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ÚSTAV EKONOMIKY

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INSTITUT OF ECONOMICS

# MARKET ENTRY STRATEGY OF NETFLIX IN CZECH REPUBLIC

STRATEGIE VSTUPU SPOLČNOSTI NETFLIX NA ČESKÝ TRH

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AUTOR PRÁCE  
AUTHOR

Bc. LINH DO HAI

VEDOUCÍ PRÁCE  
SUPERVISOR

doc. Ing. et Ing. STANISLAV ŠKAPA, Ph. D.

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**Do Hai Linh, Bc.**

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### **Strategie vstupu společnosti Netflix na český trh**

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Introduction  
Aim of the Thesis  
Theoretical Basis of the Work  
Problem analysis and Current Situation  
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- Czinkota, M. R, Ronkainen, I. A. and Moffett, M. H., 2011. International Business. 12th ed. New Jersey: John Wiley and Sons, Inc.
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The supervisor of master's thesis: doc. Ing. et Ing. Stanislav Škapa, Ph.D.

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L.S.

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doc. Ing. Tomáš Meluzín, Ph.D.  
Director of the Institute

---

doc. Ing. et Ing. Stanislav Škapa, Ph.D.  
Dean of the Faculty

Brno, 31.3.2015

## **Abstract**

This diploma thesis critically review an analysis of a market entry strategy of Netflix, which intends to entry the Czech Market, with the objective to propose suitable recommendations. The thesis contains in-depth analysis of the company and current situation of market environment in Czech Republic. Theoretical frameworks are critically reviewed and conducted analysis is consequently used as a core for argumentation and evaluation of the strategic issue. Recommendations for expansion are given on the basis of conducted research and analysis.

## **Abstrakt**

Tato diplomová práce kriticky zkoumá analýzu vstupní strategie společnosti Netflix, která hodlá vstoupit na český trh, s cílem navrhnout vhodná doporučení. Práce obsahuje detailní analýzu společnosti a současného stavu trhu v České Republice. Kriticky přezkoumané teoretické rámce a aplikované analýzy jsou následně použity jako základ pro argumentaci a vyhodnocení problematiky strategie. Doporučení pro expanzi jsou poskytovány na základě vyhodnocených průzkumu a analýz.

## **Key words**

Foreign Market Entry, SLEPT, SWOT, Porter's Five Forces Analysis, Marketing Mix

## **Klíčová slova**

Vstup na zahraniční trh, SLEPT, SWOT, Porterova analýza 5 sil, Marketingový mix

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## **Statutory declaration**

I declare that the submitted master's thesis is authentic and has been written independently. I also declare that provided list of references is complete and copyrights are not violated (pursuant to Act. No. 121/2000 Coll., on Copyright law and Rights Related to Copyright Act).

In Brno on August 31, 2015

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Signature

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## **Introduction**

In the last few decades, we have seen an increasing trend toward the globalisation of markets worldwide due to the lowering of barriers to cross-border trade, advances in technology and unification of government regulation. Especially the information age has offered a unique opportunity for companies to expand into foreign market regardless of geographic barriers. Companies found out that trading through the Internet known as E-Commerce, it makes less expensive for them to expand their businesses and increases the possibility of finding buyers irrespective of location or time zones. Nowadays, we can buy huge variety of products through the Internet such as food or insurance that we could not imagine to do before. Furthermore, from the buyer's point of view, e-commerce offers a wide range of choices from different sellers at the same time and place, as well as comparing products and services 24 hours, every day. Moreover, it also can save customers time, because the order can be delivered immediately (e.g. movies, music or software) instead of waiting for opening hours of the store and afterward in a queue. On the other hand, some consumers are still afraid of providing their personal details and credit card numbers over the Internet, as well as some consumers prefer in-store experience rather than viewing merchandise on a computer.

Because of those companies frequently decides to seek new opportunities, especially when a company feels that the local market is not large enough. Businesses often decide to expand abroad because foreign markets may present higher profit opportunities than the domestic market and can extend the business's customer base. However, the international markets might be more complicated than the domestic market because countries have different political, economic, and legal systems as well as cultural practices, which can make international expansion problematic. Before deciding to expand its operation abroad the company ought to consider the risks that it may face. When choosing which market to enter it is necessary to conduct a full investigation into the potential markets and carefully evaluate the options. This will ensure that the company will operate in the most advantageous markets.

## **Aim of the Thesis**

### **Aim of the Thesis**

The objective of this paper is to thoroughly analyse and evaluate the current situation of the market and important factors affecting the entry market strategy of the examined company. A new research will build up on a careful observation and vital consideration the new market and general perspective based on a appropriate research methods conducted in order to gain sufficient literature data and explanatory approach to critically assess and analyse the strategic issues of entry market development. Theoretical framework will represent a foundation of research process. Based on a result of analysis, the author will evaluate findings and consequently propose a suitable strategy to enter the Czech market.

### **Methods used in the paper**

The study will be based on collecting qualitative data through secondary research (academic journals, reports, relevant internet sources as well as internal documents of the Netflix) and conducting a questionnaire survey. To achieve the objectives stated, there will be applied various types of external and internal analyses such as SLEPT analysis, Porter's Five Forces analysis, Key Success Factors, 7P's of Marketing Mix and SWOT analysis.

# 1 Theoretical Basis of the Work

The aim of this theoretical chapter is to provide the reader insight into issues related to internationalization of the firms and what force firms to go abroad. First, it is necessary to understand what the term internationalization really is. Later on, the author will define options how the company may enter a foreign market. Theoretical framework will be used as a core for analysing and evaluation of the strategic issues, where the theory will be applied; therefore the author will briefly describe the fundamental principle of external and internal analysis.

## 1.1 Internationalization of the Firms

In recent decades, many companies have expanded its footprint across the globe. *“The most common reason for international expansion is recognition that opportunities exist in foreign market (Jeannet and Hennessey, 1998, p. 239).”*

Internalization of firms is a term used to describe business behaviour and adaptability in the global market. It’s a managements’ decision whether the company wants to compete on an international level. Products and services that are internationalized often must be localized to fit the needs of that country's users. Many strategic concerns and decision have to be undertaken in order to leverage the firm into geographic, product or market expansion.

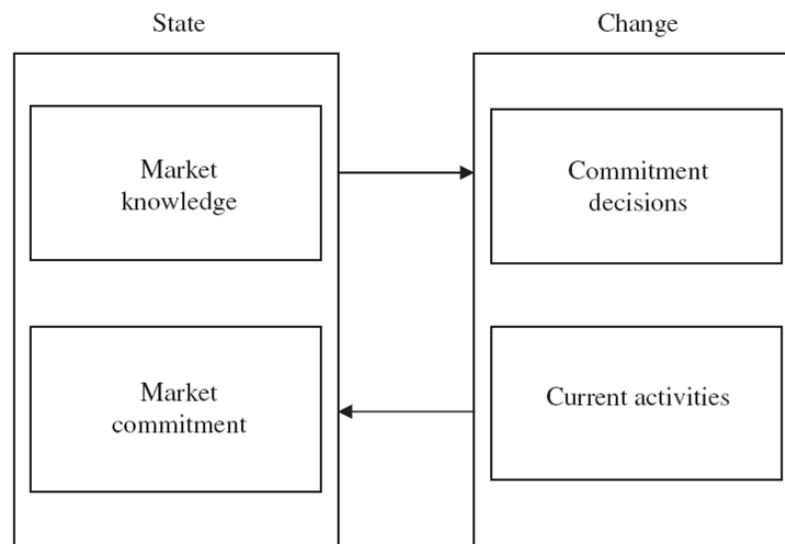
Internalization happens only when the firm is willing to exceed costs in order to gain benefits, therefore internationalization can have different effect on different firms and markets. *“The internalization theory holds that such intangible assets have some of the characteristics of public goods in that their value increases in direct (Yeung & Morck, 1992).”*

Uppsala Model (Ohome’s, 1999) is a model that explains the process, activities and involvements of firms in foreign market. The Uppsala Internationalization Model is described in four different steps of entering an international market (Hollensen, 2007).

- Step 1: No regular export activities (sporadic export).
- Step 2: Export via independent representative (export mode).
- Step 3: Establishment of a foreign sales subsidiary.

- Step 4: Foreign production/manufacturing.

Commonly, firms start its internationalization from countries where they have same or similar set of clients and their competitors are already operating there. As their experience and knowledge increases, the company then gradually gain stronger commitment and approaches. The Uppsala Model confirms the positive correlation between market knowledge and the commitment decision (see figure below).



PICTURE 1: THE UPPSALA INTERNATIONALIZATION MODEL (SOURCE: JOHANSON AND VAHLNE, 2009)

## 1.2 Foreign Market Entry Strategy

You might be wondering why companies go abroad instead of remaining the domestic market. Most companies would prefer to remain domestic if their domestic market were large enough. They would not need to learn other languages, host country's law, consumer behaviour or face political and legal uncertainties. The author of this work will describe what are major triggers for internationalization and risk needs to be considered. In deciding to go abroad, the company must to define which foreign market to enter and more importantly mode for entering a foreign market.

## **Which Foreign Market**

There are more than 200 countries in the world to choose, but each of them is different. The company must decide on the types of countries to consider. The decision ought to base on an assessment of the long-run profit potential of the country. Attractiveness of a foreign market is influenced by the geography, population, political situation, and economic factors. As Hill (2010) observed, attractiveness of a market depends on balancing the benefits, costs, and risks associated with doing business in that country (Hill, 2010, p. 502). Long-run economic benefits are combination of factors such as size of the market, purchasing power of consumers and economic growth rate in that market. On this basis, China or Brazil could be considered as attractive potential markets to enter due rapidly growing economy and size of market, even if those countries are relatively poor. However, the costs and risks associated with doing business in a foreign country are higher in less developed and politically unstable countries. Therefore, the company ought to consider such factors and try to find optimal balance between benefits, costs and risk associated with internationalization. Many firms prefer to enter a neighbouring country, because they have better control (no difference in time zones between home and host countries) and understand the country better (Hill, 2010).

### **1.2.1 Motivations to Go Abroad**

A variety of motivations, which can push or pull firms to go international may be broadly divided into two groups, they are:

- **Proactive Motivations**

Proactive motivations represent reasons, which forces the business to go abroad. They are motivated to internationalize because of the attractiveness of the foreign market. The major proactive motivation for internationalization is profit. When the domestic markets do not promise high rate of return, companies may perceive a foreign market as potential source of higher profit margins.

Another major stimulus can be unique products or a technological advantage. A firm may produce goods or service that are not present on international market. This can provide a competitive edge. However, it is crucial to differentiate real and perceived advantages, because many firm's managements think that they offer unique products, even though this may not be the case internationally.

Exclusive information about foreign customers or market situations also may push a company to go international. The special knowledge may result from particular insights by a firm, in-depth research or simply from being in the right place at the right time.

Many countries use preferential tax treatment to support exports, which will give a particular company advantage, therefore the firm can offer their product at a lower cost in foreign markets.

A final major proactive motivation is economies of scale. The size of the foreign market may enable the firm to increase its output; therefore it may help the firm to reduce its cost of production in domestic market if it will increase production for the international market (Czinkotta, Ronkainen and Moffett, 2011).

- **Reactive Motivations**

According to Czinkotta, Ronkainen and Moffett (2011), “*Reactive motivations describe stimuli that result in a firm’s response and adaption to changes imposed by the outside environment* (Czinkotta, Ronkainen and Moffett, 2011j, p.430).” In other words, firms with reactive motivations go abroad because they have to.

First reactive motivations that can play a major motivating role are competitive pressures. A company is competing with other firms that may have benefits from the economies of scale gained through international business activities, therefore the company is worried about losing domestic market share.

Another reactive stimulus could be overproduction. A company did not achieve desired sales plan, therefore an ideal option how to dispose of excess inventories is expansion into foreign market.

Declining domestic sales or a saturated domestic market may represent a same reactive motivating effect. When a product marketed domestically may be at the declining stage of its product life cycle, companies are trying to prolong the product life cycle by expanding internationally.

Excess capacity could be a similar powerful motivator as overproduction. Expansion abroad is an ideal way to achieve broader distribution of fixed costs, if the company’s equipment for production is not fully utilized.

Last major reactive motivation is proximity of customers and ports. Firms are physical and psychological influenced by closeness to the international market, when the company is operating near to the border of another country. It may not even perceive itself as going abroad.

Proactive Motivations	Reactive Motivations
Profit advantage	Competitive pressures
Unique products	Overproduction
Technological advantage	Stagnant or declining domestic sales
Exclusive information	Excess capacity
Tax benefit	Saturated domestic markets
Economies of scale	Proximity to customers and ports

TABLE 1: MAJOR MOTIVATIONS TO FIRMS (SOURCE: CZINKOTTA, RONKAINEN AND MOFFETT, 2011)

Nevertheless, several risks need be considered, before the company makes a decision whether to go abroad. These examples are given by Kotler and Keller (2006, p. 669):

- *“The company might not understand foreign customer preferences and fail to offer a competitively attractive product.”*
- *“The company might not understand the foreign country’s business culture or know how to deal effectively with foreign nationals.”*
- *“The company might underestimate foreign regulations and incur unexpected costs.”*
- *“The company might realize that it lacks managers with international experience.”*
- *“The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property.”*



### **1.2.2 Market Entry Modes**

Once a company decides in which country it wants to operate, the company has to select the best appropriate mode of entry. The company must consider carefully all of advantages and disadvantages of entry modes and if it wants to enter the particular market as independent entity or will use a strategic alliance.

#### **Exporting**

Exporting is very popular when firms begin their global expansion. Firms can be involved in exporting in a passive level of involvement or in a direct way. Firms typically start with indirect exporting, where firms participates in a business through independent intermediaries. This type of exporting requires less investment and it involves less risk. In terms of direct exporting, the firm deals directly with foreign customers or markets with opportunity to develop a relationship (Czinkotta, Ronkainen and Moffett, 2011). Firms that opt to export may avoid costs of establishing manufacturing operations in the host country and also it may help to achieve experience in targeted market. However, the firms also are faced with obstacles. Exporting is very expensive in terms of transport of goods and the firm has to face with tariff barriers that can make exporting uneconomical (Hill, 2010).

#### **Licensing**

A licensing agreement is an arrangement whereby one firm (=the licensor) permits another (=the licensee) for a specified period to use its intellectual property, and in return, the licensor receives a compensation designated as royalty. The property includes patents, trademarks, copyrights, technology, processes, technical know-how, or specific business skills. Already from the beginning of business, the licensee has well-known product brand name or production expertise. Licensing has several advantages (Czinkotta, Ronkainen and Moffett, 2011). First, the company does not have to invest excessive amount of money into the development and also it reduces risks associated with entrance to foreign market. Second, a licensing can provide leverage against government action, when a company is prohibited from doing a business in a foreign market. Licensing is not without disadvantages. The licensor has tight control over its

own production and sales facilities. Furthermore, if the licensee is very successful, the licensor may create its own competitor in the market (Hill, 2010).

### **Franchising**

Franchising is similar to licensing, although the franchisor not only sells intangible property to the franchisee, but also requires the franchisee to do business in a prescribed manner. In return, the franchisee invests in and pays a royalty as with licensing, which amounts to some percentage of the franchisee's revenues. The franchising is beneficial for the franchisee, because it is relieved of risks of opening a foreign market on its own by implementing a proven concept. Customers, which know the brand from another market, expect the same quality of products or services that they would receive in that particular market. The brand is supposed to guarantee the same product quality everywhere. Therefore, the franchisor may face with decline in the firm's worldwide revenue or reputation, because the franchisees did not provide the quality as they are supposed to be (Hill, 2010).

### **Joint Ventures**

To quote from Czinkotta, Ronkainen and Moffett (2011), "*A joint venture can be defined as the participation of two or more companies in an enterprise in which each party contributes assets, has some equity, and shares risk.*" Establishing a joint venture may be desirable for economic, political reasons or one partner's need for other partner's skills or assets. The most typical joint venture is a 50-50 venture, in which each of the two companies holds a 50 per cent ownership stake. Nevertheless, equality of the partners or of their contributions is not necessary. In certain countries a joint venture is the only way to enter into the market (Czinkotta, Ronkainen and Moffett, 2011). Joint ventures can be beneficial for both parties, especially in terms of costs or risks, where it is split between participated parties. A firm also benefits from a local partner's knowledge of the host country's conditions, culture or political systems. Despite these advantages, joint ventures have certain drawbacks. A firm that enters into a joint venture risks giving information of its business technology to its partner. Both parties also might disagree over decisions of investment, strategy or management style. Then, it may cause conflicts and battles for control between the participated firms (Hill, 2010).

## **Turnkey Operation**

In the turnkey project, the arrangement permits a client to handle every detail of the project together with skill operating personnel for a foreign client. As Hill (2010) states, “At completion of the contract, the foreign client is handed the “key” to plan that is ready for full operation – hence, the term turnkey.” Turnkey projects are most common in the chemical, pharmaceutical, petroleum refining, and metal refining industries (Hill, 2010).

## **Wholly Owned Subsidiaries**

In wholly owned subsidiary, the company has full ownership, in other word, it owns 100 per cent of the stock. The company can be established in two ways. First, the company can establish a new subsidiary in the particular country well known as a Greenfield venture. Second, the company can acquire another established company in the foreign country and use its facilities to promote products. With the full ownership, the company has whole control over the business; therefore it is not necessary to be afraid of losing a technological competence by another company. The company holds 100 per cent of the stake, and then it does not have to share its profits. Also the company can use its profits from one country to support competitive attacks in another. However, with full ownership the company must bear the full capital costs and risk of setting up overseas operations (Hill, 2010).

