Yahoo – Case Study

Strategic Management

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A. Case Abstract

Yahoo! Inc., one of the largest internet companies in the world, is present in 60 countries and available in 45 languages.

Yahoo offers a diversified range of internet services and content, from e-mail and search to media streaming, downloads and advertising. It is a very strong brand, with more than 700 million people generating traffic on Yahoo properties monthly.

Yahoo’s core competencies: search capabilities and digital (display and search) advertising. Yahoo obtains revenues from marketing services sold to advertisers. Additionally, Yahoo charges fees for a range of premium services.

The external environment is highly competitive (Google and Facebook being the leaders), with a low barriers to entry market and high threat of substitutes. Consumers bargaining power is high, many consumer changing habits and spending behavior.

Yahoo faces a new era – **of social networking (Facebook exceeded 1 billion users in 2012) and mobile internet**, consumers spending valuable time on the former and accessing internet for any purpose (check e-mail, communicate, obtain information, buy products and services, leisure) through smart phones and tablets.

In the past years, Yahoo lost its competitive advantage - digital advertising franchising – driving worsening financial position.

New opportunities exist, threats are obvious (Google and Facebook continuously eat-up Yahoo’s market share), strengths can be capitalized, weakness must be improved and all in all Yahoo needs to rethink its strategic advantages and make the best course of action for future competitiveness position improvement.

The proposed strategy suggests Yahoo to address the high growth “mobile” market, both in terms of applications (technology) and increasing advertising spent (media).

B. Vision Statement

“Yahoo! is the premier digital media company. Yahoo! creates deeply personal digital experiences that keep more than half a billion people connected to what matters most to them, across devices and around the globe. That's how we deliver your world, your way. And Yahoo!'s unique combination of Science + Art + Scale connects advertisers to the consumers who build their businesses.”

(Proposed)
To be the smartest connector on the web between the internet surfers and what they need.

C. Mission Statement

After 23 mission during the last 21 year, Yahoo chooses to be the guide focused on informing, connecting, and entertaining their users. By creating highly personalized experiences for their users, they keep people connected to what matters most to them, across devices and around the world. In turn, they create value for advertisers by connecting them with the audiences that build their businesses. (Yahoo 2015 mission)

(Proposed)
To create the fastest, easiest and the most comprehensive web portal in the internet based on end users demands, where advertisements can be specifically designed based on interest.

D. External Audit

Opportunities

- Yahoo Directory is the most structured and authenticated business directory, any customized development to its user in this will lead to flow of new revenue to the company
- The number of mobile users is constantly increasing in developing nations. Development of Yahoo! Mobile wap services will improve the market share
- Advertising in social media and internet has become essential element for every commodity
- Yahoo has huge potential in combining its services with social media platforms like Flickr etc
- It can focus on diversification of related business segments in Internet space

Threats

- The biggest threat for any global service provider on the internet is increasing competitions in the local market especially China
- Another major threat is addressing of the cultural issues while going to foreign market
- Yahoo’s presence in the search engine services is declining very rapidly because of Google’s strong presence

- The number of competitors is increasing of new innovations in the internet space by young entrepreneurs
- The advertising market which was once dominated by yahoo is being slowly grabbed by the social networking sites like Facebook, Myspace etc

Competitive Profile Matrix

		Yahoo		Google		Facebook	
Critical Success Factor	weight	rating	score	rating	score	rating	score
Brand awarness/popularity	0,02	2	0,04	4	0,08	3	0,06
Worldwide traffic on properties	0,10	3	0,30	4	0,40	2	0,20
Digital advertising market share	0,05	3	0,15	4	0,20	2	0,10
Global presence (1)	0,03	2	0,06	4	0,12	3	0,09
Business partnerships	0,05	1	0,05	2	0,10	3	0,15
Relevant and fast search results (2)	0,10	3	0,30	4	0,40	1	0,10
Customer loyalty & satisfaction	0,07	2	0,14	3	0,21	4	0,28
Advertising	0,02	3	0,06	4	0,08	2	0,04
Web design and content	0,04	3	0,12	4	0,16	2	0,08
Management leadership (3)	0,03	1	0,03	3	0,09	2	0,06
Employees talent	0,03	3	0,09	4	0,12	2	0,06
Innovation	0,10	2	0,20	4	0,40	3	0,30
Data storage and processing	0,05	2	0,10	3	0,15	4	0,20
Mobile applications (4)	0,10	1	0,10	3	0,30	2	0,20
Photo sharing website (Flickr vs Picassa & Instagram) (5)	0,07	4	0,28	2	0,14	3	0,21
Social media platform users (Pinterest vs Google+ vs Facebook)	0,07	2	0,14	3	0,21	4	0,28
Price competitiveness	0,02	3	0,06	2	0,04	4	0,08
E-commerce expertise (6)	0,05	4	0,20	3	0,15	2	0,10
Total	**1,00**		**2,42**		**3,35**		**2,59**

