Expanding to

International Communication and Media 2014

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ABSTRACT

This report offers an advice about the expansion of Netflix to Germany. Netflix is a subscription-based video-on-demand service that is running in 41 countries already and originated in the US. It offers video content, such as TV-shows, movies, and documentaries for a monthly fee to subscribers who can stream the company´s complete media library to a great variety of home-entertainment and mobile devices.

The report provides insight into macro-factors that influence the company´s entry such as social, cultural, economic and legal aspect and describes the company´s capabilities and resources, how it functions and how its business model works, based on growth and customer acquisition. The SWOT analysis and the 4Ps, which are analyzed as part of this report, lead to the conclusion that content is a double-edged sword for the company. On the one side, its content is considered to be its strength due to its scope and high diversity, and a huge opportunity if the newly produced original shows are as popular as the current ones. On the other side, content is a weakness for Netflix because currently it has only international titles and no local or localized content for Germany. Usually, Germans are used to localized content with German voice-overs or at least German subtitles. This is a new situation for Netflix which has only entered markets in Europe in which English is widely accepted by media consumers.

The PESTEL analysis presents among others demographic and technical factors that Netflix has to focus on due to the nature of its product: broadband internet connections and digital affinity of its target audience are key elements to look out for when looking for prospective markets. Porter´s Five Forces Framework proves that the rivalry among all competitors is very strong and that the market can be considered as very dense and moderately difficult to enter. Furthermore, competitors are analyzed and evaluated in order to develop a positioning and a marketing communication approach. By applying Porter´s frameworks of Generic strategies an approach will be proposed that is going to focus on differentiation rather cost leadership (Netflix´s home strategy in the US), convincing prospective consumers with original shows and convenience instead of having the lowest price. Furthermore, tools of the promotional mix are being discussed and selected based on the target audience preferences and Netflix goals.

Finally, the advice chapter offers information on how Netflix can differentiate itself from its competitors based on the original content that is being produced and how it should approach its target audience properly with a mix of advertising, publicity, direct marketing while utilizing social media and word-of mouth publicity. Additionally, the author proposes to examine the possibilities of partnering up with music streaming services to offer a unified streaming experience, which would benefit on Netflix´s already well-developed streaming-technologies and customer platforms.

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LIST OF ABBREVIATIONS

- **SVOD** - subscription video-on-demand - a business model in which customers subscribe to a service (such as Netflix) in order to gain access to an online media library from which audio-visual content can be streamed to the customer's device. VOD would be video-on-demand which works by paying a specific fee to watch one movie, TV show, etc.

- **ISP** - Internet service provider - an organization that provides services for customers in order to access the Internet.

- **OTT** - over-the-top-content - is the delivery of audio-visual content over the Internet without an ISP or a pay TV/cable TV organization being involved in the distribution. It refers to content that comes from third party operators, such as Netflix.

- **WGI** - worldwide governance indicators - six dimensions of governance that were developed by the World Bank and which are used to measure the quality of governance of a country. Dimensions are Control of Corruption, Lack of Violence, Voice & Accountability, Government Effectiveness, Rule of Law and Political Stability.

- **Cord-Cutting** - describes the process of cable TV customers cancelling their subscription in order to replace it with an online-only media streaming service.

- **Dubbing or dubbed** - refers to the practice of adding localized voice-overs on foreign audio-visual content.

- **IPTV** - streaming standard by which TV content is delivered online via specific Internet protocols that require a designated receiver which is usually provided by the ISP, Cable, or Pay TV organization the customer is subscribed to.

- **DBVT** - is a European standard and stands for digital video broadcasting - terrestrial, which is a way to distribute TV signals digitally.

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CHAPTER I - INTRODUCTION AND BACKGROUND

"(...) Through this new form of distribution (Netflix SVOD model), we have demonstrated that we have learned the lesson that the music industry didn't learn: Give people what they want, when they want it, in the form they want it in, at a reasonable price, and they'll more likely pay for it rather than steal it."

These were the words of Kevin Spacey, winner of several Emmy and Golden Globe nominations, taken from his speech at the Guardian Edinburgh International Television Festival August, 22nd 2013, where he was warning the traditional TV industry to either adapt to the signs of a new trend, or to suffer by losing customers to emerging subscription-based media streaming companies such as *Netflix, Amazon Instant Video, Watchever* etc.[1]

Sales of physical media are declining whereas the revenue of digital media is increasing steeply (figure 1). This provides the perfect scene for entering new prospective markets for SVOD companies. Europe is still growing in the SVOD segment and bears a lot of potential for Netflix to grow and gain more subscribers.
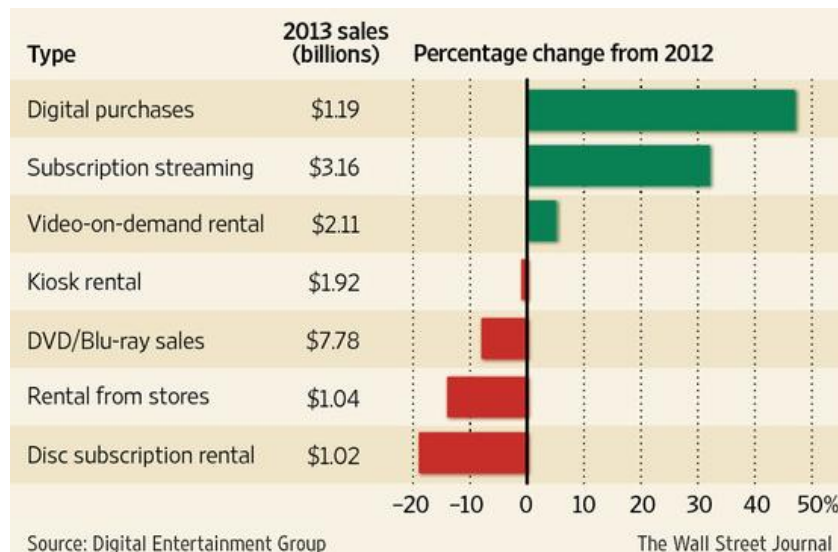
FIGURE 1 - US HOME ENTERTAINMENT REVENUE BY TYPE - 2013 [2]

1. HISTORICAL OVERVIEW OF NETFLIX

In 1997, Netflix was founded by Reed Hastings[3] in the US and focused originally on online rentals of DVD-movies. 1999 it introduced a subscription system which allowed customers to rent as much movies as they wanted for a monthly fee.[4] 2004, CFO Barry McCarthy stated in an interview:

"I believe that the downloading market will evolve with slow but steady progress enabled by the availability of low-cost devices, which are going to move that content from the Internet to the TV set. We need to be on as many of those devices as we can be, so that will be a core strategy for us." [5]

Netflix kept true to McCarthy´s prediction and in 2007, the company entered the streaming business. Until then, Netflix had 7.5 million subscribers and was only operating in the US. In the following years it partnered up with several consumer-electronics companies (such as *Microsoft, Sony, Apple* and *Google*) to deliver its content to

mobile and home-entertainment devices.[6] In 2010, Netflix started the international expansion[7] of its streaming-service (figure 2):
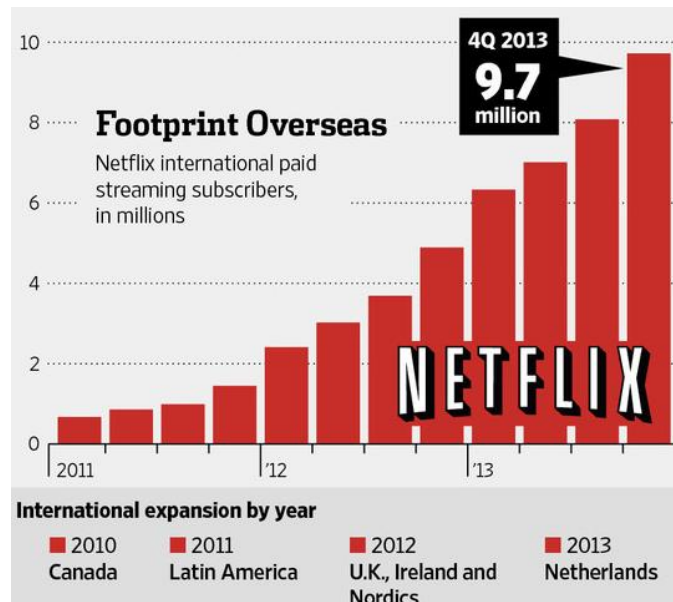
FIGURE 2 - INTERNATIONAL EXPANSION OF NETFLIX BY YEAR 2010-2013 [8]

- First Canada in 2010,
- 2011, 43 countries in Latin America and in the Caribbean,
- 2012, UK and Ireland,
- and the latest one in September 2013 in the Netherlands.[9]

In 2011, Netflix changed its pricing model in order to separate its subscription models for either renting DVDs or using the on-demand streams. The company reversed the changes a few months after they were announced due to heavy resistance of customers, but the damage was done: The move was perceived as deceptive and greedy by customers[10] and Netflix lost value of its stock shares and around 800.000 subscribers in this period until 2012.[11] CEO Reed Hastings explained and justified his company´s actions later in a blog post and apologized for the lack of communication during this period.[12]

Despite the huge damage done to the image of the company, Netflix recovered and is growing steadily and is already able to expand to more markets. According to Netflix´s financial statement from the first quarter of 2014, the company has currently 48.35 million subscribers worldwide, of which 12.6 million[13] belong to international markets.[14]

2. PROBLEM SITUATION - WHY EXPAND TO GERMANY?

Currently, as of April 2014, Netflix is making plans for a further expansion into Europe. As can be seen in the developed business model canvas for Netflix (Appendix 1), one of the main sources of revenue for the company is the income from customer subscriptions. The simple calculation for Netflix is: The more subscriptions it gets, the higher its revenue is going to be. Netflix is currently following a growth strategy[15], by reaching out to new markets and adding more and more subscribers to its customer base.

Europe is a very promising market for SVOD-companies: According to analysts at *SNL KAGAN*[16], the SVOD-market will grow faster in Western Europe than the world as a whole with an expected growth of revenue by 2/3 up to $ 1.1 billion in 2017. Additionally, in 2013 Western Europe had 134 million broadband homes whereas the US had only 88 million. This shows that Western Europe bears a lot of promise for Netflix.

In 2013, Germany was the country on the third place in the aspect of total broadband subscriptions with 28,3 million subscriptions (Appendix 2).[17] It is followed by France, with 24 million, and the UK with 22 million subscriptions. Especially, since Netflix announced that it will offer some of its content in 4k (UltraHD) streaming quality, it is especially important for a prospective market to have a high penetration of fast broadband subscriptions or at least a perspective of fast growth.

Additionally, one of the core promises of the Netflix product is its high accessibility, enabling subscribers to watch Netflix content from almost any device with an online connection. A study done by CitiResearch[18] (Appendix 3) comes to the conclusion, that Germany is the most prospective, not yet existing market for Netflix, which could add potentially six million new subscribers until 2020. According to another study done by future-source consulting (figure 3), Germany ranks highest in comparison to other prospective markets in Western Europe in relation to time spent watching pay-TV on other devices than on a TV. This plays into Netflix´s hands with their high availability of devices their service runs on.
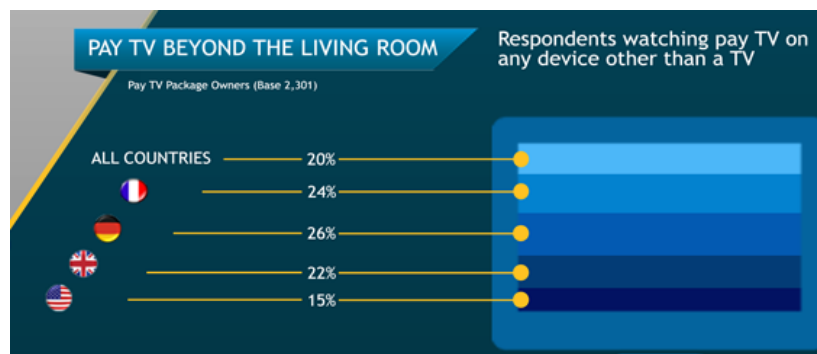
FIGURE 3 - PAY TV ON OTHER DEVICES THAN TV - FUTURESOURCE 2013 [19]

3. PROBLEM DEFINITION

Netflix will have to overcome several challenges when entering the German market:

- Macro-factors, such as trends in Germany´s economic or social environment that can become barriers for a market entry,
- A challenging market situation, such as too strong competitors or a saturated SVOD market,
- An audience that is not interested in the product,
- A wrong communication approach that does not incorporate cultural/social differences to other markets already entered,
- Missed opportunities and threats during the market entry.

These problems lead to the main question that will be answered during the course of this report:

What are the opportunities for Netflix when entering the German SVOD-market and what strategic approaches and marketing communication tools should it consider in the process?