## **1.3 External Business Environment Analysis**

Changes in the business environment are hardly influenced by the company itself, especially trends and forces arise from macro environmental sources, which may represent a source of opportunities and threats that could be managed. The external business environment is divided into the macro environment and the micro environment (Jakubíková, 2013).

### **1.3.1 Macro Environment Analysis**

Generally, the macro environment does not immediately affect the relationships with whom a company interacts (directly and indirectly), but over time it will alter the nature of such micro level relationships. Macro environmental trends typically arise from

political, social, economic, technological and legal forces. During analysing the macro environment, it is recommended to focus only on factors relevant to the business (Palmer, 2012).

### **1.3.1.1 SLEPT Analysis**

SLEPT analysis is one of the most general frameworks used to evaluate external factors, therefore the author will use this tool to analyse the trends and forces that may have affect on the business.

#### **Political Factors**

Political factors are connected to outcomes of governments, politicians, and the pressure groups influencing various organizations or individuals, which could be a new tax policy, fiscal policy, trade barriers or political stability. Companies ought to monitor the changing political environment because it can exceedingly affect the firm's business. The political factors can be one of the less predictable factors in the macro environment (Palmer, 2012).

#### **Economic Factors**

These factors refer to economy's performance of the targeted country, which may have an impact on industry. It identifies the economic growth, interest rates, unemployment rate, exchange rate or inflation rate. Economic factors have a significant impact on consumer behaviour and their purchasing power (Jakubíková, 2013).

#### **Social Factors**

Companies ought to understand the social environment of the market, especially where an organization is seeking to do business, which could be different to its own. Social factors include demographics, population growth, religious belief, buying trends or attitudes to their lifestyle (Jakubíková, 2013).

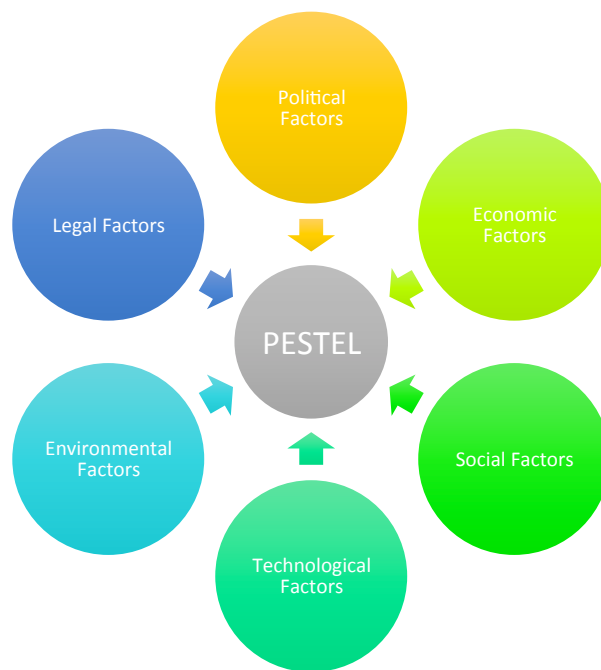
#### **Technological Factors**

In recent decades, the business has rapidly changed thanks to technological innovations that have replaced existing products and processes; therefore it is important to

understand how technological developments may influence a certain industry. This refers to trends in research and development, social technology or innovations (Jakubíková, 2013).

### Legal Factors

In order to be successful, firms must know what is and what is not legal in the particular market, because each country has different laws that affect the business environment. Legal factors include consumer rights, labour laws or safety standards.



Ž KOFIGURE 1: PESTEL FACTORS (SOURCE: AUTHOR'S OWN FIGURE)

## 1.3.2 Micro Environment Analysis

### 1.3.2.1 Porter's Five Forces Analysis

The state of competition in an industry depends on the five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among existing competitors, which are shown in Figure 2. Rivalry cannot be limited only by existing competitors in the industry, but we have to be aware of others forces, which can be termed as extended rivalry. Porter (1998) perceptively states: “customers, suppliers, substitutes, and potential entrants are all competitors to firms in the industry”. Therefore, Michael E. Porter introduced a tool to identify the strength of these forces occurring in the business environment. The Porter's five forces analysis makes easier for a business entity in finding a best position in the business environment to defend itself against these competitive forces or can influence them in its favour (Porter, 1998).

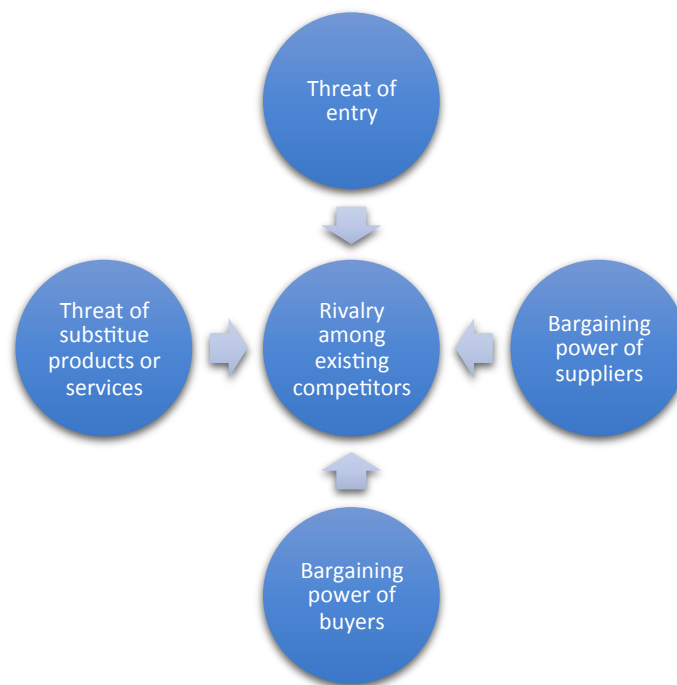


FIGURE 2: PORTER FIVE FORCES (SOURCE: AUTHOR'S OWN FIGURE)

#### Threat of Entry

This competitive force determines the threat of new incoming entrants into the market, who would like to gain market share. A new entity may affect fluctuation of products'

prices (mostly bid down) at the market due to increasing competitive intensity as a result, reducing profitability. The threat of entry is dependent on the barriers to entry to the particular market. Porter (1998) presents six major sources of barriers to entry such as:

1. Economies of Scale
2. Product Differentiation
3. Capital Requirements
4. Government Policy
5. Cost Disadvantages Independent of Scale
6. Access to Distribution Channels

If barriers are low, new incoming entities can set up and operating in the market without difficulties and the market may expect extended rivalry between companies. But not all market can be reached easily, industries with high barriers are less attractive to enter (=threat of entry is low), therefore it means lower risk of newcomer (Porter, 1998).

### **Intensity of Rivalry Among Existing Competitors**

Firms are using various tactics and strategy like price competition, advertising battles, innovations of products, and increased customer service or warranties to compete with each other because one or more firms feel pressure or see the opportunity to improve position in the market. Moreover, they are fighting for their customer, the more intense rivalry it is the harder is to retain or even reach new customers (Porter, 1998).

The intense rivalry is affected by following interacting factors:

1. Numerous or equally balanced competitors
2. Slow industry growth
3. High fixed or storage costs
4. Lack of differentiation or switching costs
5. Capacity augmented in large increments
6. Diverse competitors
7. High strategic stakes
8. High exit barriers

## **Bargaining Power of Suppliers**

Powerful suppliers can exert their power by charging higher prices or reducing quality of purchased goods and services. Powerful suppliers have the ability to dictate terms of purchase; on the other hand if buyers can replace suppliers easily then this reduces their power. We have to also take into account that few of suppliers may also act as a group, collaborating to squeeze profitability out in their industry (Porter, 1998).

Suppliers are powerful if:

1. The industry is dominated by a few companies and they have a few serious competitors for their business
2. The product is unique and it does not have to compete with other substitute products in the industry
3. The industry is not an important customer of the supplier group
4. The supplier's product is an important input to the buyer's business
5. There are high switching costs of changing suppliers
6. The supplier group poses a credible threat of forward integration

## **Bargaining Power of Buyers**

Buyers are more involved in the business transaction than we thought. Bargaining power of buyers will evaluate how powerful are the buyers if they have the power to dictate terms and conditions concerning influence by forcing down prices, bargaining for higher quality or more services. They have a chance to achieve it, if the power of buyers is high. However, this results in playing competitors against each other and it will reduce the profitability of industry (Porter, 1998).

The power of buyers depends on following characteristics:

1. Volume of purchased products that is important to seller sales
2. Number of customers (less = better)
3. Presence of alternative products or services
4. Switching costs



5. Importance of the industry's product to the quality of the buyer's products or services
6. Buyer's knowledge about demand, actual market prices, supplier costs, etc.

### **Threat of Substitute Products or Services**

The Porter's five forces analysis also identifies the possibility of threat, which our customer may prefer to buy an alternative product or service, of companies producing substitutes regardless the kind of industry. This can have a significant role in customer decision-making because the customers will give a priority to a product that has better quality, favourable price or higher add-value only if an alternative product has the same function as the original product of the industry and can fulfil the same customer needs. However, this will lead to negative impact on firms in the industry where firms will be pressed to lower the price of goods. Porter (1998) claims that, "the more attractive the price-performance alternative offered by substitutes, the firmer the lid on industry profits" (Porter, 1998).

## **1.4 Key Success Factors**

Do we have the key to enter? What functions, activities or business practices are valued and demanded by the market conditions and by the customer needs? What is it that the company must do to compete in the market and to be perceived by the customer as adding value to the business relationship? These questions a company ought to answer before entering an industry, because it is important to deeply understand and develop key success factors, which are fundamental to run a successful business in targeted industry. Put differently, key success factors are the minimum competence that a company has to master to be able to compete in the industry. Key success factors are defined by the market and as viewed by the customer, not by the company. Each of industry has different factors and requirements. In order to succeed in the industry, the company has to focus on those functions and activities that are most valuable to customers and are considered most important to the customer, as well as are most differentiated from the competitors (Ketelhöhn, 1998).

## **1.5 Internal Analysis**

### **1.5.1 Marketing Mix**

The marketing mix is a tool that combines four components of variable – the four Ps: Product, Price, Promotion and Place. All of components the company can use to influence the demand for its product. Afterwards, Booms and Bitner (1981) introduced an extended version of the basic marketing mix with three additional elements: People (participants), Physical evidence and Process (Groucutt et al, 2004).

What is the purpose of using marketing mix in the business? To quote from Kotler and Armstrong. (2011), “*The marketing mix is the set of tactical marketing tools that the firm blends to product the response it wants in the target market* (Kotler and Armstrong, 2011).”

#### **Product**

Product is more than just tangible objects, it could be service, person, idea or place that is offered to a market for use in order to fulfil the consumer’s needs. Products are considered as a key element in the market offering. The products or services might have 3 different levels, which are core customer value, actual product and augmented product. The core customer value provides the basic needs and problem-solving that consumers seek. While the second level must offer a little more, they have to offer products or services with improved features, design, a quality lever, a brand name, and packaging. In other words, they must turn the core benefit into an actual product. The last lever of product is mixture of the core customer value and the actual product with offering additional consumer services and benefits such as a warranty, after-sale service, product support and delivery (Kotler and Armstrong., 2011).

Firms have to take into account that product cannot be sold successfully everywhere. Products or services must be modified or adapted according to the characteristics of the targeted market. Another reason for modifying products is to extend the product life cycle. The most effective strategy is offering new product before the old product is going to drop to the decline stage (Rugman and Collinson, 2014).

Nowadays, as consumers become more demanding, many companies are moving to a new level in creating value for their customer. To compete in the saturated market, companies are customizing their products and services to fit customer's needs as they wish.

## **Price**

Price is the amount of money that consumer is charged for a product or a service. Kotler and Armstrong. (2011) states that price is the sum of all the values that consumers give up to gain the benefits of having a product. Price is one of the major elements influencing buyer's decision making and producing revenue; all other represent costs to the firm. Price is also one of the most flexible marketing mix elements that can be changed quickly. There are three main pricing strategies that the company can apply to valuation of its product: customer-base pricing, cost-based pricing, and competition-based pricing. In setting price, the product's price ought not to be greater than its value as well as below its costs. The company must find the balance between these two extremes with considering other internal and external factors, including competitors' prices, demand and the overall marketing mix and strategy (Kotler and Armstrong, 2011).

- *Customer Value-Based Pricing*

This pricing strategy is based on buyers' perceptions of value how much consumers are able to pay for the benefits come from the product.

- *Cost-Based Pricing*

Cost-based pricing is the easiest way to calculate selling price, where the price is contained of the costs for producing, distributing, and selling the product plus additional amount to generate profit.

- *Competition-Based Pricing*

Competition-based pricing involves setting price of a product or service based on competitors' prices. This pricing strategy is used more often by businesses selling similar products.

## Promotion

Promotion is the process of stimulating demand for a company's product or service. Company is promoting its products through promotion tools such as advertising, public relations, personal selling, sales promotion, and direct-marketing tools that they use to communicate and build relationships with customers. Moreover, another role of promotion tools is to increase awareness of products, which can boost a company's sales (Kotler and Armstrong, 2011).

- *Advertising*

Advertising is non-personal form of promotion of ideas, products or services in which a firm uses to persuade consumers to buy its goods. It includes TV commercial, print, Internet and other forms.

- *Sales Promotion*

Sales promotion is any initiative undertaken by a company to encourage the purchase or sale of a product. Sale promotion includes free gifts, discounts, free samples, voucher, and demonstrations.

- *Personal Selling*

Personal selling is a personal presentation by the firm's sales person for the purpose of making sales. It also involves the development of customer relationships. Personal selling could be sales presentations, trade shows, and incentive programs.

- *Public Relations*

Public relations is any purposeful communications between an organization and public to build goodwill by obtaining favourable publicity, building up a good corporate image and handling unfavourable rumours. It contains many elements such as press releases, sponsorships, special events, and web pages.

- *Direct Marketing*

It is a form of promotion, which allows an organization to deal directly to its customers through telephone marketing, kiosks, the Internet, catalogues and other forms.

## **Place**

This element refers to how the company will distribute its products they are offering to the consumers. It is the course that the product takes between production and the end user. Besides building relationships with customers, it also requires retaining relationships with suppliers and resellers. The distribution can vary depending on number of channel levels, in other word, how many of intermediaries are between the producer and the end user (Kotler and Armstrong, 2011). The channel, which is selling a product or service straight to consumers, is called a direct distribution. In this channel, the company has full control over the product, pricing and the user experience. The company bears all of responsibility for the delivery, payment and warranty. Products could be sold direct through door-to-door, home sales parties, and on the Internet. Another channel is indirect distribution, where an organization uses an intermediary to sell a product to the consumer. The indirect distribution can contain one or more intermediaries, because the company may sell to a wholesaler who will then distribute to retailer. This distribution channel may rise product costs since each intermediary require a certain percentage of the profit or request to sell a product under their own brand (Boučková, 2003).

## **People**

One of the most important aspects in the business is the management. It is essential to recruit key people with accurate skills needed in order to grow and develop company. Employees and clients are essentials and responsible for every element of running a successful organization. It is crucial to develop and maintain relationships both internally and externally. People, as part of a marketing mix has many aspects involved, such as HR, customer service, personal selling or training. *„The level of after sales support, customer service, advice provided is one way of adding value to what the firm offers and it can give an important edge over competitors. This might be more important than price for many consumers once they start experiencing the company (The Chartered Institute of Marketing, 2009).”*

## **Process**

Process looks at the system used to deliver to the end consumer, it is involved in services. The process has to be efficient and clear. Every process has its inputs and outputs, including direct and indirect activities. The output of the process has to add value to their client and their experiences as well as the company have to receive a benefit. There are many types of process, such as electronic process (POS), marketing process or technological process (Groucutt et al, 2004).

## **Physical Evidence**

The last extended element of the marketing mix looks at where services are being delivered and distributed; additionally it contributes to how the business is perceived in the marketplace. Apart from the store or location of a business or products, physical evidences are as well intangible aspects of marketing, branding or the layout of a store. The physical environment is the space by which a person is surrounded by when it is being delivered the service (Groucutt et al, 2004).

## **1.6 SWOT Analysis**

SWOT analysis is a useful method for understanding and evaluating of the company's situation. It helps you to identify opportunities and threats in the external environment as well as to determine strengths and weaknesses of the company. That is why; the SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. The company ought to scan its external environment to find attractive opportunities that they may be able to exploit to its advantage, while threats are unfavorable factors that may present challenges to performance. It also ought to analyze company strengths that may help the company reach its objectives and weaknesses to eliminate them (Kotler and Armstrong, 2011).

## 2 Problem Analysis and Current Situation

In this chapter, the author will briefly provide basic information about the examined company. Theoretical framework and conducted research will be subsequently used as a core for analysing and evaluation of the strategic issues of entry market development by using SLEPT analysis, Porter's five forces model, Marketing mix and SWOT, which will be afterwards the basis for proposing a suitable strategy for the company.

### 2.1 Company overview

Netflix is the world's leading Internet television network with over 65 million members and its headquarter is located in Los Gatos, California. In 1997, the company was founded by Reed Hastings and Marc Randolph to offer online movie rentals (Netflix, 2015). At present time, Netflix operates as a provider of Internet streaming media available to viewers in over 50 countries and of DVD-by-mail service in the United States. The business model of Netflix works as subscription service and can be divided into 3 segments: Domestic streaming, International streaming and Domestic DVD (Forbes, 2015). Members of Netflix are allowed to watch movies and TV shows as much as they want, anytime and from anywhere with Internet connection. They can play, pause and resume watching without commercials (Netflix, 2015).

