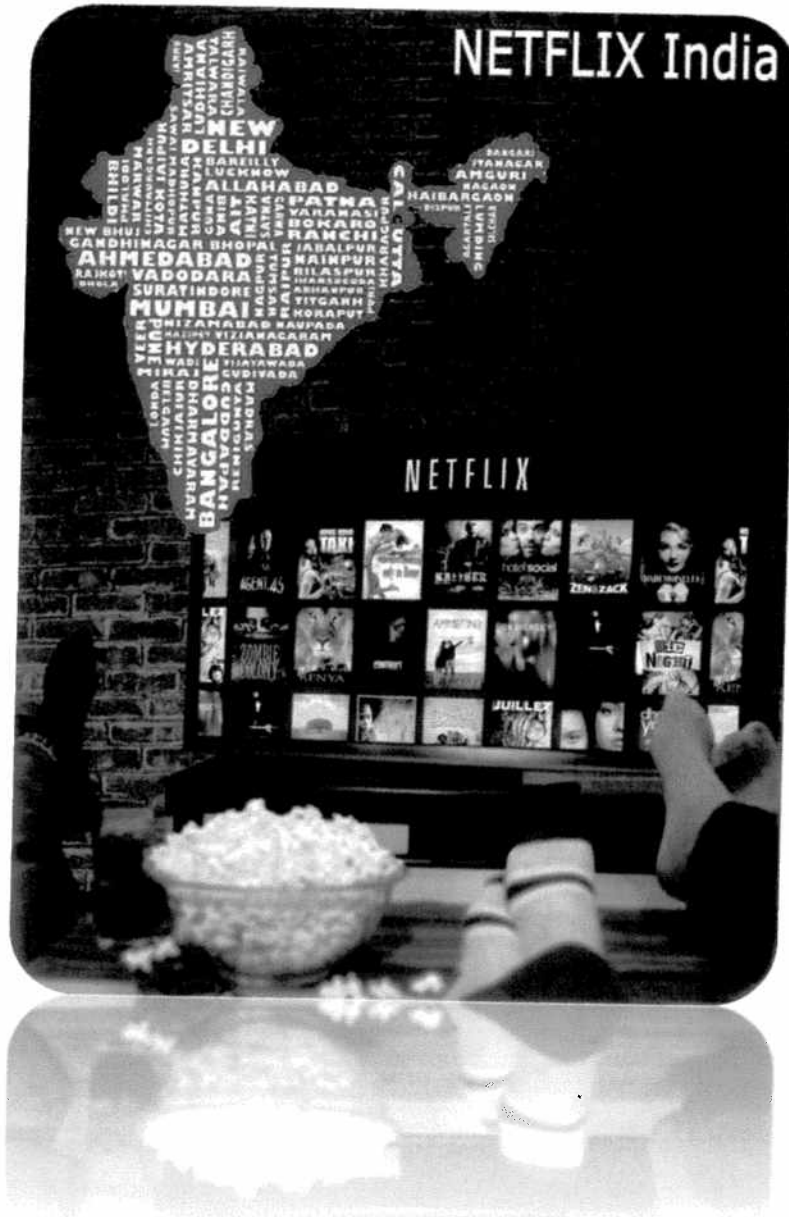


2013

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[Integrated Core Project: Netflix]

## Step 1. Supply Chain Workout for Netflix

### COMPANY'S GROWTH STRATEGY & FINANCIAL GOALS

- Growth Strategy: Expand Netflix into India
- Financial: Gain profitability and a sustainable competitive advantage in the global marketplace

### COMPANY'S OPERATIONS & SUPPLY CHAIN SITUATION ANALYSIS

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Mixes information technology and physical logistics</li> <li>• Automatic tracking information system</li> <li>• Open connect</li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Scarcity of certain titles</li> <li>• Netflix app not currently developed for India</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Growing number of people globally with high speed market access</li> <li>• High growth in India</li> <li>• International expansion through information technology</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Upstream supplier risks</li> <li>• Dependency on internet service providers</li> <li>• Increased competition from competitors in virtual supply chain</li> </ul>

### COMPANY'S OPERATIONS & SUPPLY MISSION

- Mixing information technology and physical logistics to replace traditional brick-and-mortar stores
- Using customized software to track its subscribers preferences
- Making recommendations from its entire library that are inspired by each individual's viewing habits