The goal of this report is to come up with an answer to the main question and solutions to these challenges. In order to do so, the following sub-questions need to be considered:

- What are the competitors doing and how do their products compare to Netflix´s product?
- Is the outlook of entering the German SVOD-market profitable?
- Is there an audience for Netflix?
- Are there political and legal barriers that could hinder a market entry?
- How should Netflix position itself in the market and what marketing communication tools should be utilized?
- Are there cultural elements Netflix needs to consider when establishing an international company in Germany?

4. CONSTRAINTS AND LIMITATIONS OF THE STUDY

This study is an analysis of the German SVOD market resulting in an advice that can be utilized by Netflix to develop a marketing plan for a successful market entry. It will not be a marketing plan and it will not include budget recommendations of how much should be spend on what media type. Because of its decreasing rate of interest, the business branch of DVD rentals will not be considered in this report.

In addition, the situation of the German media-streaming market might change at any given moment due to its fast developments and quickly changing dynamics. Alliances and partnerships can quickly develop that might change the setting and the circumstances for Netflix.

Finally, because the author was not granted access to Netflix´s internal material for a possible expansions in Europe, this study will be done from an outside perspective using material that is provided by Netflix´s public access channels and by a great variety of other sources.

CHAPTER II - METHODOLOGY

The research will be conducted by doing intensive desk-research about the topics and possible angles mentioned in the problem definition. Primary sources will play a smaller role, secondary and tertiary sources are the main contributors for this study. Furthermore, material and case studies for expansion of other companies to Germany will be analyzed and the insight used for a solid advice that is based on proper research.

Primary sources that have been used are financial statements of Netflix and its competitors, press releases, newspaper articles at specific times, surveys and Websites about streaming and media topics. Among the material that belongs to the category of secondary sources are analyses, broader magazine and newspaper articles, journal articles and encyclopedias. Finally, tertiary sources used for this research were textbooks and bibliographies.

CHAPTER III - THEORETICAL FRAMEWORK

The following chapter describes the theoretical framework that will be applied in this report. Due to the fact that the SVOD business model is relatively new, the choice of this particular framework for this report is very broad.

The general structure for this theoretical framework (figure 4) has been chosen and developed to provide general information about the company and the market in a wider angle, followed by more narrowed down information about competitors, positioning and strategic approaches.

Firstly, a SWOT analysis will help to get a deeper insight into the company´s resources, capabilities and weaknesses in relation to Germany. The PESTEL-framework will give an understanding of the target market the company is aiming for by considering macro-factors that might influence the market entry.

Secondly, Porter´s Five Forces Model is applied to gain insights into the competitive situation of Germany and positioning models are developed to evaluate Netflix´s possible position among its competitors.

Finally, Netflix´s strategic competitive approach will be determined by applying Porter´s Generic Strategies - framework and to create good communication between Netflix and its prospective subscribers, marketing communication tools are analyzed with an emphasis on a promotional mix that works best for Germany.

The advice for Netflix on how to approach the German market entry, which will be given in the final chapter of this report, will be based on the application of these theories and the results found in the process.
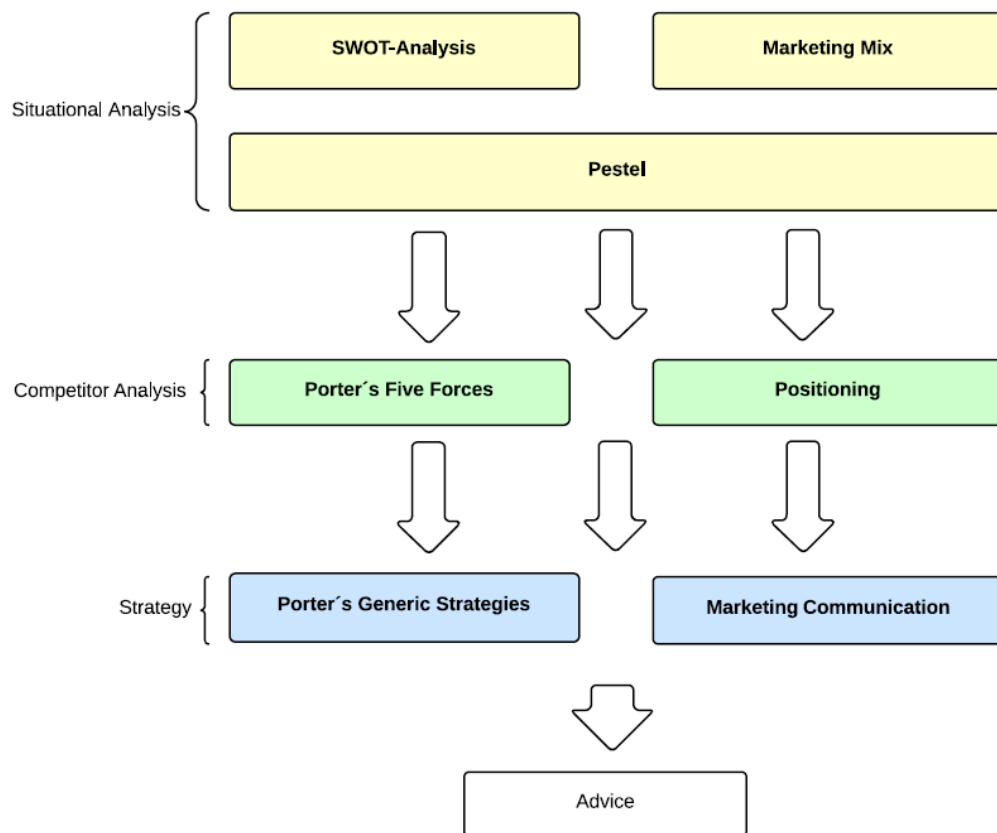
FIGURE 4 - RESEARCH STRUCTURE

1. SWOT-ANALYSIS

The purpose of a SWOT analysis is to develop a strategy that builds on a company´s strengths and external opportunities and that protects or strengthens it from external threats and reduces or eliminates internal weaknesses.

Internally, strengths and weaknesses are analyzed; externally, threats and opportunities. Strengths of a company are activities that it can perform well or resources it does own, whereas weaknesses are the opposite, activities the

company does not perform well or resources it does not own. Opportunities are all positive trends in external environmental factors and threats are negative trends in external environmental factors. [20]If these points have been analyzed, the results are visualized in a diagram and are being used to gain insights into Netflix´s capabilities and resources and potential threats to its organization.

2. THE 4P´S OF THE MARKETING MIX

To determine where a company should position itself in relation to its competitors, consumers, and its own capabilities and resources, it should choose where and how it wants to compete and what its differential advantage is going to be.

According to McCarthy[21], most variables at play can be classified into four different groups: Product, Price, Place, and Promotion. The discussed variables underlie more or less the control of the company. Of course it has to compare its prices to the competitors´ prices, but in the end the company is in control about it.

- **Product**: Is the product/service the company is offering.
- **Price**: The price it asks for its products/services.
- **Place**: The way products/services are distributed.
- **Promotion**: How it is promoting its products/services. Part of promotional activities are e.g. advertising, sales promotion, PR, and sales promotions.

3. PESTEL-FRAMEWORK

Is an abbreviation for Political, Economic, Social, Technical, Environmental and Legal. This framework is used to analyze the attractiveness of a market by focusing on external factors that might influence the business environment of a company.[22]

These factors are important indicators that help to develop a strategy that keeps the countries´ specific characteristics in mind and avoids pitfalls and seizes opportunities for the market that is being targeted. Nevertheless, not all of these factors weigh the same importance as others, depending on the field the company operates in and the country that is being analyzed.

3.1 POLITICAL

Here, large political trends, and to what extent the government involves itself in matter of economics of its nation, are identified. Stability, taxation, openness for foreign businesses, protection of the national market, all of these are factors that are important to consider before entering the market.

3.2 ECONOMIC

In this section, the economical state of the country is being analyzed. Important factors are e.g. in which business cycle the market is, its maturity, and stability.

3.3 SOCIAL

These are cultural and demographic factors. Understanding these will support the company in its communication efforts to reach its desired audience. During the process of expanding to another country, a company might not be aware of cultural differences, that could potentially have a huge impact on its performance.

CULTURAL ASPECTS

It is important to identify and understand cultural differences between two countries in order to avoid pitfalls and cater to the customers´ needs. Hofstede´s 6-Dimensional-Model provides valuable indicators a company should look out for when entering a market with a different national culture. [23] The six dimensions are as follows:

Power Distance addresses the fact that not all members of a society have an equal social status and are treated accordingly.

Individualism (the opposite would be collectivism) measures the extent to which the self-image of members of a society is defined in either "me" or "us". Members of collectivistic societies are gathered in groups to take care of each other in exchange for loyalty.

The dimension of masculinity means that a society is driven by competition, achievement and success. The opposite, the feminine dimension, is characterized by care for others and a focus on the quality of life

Uncertainty Avoidance measures the extent to which a society tries to avoid uncertainty which can be avoided by having more control and having the desire to foresee events.

Members of countries scoring high on the dimension of pragmatism tend to take life as it comes and adapt quickly to new circumstances in order to achieve best results. On the contrary, normative countries tend to wish to explain everything in full detail before they can proceed and finish a project.

Indulgence means the extent to which people are willing to control their desires and impulses. Weak control is termed indulgent, whereas strong control is termed restrained.

3.4 TECHNICAL

This includes technological trends that are developing or emerging in the country of choice. This point also incorporates the technological advancement of a country, for example its broadband internet coverage.

3.5 ENVIRONMENTAL

Here, environmental and ecological aspects are identified. Also, the acceptance or the awareness of environmental issues can play an important role: How much energy is being consumed by the company? Is the audience in the country of choice interested in the green profile of a company?

3.6 LEGAL

Laws are considered that might apply to the company and the market it aims to operate in, such as employment, health and safety laws, etc.

4. PORTER´S FIVE FORCES

This framework (Appendix 4) is used to assess the competitiveness of a market in relation to its competition. Usually, these five forces determine the attractiveness and profitability of a market. The five forces influencing an industry are: threat of entry, threat of substitutes, power of buyers, power of suppliers, and the extent of rivalry. Michael E. Porter´s general rule was that if all of these forces are high, it is too costly to enter a market. Before Porter, the approach was one-dimensional: only direct competitors were considered. Porter added the four other dimensions to give a company, which is applying this model, a better understanding of the whole industry it operates in.[24] [25] [26]

Threat of Entry - How strong are the barriers for new entrants?

Threat of Substitutes - How likely are substitutes from other industry branches substituting the company´s products and services?

Power of Buyers - How great is the influence that buyers/customers have on the company´s product/service?

Power of Suppliers - How much power do the suppliers possess?

Extent of Rivalry - How strong is the rivalry among all competitors?

5. POSITIONING

According to Kotler[27], positioning is the process of placing a product in the consumers´ minds in a clear, distinctive and desirable place relative to the products of the competition. The process of positioning will be used to find out where and how Netflix should place itself to be favorable above its competitors. With a positioning strategy, an according message can be formulated that is used to communicate with the target audience in the best way possible.

6. PORTER´S GENERIC STRATEGIES - CHOOSING THE RIGHT COMPETITIVE STRATEGY

According to Porter, a market consists of several segments a company can operate in. The competitive advantage one has over its competitors in the market or in one or a few segments of the market should be determined. The chosen advantage should be of high quality and should be able to be sustained by the company. Different strategies that apply are:

The Cost Leadership Strategy

The organization pursues to have the lowest costs in the industry it operates in and subsequently to offer the lowest prices to its customers. Nevertheless, the products/services should never be perceived as low quality by buyers/consumers.

The Differentiation Strategy

If the company is competing by offering unique products/services compared to competitors on the market, it is following the differentiation strategy. The uniqueness can be either exceptionally high quality, unique design or a very good customer service.

The Focus Strategy

Following the focus strategy, a company would position its products/services in a niche, in one or a few segments, in the industry it operates in. The focus inside this niche can be a cost focus or a differentiation focus.

Porter suggested that a company has to choose only one of these strategic approaches or it is wasting its resources and would be "stuck in the middle", which would mean the company cannot act efficiently, therefore arguing that hybrid companies that have found a middle-ground between low costs and differentiation contradict each other.[28]
[29] After criticism from several experts in the field who challenged this exclusivity, arguing that hybrid companies can perform well with a sustainable competitive advantage, Porter revised his strategies and agreed that a strategy that is following differentiation and low costs can be competitive.[30]

7. (INTEGRATED) MARKETING COMMUNICATION

Marketing Communication, which is considered to be "promotion" in the marketing mix, consists of coordinated promotional messages that are send to the organization´s customers and target market by utilizing different channels and tools. These basic tools are part of the promotional mix of a company: Advertising, Direct Marketing, Sales Promotion, Publicity/Relations and Personal Selling.[31]

Integrated Marketing Communication has been developed out of the field of marketing communication with the desire of companies wanting to have a consistent, more strategic approach in their marketing efforts. With this in mind, the goal for a company is to communicate unified images in order for its messages to be perceived by its customers in a consistent way in all the company´s behavior and communication.[32]

This report will identify key target segments for Netflix and will propose a message and tools that are most suitable in communicating with the German target audience and which offer a consistent image according to the integrated marketing approach.