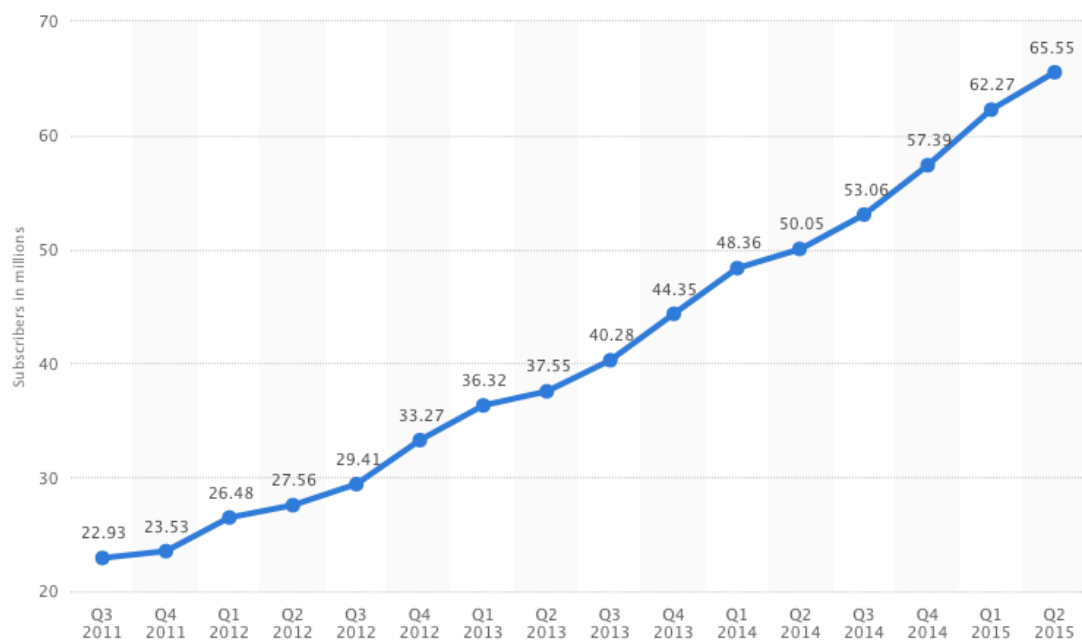


FIGURE 2: NUMBER OF NETFLIX STREAMING SUBSCRIBERS, WORLDWIDE (SOURCE: STATISTA, 2015)



PICTURE 3: COUNTRIES WHERE NETFLIX IS OPERATING (SOURCE: NETFLIX, 2015)

### Financial situation of the company

Revenue of the company is continuously increasing; from 2012 it has increased more than 50 per cent, which we can see on the chart below. According to financial statements of Netflix (see Appendix 2), the vast majority of revenues were streaming service, which accounted for more than 80 per cent in 2014. However, international streaming is still non-profitable. The revenue of DVD/Blu-Ray disc rental is constantly decreasing year-by-year. It is mainly due to lower interest in membership of DVD renting and advanced technology, when people are not using DVD/Blue-Ray players that much as before and a lot of laptop computers nowadays are without optical drive. But the contribution margin is still stable at high rate of roughly 48 per cent.



Chart 2 shows that net income of 2012 was only 17 millions USD, which was the weakest period, it was caused primarily higher cost of sales compared to other financial years (Netflix, 2015).

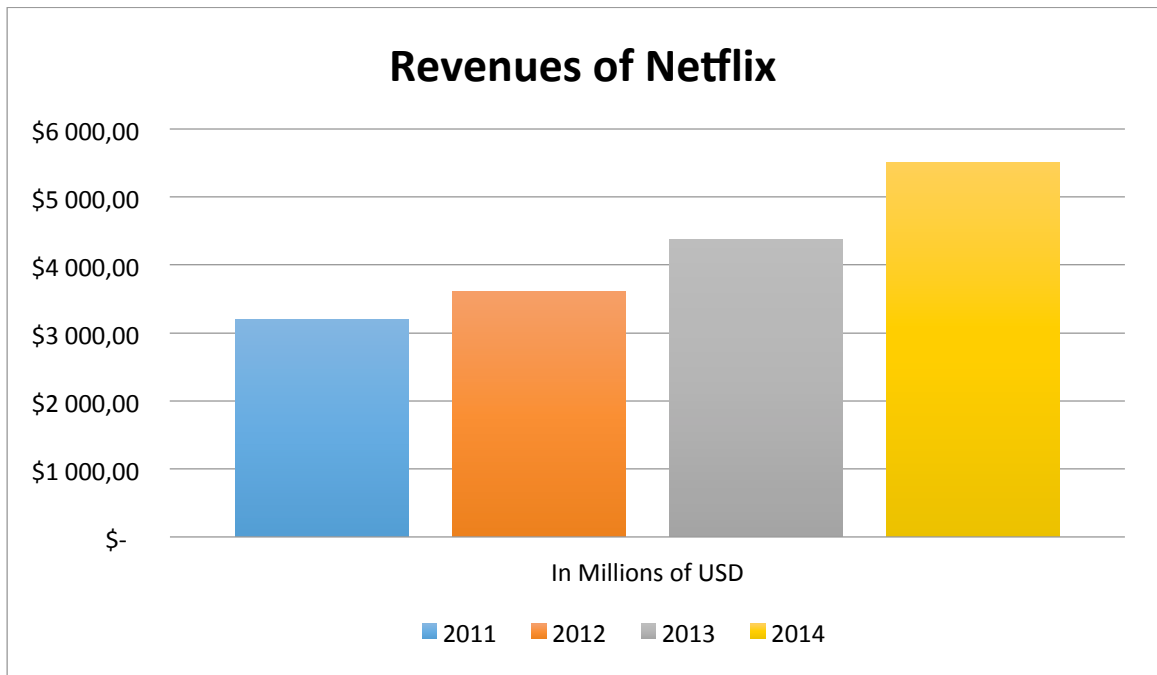


CHART 1: REVENUES OF NETFLIX 2012-2014 (SOURCE: NETFLIX, 2015)

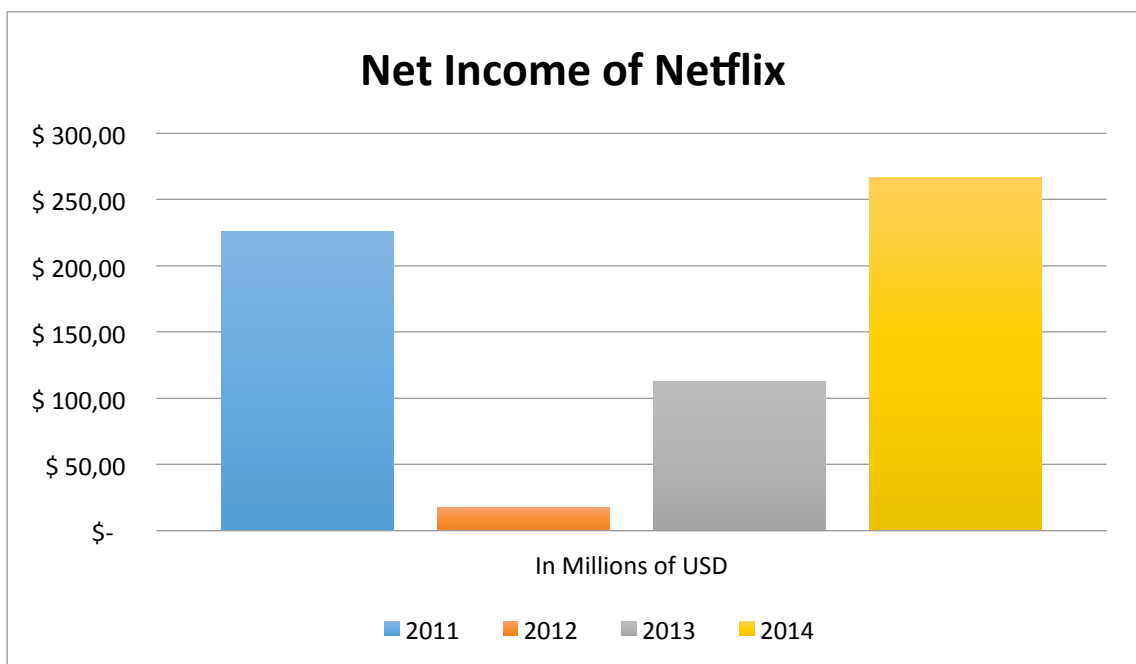


CHART 2: NET INCOME OF NETFLIX 2012-2014 (SOURCE: NETFLIX, 2015)

## **Products and Services**

As it was mentioned in Chapter 2.1, Netflix is provider of on-demand streaming service of movies and TV shows over the Internet and also it is DVD and Blu-ray disc rental.

**Internet video streaming:** Streaming of TV shows and movies is available in more than 50 countries and it is divided into Domestic and International Streaming. The streaming content consists of a variety of licence movies and TV shows as well as original content television, including the remake of House of Cards and Netflix-original series Orange is the New Black and Hermlock Grove(Netflix, 2014).

**DVD and Blu-ray disc rental:** Netflix offers over 93 000 movies and TV shows to rent from \$ 7,99 a month including handling and shipping, which the first month you can try it for free. Nevertheless, DVD-by-mail service is available only in the United States (Netflix, 2015).

## **2.2 Macro Environment Analysis**

Analysing the macro environment becomes more crucial to firms motivated to enter a new market. In order to avoid a failure, the firm must understand what is going in a targeted business environment that will help the firm to adapt to environmental change (Palmer, 2012). To understand the macro environment will be used SLEPT analysis to investigate the Political, Economic, Social, Technological and Legal influences on a business.

### **2.2.1 SLEPT Analysis**

#### **2.2.1.1 Political influences**

In 1993, the Czech Republic became a separate democratic republic after Czechoslovakia split into two countries. The Czech Republic has a parliamentary political system with Prime Minister Bohuslav Sobotka as the head of the government and from March of 2013 the head of state is President Miloš Zeman. In 1999, the state was granted full membership of NATO (Central Intelligence Agency, 2015).

## European Union

The Czech Republic joined the European Union in May of 2004 and it is also member of Schengen Area since 2007, however it is not part of the Euro Zone therefore the national currency is still Czech crown (CZK). The Czech Republic has 21 members in the European Parliament (European Union, 2015).

## Corruption

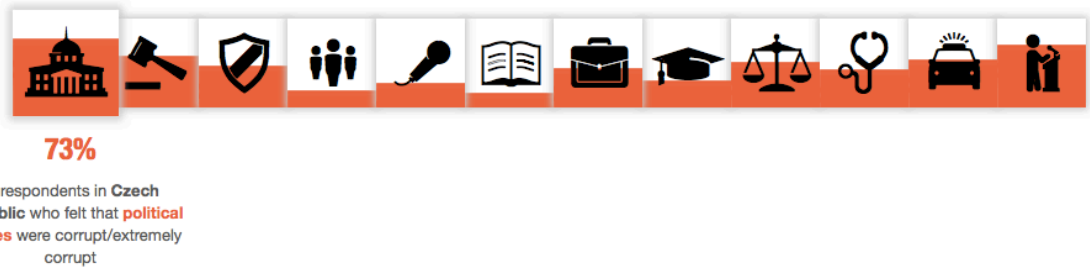
One of major issues in politics is corruption. The Czech Republic was ranked in 53rd place out of 175 ranked countries in the Corruption Perceptions Index 2014, which is not significantly threatening the country (Transparency International, 2015). According to public opinion survey, political parties in Czech Republic are perceived by 73 per cent of respondents to be the most affected institution by corruption and 72 per cent of population feel that their government's efforts to fight corruption is ineffective (Transparency International, 2014).



**PICTURE 4: PUBLIC OPINION HOW EFFECTIVE ARE GOVERNMENT'S ACTIONS IN THE FIGHT AGAINST CORRUPTION**

SOURCE: TRANSPARENCY INTERNATIONAL, 2015

PERCENTAGE OF RESPONDENTS WHO FELT THESE INSTITUTIONS WERE CORRUPT/EXTREMELY CORRUPT IN THIS COUNTRY/TERRITORY



PICTURE 5: PUBLIC OPINION WHICH INSTITUTIONS WERE CORRUPT IN THE CZECH REPUBLIC (SOURCE: TRANSPARENCY INTERNATIONAL, 2015)

### 2.2.1.2 Economic influences

The economy of the Czech Republic has been considered as a stable and prosperous market closely integrated with the European Union. It links both East and West Europe as a transit junction (Central Intelligence Agency, 2015). The main export partners are Germany, Slovakia and Poland while its main import partners are Germany, Poland and Slovakia (European Union, 2015).

#### Gross Domestic Product (GDP)

As with other countries, the Czech Republic was affected by the financial crisis of 2008, the most significant fall was in the second quarter of 2009 when the annual GDP growth rate reached a record low of -5.50 per cent. Afterwards the economy has been slowly recovering, however, in 2012 and 2013 the economy fell into a recession again. In the first quarter of 2015, the gross domestic product in Czech Republic grown by 4 per cent compared to the same quarter of the previous year. In numbers, the gross domestic product of the Czech Republic in 2014 was amounted to around 205.52 billion USD (The World Bank, 2015). The gross domestic product value represents 0.33 per cent of the world economy (Trading Economics, 2015). The largest sector of gross domestic product is services, which accounted for 60 per cent, industry represented 37.4 per cent, and agriculture made up the remaining 2.6 per cent (Central Intelligence Agency, 2015).



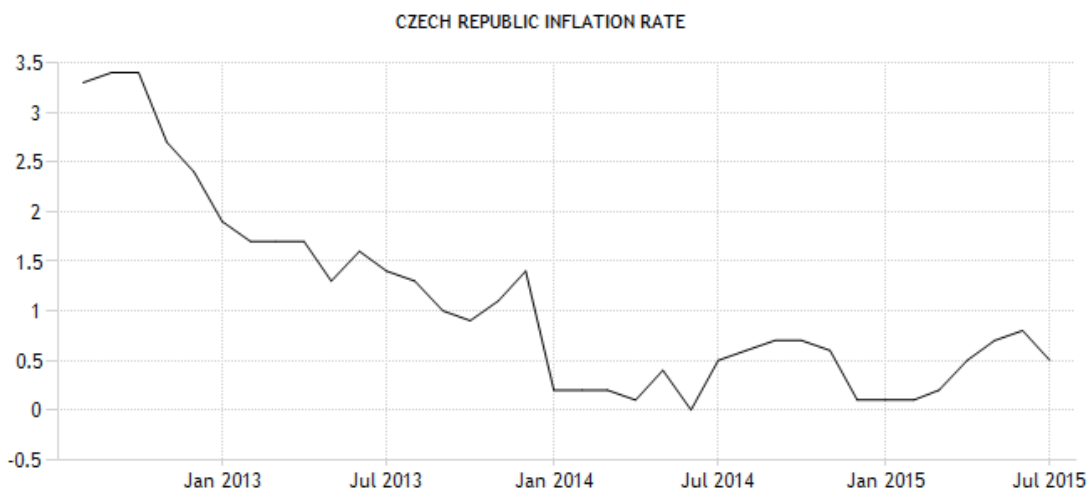
**PICTURE 6: THE GROSS DOMESTIC PRODUCT (GDP) IN CZECH REPUBLIC (IN BILLIONS OF USD)**  
 (SOURCE: TRADING ECONOMICS, 2015)



**PICTURE 7: ANNUAL GROWTH RATE OF THE CZECH REPUBLIC** (SOURCE: TRADING ECONOMICS, 2015)

## Inflation

From 2012 the inflation rate was slowly decreasing that at the end of 2013 it was close to zero. Therefore the Czech National Bank (ČNB) has been intervening in currency markets to weaken the Czech crown in order to avoid deflation. The Czech National Bank would like to maintain the inflation rate at 2 per cent. However, the Czech Statistical Office announced the inflation rate at 0.5 per cent. The Czech National Bank estimates that the inflation rate will be at 1.8 per cent at the end of 2016 (Czech National Bank, 2015).



PICTURE 8: INFLATION RATE IN THE CZECH REPUBLIC (SOURCE: TRADING ECONOMICS, 2015)

## Exchange rate

Currency fluctuations may have a significant impact on overseas business activity. Due to the foreign exchange intervention of the Czech National Bank (ČNB) in November of 2013, the rate of the Czech crown has significantly weakened against foreign currencies (Petruš, 2013). Before the intervention, USD/CZK was trading at around 19 CZK, but after applying the intervention strategy the US Dollars soared by more than 5 per cent against the Czech crown. Currently USD/CZK is fluctuating at around 24.5 CZK (XE, 2015).



PICTURE 9: CURRENCY CHART (USD/CZK) (SOURCE: XE, 2015)



PICTURE 10: CURRENCY CHART (EUR/CZK) (SOURCE: XE, 2015)

### **2.2.1.3 Social influences**

The Czech Republic is the 83<sup>rd</sup> most populous country in the world with 10 537 818 inhabitants (Czech Statistical Office, 2015). Firm's customer target group are people aged between 15-54 years, which accounted for more than 53 per cent of the population (Central Intelligence Agency, 2015).

#### **Language**

The official language in the Czech Republic is Czech. According to report co-ordinated by the European Commission, only 49 per cent of respondents are able to speak at least one foreign language well enough in order to be able to have a conversation, while 22 per cent of respondents can speak at least 2 language. English, German and Slovak are the most widely spoken foreign language in the Czech Republic (European Commission, 2012). In Czech Republic, movies and TV shows are mostly broadcasting in Czech language. Only 37 per cent of respondents would rather broadcasting movies in original language (European Union, 2014).