EFE Matrix

	KEY EXTERNAL FACTORS	Weight	Rating	Score
	Opportunities			
O1	**Global advertising spend growth** ($139 billion was spent on global advertising in Q4 2012; overall, the second half of 2012 saw global ad spending jump 2.7% when compared to the first half of the same year)	0,07	2	0,14
O2	**Mobile ad spending growth**, at around $8.4 billion in 2012 and forecasted to reach $37 billion in 2016	0,06	2	0,12
O3	**Rapid growth of internet penetration in new regions** (Asia has 27.5% penetration as of june 2012 and 842% increase in the last 12 years; Latin America has 43% penetration and 1,311% increase)	0,03	3	0,09
O4	**Strategic alliances** (i.e. partnership with BING search engine, with NBC sport or CBS Television with Samsung for the Smart TV, with Apple for Yahoo being the default search engine)	0,05	3	0,15
O5	**Sophistication of consumers using portable devices** (U.S. mobile share of time spent increased from 3.5% in 2009 to 11.7% in 2012, while the ad spending share increased from 0.3% in 2009 to 1.6% in 2012)	0,07	1	0,07
O6	**Services diversification to cover applications market**, as smartphone apps remain the key drivers of media consumption in the post-PC paradigm	0,07	1	0,07
O7	**Ending economic crisis and raise of video marketing budgets** (video is the fastest growing form of online advertising, with spending increasing 46% last year; 85% of marketers plan to raise their mobile budgets; to rise from $2.93 billion in 2012 to $8.04 billion in 2012)	0,03	2	0,06
O8	**Fast growing/emerging economies** (China, Brasil, Russia, India) - international expansion	0,06	4	0,24
O9	**Social networks and social media** (56% of the Americans have a social networking profile in 2012, compared with 24% in 2008 and spending even 6.75 hours/month)	0,05	1	0,05
O10	**Photo sharing communities** (an estimated 2.5 billion people in the world have digital cameras and take perhaps 4 billion pictures every year)	0,06	4	0,24
O11	**E-commerce** ($1 tn global ecommerce sales in 2012; US sales for were estimated at $343 billion, with Japan in second place at $127 billion, followed by Britain with $124 billion and China with $110 billion; the percentage of retail e-commerce via mobile/tablet up to 10% in Q3 2012 from 3% in Q3 2010)	0,03	4	0,12
O12	**Growth of search share in U.S. market** (in the third quarter of 2012, click share on the Yahoo Bing Network rose to 21.3%, the fourth quarter in a row the network has posted gains)	0,04	3	0,12
	Threats			
T1	**Google and Facebook are the main competitors** (Google dominates the digital advertising market, both on display and search)	0,03	2	0,06
T2	**Low barriers to entry the market and threat of new competition** (many small companies offering similar services can compete directly and eat up the market share)	0,02	3	0,06
T3	**Large range of substitutes** (i.e. there is a wide range of search possibilities)	0,02	3	0,06
T4	**Privacy and data protection** (large capital expenditures and developments are required to comply)	0,01	3	0,03
T5	**Google and Facebook have the most used mobile applications in 2012** (Facebook finished 2012 as No.1, followed by Google Maps; Google finished 2012 with 5 of the top 6 ranked apps; Yahoo managed to reach No.10 with Yahoo!Mail)	0,07	1	0,07
T6	**System breaches and online frauds** (Northern Carolina law suit on July 31, 2012, for login credential disclosure)	0,01	3	0,03
T7	**Consumers are annoyed by ads on the social networking site** (NM Incite and Nielsen has found that 33 percent of consumers find ads on social networks more annoying than an average online ad)	0,03	3	0,09
T8	**Small penetration of online video advertising** (Kantar Media has found that 77 percent of brands are using national TV advertising exclusively)	0,03	2	0,06
T9	**Significant investment needs** to keep the pace of rapidly changing technical envronment	0,02	3	0,06
T10	**Government protectionism and high degree of implication in the economy** (i.e. China)	0,02	4	0,08
T11	**U.S. digital ad market saturation and stabilization** (2013 and 2014 will observe 2 digit growth, but then growth is estimated to be 8.7% in 2015 and 6.4% in 2016)	0,05	2	0,10
T12	**Appreciating dollar** (affecting the financial results of overseas operations)	0,03	3	0,09
T13	**Slower economic recovery in Europe and other regions** (leading to less ad spending)	0,02	3	0,06
T14	**Unfavourable taxation** (some governments increased taxes level during the economic crisis and this is not necessary to revert)	0,02	3	0,06
	TOTAL	**1,00**		**2,38**

E. <u>Internal Audit</u>

Strengths

- Yahoo has the maximum number of users and most of revenue is generated through ads in yahoo mail
- Due to its large mail subscriber base, yahoo is considered to be the powerful marketing company
- Yahoo is known for its web portal, search engine, yahoo finance, yahoo answers, yahoo mail, yahoo directory etc
- Its product portfolio includes yahoo messenger, yahoo mail, yahoo personals, yahoo 360, Delicious, Fickr, Yahoo Buzz, yahoo Mobile, yahoo shopping, yahoo real estate, yahoo next, yahoo boss, yahoo meme, Y! connect Etc