## **P.E.S.T. Analysis**

### **Political Factors:**

- India is a Federal Republic, meaning that the powers of the Central government are restricted, and that the states of India have ultimate sovereignty.<sup>90</sup>
- Tax is levied on income (except on the agricultural industry)
- Local governments employ taxes on properties and utilities.
- On March 21, 2000 the United States and India opened up to commercial trade in New Delhi.<sup>91</sup>

### **Economic Factors:**

- "India is poised to accelerate its growth rate to 9-9.5% over 2013-15, even as China will cool down to a more sedate 9% by 2012 and to 8% by 2015."<sup>92</sup>
- India is now spending 8% of its GDP on building and improving its infrastructure. This is indicative of a strong economy.<sup>93</sup>
- The American Dollar is equivalent to 61.72 Indian Rupees. While this may be startling at first glance, but their economy as a whole is still strong. This only accounts for inflation.<sup>89</sup>

### **Social Factors:**

- By 2028, both Asian giants are estimated to have 1.45 billion people each and India's population growth is tipped to continue until 2050, while China's population is projected to start declining after 2030.<sup>89</sup>
- Age structure: **0-14 years:** 29.3% (male 187,386,162/female 165,345,284)  
**15-24 years:** 18.2% (male 116,019,042/female 103,660,359)  
**25-54 years:** 40.2% (male 249,017,538/female 235,042,251)  
**55-64 years:** 6.8% (male 41,035,270/female 40,449,880)  
**65 years and over:** 5.6% (male 31,892,823/female 35,225,003) (2012 est.)<sup>94</sup>

### **Technological Factors:**

- As of January 2013, there were 13 Million Broadband connections in India
- Expected growth is 24.5% per year

<sup>90</sup> [http://www.indexmundi.com/india/government\\_type.html](http://www.indexmundi.com/india/government_type.html)

<sup>91</sup> [http://articles.economictimes.indiatimes.com/2010-08-17/news/27599478\\_1\\_china-s-gdp-real-gdp-growth-savings-rate](http://articles.economictimes.indiatimes.com/2010-08-17/news/27599478_1_china-s-gdp-real-gdp-growth-savings-rate)

<sup>92</sup> <http://www.ibtimes.com/indias-population-will-grow-while-chinas-will-begin-decline-2028-making-india-worlds-most-populous>

<sup>93</sup> <https://www.google.com/#q=us+indian+exchange+rate>

<sup>94</sup> [http://www.indexmundi.com/india/age\\_structure.html](http://www.indexmundi.com/india/age_structure.html)

## Step 2. Critical Success Factors and Health Check

	<b>Critical Success Factor</b>	<b>Grade</b>
1	Understand if India is technologically ready for Netflix's Service	<b>B</b>
2	Be sure that we are selecting correct local content to attract market	<b>B</b>
3	Be early to market with our type of service to gain high market share	<b>A</b>
4	Correct purchasing and placement of ads to market Netflix	<b>A</b>
5	Provide multiple outlets to access Netflix	<b>A</b>
6	Track reviewing trends to add content that would be more relevant	<b>A</b>
7	Monitor competition	<b>B</b>
8	Affordable competitive pricing	<b>B</b>