#### **Life Index**

Czech people are less satisfied with their lives than the OECD average of 6.6, they gave it a 6.5 grade. Regarding the Better Life Index, the Czech Republic are satisfied with personal security, education, work-life balance and environmental quality, which it ranks above the average, but below average in jobs, housing, health status, income, social connections, and civic engagement (OECD, 2015).

### **2.2.1.4 Technological influences**

One of the most important factors for online business is technological influence.

#### **Internet**

The Internet had become an inherent part of human life and nowadays the usage of the Internet is continuously rising. According data from Czech Statistical Office (2014), 72.4 per cent of Czech population has at least 1 computer in the household and 72.2 per cent people are connected to the Internet (Czech Statistical Office, 2014). The Czech Republic has ninth world's fastest Internet connection with average speed of 12.7 Mbps,



as reported by Akamai. The speed of Internet connection plays a n important role, especially when need as soon as possible to load or download a big file or video to buffer (Akamai, 2015).

### Mobile services

The Czech Statistical Office has published a report that, in 2013, 98.3 per cent of household owns a mobile phone (Czech Statistical Office, 2015). In the Czech Republic are operating 3 mobile network operators: T-Mobile, Vodafone and O2. All of them are offering LTE Internet connections, for coverage map please see Appendices.

	%		
	2011	2012	2013
<b>Celkem</b>	<b>97,4</b>	<b>97,8</b>	<b>98,3</b>
<i>podle typu domácnosti</i>			
domácnosti bez dětí	94,9	95,7	96,5
domácnosti s dětmi	98,6	99,2	99,3
<i>podle postavení osoby v čele domácnosti</i>			
zaměstnanec	97,8	98,5	98,7
samostatně činný	95,4	96,5	96,5
nezaměstnaný	94,8	96,5	98,4
důchodce	93,8	94,3	95,4
<i>podle věku osoby v čele domácnosti</i>			
do 29 let	98,0	99,3	97,9
30–39 let	97,7	98,5	99,1
40–49 let	98,2	98,6	98,9
50–59 let	96,2	97,4	97,6
60–69 let	95,8	96,3	97,2
70 a více let	92,4	93,5	94,6
<i>podíl z celkového počtu domácností v dané sociodemografické skupině</i>			

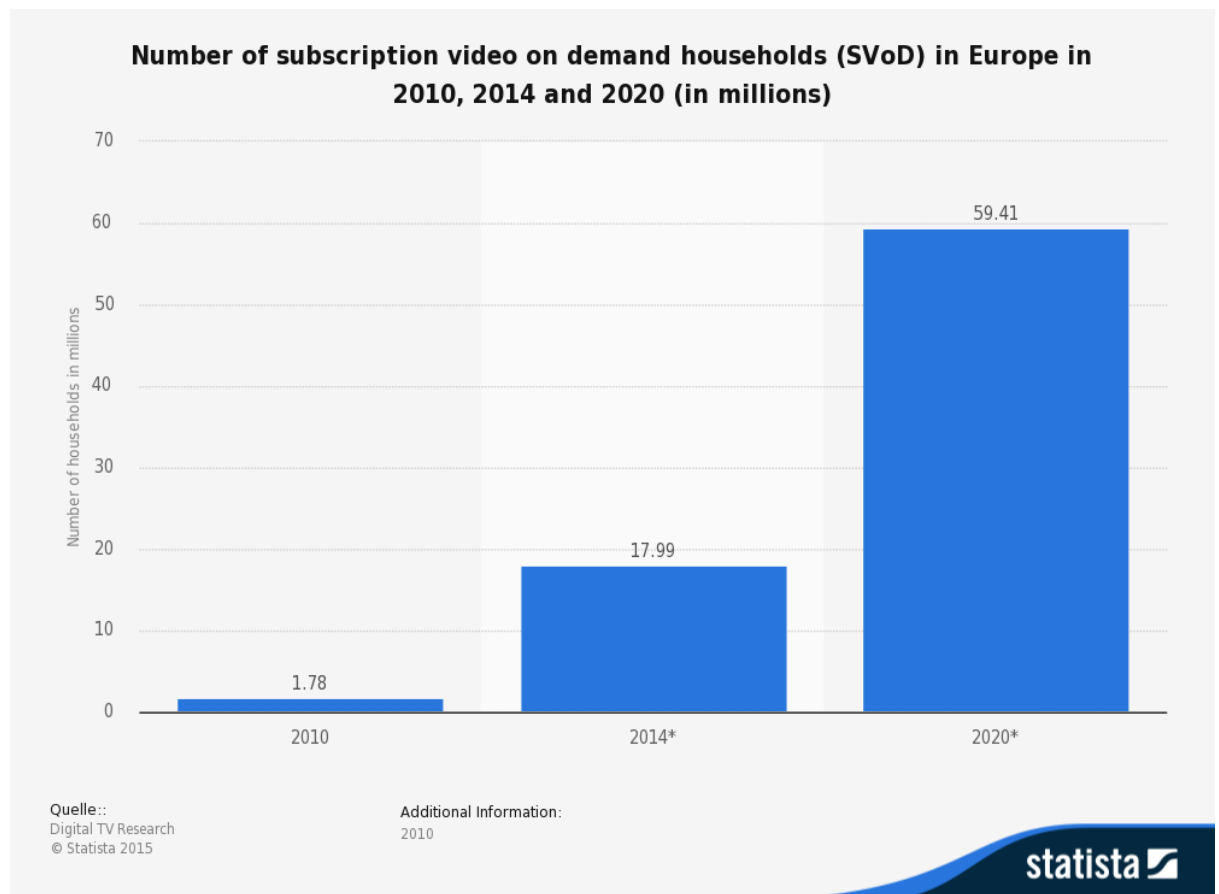
PICTURE 11: PENETRATION OF MOBILE PHONES IN HOUSEHOLDS (SOURCE: CZECH STATISTICAL OFFICE, 2015)

### Television

According to survey of agency Mediaresearch (2012), 96 per cent of household has at least one television and only 4 per cent of them have their television connected to the Internet (see Appendix 3) (ATO, 2012).

## Online Streaming

Advances in technology were rapidly improving the popularity of online streaming of video as it was demonstrated in conducted survey where 90 per cent of respondents answered that they are watching TV shows and movies online. According to Statista (2010), the number of subscription of video on demand would grow 1.78 million to 59.41 million in 2020 (Statista, 2010). However, Czech people prefer to visit video online websites available for free of charge. Only 66 per cent of respondents would be willing to pay online streaming shows and movies.



**PICTURE 12: FORECAST OF NUMBER OF SUBSCRIPTION OF VIDEO ON DEMAND IN EUROPE**  
(SOURCE: STATISTA, 2015)

### **2.2.1.5 Legal influences**

By entering a market, the company ought to follow certain rules and regulations of the country to avoid fees and unnecessary issues.

#### **Doing Business**

The Czech Republic has been ranked at 51<sup>st</sup> place out of 189 countries in Doing Business Rankings, however, in the Starting a Business Ranking it has been ranked 110<sup>th</sup> place. To start a business the company will need 19 days to go through 19 procedures and it will cost 8 per cent of income per capita, which is more than the OECD average. The time to prepare and pay all kind of taxes takes 413 hours per year, which is also more than OECD average (World Bank Group, 2015).

#### **Taxation**

If you are running a company in the Czech Republic you are liable to pay corporation tax. Every company that has a headquarters in the Czech Republic is subject to tax their income made in home country as well as outside of that country. But if the company has residence in foreign country, it is taxed only on Czech-source income. There are available two options of taxation depending upon where it comes from: The standard corporate income tax rate is set up at 19 per cent and a reduced rate of 5 per cent is applicable only to income from investment and pension funds. The company is also obligated to register for Value Added Tax (VAT) if a taxable turnover exceeds 1 million CZK per 12 calendar months (Deloitte, 2014). The Czech Republic has 3 different VAT rate for the supply of goods and the provision of services: the standard rate of 21 per cent is charged on most goods and services, the first reduced rate of 15 per cent applies to the supply of certain goods and services (food, books, plants) and the second reduced rate of 10 per cent applies to goods and services related to health or kids (Businesscenter.cz, 2015).

## **2.3 Industry Overview**

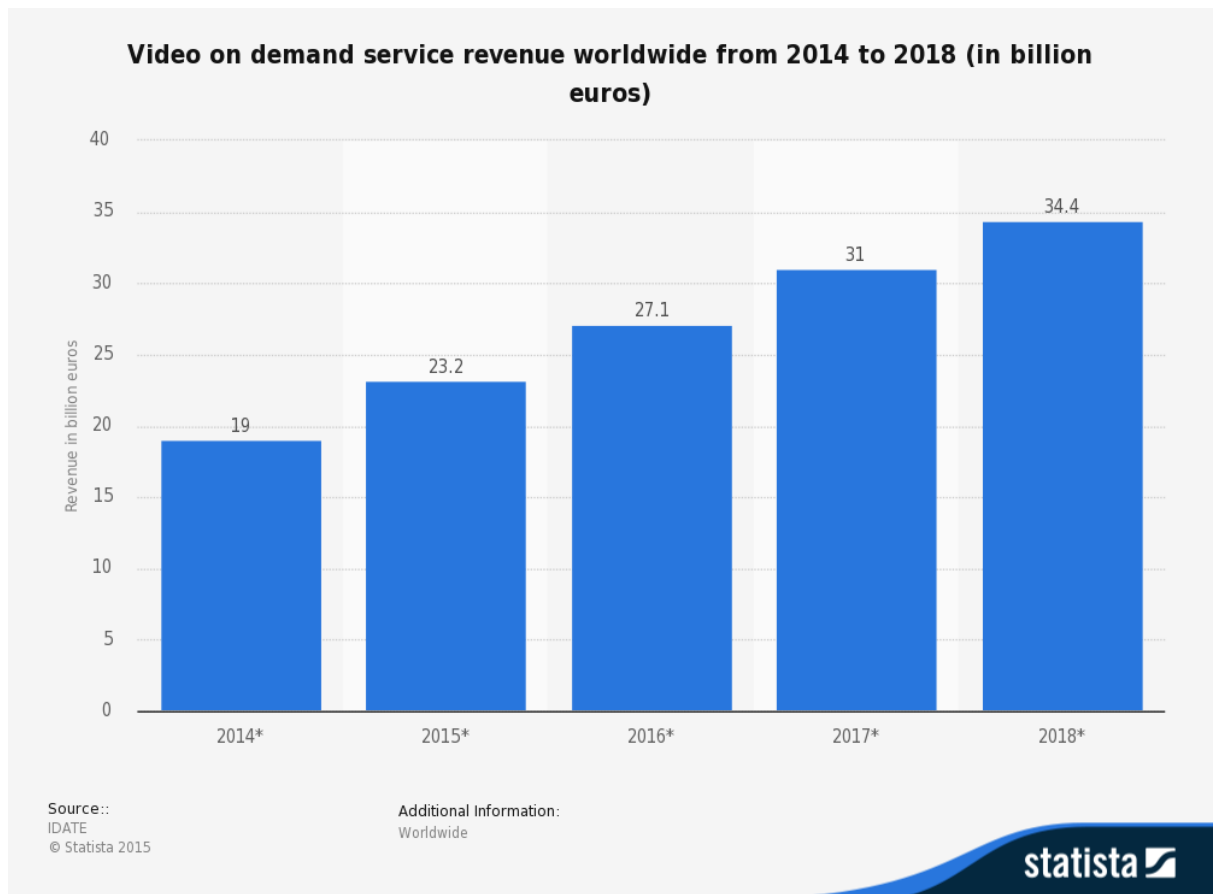
### **2.3.1 Porter's Five Forces Model**

To better understanding firm's microeconomic environment, the Porter's five forces analysis would be reflected in this report in order to provide a view which value is created and divided among existing and potential industry participants (Porter, 1998).

#### **2.3.1.1 Threat of new entrants**

Despite the fact that the market is being popular, there is a possibility that new firms will enter the market since the e-commerce has an open architecture that may reduce entry barriers, which will intense competition (Chang, Jackson and Grover, 2003). Although, companies desired to enter this industry have to take into account that it requires heavy investments, because they have to obtain licenses and rights to steam TV shows and movies. Also a new entrant would have to invest a lot of money in promotion to gain brand awareness and have experience in the video industry. In last few months 3 companies went bankrupt that were offering online video services. It was caused especially by powerful competitors, which are connected to media corporates (Kürtner, 2015).

According to Statista (2014), the worldwide revenue of Video on demand service is forecasted to grow every year as you can see at the figure below (Statista, 2014). As long as the market is going to perform strongly and showing long-run profitability in an industry, a potential entrant will desire to enter the market, however, the entrant can be dissuaded by barriers of access to supplier and distribution channels (Porter, 1985). For mentioned reasons, the threat of new entrants was evaluated **moderate**.



**PICTURE 13: VIDEO ON DEMAND REVEUE WORLDWIDE FROM 2014 TO 2018** (SOURCE: STATISTA, 2015)

### 2.3.1.2 Rivalry among existing competitors

The intensity of the rivalry among existing competitors can be classified as relatively **moderate** as the market of video streaming services in the Czech Republic is not fully mature. In the Czech market are only few competitors offering similar content as Netflix, however, most of them are not offering unlimited subscription. Shortly afterwards, main competitors will be thoroughly analysed. It can be expected higher intense in rivalry with the arrival of Netflix on the Czech market.

On the other hand, consumers have many choices how to watch a movie and there is a low level of product differentiation, which also increases rivalry among competitors.

### 2.3.1.3 Bargaining power of buyers

As it was mentioned, consumers have many methods to stream movies and also they can change a supplier anytime as there are low or non-existent switching costs. Companies are competing with others with offering free trial of service in order to attract customers and persuade customers to let them know that they the best on the market. For those reasons, the bargaining power of buyers is considered as **high**.

### 2.3.1.4 Bargaining power of suppliers

Suppliers are those who own content that companies need and give them right to use it. They also have power to not extend a new contract if it runs out or they no longer wish to be associated with the company. Therefore, Netflix created their original content such as *The House of Cards* or *Orange is The New Black*, which are very popular, to decrease the power of suppliers. Nevertheless, suppliers also want to sell to all as many as they can to maximize their revenue, because they lose a lot of profit when people can obtain a product through an illegal way for free. In addition, we have to take into account that Netflix has some leverage, because it is a large company and they are purchasing a large volume of product. Considering all mentioned facts, this threat could be assumed as **moderate**.

### 2.3.1.5 Threat of substitutes

It would be reasonable to say that there is **moderately high** threat of substitutes, because there exist several alternatives that can jeopardise the industry. Firstly, video streaming service could be exposed by threat of video rental stores, however, consumers are not longer interested in renting a physical media, therefore it causes decline of video rental stores in the Czech market then the author is not considering this alternative as a direct threat. The second substitution alternative could be watching cable television, which is still popular, but drawbacks of this alternative is that consumers do not have power to select what and when they want to watch and have to follow with the specific broadcast time. Another substitution that can fulfil consumer needs could be a movie cinema, but cinemas are basically offering new movies, which are not released on DVD or Blu-Ray therefore we cannot find them at any Video-On-Demand services and it costs average 179 CZK. The consumers also have a choice to buy a DVD or Blu-Ray disc at a store, however the price can be twice higher than a subscription service and

you are not able to watch another movie if you do not like it. The biggest threat for this industry is unquestionable pirating files of movies and other content from Internet sources through the use of illegal file sharing software. According to result of conducted survey, 64 per cent of respondents report that they are using an illegal way to watch a movie (please refer to Appendix 1 for further information).

## **2.3.2 Analysis of Major Competitors**

### **2.3.2.1 UPC**

UPC is owned by the Liberty Global plc, which is the international telecommunication and television provider. The UPC is one of the largest providers of television services on the Czech market with more than 573 600 video subscribers (Liberty Global, 2015). The company offers to Czech customers three tariffs of television: Horizon Klasik, Horizon Komfort and Horizon Komplet. As additional service to Horizon TV, you get My Prime, which is an unlimited video-on-demand service and Horizon Go that allow you to use your Horizon TV on others devices such as a smartphone, tablet or computer. These additional services are included in tariffs Horizon Komfort and Horizon Komplet, whereas Horizon Klasik requires extra fee of My Prime 99 CZK per month and of Horizon GO 25 CZK per month (for further information please refer to Appendix 7) (UPC, 2015).

#### **Strengths:**

- Unlimited usage, favourable price
- The largest provider of television services in the Czech Republic

#### **Weaknesses:**

- Cannot order My Prime separately
- Only 425 movies and 12 series

### **2.3.2.2 O2**

O2 is the largest provider of Internet Protocol Television (IPTV) in the Czech Republic with 188 000 subscribers (Digizone, 2015). It provides the O2 TV, which is a digital television with extra features. The product line is divided into 3 tariffs differing only by number of channels: O2 TV M, O2 TV L and O2 TV XL. Clients of O2 TV also may use video-on-demand service, where you can rent a movie for 48 hours, but every single movie is charged separately (up to 55 CZK) (O2, 2015).

#### **Strengths**

- Wide range of latest movies (including adult movies)

#### **Weaknesses**

- Absence of series
- Cost, Limited use of purchased movie only for 48 hours
- Non-customers of O2 have to pay through phone with additional charge of 9 CZK

### **2.3.2.3 VOYO**

VOYO is online video portal, which is part of TV channel Nova running by company CET 21. VOYO offers more than 2000 movies and series, live stream of enhanced TV channels and archive of TV shows. VOYO is considering as the largest provider video-on-demand with more than 30 000 subscribers. One month of the service costs 189 CZK per month with unlimited usage (VOYO, 2015).

