once established.

Operations and logistics will be impacted as well. These department rely heavily upon each other and require constant communication. Once a base of operations is established within the area of operations, supply chain and equipment must be established. Organization financial departments will be involved once again to ensure proper funding had been identified and any changed addressed. This ensures smooth transition during DVD and Blu-Ray distribution.

The marketing department will have considerable work cut out for them. In the early stages of expansion they will need to find marketable content to distribute to possible customers. Once Netflix is cleared by the government to operate and has begun contracts for content the department is given considerably more content to work with. Taking into consideration, there will likely be language and cultural barriers to overcome in addition to possible religious or government restrictions.

The Workup:

The implementation process begins with communicating with the correct individuals in the desired market and within the target government. The most effective approach to accomplish this task is to recruit an individual or firm who has in-depth knowledge of the rules and regulations, has connections with industry leaders, and connections with the right government departments. This is one of the singular but highly important tasks since much of Netflix's success will be based upon this individual or firms abilities to connect the company with the right people.

The individual or firm hired by Netflix to provide insight will also have the ability to provide Netflix's leadership with initial financial requirements data. Netflix leadership will then begin determining the costs associated with licensing and regulatory fees. At this point negotiations with industry leaders for content and distribution will begin. Netflix's financial department will begin gathering the financial requirements from various sources to determine the source of financing.

The logistics department with begin cost estimation based upon anticipated DVD and Blu-Ray rental demands. Contractual agreements will be drafted with transportation companies, material supply companies, and possible manufacturing locations or preexisting manufacturing facilities. The financial information as well as any shortfalls in capabilities will be addressed to senior leadership so appropriate plans can be developed to fund and meet the needs.

The operations department will gather information from the logistics department to ensure current staffing and capabilities meet the needs. If current capabilities are not sufficient, information will be passed to senior leadership to ensure plans are developed to meet the needs. The operations department will be largely impacted by the cultural and language barriers associated with international expansion. Proper technology and abilities to communicate with local residents must be a primary focus to ensure a smooth transition and build a good customer relation base.

The financial department gathers information from all areas to include operational needs, logistical needs, staffing needs, capital and facility needs, federal regulatory fees and licensing, contractual agreements with content companies, and agreements with tech companies producing computers, TV's and gaming equipment. All of these sources come into play when determining the funds required during the execution phase of the strategy.

The Steps:

The selected strategy is implemented in stages. Many parts of the strategy cannot move forward without others being completed. Before Netflix is able to move forward the approximate funding must be identified. This is done after the planning stages when departments identified their possible needs. Many of the financial obligations to include regulatory fees, staffing, and logistical contacts can be covered by working capital. Facilities and high value content contracts will be considered outside of the scope of working capital funds and financing options will need to be evaluated.

One of the most effective ways to determine the best source of needed funds is by utilizing an EPS/EBIT diagram and chart. This process evaluates the best possible outcome by comparing common stock financing, debt financing, or a mixture of the two. This EPS/EBIT diagram and chart provides Netflix with a direct comparison for what the outcomes for each section will translate into.