7.1 ADVERTISING

Is any form of paid nonpersonal communication about a product by an identifiable company and usually involves mass media (print, TV, radio). It is also the most expensive tool and using it cannot be sustained over longer periods.

7.2 DIRECT MARKETING

Here, a company communicates directly with its target audience to generate an immediate response or transaction. It can be in the form of telemarketing or direct response ads in physical mail or online form. This enables a company to direct its marketing efforts directly to a specific audience, such as all Germans who have ordered a smart TV in the last two years, or all cable subscribers whose contract will end soon.

7.3 SALES PROMOTION

These are marketing activities that provide extra values or incentives to stimulate immediate sales. These sales promotion usually cost a lot because the company is willing to give-away some of its product for free.

7.4 PUBLICITY/PUBLIC RELATIONS

Publicity is a form of nonpersonal communication about a product or an organization that is not directly paid for. It usually consists of news pieces, from independent sources and is not financed by the company. The purpose is news coverage about the company or its product, preferably in a favorable way but this is not always controllable. Nevertheless, it can be an affordable way to attract attention and receive credibility. Publicity can be initiated by the company by press releases, press conferences etc. Public relations is the systematical planning and strategizing in order to control the image of the company and the publicity it receives.

7.5 PERSONAL SELLING

It is a form of communication where the seller tries to convince the potential customer in a direct contact via telephone or person-to-person to buy or try the product.

CHAPTER IV - FINDINGS

This chapter will present and discuss the findings that have been discovered in the course of this research. It is structured into a more detailed description about Netflix, continues with a situational analysis subdivided into a SWOT analysis, a discussion of Netflix´s marketing mix and a PESTEL analysis about Germany. It is followed by a discussion about Netflix´s competitors supported by Porter´s 5 Forces framework and a possible positioning for Germany. Finally, strategic conclusions will be developed based on applying Porter´s Generic strategies framework and by taking a look at Netflix´s promotional mix.

1. NETFLIX AS A COMPANY

1.1 MISSION/VISION

Netflix does not have an officially stated vision. Instead, a manifesto called the "Netflix Long Term View" declares the company´s long term goals, their view on the current market situation, their national and international business approaches, and their stand on what content they want to distribute and produce. Still, when asked about what Netflix was all about Reed Hastings mentioned his personal vision at a conference in 2011:[33]

- o *Becoming the best global entertainment distribution service*
- o *Licensing entertainment content around the world*
- o *Creating markets that are accessible to film makers*
- o *Helping content creators around the world to find a global audience*

1.2 THE SVOD BUSINESS MODEL

SVOD stands for subscription video-on-demand. The premise for customers is that they get access to a huge library of content for a monthly subscription fee. The content can be delivered to any device that has an online access and is supported by Netflix or its manufacturer. Revenue is generated via subscriptions and costs are caused by licensing, acquisitions, and marketing activities (Appendix 1).

Netflix is one of several OTT companies, that are competing with cable TV, pay TV and Internet providers by using the same distribution channel as them with lower investment costs (no need to create a network infrastructure).[34]

1.3 ORGANIZATIONAL STRUCTURE

The organizational structure (figure 5) of the company is centralized. Reed Hastings is CEO and has direct control over six departments, each led by its own manager. With that structure, Netflix follows a functional organizational structure which is not ordered according to regions but by its activities.[35]
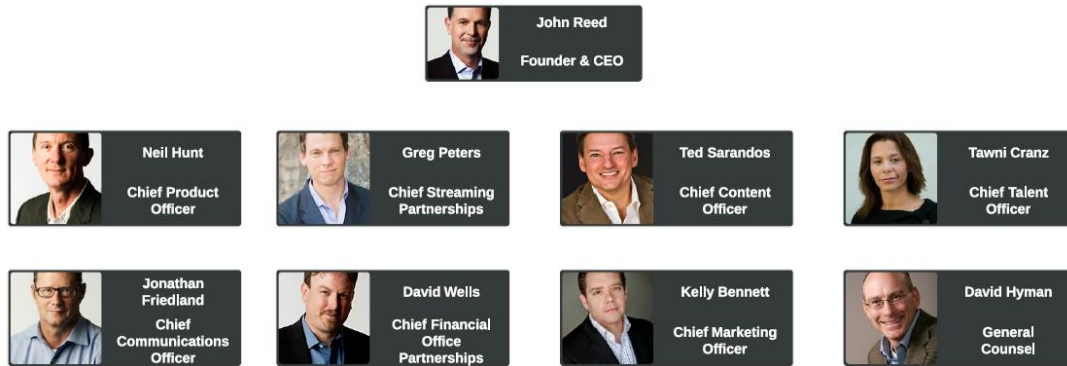
FIGURE 5 - ORGANIZATIONAL STRUCTURE NETFLIX 2014

1.4 FINANCIAL PERFORMANCE

As can be seen in the Netflix´s financial statement of the first quarter of 2014 (Appendix 5), the company has created a loss due to its international investments. Nevertheless, the domestic streaming market is growing steadily with a profit of $112 million. Still, production costs of original series and another debt taken of $ 400 million in February 2014[36] to pay for the upcoming expansion in Europe, are surely going to create more debt for the company. The result are losses of $274 million in the international segment in the beginning of 2014. The company is calculating to even out these investments in the long-run, by entering more markets in Europe and by gaining more subscribers.

The prognosis is that the international revenue is going to break even in the midst of 2014, but will become negative again near the end of 2014 in the midst of a deeper European expansion.[37]

2. SITUATIONAL ANALYSIS

2.1 SWOT-ANALYSIS

The SWOT analysis (figure 6) is separated into an internal analysis and an external part. Internally, strengths and weaknesses are going to be discussed, whereas externally, opportunities and threats are identified.

Strengths	Weaknesses
Internal - strong global brand recognition - highly flexible content-delivery (almost all home-entertainment and mobile devices) - Website is well-designed and accepted - production of own content - strong movie-recommendation and prediction system	- reliance on cost-intensive licensing process and on potential competitors to gather content for each market - reliance on political laws that protect national companies and content - reliance on ISPs and Amazon Cloud storage for distribution, which are competitors - no first-mover advantage in Germany
External - growing demand for online-video streaming (in HD) - increase in broadband penetration in Germany - strong partnerships and acquisitions guaranteeing exclusive content and distribution platforms - content production guarantees exclusivity and uniqueness and attracts new subscribers - Germany´s Pay-TV market is growing	- online-piracy - existing copyright and content-ownership structure in Germany - already strong competitors well-established in Germany which have access to localized and dubbed national content
Opportunities	Threats

FIGURE 6 - SWOT ANALYSIS NETFLIX

A) STRENGTHS

Strengths of Netflix are its strong global brand recognition with a generally positive association. One of the reasons for that are its highly functional Website and app-interfaces, that have been through a lot of development since its founding in 1997. According to Ted Sarandos, Chief in Content Management for Netflix, algorithms drive the entire Website and not an inch is uncalculated editorial space.[38]

Additionally, Netflix has created a very strong recommendation system, that has been developed throughout several open competitions called the "Netflix Prize" [39], in which programmers could win a money prize with a sophisticated algorithm. The goal was to increase the accuracy of movie predictions and recommendations for subscribers, based on their movie preferences.[40] The result is a recommendation system that current subscribers trust to know their preferences and gladly accept recommendations. According to Sarandos, 70% of viewers watch the next show based on a recommendation given by the algorithm.

Netflix also aims to appeal to the masses by offering a wide scope of content, not necessarily the newest but the most diverse. "We are trying to match tastes", Sarandos says in the same interview.[41] The company is building a content library out of every niche there is in the TV series and movie market to have the widest appeal possible.

Furthermore, Netflix has one of the highest accessibilities among SVOD and VOD companies, which has been a goal from early on for the company´s management when it entered the streaming market.

Finally, something that started a trend and that competitors are imitating is the creation/production of own content to decrease the dependency of suppliers and to have exclusive rights to content that could persuade potential subscribers.

B) WEAKNESSES

One of Netflix greatest weakness is its reliance on content and distribution, which are largely controlled by its competitors. Content is being produced by studios and cable TV operators, which choose strategically to whom they license their content. This can result in blocking off particular popular content from Netflix which might disappoint current subscribers and might discourage potential subscribers. The same goes for distribution: Netflix is relying heavily on Amazon Cloud Storage technologies and ISPs to transfer its content quickly and in the highest quality possible to subscribers.

Another weak point is that Netflix is arriving quite late in Germany and cannot score as the new alternative to cable TV and other pay TV services. Being in that situation, it has lost its first-mover advantage it had in the US.

C) OPPORTUNITIES

The technological development of broadband internet connections is happening very quickly and Germany can be considered to be a highly developed market in this relation. As can be seen in the OECD broadband statistics report from June 2013 (Appendix 2), Germany has the third place in terms of number of fixed broadband subscriptions worldwide, which makes the country very accessible and attractive for a company that is delivering its product via fast broadband Internet connections.

Furthermore, Netflix´s strategy of focusing on original content gives more reasons to potential subscribers to decide in favor of Netflix instead of a competitor, which will not have the same content. The higher the quality of this content the more popularity it gains, which really pays off as a marketing vehicle for the company as can be seen with the success of *House of Cards*, which is Netflix most popular self-produced TV show.

The greatest opportunity lies in strong partnerships and acquisitions, that would bolster the company´s content library and that guarantee its exclusiveness. In the US Netflix is teaming up with major ISPs in order to increase the streaming quality and speed. For Germany, the company will need to seek similar partnerships and licenses that guarantee an share of national content.

D) THREATS

Threats for Netflix in Germany are the already well-established competitors (which will be discussed in detail in the competitor analysis section of this report) of which some have been in the market for years now, fighting for subscription numbers. Some are competing solely with their SVOD model, whereas others have extra bonuses subscribers receive when registering with their service, such as Live-Sports streams, or *Amazon´s Prime* features. Furthermore, two of the four main competitors create their own licensed content from the cable and Free TV segment and already have access to dubbed media.

Additionally, online-piracy is a long-time competitor for Netflix[42], because it offers a similar experience such as the convenience of choosing when and where to watch the desired content. *Bittorent*, a file-sharing system popular with pirates, took up 17% of all traffic in Europe in 2013.[43] In Germany, the software piracy rate is at 27%, compared to 20% in the US.[44] What adds to the high number of software piracy is the point that Germany has relatively relaxed laws concerning online pirates, where a fine for first-offenders cannot be higher than € 155.[45] A study that has examined the correlation of a release of a movie title on Netflix and the amount of traffic on piracy Websites came to the conclusion, that piracy rates are decreasing with good alternatives such as Netflix that offer convenience and quality.[46] Nevertheless, when entering the German market, Netflix will come across the barrier of illegal downloaders that need to be convinced to subscribe and pay for something that they got for free.

E) CONCLUSION

Noteworthy is that content plays the major role in both the company´s strengths and weaknesses, but also in its opportunities. In addition, the company is highly dependent on its suppliers until it has a library sufficient enough to license its own content and be less reliant on content producers.

2.2 MARKETING MIX

A) PRODUCT

The product is audio-visual content which is streamed to a number of possible home-entertainment and mobile devices. Content ranges from newly released movies, classic movies, documentaries and TV series. Additionally, some content is exclusive to Netflix due to its investments into production of original content, such as Hemlock Grove, Arrested Development, Orange is the New Black, Derek, Lilyhammer, and their main title *House of Cards*, which will not be shown during the Netflix launch in Germany because the company does not own the international distribution rights, yet.[47] Nevertheless, seven other original series are being produced and released near the end of 2014 which increases the amount of in-house produced TV series to thirteen.[48]

The content library depends largely on license deals and partnerships Netflix has with its suppliers in the according markets, such as with Walt Disney Co. and Weinstein Co. These deals were made in order to publish the licensed content exclusively for a set period of time. For example, according to a technology Website (instantwatcher.com) that uses provides insights about several video-on-demand companies, Netflix in the US has offered 14,142 streamed titles (9153 film, 4989 TV shows) whereas Netflix in the UK has only offered 2593 titles (1668 films and 925 TV shows).[49] This shows the importance of having contractual agreements with suppliers to have a consistent offer throughout all regions or the content library will be disappointingly thin.

B) PRICE

Netflix offers its package at € 8,99 per month in the Netherlands for an unlimited access (watch where and when you want to) to its local content library for the market it operates in. It is expected that the price for Germany will be about the same. In the beginning of 2014, Netflix has raised its monthly price from € 7,99 to € 8,99 for new subscribers by arguing that the production of original content demands more investments. This price increase has been done differently than in 2011 by explaining clearly what the money is used for and so far (May 2014) no negative feedback has emerged.

C) PLACE

Netflix arranged from early on deals with important home-entertainment and gadget producers (*Microsoft, Sony, Apple*, etc) and invested early in good apps and access points to its content library. The result is that almost any device that has an Internet access can be used to play Netflix content.

