

Netflix vs blockbuster

[Entertainment](#), [Movie](#)



When evaluating stock decisions for Blockbuster, should be divided into 2 separate decisions could have been made, depending on the period in the test case. At the starting period of the text, 1997-2002, Blockbuster is the undisputed market leader of a giant, fragmented and steady industry, it has superior access to suppliers (brought the hottest titles faster than anyone in the industry), this was its core business.

Blockbuster had a wide coverage on a national level of stores, reaching almost 70% of the U. S population within a short drive length, and were recognized as the most powerful brand in the industry by 90% of the population. Furthermore, it sustained a growing rate of sales growth within stores within that period along with a stable income from late fees. In light of these facts, at this period going long for the Blockbuster stock is a very confident and solid decision.

However, the tide is changing at 2002 following the rise of Netflix, Blockbuster strategy to ignore and mock at the treat instead of tackling it, the failure to understand the Netflix is giving customers feature which are lacking in Blockbuster's stores (Recommendation, no late fees, a wider selection of movies) show of a company which lacks the innovation to face the new treat and the ability to understand the new customer taste (Movies as entertainment rather than special occasion).

The late response in entering the online rental business caused severe financial losses to the company due to stiff learning curve (stock, suppliers), marketing expenses, price war and giving up on late fees, all along while keeping its conventional cost structure, with an expensive 10 people per

store staff. Therefore, I would hold the stock at short starting 2002, Blockbuster just doesn't seem like its understanding the new market, instead of being innovative they are fighting a losing battle and react lately instead of initiating in the areas where Netflix lacks.

However, for Netflix the decision is quite the opposite, at its starting era we would play short on the stock. The facts are that Netflix is entering a highly fragmented market while betting exclusively on a new format - DVD using an innovative distribution technique which have never been tasted in full scale and without a proven track of handling a huge inventory, the company did struggle at these years.

However, starting 2000 we would reverse the decision on the stock. Netflix highly innovative actions such as changing the pricing model, developing a highly advanced recommendation system and allowing for user rating have highly differentiated the company's service at the exact points in which Blockbusters service were lacking.

Furthermore, the collaboration with major studios and with the USP have improved Netflix's soft spots and allowed for the service to improve greatly and they have a huge growth potential (opening the entire variety of movies for rent - not just hits, reaching 90% of its subscribers in a single day), the innovation process also shows in financial status, Netflix is performing at great annual rates starting 2000, of doubling its subscribers number, maintaining a positive cash flow and increasing its revenues (Fig1, Fig2), all while keeping its core business and expertise (no restructuring costs).

For conclusion, Netflix's highly innovative approach which is a reoccurring theme throughout the case, along with great financial performance and operational expertise makes a long decision in Netflix the obvious choice.

At first Blockbuster supplied a wide base of consumers primarily with hit and new movies, in addition Blockbuster offered a limited amount of advice from the staff present at each store. The costumers were supposed to rent the movie for a " movie night" and return it as quickly as possible. Netflix initially set up to perform the same task – Deliver costumers with the movies they were looking for before logging of the site and in addition supply them with some highlighted titles with recommendation from limited staff weekly, as with Blockbuster, customers were also supposed to return the movie within a specific due date or be charged. However, Netflix evolved over the years and started supplying costumers with enhanced features not offered by blockbuster. The proprietary recommendation system developed by Netflix allowed to use movies as a taste based product, meaning that Netflix started offering a recommendation service to its subscribers for movies they might like, instead of choosing movies ahead or choosing from shelves without knowing too much.