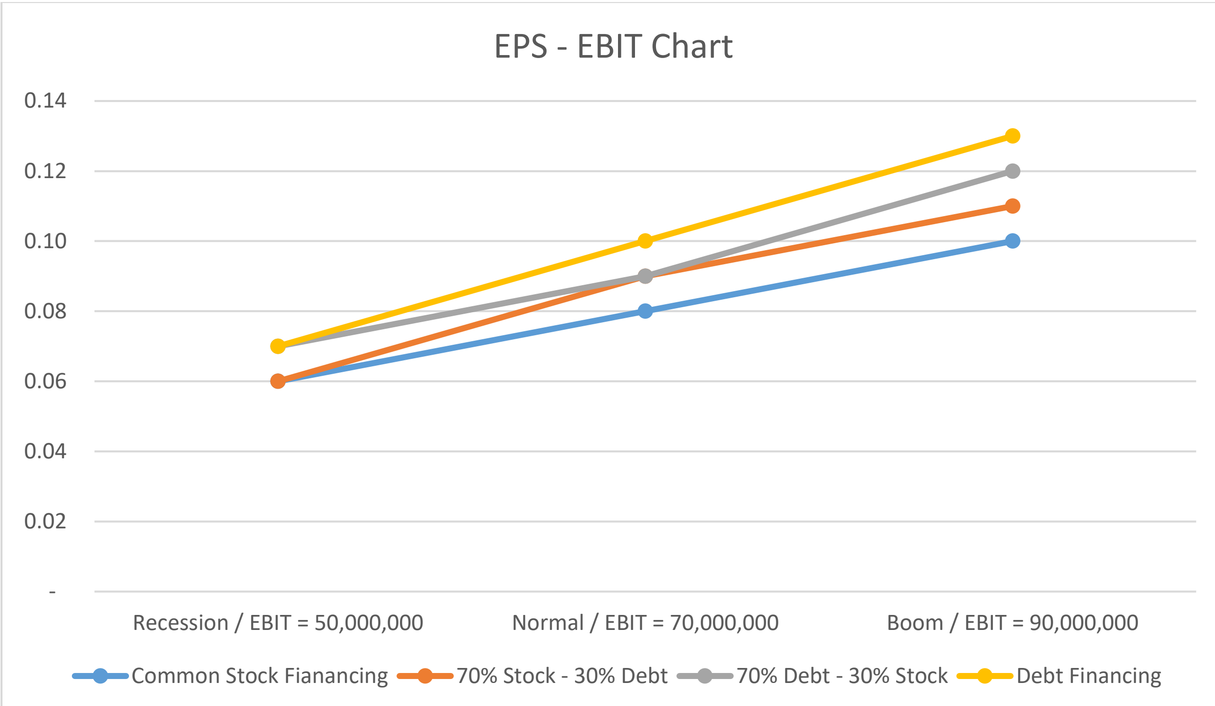
Amount needed	10,000,000
Tax Rate	39%
Interest Rate	4%
Stock Price	$115.50
EBIT Range	50 - 90 Million
# Shares Outstanding	429,150,000

	Common Stock Financing			**Debt Financing**		
	Recession	Normal	Boom	Recession	Normal	Boom
EBIT	50,000,000	70,000,000	90,000,000	50,000,000	70,000,000	90,000,000
Interest	-	-	-	400,000	400,000	400,000
EBT	50,000,000	70,000,000	90,000,000	49,600,000	69,600,000	89,600,000
Taxes	19,500,000	27,300,000	35,100,000	19,344,000	27,144,000	34,944,000
EAT	30,500,000	42,700,000	54,900,000	30,256,000	42,456,000	54,656,000
# of Shares	515,730,000	515,730,000	515,730,000	429,150,000	429,150,000	429,150,000
EPS	0.06	0.08	0.10	0.07	0.10	0.13
	70% Stock - 30% Debt			**70% Debt - 30% Stock**		
	Recession	Normal	Boom	Recession	Normal	Boom
EBIT	50,000,000	70,000,000	90,000,000	50,000,000	70,000,000	90,000,000
Interest	120,000	120,000	120,000	280,000	280,000	280,000
EBT	49,880,000	69,880,000	89,880,000	49,720,000	69,720,000	89,720,000
Taxes	19,453,200	27,253,200	35,053,200	19,390,800	27,190,800	34,990,800
EAT	30,426,800	42,626,800	54,826,800	30,329,200	42,529,200	54,729,200
# of Shares	489,750,000	489,750,000	489,750,000	455,120,000	455,120,000	455,120,000
EPS	0.06	0.09	0.11	0.07	0.09	0.12

Note: All statistics were supported by information sourced from David, F. R. (2013). *Strategic management: Concepts and cases.* Boston, MA: Pearson, Morningstar Financials (2016), Commercial Loan Direct (2016) and Trading Economics (2016).

In evaluating the EPS/EBIT diagram and chart, debt financing is the most effective means for financing based upon the required amount. This diagram shows that regardless of the markets current nature whether it is in recession, normal, or a boom, Netflix has the best outcome when utilizing debt financing. Although there are minimal differences by looking at the

EPS outcome, with the sheer amount of shares outstanding the EPS translates into large dollar sums.



Note: All statistics were supported by information sourced from David, F. R. (2013). *Strategic management: Concepts and cases.* Boston, MA: Pearson and Morningstar Financials.