D) PROMOTION

With the success of its original series *House of Cards*[50] and *Orange is the New Black*, Netflix has begun to emphasize these shows in their marketing efforts.[51] Additionally, Netflix has traditionally spent most of its marketing budget into a media-mix of newspaper and magazine ads, TV commercial ads, and most dominantly online ads (of which web banners and "pop-unders" are prominent).

E) CONCLUSION

Netflix has to adapt its product to the German market by incorporating more local content into its library. The price cannot be set lower than for example in the Netherlands, otherwise the company would lose credibility and not offer a consistent image of its service. Promotional activities emphasize original programming and are set up in order to reach a large amount of people at once, therefore mass media is Netflix´s preferred choice to reach prospective customers.

2.3 PESTEL-FRAMEWORK

A) POLITICAL/LEGAL

Germany is a federation which consists of sixteen states. The highest law is the constitution, followed by state-law and the law of the federate states. As a general rule, the higher laws govern the lower laws.

According to the WGI, Germany is considered to be a politically very stable country[52], ranking slightly lower from 2010 on because of changes in the party constellation of the government which has a stronger influence from a left wing now. Generally, the political direction can be considered as conservative with strong social influences. The WGI show that there are no extreme changes to be expected on the regulatory level and companies can direct their investments safely into the German market.

For the digital market, the German government has published its broadband strategy for the years up to 2018, which illustrates its will to boost the Internet infrastructure, increasing the average speed of broadband access and connect more households to the Internet.[53] That is a sign that Germany is welcoming digital and new technology companies to place their investments in the German market, so Germany can develop to another global centre for technology and innovation.

B) ECONOMIC

Germany has a very strong and stable social market economy: it is the largest economy in Europe and the fourth largest in relation to the nominal GDP worldwide. It is the world´s third largest exporter[54] and importer of goods. The country is well-known for its engineering quality (especially cars and heavy machinery), green energy investments, and triadic patents. Its culture and creative sector (including radio/TV, art, advertising, etc.) numbers 238.000 companies that employ around one million workers.

C) SOCIAL (CULTURAL)

Germany is one of the well-developed countries that is facing a modern trend, the "aging of society".[55] It has 80.2 million inhabitants of which 7.7% million are of foreign origin. 41.8 million of its inhabitants belong to the workforce of the country and 2.9 million are unemployed (6.8%).[56] The average income per household is € 3871 (2011).[57]

As the following age structure shows, 20% of all Germans are above 65 years of age:

- 0-14 years: 13.7%
- 15-64 years: 66.1%
- 65 years and over: 20.3%

The average TV-viewing time of 15-60 years is 222 minutes a day. That is quite high when seen on a global scale where Germany ranks on the 9th place (Appendix 6).

cc) LANGUAGE

Germans generally speak bad English, that is the result of a study of EF Education First[58] which has ranked Germany on position 14 out of 60. Sweden, Norway, and the Netherlands are on the top 3 and not by accident some of the first countries for a Netflix expansion. The reason for that is that there has not been a development of a strong English mainstream culture. It is evolving slowly with newer upcoming generations, but emerges later than in other countries.[59] All TV-shows in Germany are dubbed, usually all movies in cinemas are dubbed and only in smaller independent and art-cinemas, movies are shown in their original voices , usually provided with German subtitles.

dd) HOFSTEDE´S CULTURAL DIMENSIONS FOR GERMANY

This section describes possible cultural differences that might exists between Germany and the US according to Hofstede six cultural dimensions (figure 7).
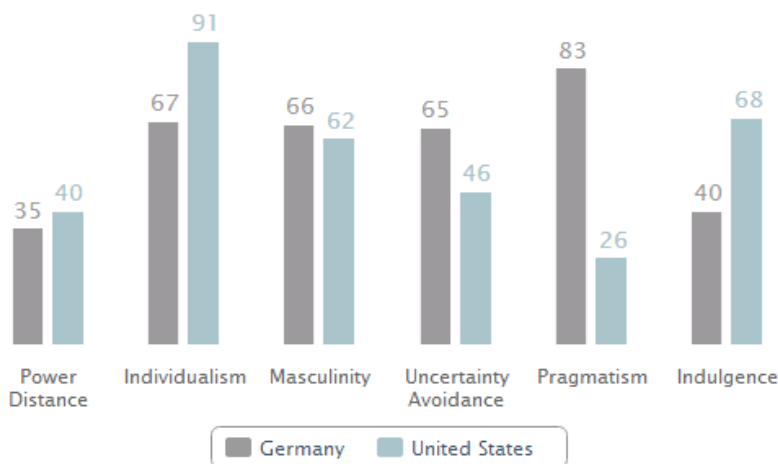
FIGURE 7 - HOFESTEDE´S CULTURAL DIMENSION GERMANY/US [60]

- Power Distance 35: This value is low and results in a direct and open communication style where hierarchical positions are not of high importance. Expertise and knowledge are valued higher than social status and positions.
- Individualism 67: Small families are in the centre of the German society and people are driven by a strong thrive for self-actualization. The US are even more individualistic which might bear potential for friction between both parties because one party has a stronger thrive for self-actualization than the other.
- Masculinity 66: Both countries score high which means that their people are ambitious and performance and work´-life are valued higher than family-life. Status symbols bear more importance for both countries.

- Uncertainty Avoidance 65: Germany ranks high in this area, which means that Germans tend to plan their move, make a strategy before taking actions. The US ranks lower on this scale which results in potentially more impulsive actions and more risk-taking rather than careful planning.
- Pragmatism 83: Germany is a highly pragmatic country, which means that situations and values depend on their context rather than on old rules and traditions. The US is a normative country, which means that the need to explain everything in full detail is much stronger than in Germans. This bears potential for challenges between both cultures: Where Germans would like to proceed with something because they think they have sufficient knowledge, Americans tend to wait and prolong actions until they are sure. Here, Netflix should keep in mind the highly pragmatic German approach that tends to be focused on achieving the goal rather than understanding it.
- Indulgence 40: Germans are generally restrained and do not put as much an emphasis on leisure time as Americans would, which could also potentially result in friction between both parties.

These results allow some general assumptions one can make about a typical German:

- Communication is formal
- Planning provides security
- Work and personal life are divided
- Business-transactions are usually mutually beneficial

D) TECHNICAL

Germany is having a dual broadcasting system, with a strong public and a strong private broadcasting sector. The country has a total of 40.6 million TV households. The pay TV market has a penetration of 12%, whereas Netflix´s home market (US) has a pay TV penetration of 86%.[61] This can be partly explained by the revenue distribution in Germany: In 2008 the main revenue source in the German TV market has been public funding from the German government. Germany has a strong free-TV market, which is subsidized by the government according to regulations in regard of content with a cultural and educational mission. The result is a pay TV market that is growing only slowly because customers don´t think it is necessary to subscribe to pay-TV when free-TV offers content of high quality (figure 8).
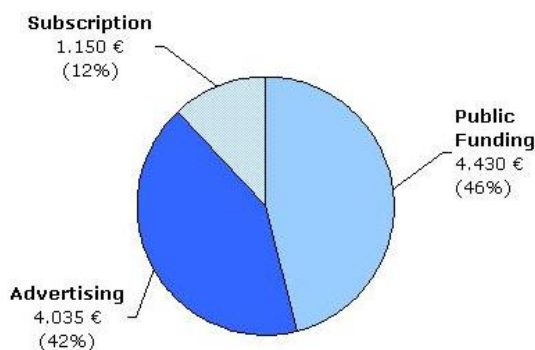
FIGURE 8 - GERMAN TV MARKET REVENUES 2008 - ALM [62]   **FIGURE 9 - GERMAN TV RECEPTION BY INFRASTRUCTURE 2009 - ALM [63]**
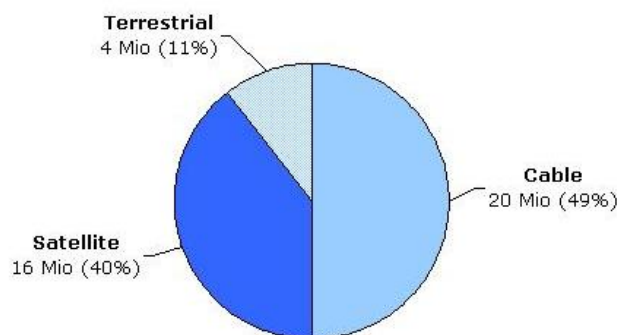
Nevertheless, Germans are getting hungry for international quality TV-shows and the pay TV segment is growing steadily from 4.1 million households in 2008 up to predicted 12.2 million in 2017 (Appendix 7). 49% of all German households watch TV via cable and 40% via satellite (in 2008). 11% make use of the terrestrial TV which has been introduced in 2003 (figure 9).

The computer usage (figure 10) is with 97% extremely high among young people between 16-24 and with 90% still very high for people between 25-54.
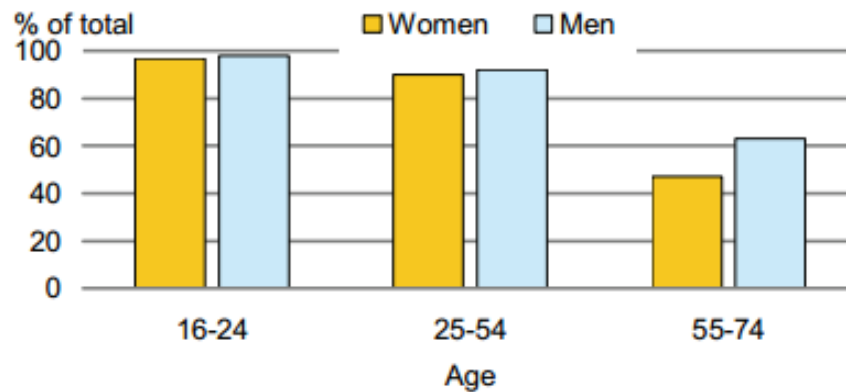
FIGURE 10 - COMPUTER USAGE BY AGE AND SEX IN GERMANY 2009 [64]

This shows that the consumption of digital products in Germany is becoming more and more popular.[65] Furthermore, the Internet user penetration in Germany is at 74.4% in 2014 and estimated at 75.4% in 2017.[66] These trends are supplemented by the high Internet broadband penetration and a more experienced population with a higher affinity towards the consumption of digital goods.

E) ENVIRONMENTAL

Germans are interested in sufficient and green energy usage. Companies that market products with green labeling tend to be more favorable by customers.

F) CONCLUSION

The Pestel-analysis shows that Germany is a very valuable market for the company thanks to it tech-affine population that is spending a lot of its already restrained leisure time on watching TV and that is more and more interested in pay TV services. The direction of the current government to increase the broadband infrastructure also signals a welcome to tech-companies investing in Germany´s industry.

Nevertheless, language can prove to be a barrier because of a still relatively small English mainstream culture and dubbed (localized) content that will increase licensing and production cost for Netflix.

3. COMPETITOR ANALYSIS

This section of the report describes firstly the competitive environment of the SVOD market in Germany and will secondly present a positioning overview of all the main competitors that have been chosen by the author.

3.1 PORTER´S FIVE FORCES

The following table(table 1) has been developed to visualized the strength of each of Porter´s Five Forces in the German SVOD market.

TABLE 1 - PORTERS FIVE FORCES

Force	Strategic Significance
Threat of Entry	Moderate
Threat of Substitutes	Moderate
Power of Buyers	High
Power of Suppliers	High
Extent of Rivalry	High

A) THREAT OF ENTRY - MODERATE

It is quite easy to enter the German market, because there are no explicit rules and regulations preventing foreign media companies, such as Netflix, to invest into the German market and build up a subscriber base. Additionally, due to the way of how distribution of Netflix´s product works, content can be easily delivered to clients who have a broadband Internet connection and a Netflix-supported device. Nevertheless, a new entry in the market requires great investments into licensing content, which needs capital. Therefore, no small-scale companies will be able to enter the German market without taking great debts such as Netflix did. Threats occur from the supplier side, because two of the five major competitors in Germany belong to cable TV and private TV companies that already licensed the most popular content.

B) THREAT OF SUBSTITUTES - MODERATE

Substitutes, offering a similar service and product under the same circumstances (subscription based Video-On-Demand), are likely. Content can be distributed via other channels (cable, IPTV, Satellite, DBVT, ISPs) which makes it easy for these competitors to create or compete with a similar product such as Netflix. Nevertheless, other channels of distribution also limit the flexibility of a service. Therefore, the extent of the threat of substitutes is average and not high.

C) POWER OF BUYERS - HIGH

The influence of subscribers is huge on Netflix´s business model. The before-mentioned change of billing model in 2011 caused Netflix great financial troubles because they had to deal with many cancelled subscriptions which were already planned into their budget. If new or already existing subscribers are disappointed with the availability of content provided by Netflix they have no barrier to cancel their subscription. Therefore, the power of subscribers is great and they have a lot of influence on Netflix´s performance.

D) POWER OF SUPPLIERS - HIGH

Netflix is highly dependent on the content it is providing which it licenses from its suppliers: content production companies, TV networks, independent studios. Until the company has build up an own respectable amount of original content, this reliance will stay which means that the power of suppliers is great.