	Critical Success Factors	Helping Forces	Blocking Forces
1	Understand if India is technologically ready for Netflix's Service	<ul style="list-style-type: none"> <li>Broadband usage becoming more prevalent</li> <li>Increasing average speeds</li> </ul>	<ul style="list-style-type: none"> <li>Limited target market based on geodemographics (urban has much more access than rural)</li> </ul>
2	Be sure that we are selecting correct local content to attract market	<ul style="list-style-type: none"> <li>Netflix has a very strong understanding of international consumers and invests in learning about their movie-watching habits and preferences</li> <li>Can use user ratings on Indian movies that Netflix currently offers to get better understand of what to add</li> </ul>	<ul style="list-style-type: none"> <li>India has many different language and ethnic groups, may cause us to have difficulties affording enough content to meet all of their individual needs</li> </ul>
3	Be early to market with our type of service to gain high market share	<ul style="list-style-type: none"> <li>Have done very well with international expansion in the past and typically see high year over year subscriber growth</li> <li>Have caused other international streaming companies to end operations due to not being able to compete with Netflix (ex. Amazon's LOVEFILM in the UK)</li> </ul>	<ul style="list-style-type: none"> <li>India is beginning to see services like Netflix enter the market</li> <li>We cannot be sure how the Indian consumer will respond to Netflix</li> </ul>
4	Correct purchasing and placement of ads to market Netflix	<ul style="list-style-type: none"> <li>The Indian consumer is very involved in social media, which is a great outlet to reach an online target market</li> <li>We understand their unique cultural marketing tastes (ex. Newspaper in India is growing)</li> </ul>	<ul style="list-style-type: none"> <li>Could possibly run into unexpected language and cultural taboos during marketing efforts</li> </ul>
5	Provide multiple outlets to access Netflix	<ul style="list-style-type: none"> <li>India currently possess a plethora of Netflix enabled devices</li> </ul>	<ul style="list-style-type: none"> <li>Still need to make the app available to these devices and possibly adapt to ones they have that we do not have in the US</li> </ul>
6	Track reviewing trends to add content that would be more relevant	<ul style="list-style-type: none"> <li>Use ratings and preference based suggestions and track responsiveness</li> <li>Use established consumer preference algorithm system</li> </ul>	<ul style="list-style-type: none"> <li>Could be skewed data on preferences due to cultural preferences and general inaccuracies</li> <li>Could not have the correct content to start</li> </ul>
7	Monitor competition	<ul style="list-style-type: none"> <li>Use past experience to win over the competition</li> </ul>	<ul style="list-style-type: none"> <li>Domestic competitors may have better understanding of the market and possibly better relationships with the local market</li> </ul>
8	Affordable competitive pricing	<ul style="list-style-type: none"> <li>Current monthly rate is lower than cable and relative to the pricing of other goods</li> </ul>	<ul style="list-style-type: none"> <li>Income classes in India are very skewed—impossible to have right price for all</li> </ul>

CSF	Helping Forces	Blocking Forces	What Must We Do Extremely Well Statements
1	<ul style="list-style-type: none"> <li>Broadband usage becoming more prevalent</li> <li>Increasing average speeds</li> </ul>	<ul style="list-style-type: none"> <li>Limited target market based on geodemographics (urban has much more access than rural)</li> </ul>	<ul style="list-style-type: none"> <li>Utilize our Open Connect service and provide them to the ISPs (Netflix always does this for free) to make our fast streaming service readily available to the Indian consumer</li> </ul>
2	<ul style="list-style-type: none"> <li>Netflix has a very strong understanding of international consumers and invests in learning about their movie-watching habits and preferences</li> <li>Can use user ratings on Indian movies that Netflix currently offers to get better understand of what to add</li> </ul>	<ul style="list-style-type: none"> <li>India has many different language and ethnic groups, may cause us to have difficulties affording enough content to meet all of their individual needs</li> </ul>	<ul style="list-style-type: none"> <li>Focus on what is popular currently in the country to gain as part of our content. This will help us to be sure that the content is likely immune to language and ethnic barriers. Also will allow us to continually understand our market. Finally, maintain relationships with current licensees for updated content</li> </ul>
3	<ul style="list-style-type: none"> <li>Have done very well with international expansion in the past and typically see high year over year subscriber growth</li> <li>Have caused other international streaming companies to end operations due to not being able to compete with Netflix</li> </ul>	<ul style="list-style-type: none"> <li>India is beginning to see services like Netflix enter the market</li> <li>We cannot be sure how the Indian consumer will respond to Netflix</li> </ul>	<ul style="list-style-type: none"> <li>Continue to work off of past international expansion strategies, continue to be very sensitive and aware of cultural factors and act quickly on implementing the service.</li> </ul>
4	<ul style="list-style-type: none"> <li>The Indian consumer is very involved in social media, which is a great outlet to reach an online target market</li> <li>We understand unique cultural marketing tastes</li> </ul>	<ul style="list-style-type: none"> <li>Could possibly run into unexpected language and cultural taboos during marketing efforts</li> </ul>	<ul style="list-style-type: none"> <li>Keep up with social media trends in the nation as these change rapidly and study success of other global companies that are in India to understand successful marketing tactics</li> </ul>
5	<ul style="list-style-type: none"> <li>India currently possess a plethora of Netflix enabled devices</li> </ul>	<ul style="list-style-type: none"> <li>Still need to make the app available to these devices and possibly adapt to ones they have that we do not have in the US</li> </ul>	<ul style="list-style-type: none"> <li>Have no lag in getting the device in terms of our launch in the country be sure that interface is very easy to use and that language translations are smooth</li> </ul>
6	<ul style="list-style-type: none"> <li>Use ratings and preference based suggestions and track responsiveness</li> <li>Use established consumer preference algorithm system</li> </ul>	<ul style="list-style-type: none"> <li>Could be skewed data on preferences due to cultural preferences and general inaccuracies</li> <li>Could not have the correct content to start</li> </ul>	<ul style="list-style-type: none"> <li>Look very closely at what consumers are enjoying on our site and curate content towards those needs, also track our Facebook and Twitter pages to be sure that we are providing the content our consumers want based on feedback via those sites</li> </ul>
7	<ul style="list-style-type: none"> <li>Use past experience to win over the competition</li> </ul>	<ul style="list-style-type: none"> <li>Domestic competitors may have better understanding of the market</li> </ul>	<ul style="list-style-type: none"> <li>Being very mindful to monitor competitors in the fast paced industry and using the mindset we have in the United States of being the one to "set the rules"</li> </ul>
8	<ul style="list-style-type: none"> <li>Current monthly rate is lower than cable and relative to the pricing of other goods</li> </ul>	<ul style="list-style-type: none"> <li>Income classes in India are very skewed</li> </ul>	<ul style="list-style-type: none"> <li>Stand by our pricing strategy to avoid past mistakes in the United States with price changes that caused us to lose subscribers and make consumers aware of the great value that our monthly rate offers</li> </ul>