#### **Strengths**

- Favourable price, unlimited usage
- 7 day free trial
- Offering movies for adult

#### **Weaknesses**

- Outdated movies



#### **2.3.2.4 Tesco Clubcard Kino (Banaxi)**

Tesco Clubcard Kino is run by external company Banaxi that provides video-on-demand service primarily for Tesco customers owning Clubcard. Banaxi offers 3 tariffs: Dingy Banaxi Kids, Banaxi Go and Banaxi Pro. Dingy Banaxi Kids is focusing on younger audience offering 400 movies and series for kids. Banaxi Go is based on monthly subscription and it offers 200 movies and series for 99 CZK per month. Last mentioned, Banaxi Pro, offers more than 1000 movies that you can rent for 48 hours. The price starts from 49 CZK per one movie (Banaxi, 2015).

##### **Strengths**

- Favourable price of Banaxi Go
- Wide range of movies and series

##### **Weaknesses**

- Requiring to own a Tesco Clubcard

#### **2.3.2.5 Other**

The author of this work is aware that on the market are other providers such as iTunes or Google Play, which are bigger than mentioned providers above, but they are not offering tailored products to Czech consumers (limited choice of dubbed movies), therefore they are not considered as direct competitors to the examined company.

### 2.3.3 Key Success Factors

This chapter is focused on the online video streaming industry demonstrating the main reasons of success. As mentioned previously, the key success factors are the minimum capabilities that a company must have to be able to compete within the industry.

<p style="text-align: center;"><b>Technology</b></p>	<ul style="list-style-type: none"> <li>• Website efficiency (good looking design, ease-of-navigation and functionality)</li> <li>• Dependable internal system and software</li> <li>• Able to stream a video in high quality and from everywhere with internet connection</li> <li>• Able to adapt new technologies (Smart TV, apps for smartphone and tablets)</li> </ul>
<p style="text-align: center;"><b>Distribution</b></p>	<ul style="list-style-type: none"> <li>• Great content quality and wide range of products</li> <li>• Fast delivery compared with DVD rental</li> </ul>
<p style="text-align: center;"><b>Marketing</b></p>	<ul style="list-style-type: none"> <li>• Customer service</li> <li>• Strong online advertising (email, social media and search engines)</li> </ul>
<p style="text-align: center;"><b>Pricing</b></p>	<ul style="list-style-type: none"> <li>• Cheaper prices than renting a physical copy</li> <li>• Free trial</li> </ul>

TABLE 2: KEY SUCCESS FACTORS (SOURCE: MINTEL, 2015 ; NETFLIX, 2015)

### 2.3.4 Market Drivers



FIGURE 3: MARKET DRIVERS OF THE INDUSTRY (SOURCE: MINTEL, 2015)

#### Technological advances

Nowadays, continuous advancements in technologies give us an opportunity to watch a movie anywhere and anytime on any devices connected to the Internet, primarily thanks to increased speed of the Internet and movie rental companies that have moved towards an online format.

#### Convenience

As has been mentioned above, consumers can watch their favourite movie or TV shows anytime and anywhere, which it is more convenient than to visit a bricks and mortar video store. Consumers have easy access to thousands movies that are immediately ready to watch.

## **Cost**

Another driving factor for online video streaming industry is low costs. The cost of renting a physical copy of DVD or Blu-Ray is more expensive than subscribe a Video-On-Demand service, which you can get unlimited access to movies just for flat monthly payment.

## **2.4 Internal Analysis**

### **2.4.1 7P's of Marketing Mix Analysis**

#### **2.4.1.1 Product**

The Netflix library is the largest content library on the earth. Netflix users can choose from thousands titles of movies and TV shows to stream, however the number of titles depends on your region if it has rights and licences to use. Netflix updates its library content every day. Netflix believes that differentiation of product is the way to gain competitive advantage above competitors; therefore Netflix is distinguished from the others by offering original titles of TV shows and movies.

After paying a subscription fee, a Netflix user can use the service immediately and stream it on his device. Therefore, users are not compelled to download a movie into their device and waiting until it will finish.

With regards to conducted survey, the quality of video is the most important factor to respondents. In order to enjoy a movie in high quality, Netflix offers subscription, which includes access to Ultra HD 4K content. At the present time, Netflix has 3 options of subscription, which each come with different features such as the difference quality levels or on how many devices you can watch the content at the same time.

#### **2.4.1.2 Place**

Netflix is a provider of Internet streaming media; therefore the place of business is the Internet. Currently, its services are available in over 50 countries and it plans to expand into Italy, Portugal or India (The Times of India, 2015). Firstly, users have to sign up a Netflix account and pay a subscription fee through online payment methods such as credit card or PayPal in order to have access to movies and watch instantly. Netflix allows its users to stream the content at various devices such as smart TV, tablets, video

game consoles, and smartphones. Netflix also made own application to improve customer convenience.

### 2.4.1.3 Price

Netflix customers may choose one of three different subscription services, which differ in features. Customers may be limited by lower quality of video or limitations to stream on more than 1 screen simultaneously, therefore they ought to consider which offer is most suitable. The most affordable choice offers only one device with standard quality, second is available for two screens simultaneously with HD, and the last one is open to all features four screens at a time with HD and Ultra HD. Netflix uses this pricing strategy to entice customer to purchase the most expensive subscription in order not to be restricted by limitations of features. However, it does not affect content library, where customers have unlimited access to movies and TV shows. Netflix also offers for new customer first month for free. Its pricing objective is gaining the maximum market share for Netflix, which translates to customer attraction and retention.

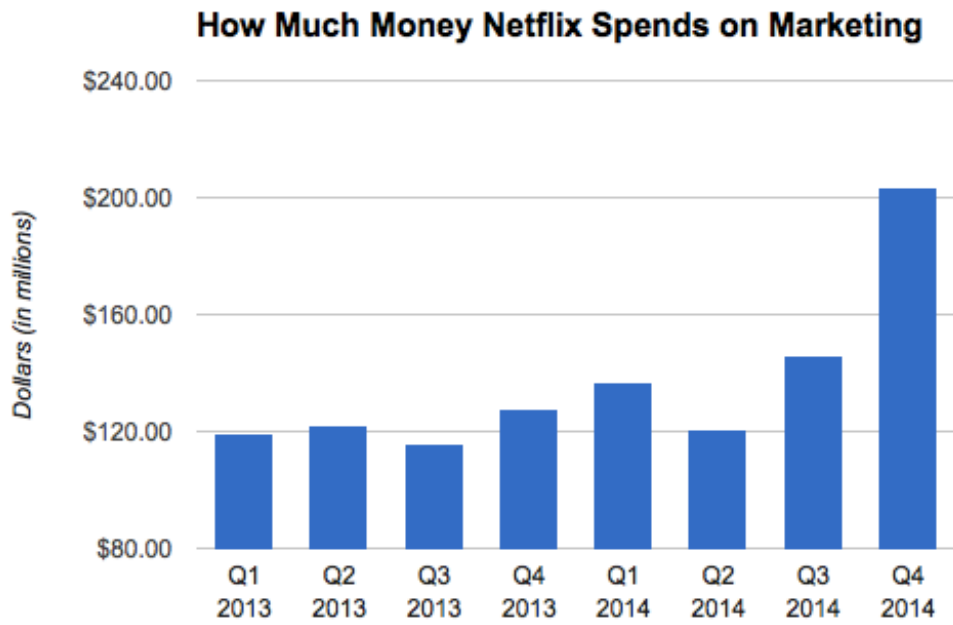
USA	<ul style="list-style-type: none"> <li>• \$ 7.99</li> <li>• \$ 8.99</li> <li>• \$ 11.99</li> </ul>	<ul style="list-style-type: none"> <li>• One screen, standard quality</li> <li>• Two screens at a time with HD</li> <li>• Four screens at a time with HD and Ultra HD</li> </ul>
UK	<ul style="list-style-type: none"> <li>• £ 5.99</li> <li>• £ 6.99</li> <li>• £ 8.99</li> </ul>	<ul style="list-style-type: none"> <li>• One screen, standard quality</li> <li>• Two screens at a time with HD</li> <li>• Four screens at a time with HD and Ultra HD</li> </ul>

Germany, Austria, France	<ul style="list-style-type: none"> <li>• € 7.99</li> <li>• € 8.99</li> <li>• € 11.99</li> </ul>	<ul style="list-style-type: none"> <li>• One screen, standard quality</li> <li>• Two screens at a time with HD</li> <li>• Four screens at a time with HD and Ultra HD</li> </ul>
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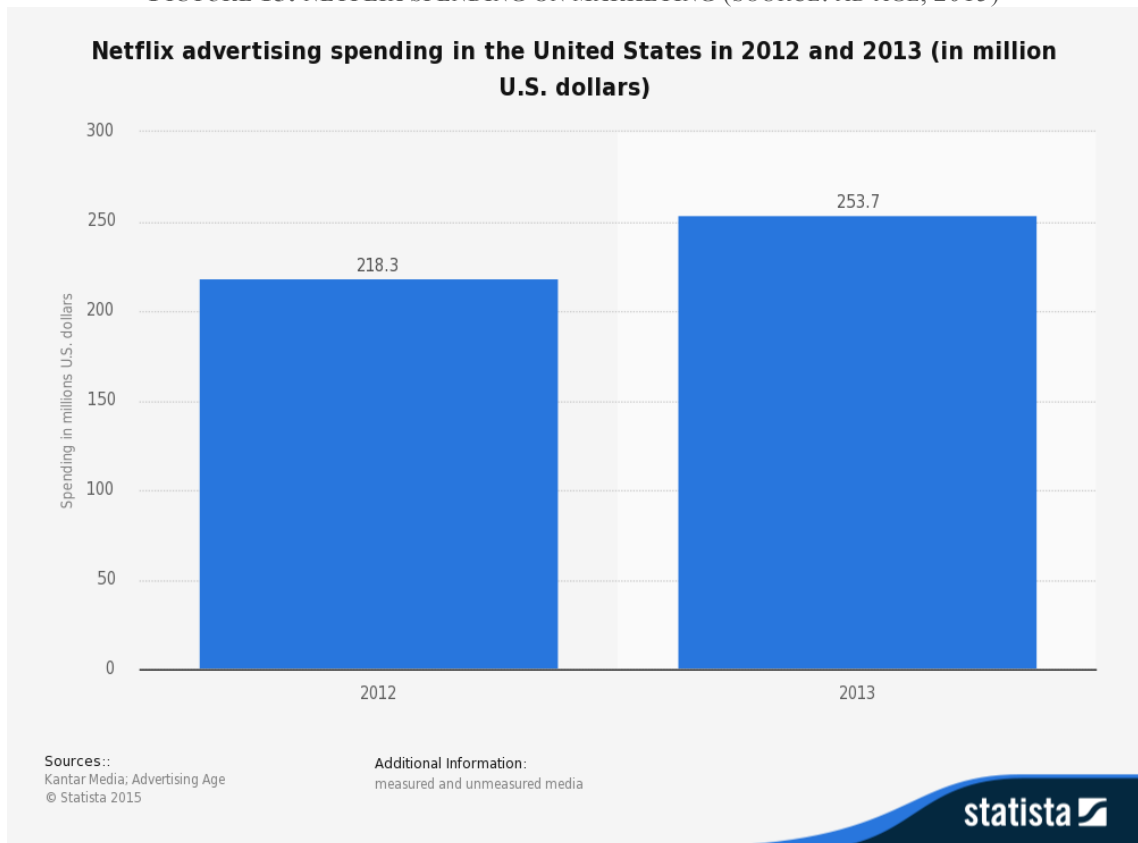
PICTURE 14: PRICE LIST OF EACH REGION (SOURCE: NETFLIX, 2015 ; THE LOCAL, 2014 ; MIRROR, 2015)

#### 2.4.1.4 Promotion

Promotion is one of the strongest areas of Netflix business. Its spending on marketing is constantly increasing as the customer base is growing up. In the fourth quarter Netflix invest \$203 million on marketing, which is nearly 60 per cent more compared to the same time a year ago (see Picture 15). Part of the bump was driven by the premiere of its original series Marco Polo (Ad Age, 2015). Picture 16 shows advertising spending of Netflix in the United States in 2012 and 2013. In 2013, it invested \$253.7 million in advertising in the United States, which is \$35,4 million more than a year ago (Statista, 2015). With regards to an article of the Wall Street Journal, Netflix spent \$51.54 on marketing for each new customer added in domestic markets in 2014, while in international markets it spent \$42.70 for each new international streaming subscriber. Therefore, the company would like to move its marketing spend from the US into international markets and to focus more on growing its international streaming business (The Wall Street Journals, 2015). They will invest in a mixture of online and offline promotion in markets where it is still building the brand, but in countries where the company has already gained a brand awareness will be more targeted and honed around content (The Drum, 2015). In 2016, Netflix is going to spend nearly \$1 billion on marketing (Netflix, 2015). Netflix is constantly promoting and advertising their service in different ways.



PICTURE 15: NETFLIX SPENDING ON MARKETING (SOURCE: AD AGE, 2015)



PICTURE 16: NETFLIX ADVERTISING SPENDING IN THE UNITED STATES (SOURCE: STATISTA, 2015)

## **TV advertising**

In recent years, the streaming video companies are feeling pressure in their industry; therefore they have opened their wallets to increase levels of spending on TV advertising. Netflix raised its advertisement spending on TV by nearly 6 per cent in 2014, to about \$67.6 million (Variety, 2015).

## **Social Media**

Netflix has a strong social media presence, with more than 15 million likes on Facebook page, 1.49 million followers on Twitter, 540 thousands followers on Instagram and nearly 317 thousands followers on Google plus. However, there are also several accounts that are made for users from other countries. Users may ask customer service for help or other issues on Facebook.

## **Free trial**

Netflix offers for new customers a one month for free to try the Netflix service and to get know the high value of service. The aim of this promotion is to attract a new potential subscriber and does not hesitate to let people have experience with the service before they decide to buy subscriptions, which will give them confidence of what they are purchasing and increase trust and loyalty of potential customers.

### **2.4.1.5 People**

People are very important element of a business, without people there would not be employees to run the company or customers to buy products. Netflix knows how they are valuable to the firm, for this reason the company cares about them as much as they can. That is why the company is successful.

According to Forbes, currently, Netflix hires more than 2400 full-time employees (Forbes, 2015). The company is hiring people into departments such as content, customer service, DVD operations, engineering, finance, IT operations, legal, marketing, and so on. Most of its employees are in Beverly Hills or Los Gatos offices, but they are also hiring for International subsidiaries. Netflix strategy is attracting, retaining and managing talents. Netflix do not pay by performance base, because they



believe that they are unnecessary if you have the right people. Employees have options to be compensated in form of equity. Netflix also have to be willing to let go of people whose skills no longer fit if the company want to be a successful. (McCord, 2014).

On the other sides, there are customers, whom Netflix has more than 65 million users.

#### **2.4.1.6 Process**

Almost all processes come from back office, which are indirect. These activities support the service through all stages. To provide movies and TV shows to customer, firstly, the content acquisition department must obtain licences to have streaming rights. Next step is uploading the content on cloud and provide it on Netflix website. There is also needed to promote the brand through marketing tools to increase number of subscription. Customer service provides support for users whenever a subscriber has a problem or need a help with account or billing.

Technological process of Netflix includes development of application for devices that allow the users to stream a movie. Netflix has to unsure the compatibility its application and adapt to the latest technology.

#### **2.4.1.7 Physical Evidence**

Netflix service is intangible material, however their website, where users watch a movie or TV show, could be considered as physical evidence. Because the website is delivering their purchased service as well as application running on customer's devices.

Another physical evidence is Netflix logo. The customers will immediately recognize the brand and what they are doing as the brand has strong brand recognition.

### **2.5 SWOT**

SWOT is a summary of outcomes that have been previously recognized based on conducted analyses of external and internal environment. External analysis has identified attractive opportunities and threats that may influence the company expansion. Whereas internal analysis has shown the firm's strengths over competitors and weaknesses that the firm ought to take into account to eliminate or overcoming them.

### **2.5.1 Strengths**

- Strong brand recognition
- Attractive pricing strategy
- High customer satisfaction
- Subscription model (unlimited use, no contract)
- Largest streaming content library
- Production of original content
- Access to Netflix on various devices simultaneously
- The world's leading internet television network (65 million users)
- Marketing campaign (free trial)

### **2.5.2 Weaknesses**

- Monthly subscription is unattractive to less frequent movie watchers
- Dependent on suppliers
- Raising subscription prices
- Limited payment methods

### **2.5.3 Opportunities**

- Growth of access to computers, mobile phone or other devices
- One of the world's fastest internet connection
- Coverage of LTE Internet connections
- Product line expansion
- Expansion in international market

### **2.5.4 Threats**

- Recently the Czech crown is visibly as an unstable currency
- Movie piracy
- Rising competition
- Low switching cost of change a service for users
- Higher presence of alternatives
- Acquiring licences and rights
- Some customers might be afraid that their personal information may be misused

## **2.6 Evaluation, Proposals and Contributions of Suggested Solution**

As mentioned from the beginning of the thesis, the examined company, Netflix, is reactively triggered to internationalise to Czech market. This section is based on findings from the analysis of the macro, micro and internal environment. In accordance with Jeannet and Hennessey (1998), an organisation will need to choose the most suitable type of entry strategy that will be adopted for the selected market (Jeannet and Hennessey, 1998).