E) EXTENT OF RIVALRY - HIGH

The German pay TV and especially the newly developed SVOD market is under a lot of stress of all its players. All competitors are trying or already offer additional bonuses along with their original subscription (Amazon Prime, *Sky Sports*) to create extra incentives for customers.

F) CONCLUSION

According to the Porter´s Five Forces analysis the SVOD market in Germany is very dense, with more possible entrances of other companies (Google, Apple) with similar subscription-based models. Still, customers have a lot of power on companies offering a subscription service. The biggest issue for all players is to get the right content to the people that want it. For Netflix this has meant so far to gather a selection of titles that are highly diverse and appeal to the masses with everyone finding their own in niche out of a huge library.

3.2 POSITIONING OF COMPETITORS

As the company states for itself, their main competitors are linear TV networks (HBO, BBC, etc.) and several Internet firms (such as Amazon, Microsoft, AOL, Yahoo, etc.).[67] For the purpose of this report, Germany´s main competitors in the SVOD segment will be analyzed. A table has been developed (Appendix 8) presenting all the detailed information and giving an overview of all competitors including Netflix and their offerings. The criteria for comparison have been chosen by the author of this report to compare important aspects from each competitor in order to get an understanding of their product. Data has been collected on each of the company´s Websites.

Table 2 presents scores that are being used to compare the competitors numerically. The criteria on which all competitors are being compared to have been chosen by the author of this report: accessibility and features in regard to the monthly price. Accessibility values have been measured by adding values of +1 for each segment the service is available at, e.g. +1 point for Snap for having Web Access which enables subscribers to view content on a PC/Laptop and +1/2 for offering its service only on a small selection of Smart TVs. Feature scores are developed in the same way and can be understood as unique selling propositions of a particular competitor, what does this specific service offer that most of the others do not have.

TABLE 2 - POSITIONING VALUES OF COMPETITORS

	Snap/ Sky Go	Amazon Prime Instant Video	Watchever	Maxdome	Netflix
Accessibility	4	6 1/2	9	6 1/2	9
Monthly Price in €	9,90	7,99 1 year subscription 4,08	8,99	7,99	8,99
Features	4k, Live Sports = 2	Amazon Prime Bonuses only interesting for Amazon clients, original content = 2	German content = 1	German content = 1	Recommendation System, Diversified TV shows, 4k, original content = 4

The positioning reveals that the rivalry is quite strong in the SVOD market. Figure 11 and figure 12 present the positioning of each competitor and Netflix based on the developed numerical values (table 2).
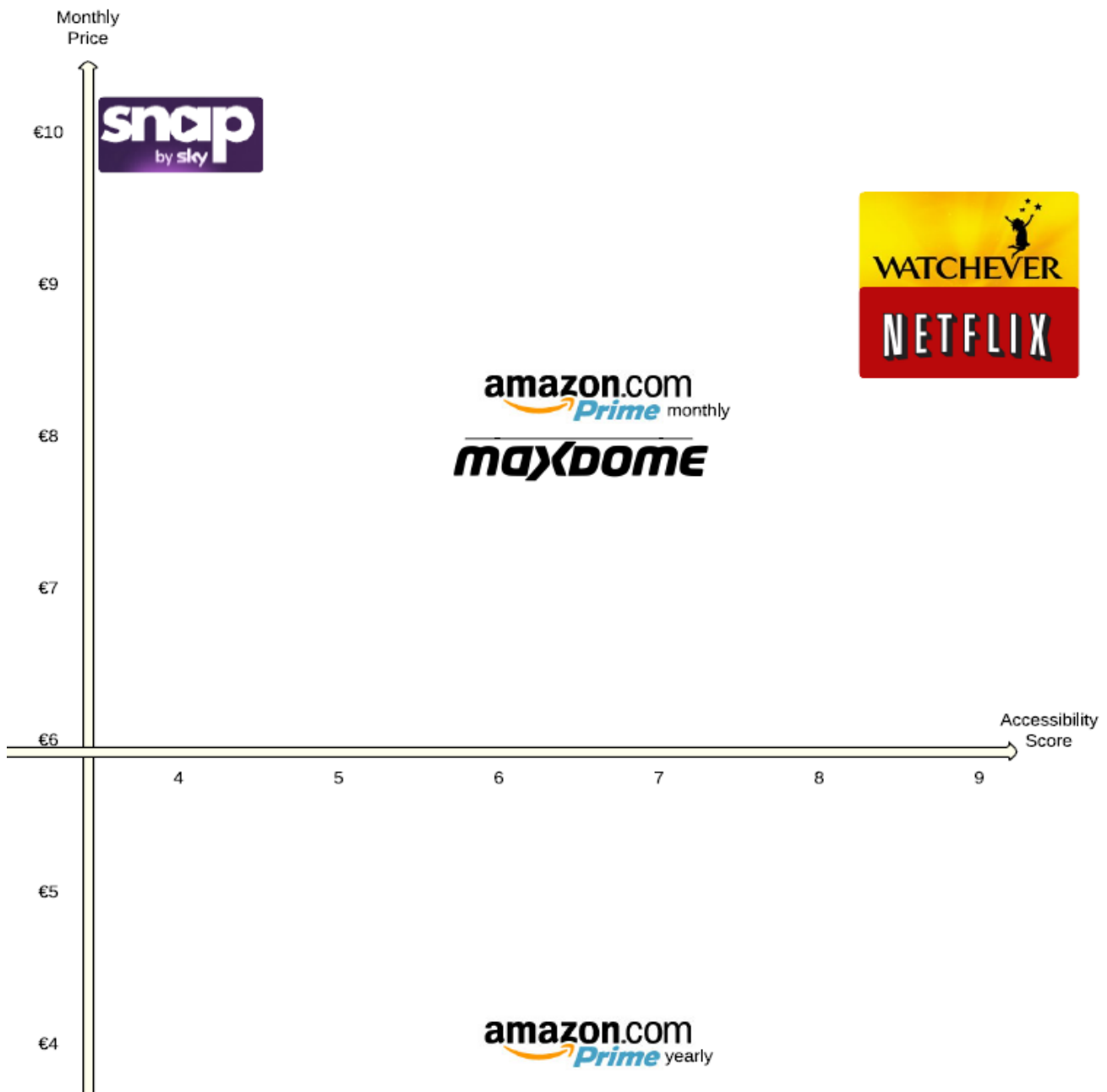
FIGURE 11 - POSITIONING PRICE/ACCESSIBILITY
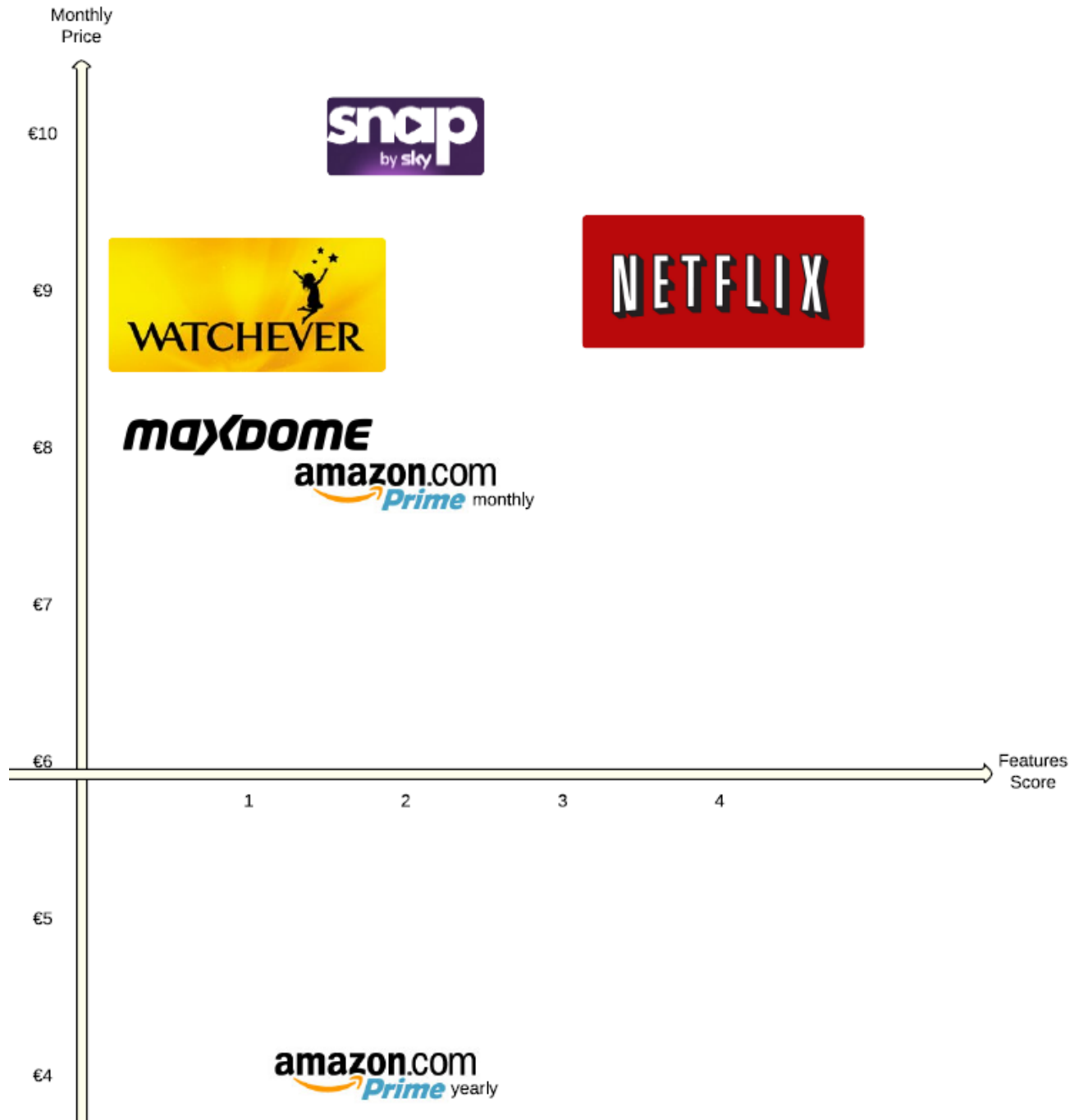
FIGURE 12 - POSITIONING PRICE/FEATURES

SNAP

Snap has the lowest accessibility and is the most expensive service, with an average amount of features. One thing the positioning graph cannot reveal is that *Snap* belongs to *Sky* which makes existing *Sky* customers more likely to subscribe to the additional *Snap* service for an extra fee of €4,90 per month. *Snap* is the most traditional competitor in the field with the strongest ties to the classic pay TV market and the best access to Sports channels out of all the competitors.

AMAZON PRIME INSTANT VIDEO

Amazon is interesting because it offers two very different products: A monthly subscription of €7,99 for *Amazon Prime Instant Video* and a one year subscription for *Amazon Prime* for €49 a year including the before-mentioned access to *Amazon Prime Instant Video*. In any case, it is more affordable for clients to subscribe to *Amazon Prime* than just the Instant Video alternative. This makes *Amazon Prime* (one year subscription) the most affordable option on the German SVOD market with good accessibility. Feature-wise *Amazon* is on the same level with most of the competitors. Their bonus is easier access to the *Amazon* ecosystem and some original content *Amazon* has been producing since 2013.

WATCHEVER

Watchever costs €9 per month and offers among Netflix the highest accessibility on the market by offering its service to a wide range of devices. The only scoring point feature-wise is its access to German content which has been licensed already by its owner *Vivendi* for the traditional German TV market.

MAXDOME

Maxdome has an average price of € 8 and offers an average accessibility. What sets it apart is the fact that it belongs to *ProSiebenSat.1 Media* which owns two major private channels in the German Free TV market. This results in exclusive content from in-house productions the other competitors do not have access to. Nevertheless, most of the content can be viewed on TV when customers are willing to wait for its programming.

CONCLUSION

Netflix has an advantageous position over its competitors on the features side and one of the highest accessibility of its service. The message of Netflix should be build around this accessibility which means convenience for subscribers and many features compared to its German competitors. The company should emphasize the point that it is the first major SVOD company that has been market leader world-wide and offers customers reliability and maturity of its service. Especially care should be taken from Amazon which offers currently the lowest price when linked with an *Amazon Prime* account.

4. STRATEGY

This section describes strategic approaches Netflix should consider when entering the German SVOD market. Firstly, a generic strategic approach will be chosen according to Porter. Secondly, a target segmentation and promotional mix are going to be discussed.

4.1 PORTER´S GENERIC STRATEGIES - CHOOSING THE RIGHT COMPETITIVE STRATEGY

In its home market, Netflix´s goal is to offer an affordable alternative to existing pay TV services. In the beginning it used a hybrid strategy: it offers a unique service at the lowest price that differentiates the company from other pay TV providers in the US. Now it has established itself with a cost-leadership strategy because competitors emerged in the US market with a similar product. The German market differs in comparison to the US and Netflix has to reassess its strategy for an expansion to Germany.