# Actionable Agenda

What Must We Do Extremely Well	India Technologically Ready		Selecting Correct Content		Early to Market		Correct Ad Placement		Provide Multiple Outlets		Track Viewing Trends		Monitor Competitors		Affordable Competitive Pricing		Count	Grade
Utilize Open connect																	3	A
Focus on what is popular																	4	A
Use past international success																	3	A
Keep up with social media																	4	B
Launch App quickly																	4	A
Use rating system well																	2	B
Use United States dominating mindset																	6	B
Hold strong on pricing strategies																	3	C

## Step 5. Performance Indicators

<b>EFFECTIVENESS INDICATORS</b>	<b>EFFICIENCY INDICATORS</b>	<b>ADAPTABILITY INDICATORS</b>
<ul style="list-style-type: none"> <li>• Appearance</li> <li>• Timeliness</li> <li>• Accuracy</li> <li>• Performance</li> <li>• Usability</li> <li>• Serviceability</li> <li>• Costs</li> <li>• Responsiveness</li> <li>• Adaptability</li> <li>• Professionalism</li> </ul>	<ul style="list-style-type: none"> <li>• Value-added cost per unit of output</li> <li>• Cost of poor quality</li> <li>• Maintenance</li> <li>• Cost of Waste</li> </ul>	<ul style="list-style-type: none"> <li>• Average time it takes to get a special customer request processed compared to standard procedures</li> <li>• Quick responsiveness to low ratings to bring in content</li> <li>• Quick changes based on economic and technological advances</li> </ul>

**Step 6. Potential Problem Analysis**

<b>What could go wrong?</b>	<b>What will cause this problem?</b>	<b>Your preventive actions</b>	<b>Your contingency actions</b>
<b>Our new Indian customer market being dissatisfied with the exclusive, original, and/or general content</b>	The cause of this problem would be not being able to achieve all of the content that we had hoped to collect and license	In order to prevent content dissatisfaction we will do extensive research in order to solidify what our target market wants to see	Our contingency action would be to invest more money into licensing content that the Indian consumer demands. Making more popular content available
<b>The Indian culture may not respond to Netflix in the way we had hoped</b>	The cause of this problem would be current high pirating rates. This causes Netflix to lose customers due to the illegal online streaming	In order to attract customers towards Netflix and steer them away from piracy we will have to advertise the high quality and low price that Netflix has to offer.	Our contingency action would be to stress in our advertisements the convenience and simplicity of our site. Also by advertising our newest and most popular content we can compete in a competitive market at a higher level
<b>When licensing the new content and launching the website/apps many things could be mistranslated as well as culture taboos that we could encounter</b>	The action that would cause this problem would be lack of cultural awareness	Extensive research will take place in order to prevent any cultural taboos or any mistranslations. Also, we will gain access to first hand help to oversee any issues with the Indian culture and language that could occur along the way.	Our contingency action to take place will be to change any problems or errors that may occur. We will implement an operation team to oversee all of the occurring problems as well as extensive research to avoid future issues.

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## Conclusions and Recommendations

### Conclusions

From a financial perspective, we have decided to reject this project due to the multiple outcomes in which the value of the firm is decreased should the project be taken on.