### **Mode of market entry**

As we might already know from the theoretical part, there are several modes to entry the market. Nevertheless, the company is already applying wholly owned subsidiaries method on most of their targeted market with no involvement another participant by forming a joint venture, in other words they go it alone. Therefore the author of this paper suggests implementing the same strategy framework to expand into the Czech market, which is also considered as the most suitable method, because this method allows the company to have full control over the business and good protection of technology and know-how as well as without sharing profits. Furthermore, with growing customer base they may achieve outstanding economies of scale as the content license is not limited by the number of subscription in terms of worldwide distribution rights.

On the other hand, implementing this entry mode may involve numerous obstacles and challenges to overcome. First of all, in order to satisfy Czech users, Netflix must adapt to local tastes what local consumers want to watch and have extensive knowledge of the Czech market, because this country may differ from already operated markets. Secondly, the company will need to secure rights to stream movies and TV shows in the Czech Republic except international licence that gives Netflix rights to distribute it everywhere. Last but not least, applying wholly owned subsidiaries method would present a higher risk, time-consuming process and requirement of heavy investment that have to bear by itself.

## **Macro environment analysis**

With respect to conducted analysis, macro environment analysis recognized the Czech market as attractive to enter according to SLEPT analysis, which was shown in the World Bank Ease of Doing Business rankings, where the Czech Republic is ranked at 51<sup>st</sup> place out of 189 countries. The Czech Republic is considered as stable country, which is a member of European Union, but not the Euro Zone. So, the national currency is Czech crown. However, at the moment the currency is being intervened by the Czech National Bank that may have impact on overseas business activity. This could be identified as a both opportunity or threat depending on the point of view.

According to economic factors, the Czech Republic is considered as one of the most prosperous and well-developed market in the Central and Eastern Europe with basically stable gross domestic product. The largest sector is services, which represented 60 per cent of the composition of the GDP.

The main language spoken in the Czech Republic is Czech, which is the official language. European Commission has found that 49 per cent of respondent are able to speak at least one foreign language. However, the Czech people are used to watch TV shows mostly in the Czech language, therefore Netflix must acquire a content that will be dubbed or at least with Czech subtitles, because 63 per cent of respondents would prefer watch a movie in Czech language.

Nowadays, the technology plays a very important role in the business environment, especially within electronic commerce industry. To stream a movie in high quality it requires to be connected to the fast Internet, which will be able to watch a movie without discontinuation. The Czech Republic offers appropriate condition to use streaming service since the Czech households has access to one of the fastest Internet connections in the world with average speed of 12.7 Mbps. The Czech Statistical Office reported that nearly 73 per cent of people are connected to the Internet and 98.3 per cent of households have access to the LTE Internet connection. Owing to the coverage of LTE connection is available across all of important region in the Czech Republic, users of mobile phone can stream a Netflix service practically everywhere. The popularity of video online streaming is continually rising due to advancement in technology. The

biggest concern in this industry is movie piracy. In survey, the author has conducted, 64 per cent of respondent has admitted that they are watching a movie or TV show through illegal way. It has been also found that 66 per cent of respondents would be willing to pay average 290 CZK for a video online service.

In terms of the legal factors, the analysis revealed that starting a business in the Czech Republic would take in total 19 days and have to go through 19 procedures. Generally, the country offers a good condition to do a business. Organization operated a business in the Czech Republic are subject to pay 19 per cent of corporation tax and obligated to register for Value Added Tax if a taxable turnover exceeds 1 million CZK.

### **Industry analysis**

To evaluate Netflix's microeconomic environment, Porter's Five Forces framework was used. Although the industry is growing and being more popular, the threat of new entrants was classified moderate, because entering this industry is needed to invest a large amount of money into promotion and purchasing the contents. Furthermore, the entrant can be dissuaded by barriers of access to supplier to obtain licences and rights to stream. According to article written by Aust (2015), the television channel Prima is planning to launch a new subscription service, which will intense the rivalry among competitors (Aust, 2015). At present time, the rivalry among existing competitors has been identified as moderate owing to the market offers space for incoming new competitors. The users have several choices of possible alternatives how to watch a movie. The Netflix service could be substituted by video rental stores, cable television, movie cinemas or already mentioned movie piracy. For these reasons, the threat of substitutes is moderately high.

Because the Netflix has strong position in the industry and suppliers are exposed by losing profit owing to movie piracy, therefore they want to sell to all as many as they can to maximize their sales. The bargaining power of supplier is identified as moderate.

In terms of customers, the power they hold is considerably high. This is mainly caused by low switching cost to switch a supplier as well as availability of alternatives on the market.

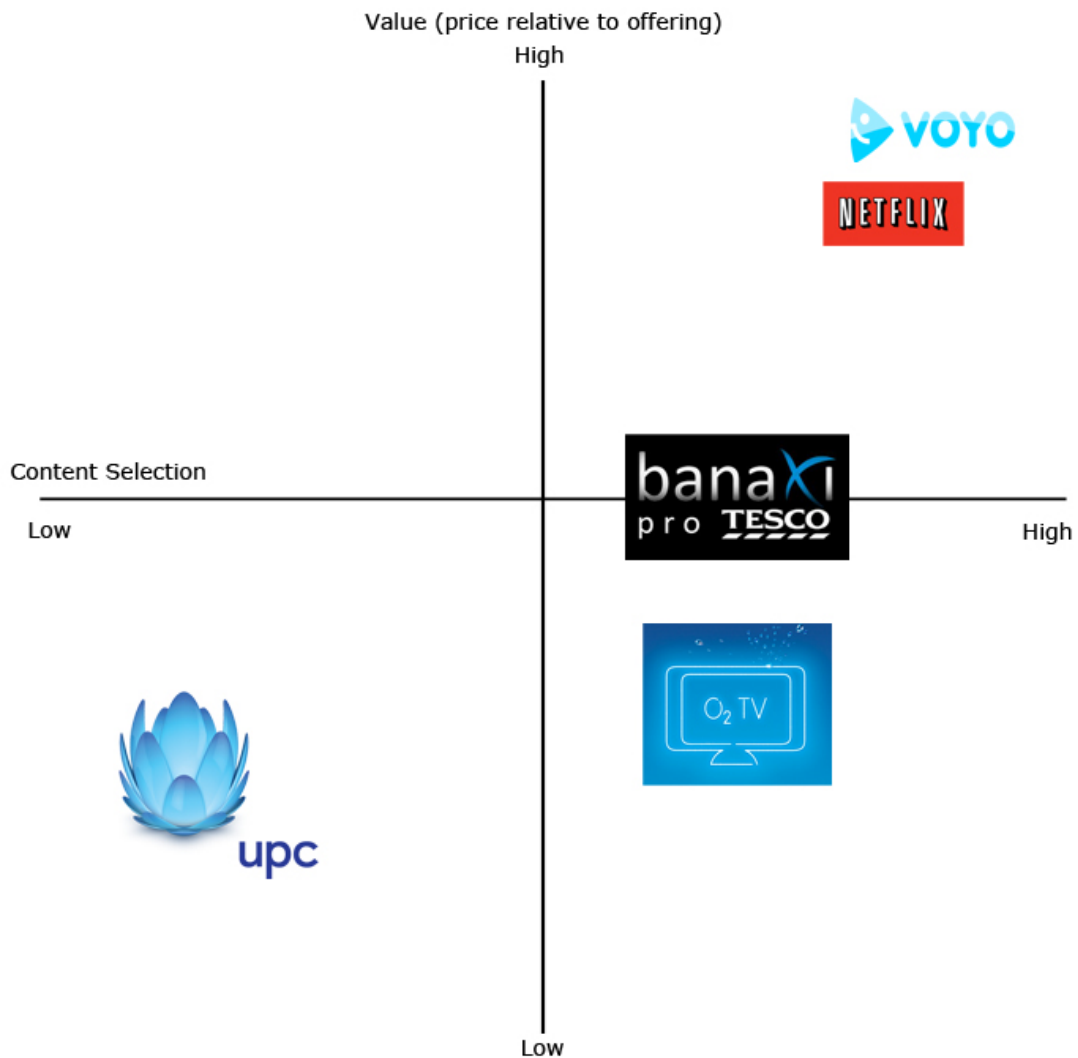
## **Competitors**

In the Czech market are several competitors offering similar service as Netflix. Major competitors of Netflix could be UPC, O2, VOYO and Tesco Clubcard Kino. However, most of competitors are using a different strategy with limitations. UPC offers unlimited usage of its library content for affordable price, but it provides the service only if you purchase its product package. O2 is attractive to less frequent watchers owing to the fact that the customers are not liable to pay monthly subscription, only as much as they watch. It is based on video rental where the customer can rent one movie for 48 hours. Nevertheless, the author of this thesis is considering VOYO as the biggest competitor for Netflix with more than 30 000 members. VOYO is owned by the same company as TV channel Nova. The company offers wide range of product only for 189 CZK per month with unlimited usage. Every new user can get instant access to free 7 day trial.

## **Positioning Map**

A positioning map is a consumer's subjective perception of the company's position in the new market with the respect of its competitive environment. Netflix's positioning will leverage its competitive advantage, as a new market development company it will strive to compete with VOYO with high content selection.

The author would like to highlight, the positioning map is base on author's assumptions and analysis of competitors only to give a reader idea where the company and competitors are positioned within 1 year after Netflix expansion and show these perceptions on a graph whose axes are formed by content selection and value (price relative to offering).



PICTURE 17: POSITIONING MAP (SOURCE: OWN WORK)

### Determining the risks and suggestions for their overcoming

Although operating on foreign market may produce additional profits, there is no guaranteed safety that business activities come with none risk exposure. Therefore, when entering a foreign market, the company must consider risks that may come from the foreign country.

- **Political risk**

The political risk is in every state, but the range of risks varies from country to country depending on the stability and consistency of the country. As previously mentioned in SLEPT analysis, after the collapse of communism the Czech

Republic is considered as stable and prosperous country. Therefore, there is lower chance that any political organization will cause significant changes in the market or impose embargo on imported goods from outside the country like Russia. However, since the Czech Republic is a member of European Union, the European Union can put forward new regulations. It is recommended following new rules and regulations to avoid unnecessary fines.

- **Economic risk**

This includes movements of exchange rates, which is typical risk that may arise from operating in a different country. Currently, the Czech National Bank is applying the intervention strategy to stave off deflation and buttress the economy by weakening the exchange rate. After the intervention, foreign currencies have been soared by more than 5 per cent against the Czech crown. The central bank has announced to keep the intervention until at least July 2016. The exchange rate is very tricky element, therefore the company should watch its movements and needs to forecast future exchange rate to be able to hedge against exchange rate risk in advance, until is too late. Drop in the value of a currency also affected the inflation rate and change in prices. To quote from Hill (2010), “If we can predict what a country’s future inflation rate is likely to be, we can also predict how the value of its currency relative to other currencies –its exchange rate – is likely to change (Hill, 2010, p. 358)”

- **Operating risk**

There is a possible risk of loss supplier or the supplier would not be willing to extended licence of movies and TV shows. Netflix ought to be prepared to replace by an alternative supplier as well as search and qualify new suppliers.

The competition could increase with the arrival of Netflix, because Netflix is strong brand, which can boost the growth of the industry. Netflix must be innovative to defend its position on the market.

Another risk that might occur is loss of customer loyalty. Loyal customers are very important to the company, because they spend more and provide free promotion of the brand by word of mouth. Netflix customer service ought to find out in friendly manner what is the issue if a customer is not satisfied with



Netflix service. They must feel comfortable and know that Netflix cares its customers.

The last identified risk is free trial abuse. Netflix ought to prevent someone from abandoning a free trial after one month and then creating a new account with another one month for free. The author suggests to store customer's IP address and payment details of the new account and also requires a phone number to send a verification code.

- **Technology risk**

Technology is moving too fast and it is changing all the time. Therefore, Netflix must monitor the newest technology in order to be able adapt them.

## **Marketing mix**

### **Product offering strategy**

Before entering the market, Netflix ought to buy licenses for original Czech movies and TV shows as well as provides options to stream a non-Czech content dubbed or with Czech subtitles. Because, as previously mentioned, only 37 per cent of Czech people would prefer to watch a movie in original language.

Netflix must also develop a website, which will be in the Czech language for customer convenience.

Moreover, in order to attract customers, Netflix ought to keep expanding more recent movies and TV shows, with the result that Netflix will be one step ahead of the competition.

The author also suggest to broadcast live sports events, which could have a big potential since people are more desired to watch their favourite team. Nevertheless, we have to be aware that this kind of content requires a heavy investment to obtain broadcast rights.

### **Price**

With regards to result of questionnaire, the price was ranked as the second most important factors to users, when streaming movies or TV shows. They are willing to pay an average of 290 CZK for video online services. Based on these evidence, it would

be reasonable to keep same price strategy as like German or Austria market, which are € 7.99, € 8.99 and €11.99.

Price (€)	Price (CZK)	Features
€ 7.99	CZK 199	One screen, standard quality
€ 8.99	CZK 249	Two screens at a time with HD
€ 11.99	CZK 349	Four screens at a time with HD and Ultra HD

TABLE 3: PRICE LIST FOR CZECH MARKET

SOURCE: NETFLIX, 2015

Netflix offers its service without limitation of usage, so the subscriber can use its content anytime and anywhere within his one-month subscription, which is a big advantage compared to competitors. They do not have to pay for each movie they want to watch separately.

However, Netflix allows to pay for its service only through online payment such as a credit card or PayPal. The author of this work would suggest to add more payment methods such as bank transfers or coupons available in stores, because customers might be sceptic that their payment information can be misused.

### **Distribution**

Netflix could partner with consumer electronic manufactures to develop application that will be pre-installed on all their devices. Manufactures also must check if the application is compatible with their devices, updated to new version and available with multi-language options.

## Promotion

Before entering the Czech market, it is necessary to promote the brand to let potential customer know that the company is coming soon into their market and gain brand awareness. Netflix are moving its marketing spend from home country into international market to build the brand through mixture of online and offline promotion.

First of all, since the TV commercials is still the most effective way to reach people, it would reasonable to spend a large amount of money into television advertising. This advertising channel is appropriate to use especially from the beginning.

For the online business is very important to be available on social media networks, therefore Netflix must create separately accounts for the Czech market. People are using social media to ask for help or just to monitor news about Netflix. Apart from that, it is recommended to promote the brand through the Internet advertising such as banners on Facebook.

Netflix offers the first month free subscription for new acquired customers to give them an opportunity to test the Netflix service. This sales promotion should continue, especially when the brand is new in the market.

The author would like to propose to run an affiliate programme, where Netflix customer will be rewarded with points for each new acquired customer he brings. The acquired customer will also get the same amount of points as the person who invited him in. For example they can get 50 points equal to 50 CZK, which they can use to pay their subscription fee. This solution can improve growth of customers and encourage them to stay on with the service.

Type of Promotion	Characteristics	Price
TV commercial	1 spot = 30 seconds, channel ČT 1	Average 200 000 CZK
Facebook advertising	CPM = cost per 1000 impressions	Average 0.3\$ (= 7,5 CZK)

TABLE 4: PRICE LIST FOR POMOTION

## **Conclusions**

To conclude, Netflix would like to operate in 200 countries by the end of 2006, therefore the company continue a fast expansion into Europe. Since the Western Europe has been almost covered, the company is pushing into the Central European market, more specifically into the Czech market. The Czech market could be different compared to other countries where the company is already operating. In order to avoid risks that can lead to failure of the company within the entry market, it is necessary to conduct a full investigation of the market and carefully evaluate the options.

The theoretical framework of this work was used as the base for conducting the analysis of macro environment of the Czech market and followed by industry analysis, along with evaluation of Netflix current situation. The findings identified from analysis were summarized in the SWOT analysis for a better overview of opportunities and threats of the market and strengths and weaknesses of the Netflix.

According to analyses, the Czech market appears to be an appropriate choice for further expansion of Netflix, the market is considered as stable and prosperous with potential to gain benefits from it. The industry investigation identified the market as not fully matured and saturated. With regards to result of conducted survey, it has been recognized that 90 per cent of respondents are watching a movie or TV show through online platform. The company's greatest strengths lie mainly in its offering content and employees who have to acquire licences of the latest movies. The success of the company relies on its competitive advantage over competitors, which could be production of original content and strong brand recognition with international experience in the industry.

Based on results from analyses, it was developed a proposal for expansion strategy of Netflix into the Czech market. The proposal suggested implementing the similar entry mode strategy, which is wholly owned subsidiaries method that has been already applied on the most of its market. However this entry mode would present a higher risk exposure. The company must be prepared in advance and be able to eliminate them when it occurs. Therefore, the author of this work has identified and analysed the possible risks with suggestion how to overcome them.

Last but not least, the author believes that Netflix represents a viable option for the Czech market expansion due to its extensive product offer and affordable prices as its major competitive advantage.

