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Midterm Exam Question 2: Walmart and Netflix

Question:

Consider the following two organizations – Wal Mart and Netflix. Given the models and theories we have covered up to this point in the course, which company is better positioned for the near future? For the next 15 years? Why?

Analysis:

Early on in Netflix's history they had warehouses and would ship DVDs to customers as rentals. But at one point they saw the future and benefits of online streaming and began the transition to that business model . At first, they offered a streaming option to go along with the DVD by mail rental, and then eventually changed to the purely online streaming business which they are today.

Walmart began as a brick-and-mortar store who grew to dominate the retail business. For many years Walmart was by far the number 1 retail store in the world. With the rise of the internet and ecommerce and the threat of growing online giant Amazon, Walmart had to reassess their business plan and evolve. Walmart was one of the earliest brick-and-mortar stores to recognize to potential and threat of ecommerce.

Many companies that did not evolve to this new environment went out of business as well as those who did not respond fast enough. One of Porter's Five forces is the threat of new substitutes (Team

FME, 2013, p. 20). This new online environment for retail to operate provided the biggest substitute threat to the traditional brick-and-mortar business. Customers could now shop from the comfort of their homes without the need or spend the time commuting and wandering the store or even the need to get dressed. Both Netflix and Walmart were able to take advantage of this new environment.

With Walmart being well positioned in both the traditional brick-and-mortar store as well as the online marketplace, they are better positioned than Netflix in the near future as well as over the next 15 years. This is due to how they are positioned within their environments with respect to Porter's Five Forces.

Walmart has actually limited the power of suppliers over the years due to the large market share that they have attained. This has weakened over the years due to the rise of the internet but is still quite impactful. Walmart is still able to dictate the cost they pay for their goods and are able to pass those saving onto their customers.

Due to having the lowest costs in the market, generally, Walmart has bargaining power over the customer. This is a second of Porter's Five Forces. Walmart consistently is able to offer the lowest prices and when you take into account the wide range of items that they carry both online and instore, they are able to keep repeat customers. These low prices increase the switching costs of the customer due to the fact that if they decided to shop elsewhere, they will likely be paying a higher price for the same product. The online and brick-and-mortar stores of Walmart work together to give the customers the option to have products delivered to their home or to the store for pick-up.

For Walmart the threat of new entrants to the brick-and-mortar store can be high due to the need of acquiring real estate, buildings and warehouses, stockpiling inventory, and staffing locations with employees and information technology infrastructure. Online the threat of new entrants is much higher as all of the previously mentioned costs are reduced greatly.

The threat of substitutes would have been e-commerce and the internet but Walmart recognized early on the potential of the internet and positioned themselves for the future by entering this online marketplace to work in tandem with its traditional stores. This has allowed Walmart to continue to keep their costs low.

Walmart's intra-industry competitors, Porter's 5th force, has been a threat at times. Due to the success and market share acquired by Walmart and their pricing structures they have been challenged with many antitrust issues over the years. In this case intra-industry competition would be a good thing to help avoid these antitrust issues. Intra-industry competition also drove innovation as Amazon forced Walmart to do by entering the online marketplace.

Netflix has been an at the forefront of the video service since its inception in 1997. First with their idea of renting movies and delivering them to the door through the mail. Then with their switch to a streaming video service. And finally with their beginning production of content for their streaming service. They were one of the first to market with each of these respective ideas and did it better than anyone. This is why they came to dominate the market, causing others to evolve or risk getting left behind.

While Netflix has had many years of dominating the streaming industry, that is coming to an end as the environment in which they are operating in has changed. They are no longer the only streaming company and have many challenges ahead of them. When it comes to analyzing Porter's Five Forces, we will see that Netflix is in a perilous situation.

In Netflix's case, the power of the suppliers has grown over the years putting stress on the company. This inevitable reality was the reason why Netflix started its own productions company to produce and sell content which it would own. When Netflix was the only real power in the streaming business, they had power over its suppliers. But now that many other streaming services have popped

up and secured rights to movies and TV shows that Netflix used to feast on, life has become much more difficult. The production companies like MGM and Disney used to sell their content to Netflix but recently have developed their own online streaming platforms to compete with Netflix. Examples like this has taken power away from Netflix and given it to the suppliers.

The power of the customer has also increased for Netflix since the early days. With other streaming platforms being available at affordable prices, the switching costs are not that great. With similar pricing and a catalogue of content, other platforms have something to offer to the customer on par with Netflix.

Years ago, the threat of new entrants was high, due to how inexpensive it can be to start an internet business. But now, with most every production company having a streaming platform available, the threat of new entrants is beginning to lower. With each platform retaining its own produced content and having to compete for content available for sale, the cost of business is increasing making it more prohibitive to new entrants.

The threat of new substitutes is low. Due to the low-cost standard and the economies of zero that are possible for e-business companies, Netflix has a generic strategy that is both cost leadership as well as differentiation (Afuah & Tucci, 2003, p. 36). Netflix as a cost leadership strategy do not have to worry about the threat of substitutes but as a differentiation strategy they do (Barker, 07-12-2018, 10:00). Netflix must hold the rights to hit movies and TV shows to differentiate itself from the competition. Netflix's recent decision to go against a policy they used to promote, and to begin to restrict account sharing is also driving customers away.

The threat of intra-industry competition is high due to the low switching costs of customers and the growing number of competitors in the environment. This will continue into the future as companies battle for market share and try to find ways to gain an advantage over the competition.

Both Walmart and Netflix have been visionary firms, setting new rules in their respective environments, which is important in today's connected, computerized, and communicating world (Kalakota & Robinson, 2001, p. 2). They both have integrated their operations to be customer-centric but Walmart has the organizational foundation to operate in both the traditional brick-and-mortar stores and the online marketplace as well (Kalakota & Robinson, 2001, p. 2). Both are also well positioned in the mobile marketplace which is key to reaching and holding on to customers, especially for Walmart (Ready 2015).

Due to how each company is positioned within their industry with respect to Porter's 5 Forces Walmart is in a stronger position for the near future and the next 15 years. Walmart will keep going strong holding onto market share while Netflix will have to find new ways to differentiate itself from its competition to remain a leader at the forefront.

References

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