Second Homework Assignment

Marketing Plan and Target Market of Netflix.com

Netflix.com

Netflix Inc. is a public company that offers online movie rentals in the United States. The company was founded in 1997 by Marc Randolph and Reed Hastings, who is still the CEO of the organization. In the headquarters, which is located in Los Gatos, California and in their shipping centers, the organization engages more than 1,900 employees. Netflix has more than 50 distribution centers from where they ship two million DVDs in an average day.

On its website the company says that it is the world’s largest online movie rental service. Netflix has over 100,000 movie titles and 55 million DVDs in total, which it offers to approximately 8.7 million subscribers. The website offers different monthly flat-fee services for the rental of DVD movies. In October 2008, 15,902,715 people visited the website netflix.com. In this metric a person is counted only once no matter how many times they visited a site in the given month.

Marketing Plan

The target market of Netflix’ products are primarily people who like to watch movies, do this on a relatively regular basis and are familiar with the medium of the Internet. In January 2008, 84 percent of U.S. homes owned at least one DVD player as Consumer Electronic Association (CEA) consumer surveys found out. Of course, this market is huge but it is also highly competitive. In the section “Target market” later in this paper the target market will be specified.

The service Netflix offers to its costumers is an online DVD rental. Therefore, the company has different monthly flat-fee programs. The costumer can choose from the over 100,000 titles Netflix offers and he or she creates an online list with the desired movies. The costumer either gets the DVD movie delivered by mail or they can immediately watch the movie using the Netflix online streaming on their PC or Mac. Netflix’ costumers have the possibility to keep the rented movie as long as desired, but depending on their chosen program there is a limited number of movies they can rent at the same time. Netflix’ pricing strategy offers nine different monthly flat-fee services for the rental of DVD movies, one limited and eight unlimited plans. They start at $4.99 per month for a limit of two
movies per month and one movie out at a time and go up to $47.99 for unlimited movies per month and a maximum of eight movies out at a time. Also included in all plans is the “Watch Instantly” service Netflix offers. The consumer has the ability to watch a movie immediately online, streamed via the Internet. For this service the company offers 12,000 different movies and TV episodes. Since January 2008 the subscribers to an unlimited plan have the possibility of unlimited streaming. Consumers with the limited service have a limit of two hours of streaming per month. Netflix also carries Blue-ray discs, but a consumer has to sign up for an additional account for $1 per month to have access to this offer.

In September 2008 Netflix was ranked seventh of the Top 50 Internet Advertisers with a media value of about $7.6 million. Because Netflix is an online DVD rental company it concentrates its promotion on online advertisement.

One huge part of their promotion is search engine marketing. If you type in “Netflix” as your keyword in the most popular search engine Google there appears a paid-per-click advertisement at the top of the search results for netflix.com. The first natural search result for this keyword is also the website netflix.com. With the search key “dvd rental” the first paid result is also netflix.com, and the natural results netflix.com appears to rank third. Exactly the same results you will find if you type in “online dvd rental” as a search term. If you try the same three keywords in the other popular search engine Yahoo you will find similar results: there are also PPC-advertisements for netflix.com at the top of the search results and high ranked natural results. For natural search engine optimization Netflix has the right keywords like “DVD rental” or “watch movies online” already in their heading. Of course they use them even more often in the website’s context. Even though a single page usually does not contain a lot of text, the text used always includes the important keywords. In addition, the website has a lot of links to or from other websites; for example, various blogs like blog.netflix.com or on facebook.com. This also ensures Netflix will be ranked high in the natural search results. According to data provided from Hitwise “Netflix” was also the most searched term in the category movies with a volume of 2.2%. I think a lot of the money from their online promotion budget is spent for pay-per-click advertisement. To be ranked number one for popular ppc-keywords like “DVD rental” Netflix has certainly had to pay a huge amount of money to outbid competitors like Blockbuster. Another huge amount of the promotion budget Netflix spends for banner ads.

In January 2005 a network for Netflix users, called “Friends” was launched. This community offers the possibility to create a friends list and to share own experiences and information about different movies with friends.
Netflix also offers a movie recommendation system called Cinematch. After customers watch a movie they can rate it. With this data Netflix tries to find people who liked or disliked the same kind of movies. So Netflix can make personal suggestions based on the ratings for a movie that the subscriber should like. In addition to that subscribers are able to see the ratings. Cinematch is a great opportunity to make the website more personal for the costumers and to get the people more involved in the company, so that they will stay with it. For many people this is also very helpful, because they can find and watch movies they like, but might not have otherwise watched without the recommendations. At the moment Netflix is having about two billion ratings and an average user has rated about 200 movies.