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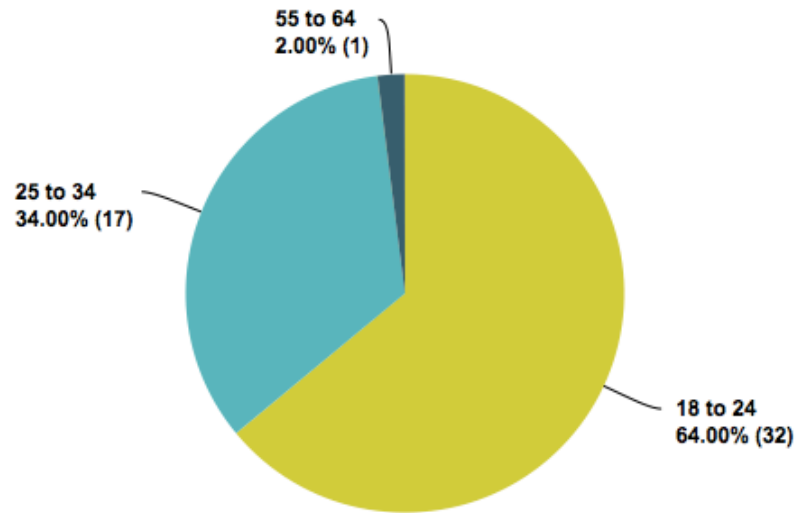
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# Appendices

## Appendix 1

### What is your age?

Answered: 50 Skipped: 0

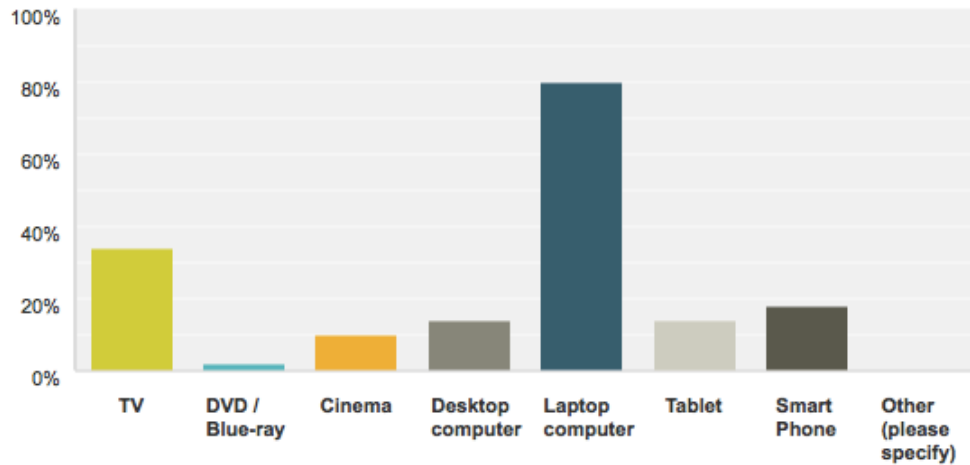


Answer Choices	Responses
18 to 24	64.00% 32
25 to 34	34.00% 17
35 to 44	0.00% 0
45 to 54	0.00% 0
55 to 64	2.00% 1
65 to 74	0.00% 0
75 or older	0.00% 0
Total	50

APPENDIX 1: QUESTIONNAIRE (SOURCE: OWN WORK)

## What platform do you mostly use to watch TV shows and movies? (Choose 1 or more)

Answered: 50 Skipped: 0

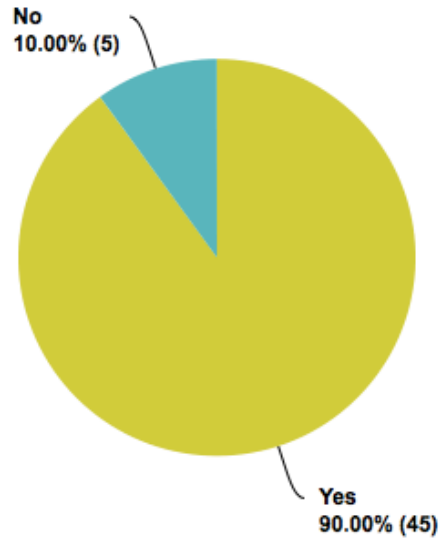


Answer Choices	Responses
▼ TV	34.00% 17
▼ DVD / Blue-ray	2.00% 1
▼ Cinema	10.00% 5
▼ Desktop computer	14.00% 7
▼ Laptop computer	80.00% 40
▼ Tablet	14.00% 7
▼ Smart Phone	18.00% 9
▼ Other (please specify) <a href="#">Responses</a>	0.00% 0
Total Respondents: 50	



## Do you watch TV shows and movies online?

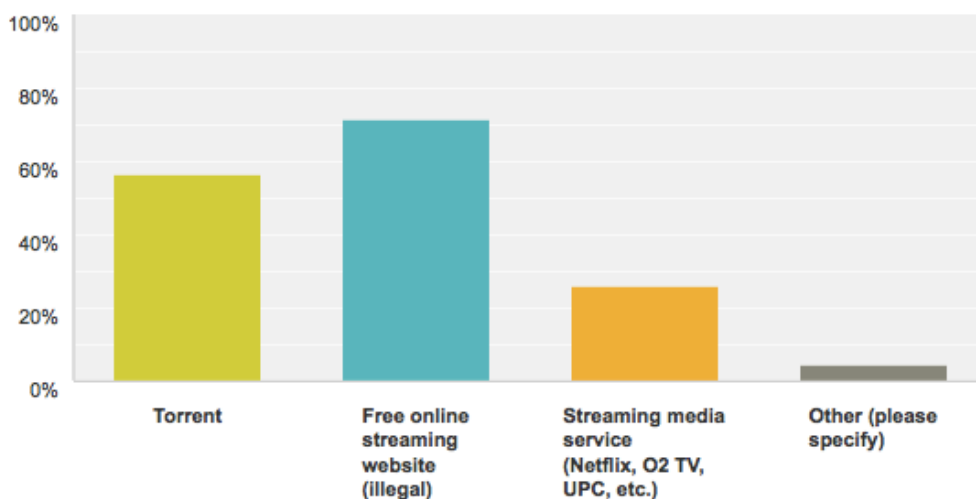
Answered: 50 Skipped: 0



Answer Choices	Responses	
▼ Yes	90.00%	45
▼ No	10.00%	5
Total		50

## If yes to question number 3, what option do you use to do this? (Choose 1 or more)

Answered: 46 Skipped: 4



Answer Choices	Responses
▼ Torrent	56.52% 26
▼ Free online streaming website (illegal)	71.74% 33
▼ Streaming media service (Netflix, O2 TV, UPC, etc.)	26.09% 12
▼ Other (please specify) <span style="float: right;">Responses</span>	4.35% 2

● Responses (2)
☁ Text Analysis
📁 My Categories

Categorize as... ▼
Filter by Category ▼
Search responses
🔍 ?

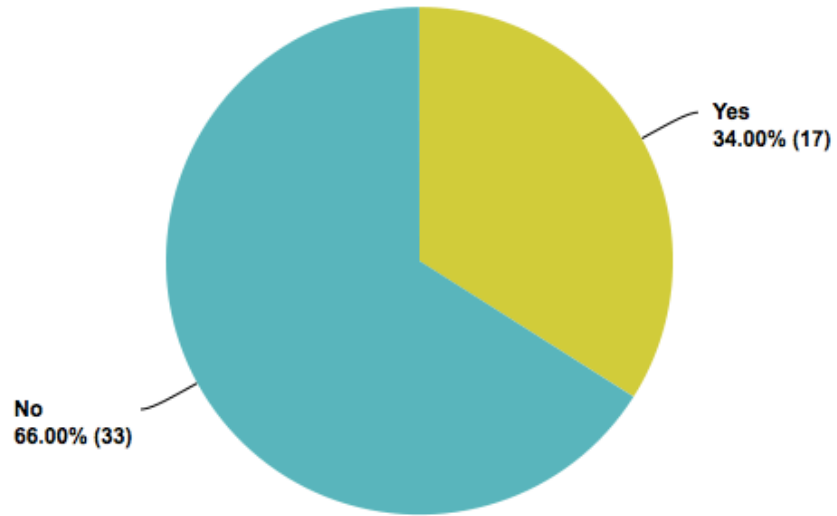
Showing 2 responses

**download services**  
8/13/2015 7:03 PM [View respondent's answers](#)

**boyfriend does his job:D**  
8/11/2015 3:49 PM [View respondent's answers](#)

# Would you pay for online streaming TV shows and movies?

Answered: 50 Skipped: 0



Answer Choices	Responses
Yes	34.00% 17
No	66.00% 33
Total	50

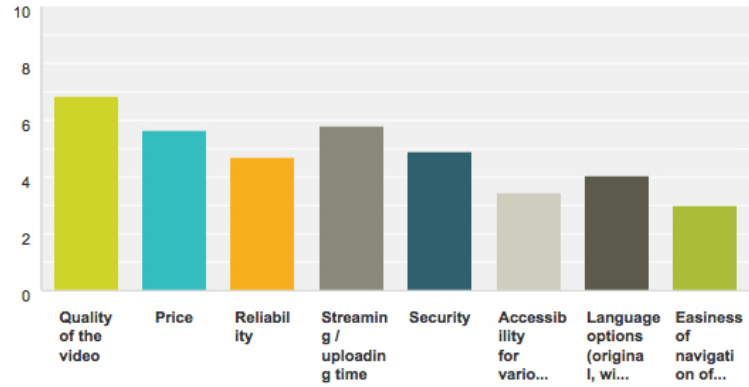
**If yes to question 5, about how much would you be willing to pay for this service (per month)? (Please enter a whole number. Enter the number of Czech crown you are willing to pay.)**

Answered: 16 Skipped: 34 |

Responses (16)	Text Analysis	My Categories
Categorize as...	Filter by Category	Search responses
Showing 16 responses		
300	8/17/2015 3:34 PM	<a href="#">View respondent's answers</a>
50	8/16/2015 10:17 PM	<a href="#">View respondent's answers</a>
500	8/16/2015 12:30 AM	<a href="#">View respondent's answers</a>
200	8/16/2015 12:29 AM	<a href="#">View respondent's answers</a>
150	8/15/2015 1:48 AM	<a href="#">View respondent's answers</a>
150	8/14/2015 10:49 PM	<a href="#">View respondent's answers</a>
200	8/14/2015 10:18 PM	<a href="#">View respondent's answers</a>
150	8/13/2015 11:25 PM	<a href="#">View respondent's answers</a>
300	8/13/2015 10:45 PM	<a href="#">View respondent's answers</a>
300	8/13/2015 10:30 PM	<a href="#">View respondent's answers</a>
250	8/13/2015 7:03 PM	<a href="#">View respondent's answers</a>
400	8/11/2015 10:33 PM	<a href="#">View respondent's answers</a>
10	8/11/2015 4:45 PM	<a href="#">View respondent's answers</a>
199	8/11/2015 4:20 PM	<a href="#">View respondent's answers</a>
1200	8/11/2015 4:15 PM	<a href="#">View respondent's answers</a>
300	8/11/2015 3:35 PM	<a href="#">View respondent's answers</a>

## When streaming a TV show or movies, which of the following factors is most important to you?

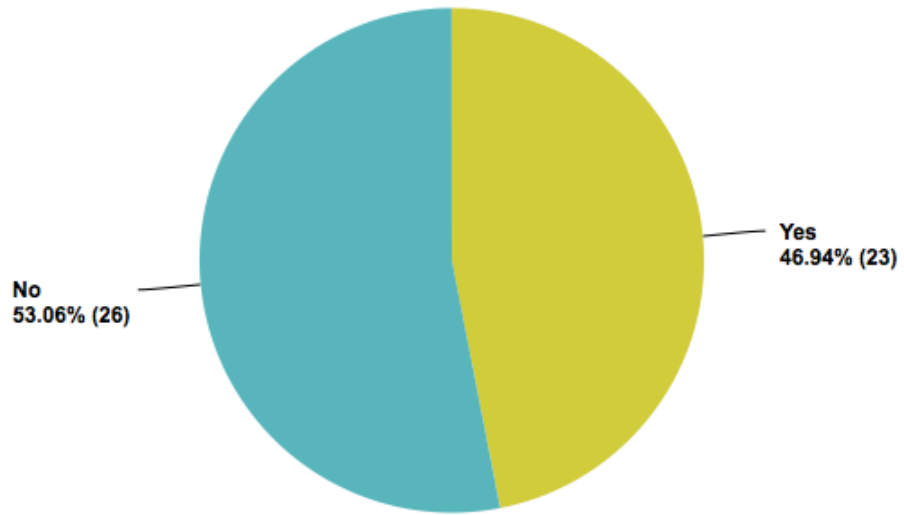
Answered: 50 Skipped: 0



	Unimportant	(no label)	(no label)	(no label)	(no label)	(no label)	(no label)	Very Important	Total	Weighted Average
Quality of the video	0.00% 0	2.33% 1	0.00% 0	9.30% 4	6.98% 3	11.63% 5	20.93% 9	48.84% 21	43	6.84
Price	8.57% 3	2.86% 1	8.57% 3	5.71% 2	17.14% 6	5.71% 2	28.57% 10	22.86% 8	35	5.66
Reliability	9.38% 3	6.25% 2	9.38% 3	12.50% 4	21.88% 7	25.00% 8	15.63% 5	0.00% 0	32	4.69
Streaming / uploading time	5.56% 2	2.78% 1	2.78% 1	2.78% 1	25.00% 9	22.22% 8	19.44% 7	19.44% 7	36	5.81
Security	4.88% 2	4.88% 2	12.20% 5	21.95% 9	14.63% 6	24.39% 10	7.32% 3	9.76% 4	41	4.88
Accessibility for various devices from everywhere	2.78% 1	25.00% 9	27.78% 10	27.78% 10	5.56% 2	5.56% 2	5.56% 2	0.00% 0	36	3.47
Language options (original, with subtitles or dubbed)	11.90% 5	19.05% 8	16.67% 7	14.29% 6	9.52% 4	7.14% 3	14.29% 6	7.14% 3	42	4.05
Easiness of navigation of the website	26.83% 11	19.51% 8	17.07% 7	14.63% 6	9.76% 4	7.32% 3	4.88% 2	0.00% 0	41	3.02

# Are you familiar with Netflix?

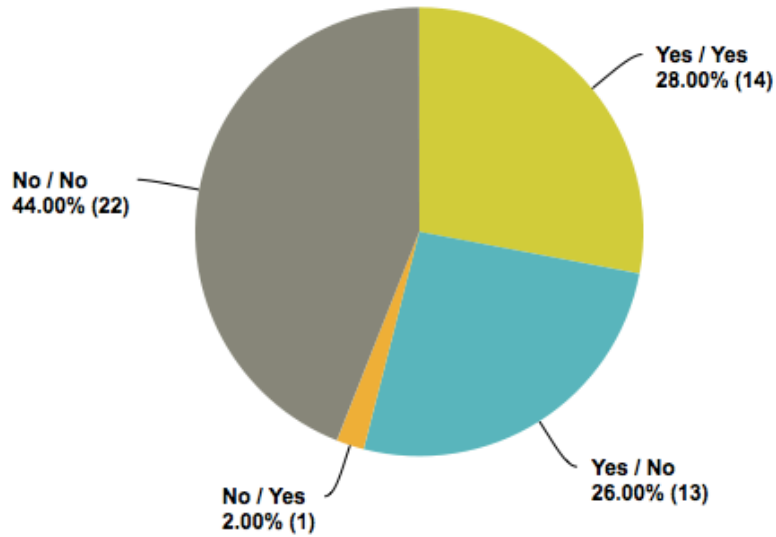
Answered: 49 Skipped: 1



Answer Choices	Responses	
▼ Yes	46.94%	23
▼ No	53.06%	26
Total		49

# Have you ever seen or heard about the TV series House of Cards? Did you know that Netflix is the original distributor of the House of Cards?