Weaknesses

- As per Jan 2012 data, a survey says yahoo's market share in search engine is only 6%
- Google already has 83% market share and the immediate competitors are Baidu which has same 6% and bing has 4% in search engine
- Yahoo is losing its market share in mailing services very gradually due to Google's strong presence in search engine market and it related product portfolio complementing to search engine services
- Mail services, news, shopping, financial data and business directory services are provided by many others like MSN, CNN, e-bay, Money control etc.
- Financial health of the company is not so promising for the investors. The company's assets both in terms of intangible and tangible are on the declining side.
- Google being the leading the service provider on the internet , is grabbing the revenues from advertisements
- Most of the services provided by Yahoo are unknown in the internet space

Financial Ratio Analysis

Key Financials & Effectiveness

Name	Last Period End Date	Sales TTM	Sales Year/Year	EBITDA TTM	Net Income TTM	Net Margin TTM	EPS TTM	ROA TTM	ROE TTM	ROIC TTM
YAHOO! INC.	**12.31.2012**	**4.986,57**	**1,00**	**-**	**3.945,48**	**79,12%**	**3,28**	**-**	**29,12%**	**-**
GOOGLE INC.	12.31.2012	50.175,00	1,33	-	10.737,00	21,40%	32,31	13,36%	16,54%	18,25%
FACEBOOK, INC.	12.31.2012	5.089,00	1,37	1.194,00	32,00	0,63%	0,01	0,61%	0,40%	0,66%
AOL INC.	09.30.2012	2.169,00	0,98	-	1.035,50	47,74%	10,86	0,66%	47,72%	-
VALUECLICK, INC.	09.30.2012	643,90	1,27	-	94,81	14,73%	1,17	-	16,86%	-
HARTE-HANKS, INC.	09.30.2012	814,73	0,95	(77,50)	(79,32)	(9,74%)	(1,26)	(9,47%)	(20,15%)	(13,92%)
MOVE, INC.	09.30.2012	193,76	1,00	18,67	8,02	4,14%	0,17	5,56%	9,35%	6,28%
MICROSOFT CORPORATION	12.31.2012	72.860,00	1,01	23.490,00	15.459,00	21,22%	1,82	13,16%	22,62%	19,47%
Mediaset	09.30.2012	4.931,30	0,90	1.908,01	16,72	0,34%	0,01	1,09%	0,55%	3,10%
MDC PARTNERS INC.	09.30.2012	1.051,76	1,16	30,63	(121,33)	(11,54%)	(4,05)	(6,30%)	306,05%	(11,84%)
AMAZON.COM, INC.	12.31.2012	61.093,00	1,27	2.795,00	(39,00)	(0,06%)	(0,09)	0,07%	(0,49%)	-
Mean		18.546,18	1,11	4.194,12	2.826,26	15,27%	4,02	2,08%	38,96%	3,14%
Median		4.931,30	1,01	1.194,00	32,00	4,14%	0,17	0,66%	16,54%	3,10%
High		72.860,00	1,37	23.490,00	15.459,00	79,12%	32,31	13,36%	306,05%	19,47%
Low		193,76	0,90	(77,50)	(121,33)	(11,54%)	(4,05)	(9,47%)	(20,15%)	(13,92%)

Net Worth Analysis (in millions)

Total Yahoo! Inc. stockholders' equity $13,074,909 $38,741,837 $29,043,537

Stockholders' Equity	$290
Net Income x 5	$805
(Share Price/EPS) x Net Income	$4,904
Number of Shares Outstanding x Share Price	$6,240
Method Average	**$3,060**