Following the cost leadership strategy, Netflix would have to undercut all of its competitors. Unfortunately for the company, there already are very affordable players in the field (*Amazon Prime*). In order to underbid or at least be on the same level with them, Netflix would have to decrease its prices dramatically, which would not be profitable for the company anymore. The result is that its usual cost leadership strategy is very difficult to realize in the German SVOD market.

If Netflix would focus on a differentiation strategy, it needs to offer unique services no other competitor has. The company´s original shows are such an aspect, because they are critically acclaimed and might convince potential subscribers to decide for Netflix instead of another service that does not offer this particular show. Furthermore, Netflix has stated before, that their marketing will focus on content rather than on price or quality of service.

If Netflix would follow a focus strategy, it would look for a niche in the market it can operate in and focus either on offering the service at the lowest price or with a unique angle. Niches in the market can be divided by type of content, timeliness of the content, amount of content or additional features subscribers get along with the subscription. As stated above, a cost leadership strategy would be very difficult to accomplish for Netflix without changing its business model. Therefore, a focus strategy is also not the best option.

CONCLUSION

The differentiation strategy would be most suitable for Netflix in the German market. It would differ from its home market but the situation the market is in requires this change. Netflix has many unique features German competitors do not have yet which give the company an advantage at market entry.

4.2 MARKETING COMMUNICATION

In 2014, marketing investments are estimated to be a total of $500 million[68] which will be distributed into Netflix´s traditional promotional mix that consists of: [69]

- TV and Radio ads,
- Online advertising,
- Direct mail advertising,
- Word-of-mouth advertising by utilizing existing subscribers and social networks.

A large sum of that will go into the international segment which requires more investments due to the fact that Netflix is positioning itself in new markets and has to make itself known among potential customers. The focus of Netflix previous efforts has been on building customer awareness of the streaming offerings and creating a strong brand identity with a focus on convenience, scope of content and quality. Currently, Netflix is shifting its focus away from direct response advertising (e.g. online banners) towards marketing its exclusive content to potential customers.[70] Due to the fact that this exclusive content is not available with any other competitor, the company will focus on its content rather than on the service itself.

A) TARGET SEGMENTATION

Netflix is serving an audience that ranges from 18 to 59 and beyond, which is highly diverse in terms of age, sex, income, watching preferences and location. Nevertheless, the company has stated factors on its Website,[71] based on which it picks a potential target market. Among the factors are broadband infrastructure, entertainment consumption, consumer interest and e-commerce maturity. As stated in the PESTEL analysis of this report, the broadband infrastructure is well-developed, E-commerce is maturing and consumers are highly interested in American content, which is always dubbed (figure 13).
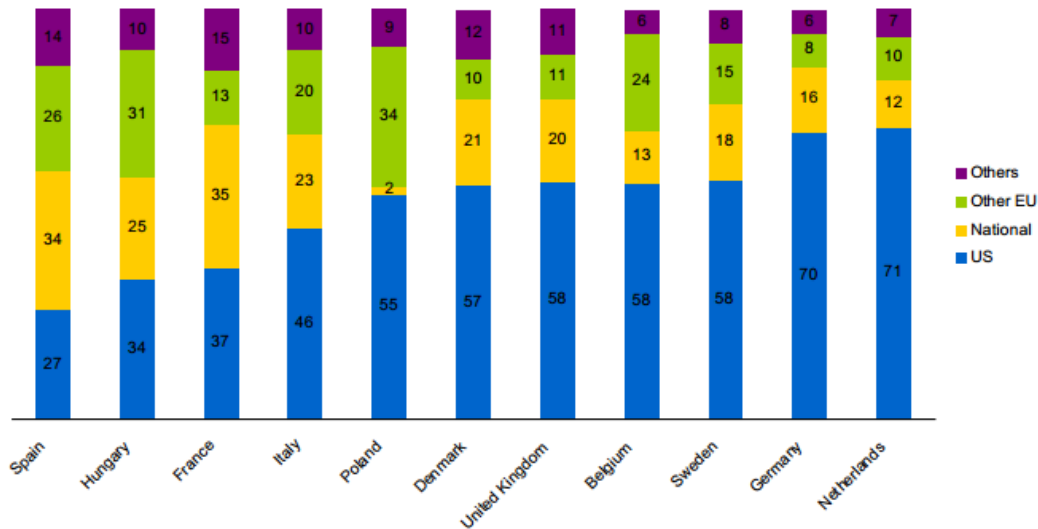
FIGURE 13 - ORIGIN OF CONTENT AVAILABLE ON VOD IN 2008 IN % - NPA 2008

So, who is Netflix actually targeting? As mentioned before, its audience is highly diverse and so is Netflix´s product. The company is using different criteria such as broadband Internet availability and interest in digital consumer goods to differentiate between highly like subscribers or less likely subscribers. Additionally, TV series and other content is used to attract specific target groups, such as:

- *Orange is the New Black* for 30-50 year-old professional women
- *House of Cards* for households with an average income of $100.000 yearly
- DreamWorks animated content for families with kids under 12 years-old.

In deciding which content should be licensed next, the company utilizes its huge database of customer information it has gathered over the years from markets it has already entered. In an interview in 2013, Ted Sarandos, Chief Content Manager at Netflix[72] stated how and why data is collected and how it can be used to optimize Netflix´s offerings. The majority of data is collected via account information, and some via customers that connect their social network accounts with their Netflix accounts. All of these data reveal a customer´s viewing habits, when they start to watch a show, when they take breaks, how much episodes they watch at once, what they watch next and which shows could overlap with the viewers´ tastes and which should not be recommended.[73] Furthermore, these data also enable the company to gain an insight into their audience, which income levels they have not reached yet, at what locations are less subscribers and where are more, which group of people recommends TV shows or the company´s service to friends etc. Based on these insights, Netflix can focus its marketing efforts on specific regions, specific target audiences and specific genres of content.

Nevertheless, the first priority for a target group should be young people between 14-29 years-of-age. According to a study on social media networks by Bitkom[74],this group is particularly involved in using social media (figure 14) which increases chances for publicity and a further reach if advertising material from Netflix is shared and Netflix content is discussed on social networks. The first column of figure 14 shows on how many social networks specific age groups are registered, the second column shows how extensively these are used.
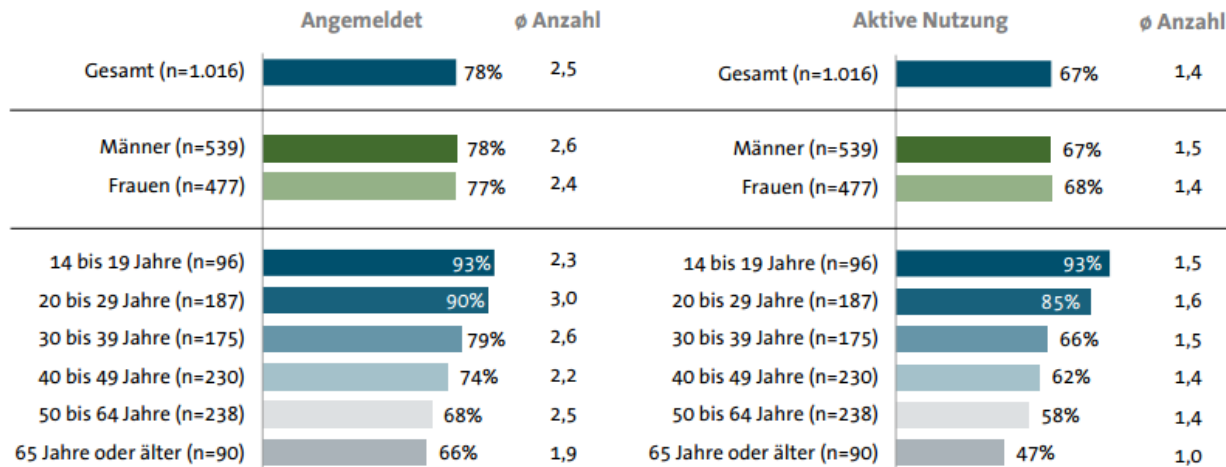
FIGURE 14 - ON HOW MANY SOCIAL NETWORKS ARE YOU REGISTERED AND HOW MANY DO YOU ACTIVELY USE - BITKOM 2013 [75]

Finally, as can be seen on figure 15, 24% of the age group of 14-29 years-old is using social media networks more than two hours a day, and 28% between one and two hours daily (second column of figure 15).
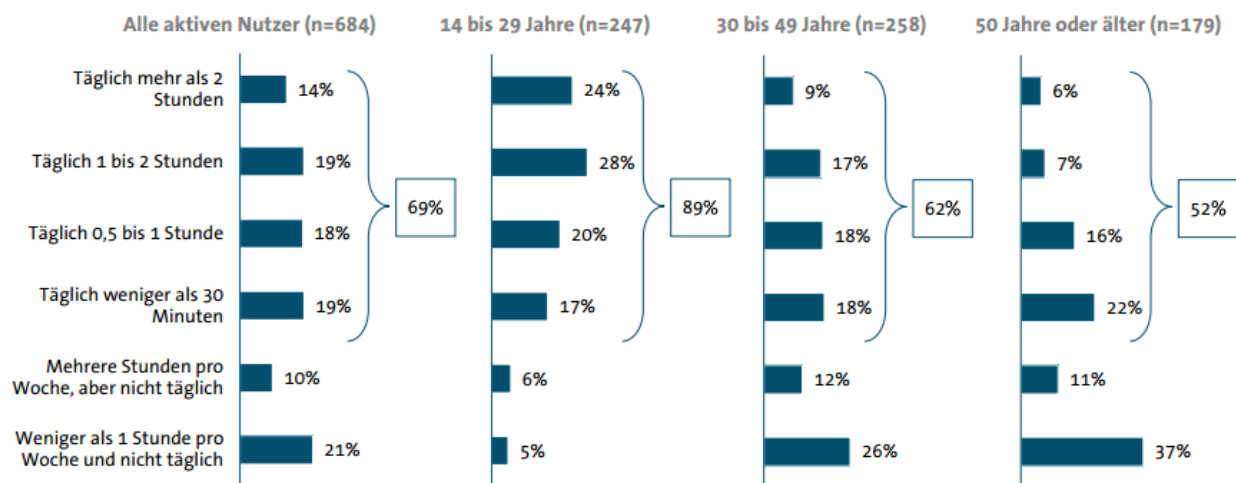
FIGURE 15 - DAILY USAGE OF SOCIAL MEDIA - BITKOM 2013 [76]

B) PROMOTIONAL MIX[77]

The following part will describe which tools of the promotional mix are most suitable for Netflix to utilize:

ADVERTISING

Due to the nature of Netflix´s business model, it is aiming to get large numbers of subscribers as fast as possible in order to get momentum and insight into the target market. Furthermore, Netflix is aiming to use its exclusive content in order to attract subscribers. Therefore, transformational advertising is advisable to strongly connect the convenience of watching specific TV-shows such as *House of Cards* or *Arrested Development* with Netflix.[78] Traditional tools such as billboards, magazine ads, and TV and radio ads can promote these shows and link it directly to Netflix with a focus on exclusivity ("only on Netflix" - figure 16).

FIGURE 16 - HOUSE OF CARDS AD

DIRECT MARKETING

Netflix should offer informational messages to let people know what the product is and how it can be obtained. These can be in the form of mail flyers/brochures and emails that clearly state what the customer gets for what price, because these are still the strong points of the company.

SALES PROMOTION

Netflix is offering a one month free-trial period in which interested subscribers test the streaming service for one month, after which they can decide if they want to keep subscribed or if they want to cancel. In the first quarter of 2013, Netflix gained a total of two million subscribers, of those only 8000 did not prolonged their subscription. Generally, 10% of all of Netflix subscriptions started with a free-trial period.[79] These numbers show the success the company has with its promotional strategy and it should continue to offer the same sales promotion when entering Germany. Linking this sales promotion with informational direct marketing is going to have the best effect because it can reduce the skepticism of people that do not trust free giveaways of companies.

PUBLICITY/PUBLIC RELATIONS

Currently, Netflix has not entered Germany and does not need to develop and establish public relations campaigns for Germany yet. The company is not known well in the market and needs to build an image via advertising and promotion first. Nevertheless, after the first few months an evaluation should be conducted to analyze the image the company has in Germany after it launched. Publicity on the other hand will be a great tool for Netflix: Reviews, articles and news pieces about its TV shows will draw attention, not only to the show but to the service that offers it. For that reason Netflix should publish reviews from independent authors in their press releases.

PERSONAL SELLING

This form of promotion is rather aggressive and requires investments into a sales force and local offices, therefore it is not ideal for Netflix. As mentioned above, there are other and more efficient tools, such as direct marketing or advertising to reach a mass audience.

CONCLUSION

To conclude, Netflix should follow its marketing communication strategy it has done in other recent European market expansions (e.g. the Netherlands, UK/Ireland) so far: Focus on strong transformational advertising combined with informational direct marketing efforts to communicate its product and its sales promotion and use social media to build up momentum and gain long-term coverage.