The total estimated finance amount of $10,000,000 is based upon previous years of content needs, contractual costs associated with studios and prime TV companies, technology investments, operational, and logistical requirements. Previous figures estimated content deals with American premium TV channels and movie studios costing in excess $1 million. Considering historical costs and the lower demand for international titles, Netflix is likely to get more content for its money.

Facilities and equipment can vary quite substantially. Facilities vary based upon size, location, and need for access to utilities. Equipment can be purchased at any area and shipped in as long as it meets local government specifications. With limited need for large facilities and capital, Netflix has considerable flexibility in choosing an operating location. With the international location being new, Netflix has the option to take ageing equipment from current locations and ship that to the new locations which will be well served by the current technologies. The already established location are then able to acquire and implement new technologies and continue research and development of new technologies to be fielded in the future.

The first steps in the process is identifying and employing the individuals or firm which will assist and guide Netflix toward completion of all regulatory requirements. As the requirements are nearing completion Netflix will need to locate the needed facilities to operate from. Upon regulatory requirement completion and the required facilities have been purchased, Netflix will then begin the final processes to acquire local content geared toward the new customer base.

In ensuring high demand content is purchased, Netflix will likely be involved with multiple companies and international studios to acquire content suitable for their client base. This process will become the most costly process likely consisting of half of the debt financed funds. Considering that Netflix will be utilizing most of its previously purchased content, the company will have plenty of content available which will be utilized by many of their new customers.

The initial and final department impacted by the strategy implementation is the marketing department. With the use of working capital, the marketing department would have already been advertising in the target location in anticipation of entering the market. This process would make possible customers aware of the coming services and would showcase major titles. Once content has been purchased from local companies, the marketing department will then begin a fierce campaign to solicit their services. This is where a portion of about 1 million dollar of the debt financed funding with be dedicated to.

Funding and implementation will be quite limited initially for DVD and Blu-Ray logistics and utilization. The initial push into international markets will be made by easy to distribute, internet based, widely accessible streaming video services. Once Netflix has established a customer base and determined the demand for DVD subscriptions, the company can then assess the capabilities required and begin to implement that separately from the international expansion strategy.

Pro Forma Income Statement:

The strategy implementation plan has a good outlook. Initial figures are limited regarding success during expansion, especially with the first year primarily focused on establishing a foothold and gaining customers. Based upon the previous success of Netflix and the vast amount of content that will be available to the market upon strategy implementation, it’s reasonable to expect a very strong outcome.

The pro forma income statement shows varying degrees of anticipated +/- changes. This is due to the nature of the market and Netflix’s implementation of additional content. Additionally, the cost of revenue and operating expense increases are due to DVD shipping and packaging cost increases as well as increases in technology cost.

International expansion leaves room for many variables including pushback from current competition, the impact of foreign content being available to consumers in the new market, availability of local content, and Netflix’s ability to gather new customers. The outlook of an increase of 25% across the board is the expectation that international markets will produce 25% of the current U. S. based revenues not a 25% increase from zero sales. The expected costs are anticipated to be higher than estimates due to much of the technology and equipment costs being covered by U. S. based locations for the first 1-2 years.

	Anticipated +/-	United States	Anticipated +/-	International
Revenue	+5%	2,270,756	+25%	540,656
Cost of Revenue	+15%	-1,560,958	+25%	-339,338
Gross Profit		709,798		201,318
Operating Expenses	+15%	-599,873	+25%	-130,407
Profit (EBIT)		109,925		70,911
Tax Rate	39%	-42,870	39%	-27,655
Net Income		67,055		43,256

Note: Anticipated +/- is based upon the authors judgment of the market and related company actions. Financial figures show the anticipated +/-. Financial information obtained from Netflix. (2016). Annual Reports. Retrieved from https://ir.netflix.com/annuals.cfm.

There is an overall positive outlook expected for Netflix during its international expansion. While partnering with local companies and spending large sums of money on facilities and content is designed to gain customers quickly, it may better suit Netflix in future strategy formulation to utilize current content and limit DVD availability for the first few years. This will allow for a lower cost strategy implementation while determining what the local customers really want. Additionally, Netflix will have time to find suitable logistics and supply operations companies and develop positive working relationships.

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