IFE Matrix

	KEY INTERNAL FACTORS	Weight	Rating	Score
	Strenghts			
S1	**Strong brand** trusted and visited by more than 700 million people on a monthly basis	0,07	4	0,28
S2	**Talented designers and marketing experts** to support the corporate culture (95 percent of employees surveyed saying they're supportive of the company)	0,03	3	0,09
S3	**Outstanding customer service for marketers and ad agencies** (Yahoo receiverd 2012 Highest Rated Media Brand Recognition for Customer Service among digital portals and social networking companies)	0,05	3	0,15
S4	**Powerfull synergies/business partnerships** (i.e. Yahoo! Sports signed with NBC Sports to deliver news, fantasy games and video coverage of sporting events; partnership with search tool Bing to regain market share; Yahoo has become since 2013 the default search engine for Apple IOS)	0,10	4	0,40
S5	**Management experience and leadership** (new appointed CEO Marissa Mayer has a 10 year experience in the search field)	0,07	3	0,21
S6	**International business presence** (Yahoo is present in 60 countries and available in 45 languages)	0,07	4	0,28
S7	**Cash balance available for new investment opportunities** ($6 billion available cash as of december 2012 compared to $2.5 billion previous year)	0,03	4	0,12
S8	**Overall revenues increase** (for the first time in the last 4 years, 2012 is up with 2% year-over-year	0,03	3	0,09
S9	**Search revenue is up with 9%** (from $1,478 million in 2011 to $1,611 million in 2012)	0,02	3	0,06
S10	**High level of monetization on search** (the searchers who come to the Yahoo! Bing Network spend 22% more than the average searcher and spend 7.4% more than Google searchers in the U.S)	0,06	4	0,24
S11	**Integration between search tool and photo sharing platform** (In the U.S., 45 million unique searches monthly are done with Yahoo! Bing Network and Yahoo has Flickr as the best photo-sharing platform)	0,05	4	0,20
S12	**E-commerce expertise** (Yahoo's platform is the 2nd most used worlwide; 10% market share in 2012)	0,05	3	0,15
	Weaknesses			
W1	**Speed in launching new products and low innovation** (Flickr was bought in 2005 and the first upgrade was released in 2012)	0,05	2	0,10
W2	**Income from operations is down with 30%** ($566 million in 2012 compared to $800 million in 2011)	0,01	1	0,01
W3	**Frequent changes of management** (Yahoo had 4 CEO's in the last 5 years)	0,01	2	0,02
W4	**Vertical integration of suppliers to generate difficulties in operations coordination** (Yahoo has been involved in more than 60 M&A's since 2008)	0,01	1	0,01
W5	**Lack of mobile strategy** (no Yahoo mobile app to make it in the top 10 U.S. ranking, except for Yahoo!Messenger with only 36,124 unique visitors in december 2012, compared to Google with more than 250,00 unique users overall and Facebook with 85,574)	0,10	1	0,10
W6	**Display revenue is down with 2%** (from $1,932 million in 2011 to $1,899 million in 2012)	0,02	2	0,04
W7	**Low monetization on online digital ad spending growth** (although U.S. digital ad spending is expected to grow 21.5%, Yahoo's market share will drop from 11% in 2011 to 9.3% in 2012 and 8% in 2013)	0,03	2	0,06
W8	**Fast and relevant search results** (in the U.S. Customer Satisfaction Index, Yahoo is ranked only the 4th with 78 points compared with Google having 82)	0,03	2	0,06
W9	**Web design and content; easiness to obtain needed information**	0,03	1	0,03
W10	**Low market share in mobile ad spending** (Yahoo's U.S. market share is below 2%, while Google had 62.5% in 2011 and estimated 56.6% in 2012)	0,02	2	0,04
W11	**Lack of a general social network** (Yahoo bought Pinterest and Flickr, but cannot compete with Facebook or Google+ social platforms because of very limited functionalities)	0,06	2	0,12
	TOTAL	1,00		2,86

F. SWOT

SO Strategies

1. Increase advertising expenses by 15% in 2012 and 2013. (S1, S4, S5, O1, O2)
2. Offer first 3 months at reduced price to take advantage of at home movie customers (S8, O7).

3. Aggressively enter the Chinese market. (S9, O5, O8, O10).
4. Provide free month service to any customer who recommends 5 friends. (S2, O1, O2).

WO Strategies

1. Extend expansion into Canada, Mexico, Latin America and China by 15% per year (W6, W10, O3, O4, O5, O8, O10).
2. Renew deals with Disney and Sony (W5, O2).