Word-of-mouth advertising is relatively weak in the beginning of a market entry but will develop momentum as more subscribers inform their peers about TV-shows they watch and with what service they watch. Therefore, a

strong focus should be laid on social media right in the beginning to enable subscribers to connect their Netflix account with their social network accounts. Especially the age group of 14 to 29 years-old is promising due to its heavy social media usage that will increase the reach of Netflix´s advertising and publicity efforts.

CHAPTER V- ADVICE

1. DIFFERENTIATION

Netflix´s strong point is its simple offer of convenience and price with access to almost all modern devices that can show video content. When entering the German market, it will be confronted with competitors that have placed themselves in areas of the market they are comfortable with and that compete directly with Netflix and even undercut its already low price, such as the Amazon Prime package. Therefore, price cannot be the driving force that convinces people to subscribe to Netflix. Instead, Netflix should focus on its other strong points and additional features it has build up so far: UltraHD streaming, a sophisticated recommendation system, and a diverse content library that appeals to everyone and every niche.

Netflix has to find its place among its competitors. According the Reed Hastings, CEO at Netflix: "I´m (an Amazon) prime member. (...) People look at them as multiple channels." [80] This means Netflix does not have to compete directly, instead it should focus on its unique points in order to complement itself with its competitors. It should not position itself as the one and only SVOD service out there, but instead be the new service everyone should subscribe to among others to benefit from its unique content.

2. CONTENT IS KING

What drives the SVOD market in general is content, but that goes for Germany especially. It would be the first European country for a Netflix entry which has not a popular English mainstream culture and which proves to have a population that is lacking behind in English skills. The result is that Netflix has to consider localizing its international content and license local content to appeal to more Germans.

With localized content being so important, the company should find partnerships within the German media market to gain access to national shows and movies. Dubbing most of its content is cost-intensive but might be necessary for Germany due to a slow adaption to English in Germany. All content, or at least the majority, needs to have German subtitles in order to not scare those viewers whose English language skills are not sufficient for viewing complex content.

Netflix customers enjoy receiving recommendation on what to watch next and Germans tend to be culturally slightly different but are very pragmatic and are going to love the recommendation system. It offers them a great way to discover new content without having to spend time on researching it. The recommendation system should be part of the informational messages so prospective subscribers are able to understand its efficiency. If entering the market by itself, Netflix will have to slowly collect data about what Germans like to watch, when to watch, and where to watch it. With these insights, Netflix can license local content and international content more purposefully and serving the niches and interests that are being developed on the platform.

Having original content makes Netflix less reliant on suppliers. The company should follow its strategy to focus its marketing activities on its own popular shows with an emphasis on exclusivity.

3. COMMUNICATING WITH THE AUDIENCE

Prospective subscribers need to be convinced of Netflix´s perks and should be addressed in the following fashion:

o   Transformational advertising to create brand awareness, such as print, TV, and radio to create an association in the minds of prospective customers of specific content being only available with Netflix.

o   Informational direct marketing efforts to build up brand knowledge. Focus on the low price and the amount of features that come with the product, compared to most other competitors. Inform potential subscribers about the possibility to have several SVOD subscriptions in order to not exclude the subscribers of competitors. Additionally, direct marketing messages should provide convincing and trustworthy information about the free month trial period to decrease skepticism of recipients.

o   Be consistent in all forms of communication. Most potential customers will look up information about Netflix online. They need to find a consistent image that is being presented to them. Original shows should be available to all regions or subscribers might feel deceived because they subscribed for a specific show that is not available.

o   Build messages that focus on a younger audience in the beginning. 14-29 years-old offer the highest social media usage which will build momentum and can inform and convince the peers of current subscribers of Netflix offerings.

o   Utilize free publicity that comes with reviews of independent authors or news pieces, editorials etc. Use this content and link it to the company´s Website.

4. INNOVATE AND LOOK AHEAD

Netflix is simple and good at what it is doing. The company is not offering several packages that make it more complicated for subscribers. Nevertheless, Netflix should invest in other branches, such as streaming music. With its great knowledge about its customers´ behaviors it can incorporate a music streaming service for an additional subscription fee and use the same technologies and distribution channels it is using for movies and TV shows. According to a study done by the Columbia University, Germans are very willing to a pay bit more than € 9 a month for a service that incorporates both movies and music (Appendix 9).[81]

Finally, Netflix should look ahead and try to incorporate the other German-speaking markets of Switzerland and Austria as quickly as possible. These markets yield another 20 million inhabitants and if the German content is licensed and dubbed, or at least provided with German subtitles, it is more cost effective if these can be included into an all-German-speaking-market expansion.

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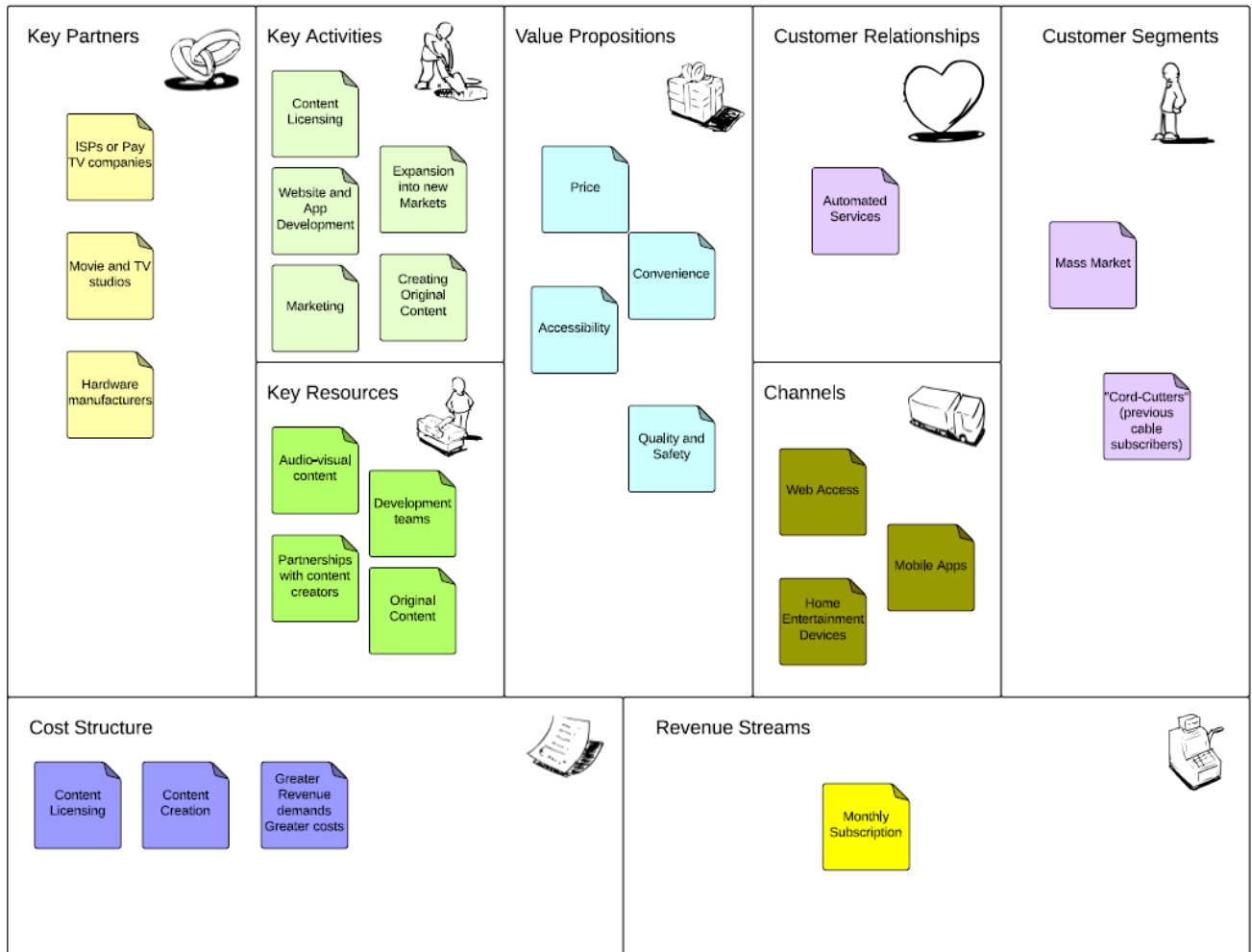
APPENDIX

APPENDIX 2 - OECD BROADBAND STATISTICS JUNE 2013[2]

OECD Broadband statistics [oecd.org/sti/ict/broadband]
1c (1). Total number of fixed (wired) broadband subscriptions, by country, millions, June 2013

Rank		Fixed broadband subscriptions, total, June 2013
34	Iceland	112,658
33	Luxembourg	173,533
32	Estonia	332,148
31	Slovenia	510,602
30	Slovak Republic	819,672
29	Ireland	1,070,268
28	New Zealand	1,315,901
27	Finland	1,649,100
26	Czech Republic	1,789,450
25	Norway	1,836,872
24	Israel	1,973,000
23	Austria	2,168,666
22	Hungary	2,212,174
21	Denmark	2,218,925
20	Chile	2,219,714
19	Portugal	2,454,740
18	Greece	2,794,150
17	Sweden	3,077,000
16	Switzerland	3,475,000
15	Belgium	3,758,266
14	Australia	5,836,000
13	Poland	5,951,052
12	Netherlands	6,701,000
11	Turkey	8,064,618
10	Canada	11,457,845
9	Spain	11,681,800
8	Mexico	12,966,092
7	Italy	13,644,239
6	Korea	18,529,845
5	United Kingdom	22,069,673
4	France	24,210,000
3	Germany	28,289,051
2	Japan	35,494,373
1	United States	91,342,000
	OECD	332,199,427

Total fixed (wired) broadband subscriptions, by country, millions, June 2013

Source: OECD

[2] OECD (2013, June). OECD Broadband Statistics. Retrieved March 4, 2014, from
http://www.oecd.org/sti/broadband/oecdbroadbandportal.htm

APPENDIX 3 - NETFLIX OVERSEAS GROWTH POTENTIAL - CITIRESEARCH[3]

Overseas Growth Potential
Projected number of Netflix subscribers by market

U.K.

10M

8

LATIN AMERICA

GERMANY
CANADA

6

FRANCE

NETHERLANDS

4

SWEDEN

2

DENMARK

NORWAY
FINLAND

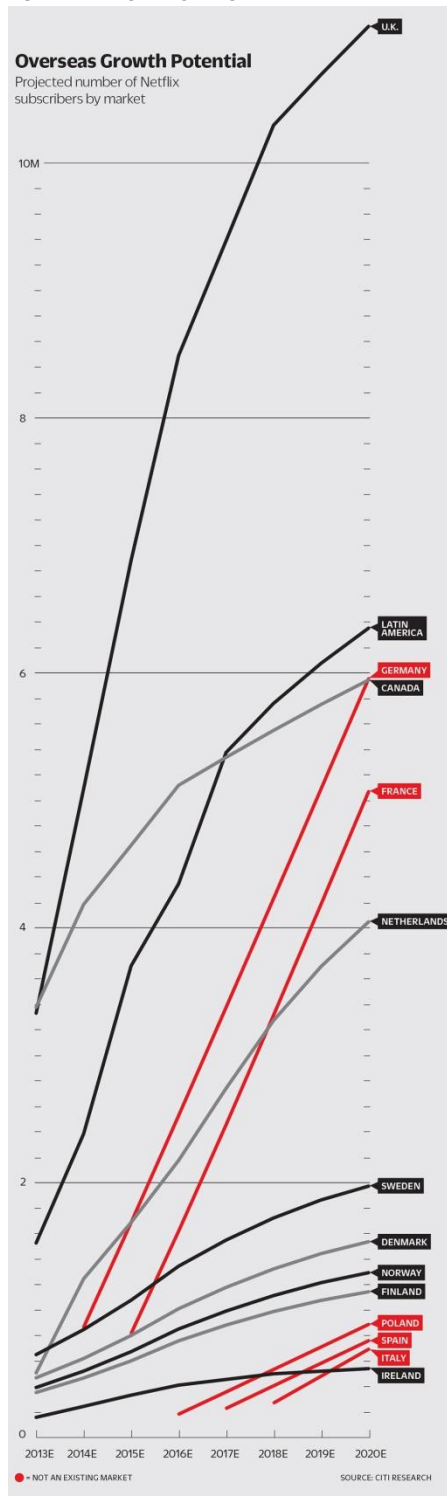POLAND
SPAIN
ITALY
IRELAND

0

2013E 2014E 2015E 2016E 2017E 2018E 2019E 2020E

● = NOT AN EXISTING MARKET

SOURCE: CITI RESEARCH

APPENDIX 4 - PORTER´S 5 FORCES
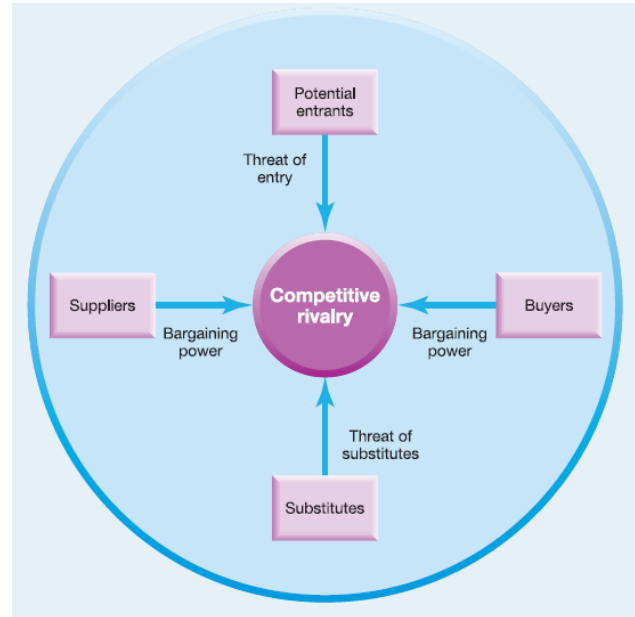
Potential entrants