As mentioned already in the beginning the Netflix distribution is working in two different ways. The costumer either has the choice to get the desired DVD movies via mail or watch it online with the Netflix streaming service. Netflix promises to deliver the DVD movie within about one business day by the United States Postal Service. Therefore the company has about 100 shipping points located throughout the United States. The costs for the mail delivery are included in the monthly flat-fee services. The subscriber also gets a prepared mailing envelope to send the movie back without any costs. For Netflix the co-operation with the United States Postal Service is very important, because the company is able to deliver to a huge percentage of their costumers within one business day. The other possibility, the online streaming service, is available for PC as well as for Mac users.

Netflix’s main competitors in this highly competitive market are Blockbuster Video, Hastings Entertainment, Movie Gallery and traditional movie rental stores.

The three online DVD movie rental companies also offer similar services. One big challenge for Netflix is the offer Blockbuster gives to its costumers: they can give online rented movies back in a Blockbuster store. Especially with Blockbuster Video Netflix has had a hard price war, since the largest in-store video rental chain entered the U.S. online DVD rental service market in 2004.

Another potential threat for the organization was Apple’s online streaming offer. As a reaction in January 2008 Netflix offered an unlimited streaming service instead of only a few hours per month. Traditional movie rental stores could be a competition, because some people do not like to plan in advance which movie they would like to watch a few days later. In a store they can choose the movie they would like to watch right now. A big disadvantage these competitors have are the late-fees the costumer has to pay if they bring a DVD movie back too late.

In their “Code of Ethics” Netflix proclaims that the company and therefore its directors, officers and other employees have adopted the responsibility for ethical behavior. This includes honest and ethical conduct and also compliance with applicable government laws, rules and regulations. The last point includes for example, laws and regulations like for the company’s periodic reports.
New technology that is important for online movie rental services develops very fast. In this field you can find new concepts or enhancements like HD streaming all the time. Netflix has to make sure to involve the important developments as soon as possible in their offering, to make sure to keep all their costumers.

Target market

One huge target market Netflix wants to reach are families. In this target group children as well as the parents are potential movie watchers. The average Netflix costumer is an over 35-year-old woman with a family and an income of $75,000 or less. Many parents might not have the time to go to a traditional movie rental shop where they have to return the movie at a certain time or otherwise pay more for the movie. So, Netflix has an advantage here and families are definitely a great target market for the company. On Netflix’ website there are many pictures that show happy families with children while they are watching TV or getting a DVD. That is also an indicator that Netflix wants to reach families. In my opinion, because of the bad economy at the moment this target market is more interested in renting DVDs and watching them at home than in going out to a cinema and watching movies there where it is more expensive.

Unlike many other online or traditional DVD rental services netflix.com also offers a huge selection of documentary films, Japanese anime, and independent films. So another target market, the lovers of these kinds of movies, are certainly a target group the organization wants to reach. I think this target market is reached the best through word-to-mouth advertising. Because it is hard for these subscribers to find their favourite movies somewhere else to rent, they might be very interested in the company’s services if they hear about the Netflix offers. I also think costumers of this target market are very loyal if successfully reached once.

Marketing strategy

Here I want briefly to talk about how Netflix tries to remain the number one online DVD rental service.

Even though their rating system Cinematch is working very well on October 2, 2006 Netflix offered a one million dollar prize. To get the prize your developed system’s accuracy, a measurement of how closely predicted ratings and subsequent actual ratings match, has to be at least 10% better than
Cinematix ones. Netflix wants to make sure that it has the best possible rating system and therefore the best possible service for their costumers.\footnote{1}

With new services, like the online streaming or Blue-ray disc offer, Netflix tries to offer the latest developments to their costumers. I think they want to make sure to keep their costumers by getting everything from one source.

Because the online DVD rental market is so highly competitive Netflix concentrates on the US market. Even though in 2005 the company had plans to expand in the United Kingdom, they finally decided to stay in the United States where they are "market leader" and know the market environment the best.\footnote{2}

Netflix has been named the number one retail website for customer satisfaction for seven surveys since 2005 by ForeSee Results.\footnote{3} This shows that Netflix invests a lot in their customer care service. They also have a Blog called "blog.netflix.com" where various members of the Netflix team answer questions or recognize critics.

I think with all these marketing strategies and their huge experience Netflix can make sure to also be successful in the future.

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