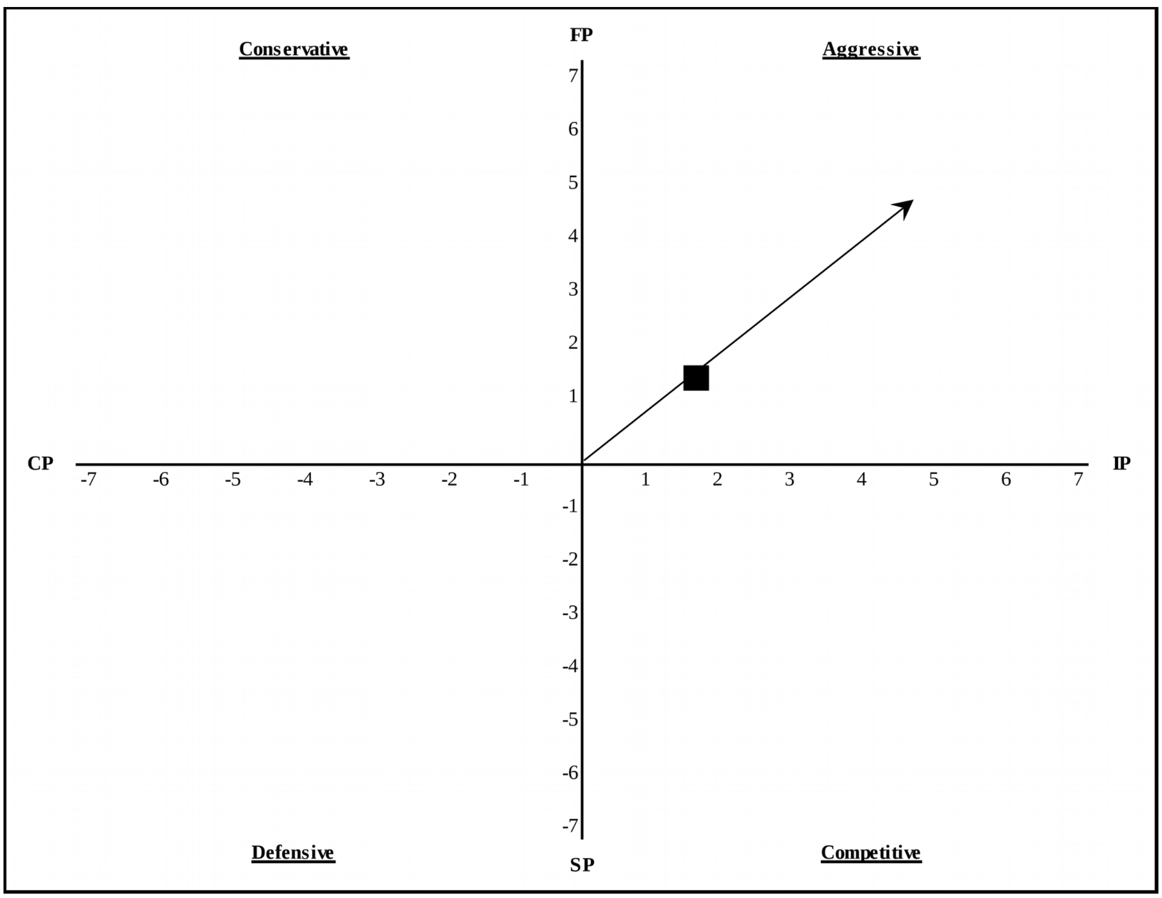
ST Strategies

1. Provide a free month of service for anyone who recommends 5 friends (S2, T1).
2. Increase R&D by 25% for marketing of online streaming movies (S6, S8, T6, T8).