Threat of entry

Suppliers

Bargaining power

Competitive rivalry

Buyers

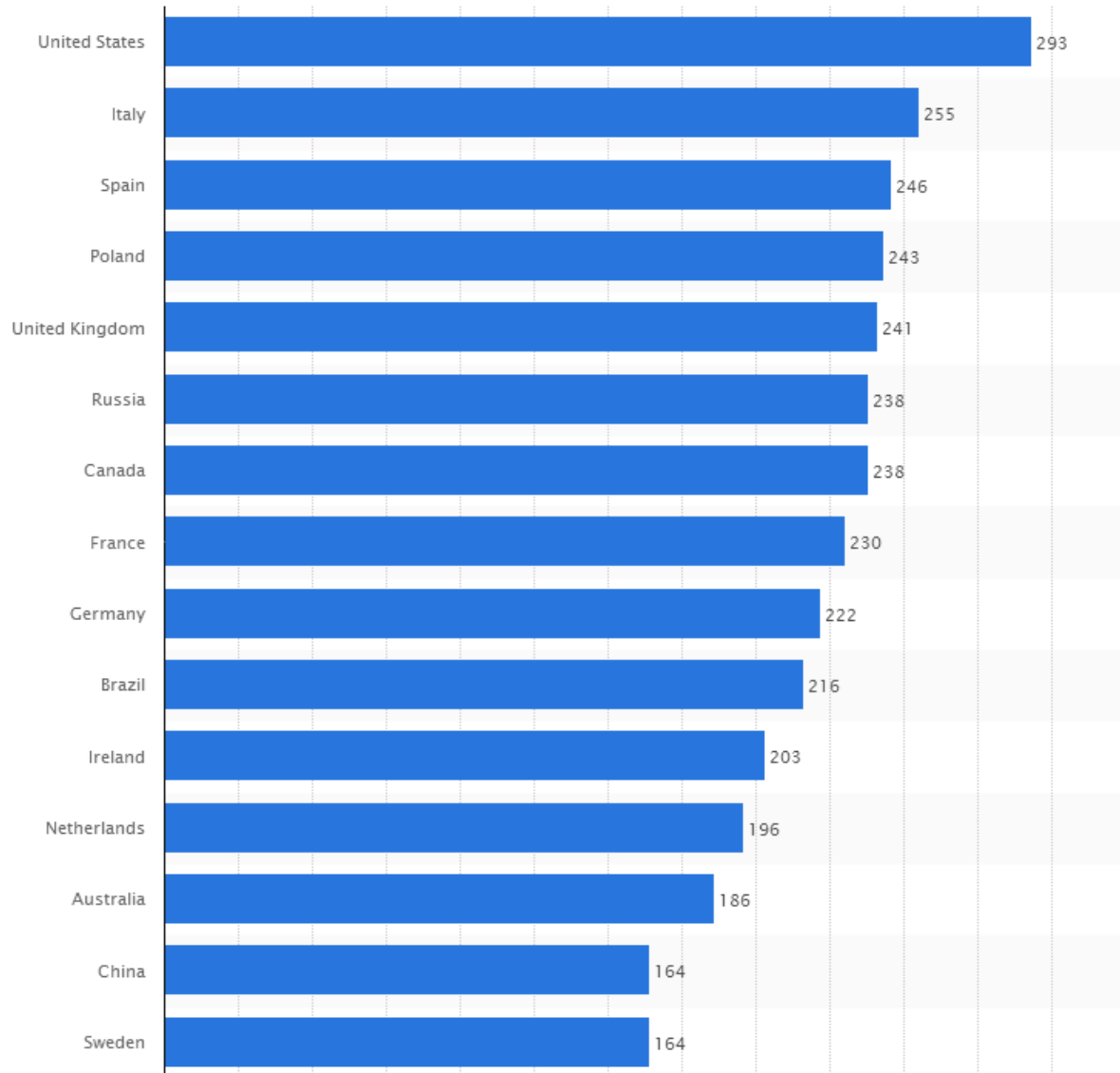Bargaining power

Threat of substitutes

Substitutes

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APPENDIX 5 - NETFLIX FINANCIAL STATEMENT Q1 2014[4]

(In millions except per share data and Streaming Content Obligations)	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14 Forecast
Total Streaming:						
Net Additions	3.05	1.24	2.73	4.07	4.00	1.46
Total Members	36.31	37.56	40.28	44.35	48.35	49.81
Paid Members	34.24	35.63	38.01	41.43	46.14	47.84
Revenue	$ 781	$ 837	$ 884	$ 962	$ 1,066	$ 1,139
Contribution Profit	$ 54	$ 85	$ 92	$ 117	$ 166	$ 211
Contribution Margin	7.0%	10.2%	10.4%	12.2%	15.6%	18.5%
Domestic Streaming:						
Net Additions	2.03	0.63	1.29	2.33	2.25	0.52
Total Members	29.17	29.81	31.09	33.42	35.67	36.19
Paid Members	27.91	28.62	29.93	31.71	34.38	35.03
Revenue	$ 639	$ 671	$ 701	$ 741	$ 799	$ 835
Contribution Profit	$ 131	$ 151	$ 166	$ 174	$ 201	$ 223
Contribution Margin	20.6%	22.5%	23.7%	23.4%	25.2%	26.7%
International Streaming:						
Net Additions	1.02	0.61	1.44	1.74	1.75	0.94
Total Members	7.14	7.75	9.19	10.93	12.68	13.62
Paid Members	6.33	7.01	8.08	9.72	11.76	12.81
Revenue	$ 142	$ 166	$ 183	$ 221	$ 267	$ 304
Contribution Profit (Loss)	$ (77)	$ (66)	$ (74)	$ (57)	$ (35)	$ (12)
Contribution Margin	-54.2%	-39.7%	-40.6%	-25.9%	-13.1%	-3.9%
Total (including DVD):						
Operating Income	$ 32	$ 57	$ 57	$ 82	$ 98	$ 125
Net Income	$ 3	$ 29	$ 32	$ 48	$ 53	$ 69
EPS	$ 0.05	$ 0.49	$ 0.52	$ 0.79	$ 0.86	$ 1.12
Free Cash Flow	$ (42)	$ 13	$ 7	$ 5	$ 8	
Shares (FD)	60.1	60.6	61.0	61.3	61.5	
Streaming Content Obligations* ($B)	$ 5.7	$ 6.4	$ 6.5	$ 7.3	$ 7.1	

*Corresponds to our total known streaming content obligations as defined in our financial statements and related notes in our most recently filed SEC Form 10-K
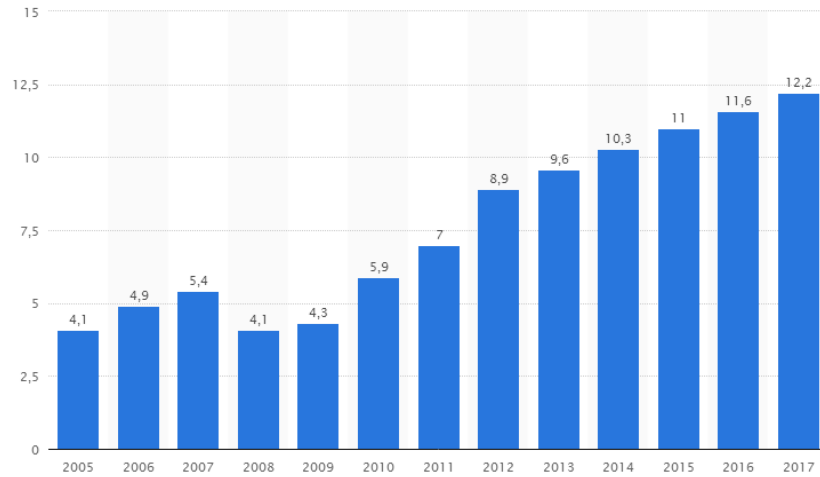
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[4] Netflix. Netflix Financial Statement Q1 2014. Retrieved April 23, 2014, from http://ir.netflix.com/common/download/download.cfm?companyid=NFLX&fileid=745654&filekey=fb5aaae0-b991-4e76-863c-3b859c8dece8&filename=Q114%20Earnings%20Letter%204.21.14%20final.pdf

APPENDIX 6 - DAILY TV VIEWING TIME IN MINUTES PER PERSON - STATISTA 2012[5]

Country	Minutes
United States	293
Italy	255
Spain	246
Poland	243
United Kingdom	241
Russia	238
Canada	238
France	230
Germany	222
Brazil	216
Ireland	203
Netherlands	196
Australia	186
China	164
Sweden	164

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[5] Statista (2012). Daily TV Viewing Time in Minutes. Retrieved March 28, 2014, from
http://www.statista.com/statistics/276748/average-daily-tv-viewing-time-per-person-in-selected-countries/

APPENDIX 7- NUMBER OF PAY TV HOUSEHOLDS IN MILLION FROM 2005 TO 2017 - STATISTA[6]

APPENDIX 8 - DETAILED COMPETITOR INFORMATION[7]

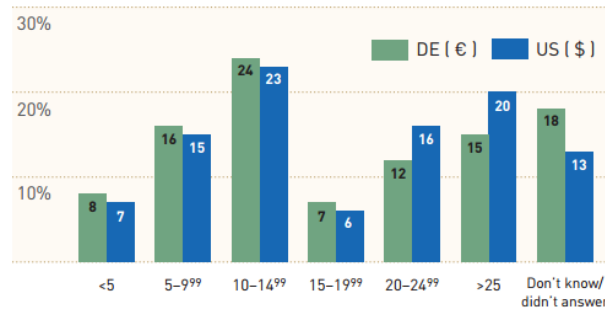|	Snap / SkyGo	Amazon Prime Instant Video	Watchever	Maxdome	Netflix
Owned by:	Sky Deutschland	Amazon	Vivendi	ProSiebenSat.1 Media	-
Access via:	iOS AppleTV Samsung Smart TVs Web Access selected Samsung Galaxy Smartphones	iOS KindleFire AppleTV Xbox Playstation selected Smart TVs Web Access	iOS KIndleFire Android Chromecast AppleTV Xbox Playstation Smart TVs Web Access	iOS Android Chromecast AppleTV selected Smart TVs Playstation Web Access	iOS Kindle Fire Android Chromecast AppleTV Xbox Playstation Smart TVs Web Access
Monthly price	€ 9,90 only Snap or + € 4,90 for Sky customers	€ 49 for a year subscription € 7,99 for Prime Instant Video (monthly cancellation)	€ 8,99	€ 7,99 newer content has to be paid additionally	€ 8,99 *(prediction based on Dutch price)*
Streaming Quality	Up to 4k for selected content	Up 1080p	Up to 1080p	Up to 1080p	Up to 4k for selected content
Promotion	One month free trial	One month free trial	One month free trial	One month free trial	One month free trial
Content	HBO Disney (Snap) Sports(SkyGo) new content	Original Shows	Changing content, Exclusive German Content	Exclusive German content from Pro7,Sat1	Original Shows older, highly diversified content
Additional features	Live Sports for extra fee	Prime subscription offering several bonuses for Amazon shipments	FSK 18 content only available 23:00 - 6:00 o´clock	National content	Highly sophisticated recommendation system

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[6] Statista . Number of pay TV households in million from 2005-2017, prediction. Retrieved March 28, 2014, from http://de.statista.com/statistik/daten/studie/180597/umfrage/prognostizierte-anzahl-der-pay-tv-haushalte-in-deutschland-seit-2005/

[7] self-developed

How Much Would You Be Willing To Pay Each Month To Have Access To All Songs, TV Shows & Movies? (US and Germany)

[BASED ON THOSE WHO FAVOR A MONTHLY LEVY]

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[8] Karaganis, Joe, and Lennart Renkema. (2013): *Copy Culture in the US & Germany*. The American Assembly Columbia University. Retrieved 4 June 2014 from http://piracy.americanassembly.org/wp-content/uploads/2013/01/Copy-Culture.pdf