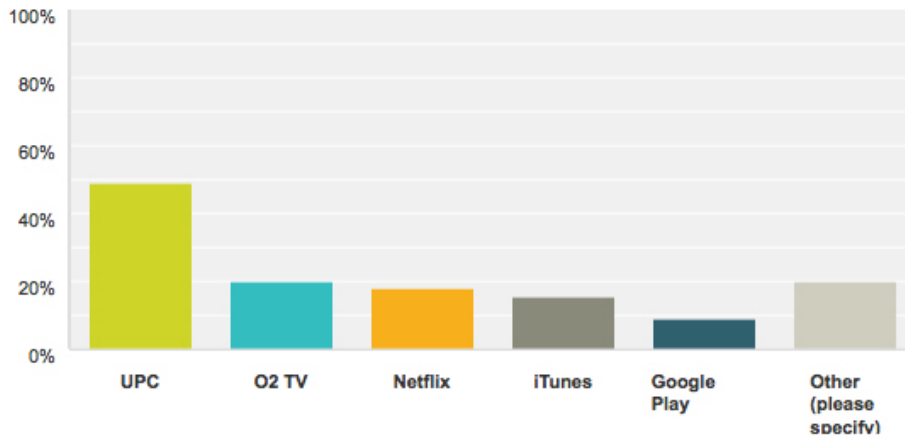
Answered: 50 Skipped: 0



Answer Choices	Responses	
Yes / Yes	28.00%	14
Yes / No	26.00%	13
No / Yes	2.00%	1
No / No	44.00%	22
Total		50

## Which of the following companies have you ever used for online streaming?

Answered: 45 Skipped: 5



Answer Choices	Responses
UPC	48.89% 22
O2 TV	20.00% 9
Netflix	17.78% 8
iTunes	15.56% 7
Google Play	8.89% 4
Other (please specify) <a href="#">Responses</a>	20.00% 9

[Responses \(9\)](#)
[Text Analysis](#)
[My Categories](#)

Categorize as... 
 Filter by Category

Showing 9 responses

- None od them**  
 8/17/2015 3:34 PM [View respondent's answers](#)
- Netbox**  
 8/15/2015 10:30 AM [View respondent's answers](#)
- watchseries.it**  
 8/14/2015 11:37 PM [View respondent's answers](#)
- twitch.tv - not exactly movies, but games etc.**  
 8/14/2015 10:49 PM [View respondent's answers](#)
- None**  
 8/13/2015 6:10 PM [View respondent's answers](#)
- Non.**  
 8/11/2015 10:33 PM [View respondent's answers](#)
- linhe dostaneš do držky zdar grulda :D (nic jsem nepoužil pro online streaming)**  
 8/11/2015 5:38 PM [View respondent's answers](#)
- no idea**  
 8/11/2015 3:49 PM [View respondent's answers](#)
- polsat**  
 8/11/2015 3:38 PM [View respondent's answers](#)

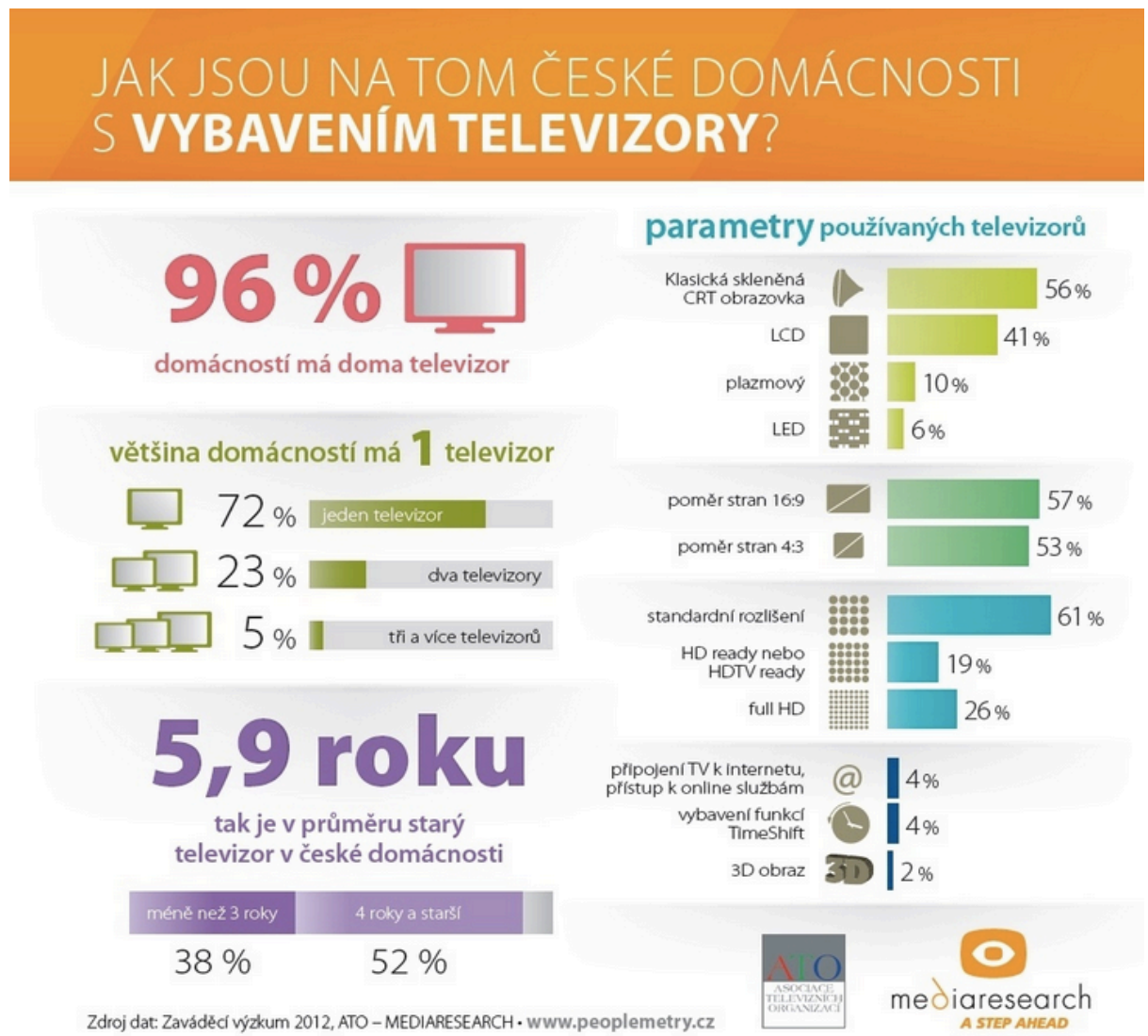


## Appendix 2

Netflix, Inc. (in thousands)	Twelve Months Ended				As of / Three Months Ended				Six Months Ended	
	December 31, 2013	December 31, 2014			December 31, 2014	June 30, 2015			June 30, 2015	June 30, 2015
		March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	June 30, 2015
<b>Domestic Streaming</b>										
Total memberships at end of period		35 674	36 244	37 219	39 114	41 397	42 300	43 203	44 106	45 009
Paid memberships at end of period		34 377	35 085	36 265	37 698	40 315	41 057	42 499	43 841	45 183
Revenues	\$ 2 751 375	\$ 798 617	\$ 838 225	\$ 877 150	\$ 917 442	\$ 984 532	\$ 1 025 913	\$ 1 067 304	\$ 1 108 695	\$ 1 150 086
Cost of revenues*	1 863 376	517 094	546 223	565 251	573 193	582 529	612 681	622 978	633 275	643 572
Marketing*	265 232	80 258	64 727	61 045	87 423	293 453	73 427	162 978	162 978	162 978
Contribution profit	622 767	201 265	227 275	250 854	256 826	312 452	339 795	351 647	358 442	366 536
Contribution margin	22.6%	25.2%	27.1%	28.6%	28.0%	31.7%	33.1%	33.4%	33.7%	34.4%
<b>International Streaming</b>										
Total memberships at end of period		12 683	13 801	15 843	18 277	20 877	23 251	25 625	28 000	30 374
Paid memberships at end of period		11 755	12 907	14 389	16 778	19 304	21 649	24 000	26 345	28 690
Revenues	\$ 712 390	\$ 267 118	\$ 307 461	\$ 345 685	\$ 387 797	\$ 415 397	\$ 454 763	\$ 494 129	\$ 533 500	\$ 572 866
Cost of revenues*	782 304	245 267	266 697	291 942	350 211	375 278	422 966	470 633	518 300	566 966
Marketing*	204 418	56 840	56 036	84 609	116 248	105 126	123 713	142 300	160 887	179 474
Contribution profit (loss)	(274 332)	(34 989)	(15 272)	(30 866)	(78 662)	(65 007)	(91 916)	(109 289)	(126 647)	(144 110)
Contribution margin	-38.5%	-13.1%	-5.0%	-8.9%	-20.3%	-15.6%	-20.2%	-22.1%	-23.0%	-24.9%
<b>Total Streaming</b>										
Total memberships at end of period		48 357	50 045	53 062	57 391	62 274	65 551	68 828	72 106	75 383
Paid memberships at end of period		46 132	47 992	50 654	54 476	59 619	62 706	66 499	69 986	73 873
Revenue	\$ 3 463 765	\$ 1 065 735	\$ 1 145 686	\$ 1 222 835	\$ 1 305 239	\$ 1 399 929	\$ 1 480 676	\$ 1 571 623	\$ 1 647 390	\$ 1 722 172
Cost of revenues*	2 645 680	762 361	812 920	857 193	923 404	957 807	1 035 657	1 117 656	1 201 653	1 284 548
Marketing*	469 650	137 098	120 763	145 654	203 671	607 186	197 140	391 817	391 817	391 817
Contribution profit (loss)	348 435	166 276	212 003	219 988	178 164	247 445	247 879	247 879	247 879	247 879
Contribution margin	10.1%	15.6%	18.5%	18.0%	13.6%	17.7%	16.7%	15.7%	15.2%	14.3%
<b>Domestic DVD</b>										
Total memberships at end of period		6 652	6 261	5 986	5 767	5 564	5 314	5 069	4 824	4 579
Paid memberships at end of period		6 509	6 167	5 899	5 668	5 470	5 219	5 019	4 819	4 619
Revenues	\$ 910 797	\$ 204 354	\$ 194 721	\$ 186 597	\$ 179 489	\$ 173 200	\$ 164 018	\$ 154 826	\$ 145 634	\$ 136 442
Cost of revenues*	471 523	106 825	101 928	97 201	90 928	88 594	86 095	83 689	81 190	78 691
Marketing*	292	-	-	-	-	-	-	-	-	-
Contribution profit	438 982	97 529	92 793	89 396	88 561	84 606	77 923	71 137	64 444	57 751
Contribution margin	48.2%	47.7%	47.7%	47.9%	49.3%	48.8%	47.5%	46.5%	45.3%	44.1%
<b>Consolidated</b>										
Revenues	\$ 4 374 562	\$ 1 270 089	\$ 1 340 407	\$ 1 409 432	\$ 1 484 728	\$ 1 573 129	\$ 1 644 694	\$ 1 716 219	\$ 1 787 745	\$ 1 859 268
Cost of revenues*	3 117 203	869 186	914 848	954 394	1 014 332	1 046 401	1 121 752	1 197 271	1 272 790	1 348 309
Marketing*	469 942	137 098	120 763	145 654	203 671	607 186	197 140	391 817	391 817	391 817
Contribution profit	\$ 787 417	\$ 263 805	\$ 304 796	\$ 309 384	\$ 266 725	\$ 322 551	\$ 325 802	\$ 325 802	\$ 325 802	\$ 325 802
Other operating expenses	559 070	166 210	175 196	198 977	201 679	234 595	250 967	267 354	283 741	300 130
Operating income	228 347	97 595	129 600	110 407	65 046	402 648	97 456	74 835	47 057	25 672
Other income (expense)	(57 273)	(8 651)	(12 228)	(12 870)	(19 530)	(53 279)	(59 030)	(34 345)	(34 345)	(34 345)
Provision (benefit) for income taxes	58 671	35 829	46 354	38 242	(37 855)	82 570	14 730	14 155	14 155	14 155
<b>Net income</b>	\$ 112 403	\$ 53 115	\$ 71 018	\$ 59 295	\$ 83 371	\$ 266 799	\$ 23 696	\$ 26 335	\$ 26 335	\$ 50 031

APPENDIX 2: FINANCIAL STATEMENT OF NETFLIX (SOURCE: NETFLIX, 2015)

## Appendix 3

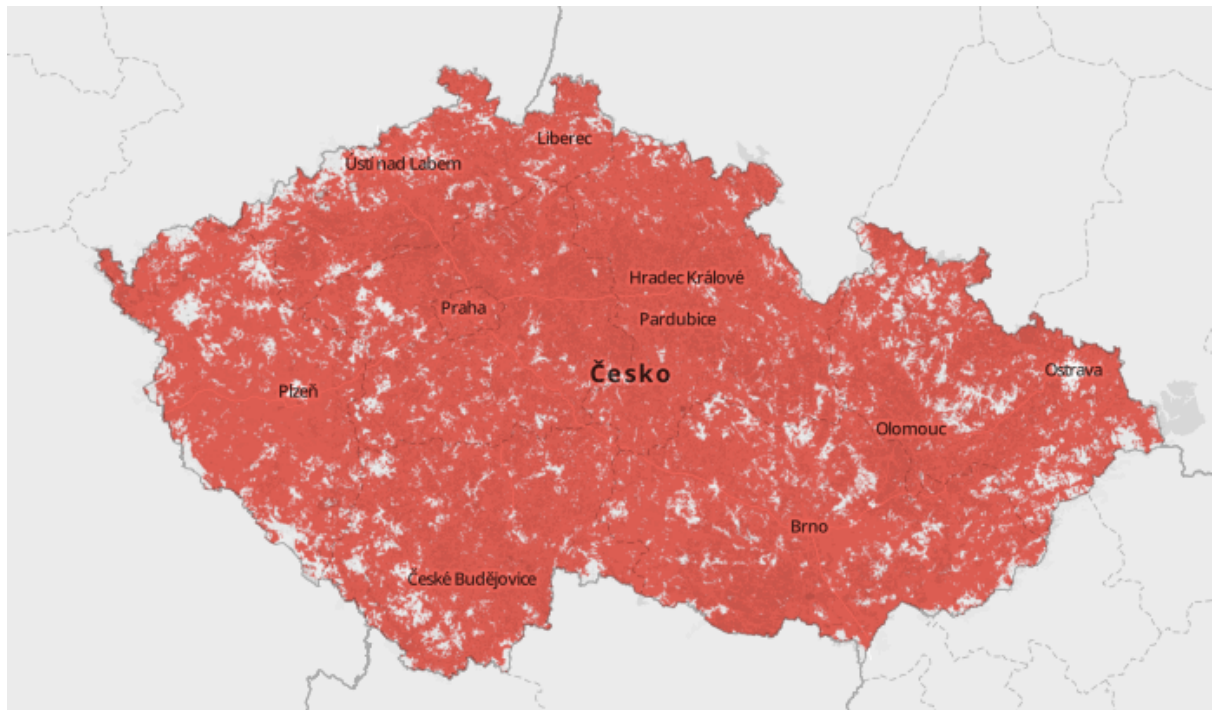


APPENDIX 3: RESEARCH OF THE NUMBER OF TELEVISION IN THE HOUSEHOLDS (SOURCE: ATO, 2012)

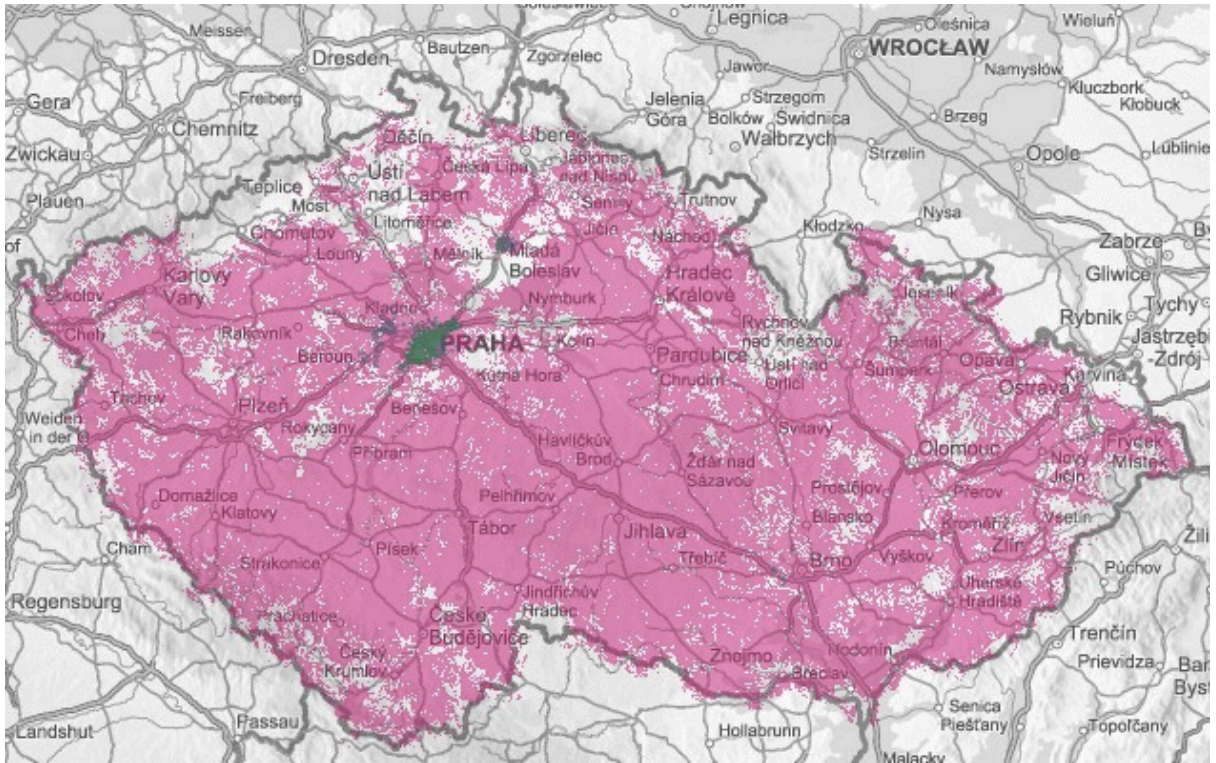
## Appendix 4



APPENDIX 4: COVERAGE MAP OF O2'S INTERNET CONNECTION (SOURCE: O2, 2015)



APPENDIX 5: COVERAGE MAP OF VODAFONE'S LTE INTERNET CONNECTION (SOURCE: VODAFONE, 2015)



APPENDIX 6: MAP COVERAGE OF T-MOBILE'S LTE INTERNET CONNECTION (SOURCE: T-MOBILE, 2015)

	<b>Komplet</b>	<b>Komfort</b>	<b>Klasik</b>	
	Number of channels	130 channels   40 HD	100 channels   30 HD	50 channels   15 HD
	HD box	✓ included	✓ included	✓ included
	<b>HORIZON GO</b>	✓ included	✓ included	2 months for free and then 25 CZK per month
	<b>MYPRIME</b>	✓ included	✓ included	99 CZK per month
Price per month	<b>899 CZK per month</b> <small>Common price 1099 CZK per month</small>	<b>499 CZK per month</b> <small>Common price CZK per month</small>	<b>278 CZK per month</b>	
	<a href="#">Buy now &gt;</a>	<a href="#">Buy now &gt;</a>	<a href="#">Buy now &gt;</a>	

APPENDIX 7: UPC TELEVISION SERVICES (SOURCE: UPC, 2015)