WT Strategies

1. Form a partnership with UPS to deliver all DVDs (W1, T8).
2. Develop a clear mission (W4, T1, T6).

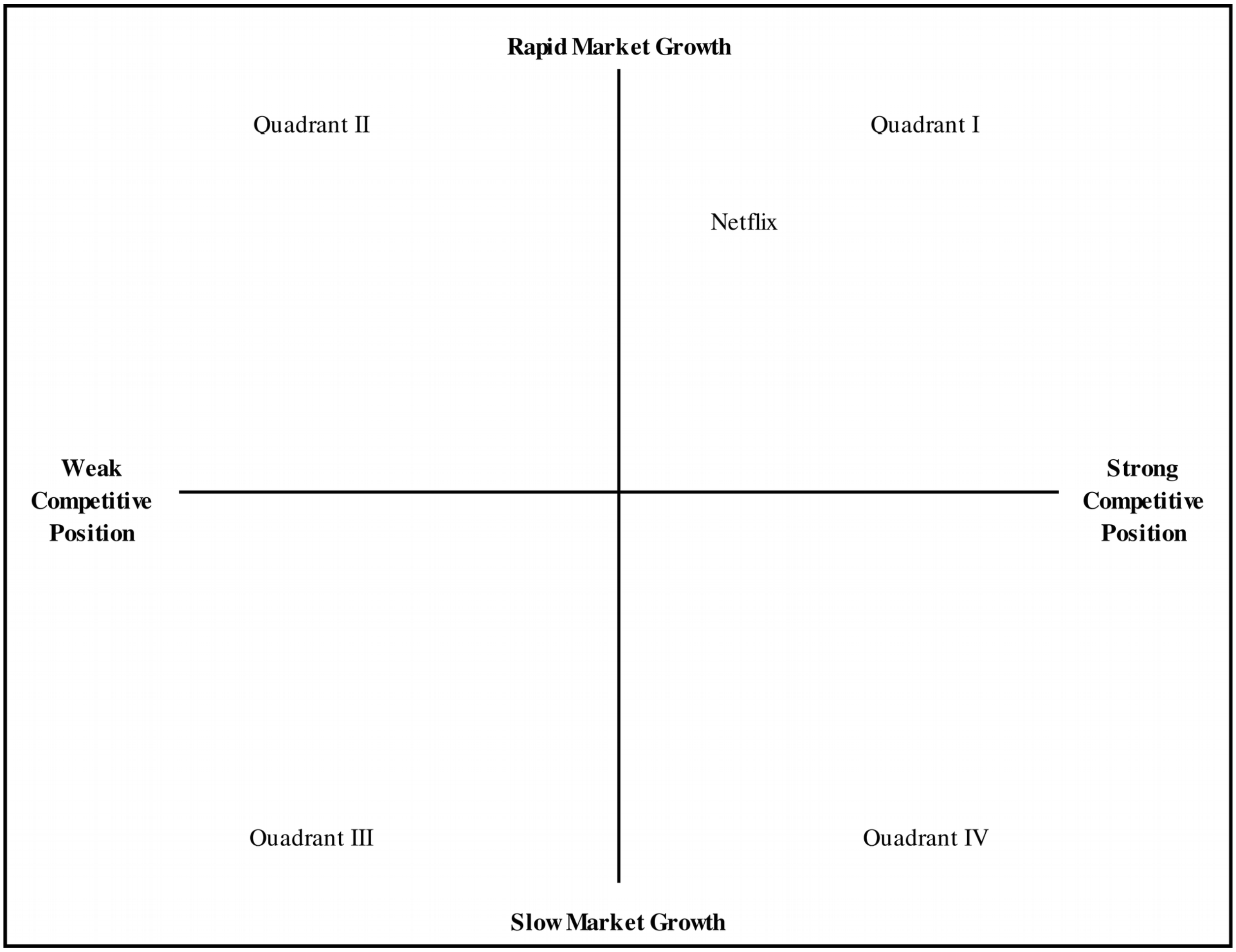
G. SPACE Matrix



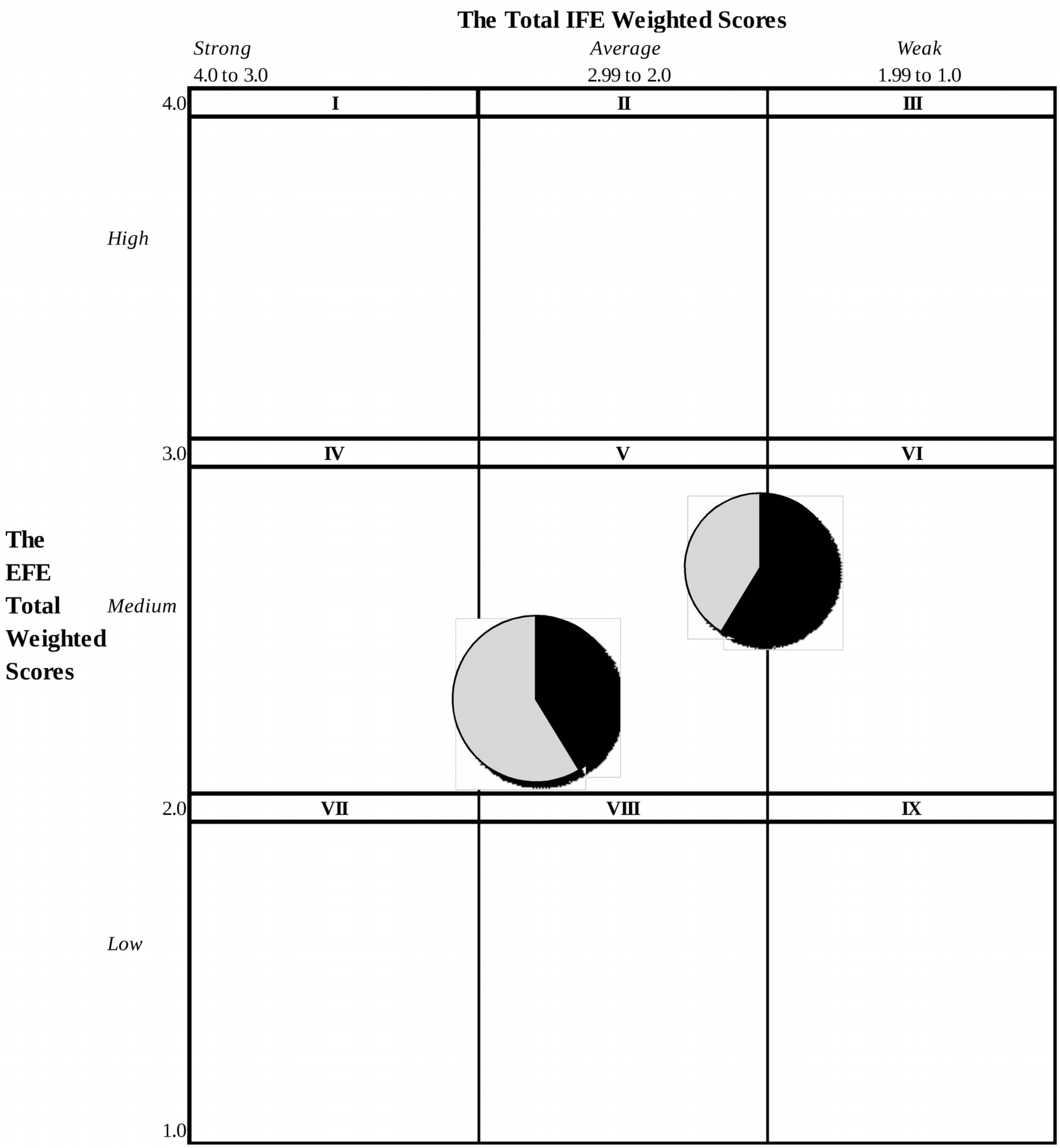
Internal Analysis:		*External Analysis:*	
Financial Position (FP)		**Stability Position (SP)**	
Gross Margin	4	Rate of Inflation	-2
Debt to Equity	6	Technological Changes	-2
Current Ratio	4	Price Elasticity of Demand	-2
ROE	4	Competitive Pressure	-4
ROA	4	Barriers to Entry into Market	-6
Financial Position (FP) Average	**4.4**	**Stability Position (SP) Average**	**-3.2**