However, from a supply chain perspective, conditions are relatively favorable to move into India. Although the number of households that have broadband is currently low (about 16.7 million), it is set to grow at a rate of 24.5% per year. This suggests enormous potential for the amount of users we could potentially deliver content to in the future. In addition to this, broadband speeds in India are currently more than high enough to support Netflix (average speed is 1300 kbps, recommended is 500 kbps) and are increasing as broadband prevalence and usage increases. Another positive aspect is Netflix's Open Connect content delivery network would be an enormous asset to expansion into India, as it sorts the broadband traffic that is associated with Netflix and manages it in a way that does not slow down the rest of the data being processed. Finally, the number of devices in which Netflix is able to stream from is very high in India and suggests that users would not have a problem finding a way to access the content.

Our key learnings from this project work are as follows:

- When moving into new international markets, both positive and negative cultural factors are extremely important to take into account in order to plan for any sort of objectives that may hinder operations. In the case of India, examples of these are the high potential of the Indian movie industry with digital streaming outlets and the threat of piracy within the country

- The supply chain is absolutely vital to the evaluation of a project. If it is not possible to get the product to the end user, then the project simply cannot happen. If supply chain costs to implement matters that will make it possible for the user to access the project are more than the firm can afford to take on, this is another instance in which a project should be rejected
- It is very important to scan for any and all conditions within a market or situation that may affect the outcome of the project. This was mainly done through our force field analysis and potential problem analysis. If the conditions are not analyzed and proper measures are not taken to be sure that the project will not fail in specific areas given these conditions, the entire project/business/firm could be adversely affected
- It is important to make as accurate of forecasts and assumptions as possible when estimating the outcome of the project. Multiple situations and outcomes must be taken into account as well as extensive research on predicted changes in the factors being used as measures for success or failure (ex. the change in broadband users in India). If conditions are expected to decline in favorability, this may serve as a red flag to go a different direction with the project
- Collaboration is the absolute heart of any project. This is modeled simply by the integration of the marketing, supply chain, and financial aspects of this project. One portion of these aspects does not change without the others being at least slightly affected. This was our most valuable learning point from this project in terms of experience to bring into the real world

- In addition to the collaboration of different business functions, the collaboration of a team is vital to the success of a project. If a team does not collaborate and communicate effectively, then the work that is done will not support and build upon each other and will not make for a strong project. Our group became very aware of this fact over the course of the semester and worked diligently to be sure everyone was on the same page
- As a team, it is extremely important to understand each person's strengths and weaknesses from the start to be sure that the delegation of research and work done is allocated in the most effective way possible. For example, from the start of the project we tried to simply divide up the work and all come with a finished product. We found that when combined, the work sounded repetitive and different writing styles were evident. As the project went on, it became clear that some members were stronger in research while others were stronger in writing and others were stronger in math. Once these strengths were identified, our group worked together much more efficiently

### Recommendations

Key actions that must be taken in order to make the next steps on this project:

- Netflix must do extensive consumer research before moving into India. It is absolutely vital that the selection meets the needs of the consumer from the start. From our research, we understand that Netflix sends agents into new expansion countries to understand the movie tastes of the people and the behavior they take part in concerning movie watching. We believe that in order for Netflix to be

successful in this market should they decide to enter it, this needs to be the first step in beginning the expansion

- Netflix must find a way to not allow piracy to adversely affect their business. We have found that when Netflix moves into a new country, piracy rates actually decrease because Netflix's vast selection for such a low price is simply worth it to the consumer rather than spending their time pirating movies. In order to be sure that we are working against this issue, our idea is to monitor piracy sites and add the content that is the most heavily pirated in order to curb this issue and increase the value of our service. This tells us what people want to watch the most so it is logical to use this as information for what we should add to our library
- It is important that Netflix has a very culturally aware technology team that understands how to make the Netflix app and website most relevant to the Indian consumer. This will include being aware of different translation or graphic issues (such as pictures of movies that may be offensive) as well as the way the Indian culture typically navigates and operates technology.
- Netflix should begin working early to get the app available on cable boxes should it decide to move into India. This has proven to be vital to Netflix's success in the American market to ensure that cable works with Netflix rather than against Netflix. This has happened recently with Netflix in the United States, however we believe that it is important that this happens early in Netflix's expansion into India to ensure it's success in working with cable providers
- Netflix should be sure to have a firm understanding of the direction that the Indian parliament is going when it comes to changes in the industry that may adversely

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affect Netflix's business or even help its business. Examples of these changes include the censorship of certain content, restrictions on foreign investment, and blockers that could hurt the competition involving US businesses. As the Indian political system has been getting more relaxed over time yet is still constantly changing, this is an extremely important step to take into consideration when moving into the new country