Internal Analysis:		*External Analysis:*	
Competitive Position (CP)		**Industry Position (IP)**	
Market Share	-2	Growth Potential	6
Product Quality	-2	Financial Stability	4
Customer Loyalty	-1	Ease of Entry into Market	2
Technological know-how	-2	Resource Utilization	2
Control over Suppliers and Distributors	-5	Profit Potential	5
Competitive Position (CP) Average	**-2.4**	**Industry Position (IP) Average**	**3.8**

H. Grand Strategy Matrix



I. The Internal-External (IE) Matrix



Division	Profits
DVD Division	$627 M
Streaming Division	$441 M

J. QSPM

	Opportunities	Weight	*Increase advertising and R&D budgets by 15%* AS	TAS	*Expand by 15% into Latin America, Mexico, and China* AS	TAS
1.	147 million people in the United States watch online videos.	0.08	3	0.24	1	0.08
2.	Digital distribution of media is growing at a rate of 30% a year.	0.06	4	0.24	3	0.18
3.	International markets account for over 50% of spending in US filmed entertainment.	0.07	1	0.07	4	0.28
4.	US TV market accounts for less than 15% of the world's TV households.	0.05	2	0.10	4	0.20
5.	China's box office annual growth rate continues to grow over 10% a year.	0.02	1	0.02	4	0.08
6.	Rivals such as Blockbuster are struggling with their business models.	0.04	1	0.04	2	0.08
7.	Consumers spent over $20 billion on home video purchases in 2010.	0.05	2	0.10	3	0.15
8.	More people know English now than ever before.	0.03	1	0.03	3	0.09
9.	High price of an outing at the movie theater.	0.04	3	0.12	2	0.08
10.	Weak US Dollar makes global markets more attractive.	0.03	1	0.03	3	0.09

	Threats	Weight	AS	TAS	AS	TAS
1.	Poor global economy has reduced personal spending.	0.04	2	0.08	1	0.04
2.	YouTube owns over 75% of the multimedia web market share.	0.10	0	0.00	0	0.00
3.	Time Warner Cable's movies on demand.	0.08	3	0.24	1	0.08
4.	Hulu, and ad based streamer, provides TV shows and movies for free.	0.10	0	0.00	0	0.00
5.	DVRs are in 40% of US homes as of 2011.	0.03	3	0.09	1	0.03
6.	Barriers to entry are low as startups can be launched for relatively low costs.	0.05	0	0.00	0	0.00
7.	By law, Netflix cannot release new DVDs until 28 days after retail release.	0.03	0	0.00	0	0.00
8.	Increase in US postal fees would reduce profit margins.	0.03	0	0.00	0	0.00
9.	Infringements on Netflix patents, and other proprietary assets by decrease Netflix brand value.	0.04	0	0.00	0	0.00
10.	Netflix is the object of complaints regarding collusion with Wal-Mart.	0.03	0	0.00	0	0.00

	Strengths	Weight	*Increase advertising and R&D budgets by 15%* AS	TAS	*Expand by 15% into Latin America, Mexico, and China* AS	TAS
1.	Revenues increased 29% from 2009 to 2010.	0.06	2	0.12	3	0.18
2.	90% of surveyed subscribers would recommend Netflix to their friends.	0.06	0	0.00	0	0.00
3.	Library of choices grew 30% in 2010.	0.04	0	0.00	0	0.00
4.	Currently have over 100,000 DVDs available for customers.	0.04	0	0.00	0	0.00
5.	Netflix expanded into Canada, Mexico and Latin America in 2011.	0.07	1	0.07	4	0.28
6.	Netflix is the largest streaming movie company with over 25 million subscribers as of Fall 2011.	0.07	0	0.00	0	0.00
7.	Recent customer satisfaction ASCI score was 85 out of 100.	0.04	0	0.00	0	0.00
8.	Unlimited access to internet movies and mail in DVDs for $7.99.	0.08	0	0.00	0	0.00
9.	Net income doubled from $83B to $161B from 2008 to 2010.	0.05	2	0.10	3	0.15
10.	Apple uses Netflix to stream movies to its Apple TV, iPhone, and iPad.	0.04	0	0.00	0	0.00

	Weaknesses	Weight	AS	TAS	AS	TAS
1.	Reliance on the US Mail System for delivering of DVDs in US Markets.	0.05	1	0.05	2	0.10
2.	Relies upon Amazon for a majority of its cloud computing services and cannot easily switch to another cloud provider.	0.04	0	0.00	0	0.00
3.	Only 2 of the top 8 executives are women.	0.02	0	0.00	0	0.00
4.	Netflix has no publically available vision or mission statement.	0.02	2	0.04	3	0.06
5.	Netflix deal with Disney and Sony expires in 2011.	0.04	0	0.00	0	0.00
6.	In 2010, Netflix did not rank in the Top 10 among online video content providers.	0.06	4	0.24	2	0.12
7.	Netflix charges $95 to Amazon's $79 for unlimited streaming without DVDs.	0.08	2	0.16	1	0.08
8.	Netflix collects data from subscribers and some firms have received criticism for this practice.	0.03	0	0.00	0	0.00
9.	Netflix is the object of patent infringement regarding client-server communications.	0.03	0	0.00	0	0.00
10.	Stock price fell 60% between July 2011 and October 2011.	0.08	0	0.00	0	0.00
	Totals			**2.18**		**2.43**

K. Recommendations

1. Increase advertising budgets by 15 percent.
2. Expand by 15 percent into Latin America, Mexico, and China.

L. **EPS/EBIT Analysis** (in millions)

Amount Needed: $1,000
Stock Price: $120
Shares Outstanding: 52

Interest Rate: 5%
Tax Rate: 36%

	Common Stock Financing			Debt Financing		
	Recession	Normal	Boom	Recession	Normal	Boom
EBIT	$100	$200	$300	$100	$200	$300
Interest	0	0	0	50	50	50
EBT	100	200	300	50	150	250
Taxes	37	74	111	19	56	93
EAT	63	126	189	32	95	158
# Shares	60	60	60	52	52	52
EPS	**1.04**	**2.09**	**3.13**	**0.61**	**1.82**	**3.03**

	20 Percent Stock			80 Percent Stock		
	Recession	Normal	Boom	Recession	Normal	Boom
EBIT	$100	$200	$300	$100	$200	$300
Interest	40	40	40	10	10	10
EBT	60	160	260	90	190	290
Taxes	22	59	96	33	70	107
EAT	38	101	164	57	120	183
# Shares	54	54	54	59	59	59
EPS	**0.70**	**1.88**	**3.05**	**0.97**	**2.04**	**3.11**

M. **Epilogue**

Netflix is downplaying problems with its U.S. operations by focusing on its plans to expand into the U.K. and Ireland in early 2012. But the company lost about 590,000 U.S. subscribers in the third quarter of 2011 as a result of a rate increase on customers that get both DVDs by mail and streaming video. In October 2011, the company scrapped its plans to split into two separate businesses: 1) Netflix for streaming video and 2) Qwikster for DVDs by mail. That move would have forced customers getting both services to manage two accounts, passwords, rental queues and websites. Enraged customers flooded Netflix's site with tens of thousands of comments, as well as a barrage of tweets under the hashtag #DearNetflix. Netflix had a wave of cancellations in July 2011 as the company raised rates, and a second wave of cancellations hit the company throughout September and October as the price hikes took effect. Netflix scrapped that idea after facing a major backlash from customers and ridicule from analysts and comedians. Netflix is focused now on growing its streaming video service, especially outside the U.S. Netflix added Canada in 2010 and 43 countries in Latin America and the Caribbean in September 2011.

Netflix's CEO Reed Hastings recently spoke bluntly about the recent problems in its third-quarter 2011 earnings letter: "The last few months have been difficult for shareholders, employees, and most unfortunately, many members of Netflix. We've hurt our hard-earned reputation and stalled our domestic growth." Netflix said it was focusing on the future, promising customers that "we are done with pricing changes." But the subscriber hemorrhaging may not be over. Netflix had 23.8 million total U.S. subscribers as of September 30, 2011 - down from 24.6 million three months earlier. About 21.5 million customers had streaming subscriptions, and just under 14 million had DVD subscriptions, with most customers mixing the two. Netflix expects those numbers to drop further by year-end 2011 with the total being 20 to 21 million streaming customers and 11.3 million DVD subscribers in the U.S.

In late October 2011, Netflix shares plunged 27 percent in after-hours trading, though the company reported earnings that beat analysts' expectations. Netflix earned $62 million, or $1.16 a share, on a record $822 million in revenue in the third quarter of 2011. Netflix has warned shareholders that it will be unprofitable in coming quarters. Netflix's expansion into Europe will make the company's overall business unprofitable "for a few quarters" starting at the beginning of 2012. The company plans to halt its international expansion after its U.K. and Ireland launches "until we return to global profitability."

Netflix begins its fiscal fourth quarter 2011 under a dark cloud. In a conference call with analysts, CEO Hastings said Qwikster was a product of "Netflix not listening." He predicted the next few years will bring "a slow decline" for Netflix's DVD business. The company needs a clear strategic plan for the future since rival firms are large and aggressive, and seizing on the misstep of Netflix.