

Netflix vs. blockbuster

[Business](#), [Company](#)



OUTLINE OF THE PAPER

Introduction

The paper starts with an introduction of Netflix and Blockbuster and takes an aerial view of their operations. Then the paper talks about the methodology of the compilation of this report along with the different sections that will be covered in the paper. This is around one page.

THE BUSINESS

In this section the paper discusses about the business that both companies are in, that is movie rental stores and also online DVD rental services. The paper will discuss how both companies compete with each other, their strategic business model and the pricing methodology in this section.

Critical Issues in the Industry

This part of the paper will discuss the different issues that both the companies face and will go into a much deeper detail with respect to how each of the two companies is affected by the general industry environment. In other words, the report will answer the question regarding which of the companies is affected the most by these issues and what has each company done so far in order to overcome these problems.

Key success factors

This part of the paper we will discuss a part of the SWOT analysis of both the companies which talk about the Strengths and Opportunities that the companies are already seeking and also in the coming future. For example Netflix has a database of over 55000 titles and etc.

Future Innovation Process

In this part of the paper, the paper will discuss in what areas are the two companies trying to innovate and restructure their business operations to make their management more efficient, attract more customers, increase profits and at the same time safeguard their patent and copy rights.

The paper will end with a conclusion taking up a stand for the company that the writer feels to be more attractive of the two. The conclusion will give a summary of the benefits of the better company by bolstering the argument with examples and references to the comparisons made in different parts of the paper.

Executive Summary

This paper basically compares Netflix and Blockbuster over a number of factors that include the services, customer relations, products and pricing etc. Both the companies are in the online rental business and operating in conditions of fierce competition and a lot many opportunities yet to be explored in the middle of threats that are always there. The competitive environment of the industry is also discussed in quite detail pointing out that price war is not just a characteristic of both the companies but is also one of the issues that both the companies face. Factors that lead to success, failure, opportunities and threats are also discussed in the paper by comparing both of the companies side by side. In the conclusion part the writer chooses Blockbuster over Netflix because according to him the company has more potential in future from both investment and service point of view.

INTRODUCTION

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This paper will basically compare two companies that are in the same business line and are perfect competitors to each other. The paper will analyze these industries on a couple of factors that are given in the outline of this paper in the beginning. The material that was extracted from different resources for the compilation of this paper was mainly through news articles and text books that were especially written on the topic of this report. Also, a survey was conducted in order to get the real time opinion of the consumers and subscribers of these companies in order to have first hand experience from those who actually interact with these companies on daily or weekly basis. This was done to ensure that the judgment and the derivations of this report are not solely based on theoretical and aerial analysis of these companies, but through this methodology the paper tries to include one very important factor that is the consumer preferences.

In order to answer why the paper chooses specifically these two companies is that these companies are in perfect competition with each other and their success solely depends on the way they interact with their consumers. There are no other inefficiencies and invisible factors that might affect the performance of these companies and it is on their own management, skills and the use of technology that may lead to the level of best ranked rental websites.

A brief introduction about the business is such that long gone are those days when viewers had to take out time to first plan to go to a movie rental shop, take out their cars, spend time on road and then reach a store to see whether there are any new movies and also whether if they are available as well or not. These companies are basically websites which provide rental and

online sale facilities to viewers in order to save their time going out and also to provide them all the information that they might need when deciding to watch a movie. From upcoming movies, latest movies launched available movies up to exciting deals and offers, these websites try to attract their customers by facilitating them as much as they can. Consumers can have movies in their e-mails, stream or even get them by post on DVDs for both rental and purchase purposes with a two days time. However, the most important question that comes in the minds of the consumers every time they log on to both of these websites is that they get confused about what site to choose and which one of them suites their preferences, likes and dislikes? This paper will basically answer all the questions that consumers need in order to find the best one of the two and also will provide them with an opinion at the end of the paper in the conclusion section.

The most important factor of competition in most of the industries is the difference in price, however, in this industry, time of delivery and other customer centered facilities that these companies provide are also equally important then the mostly common price wars. This is because, awareness among consumers to watch original movies via legal channels is increasing, thus apparently they do not have much problems while paying for these movies however, watching them on time and as soon as they get released does matter for consumers of this industry today. Also the over head charges that these websites charge consumers for late submissions, lost movies and other mistakes on the part of the consumers also accounts a lot for them because this actually raises the cost of monthly rentals to a great extent.

Apart from Movie DVDs, these websites also provide opportunity for consumers to watch their favorite television serials and soaps which they might have missed on television due to some reason along with games that gamers can get their hands on as soon as they are released.

Competitive Environment of Both the Companies

The competitive environment of both the companies is very fierce and there is a race going between both the companies to attract every other potential customer that might wish to use their services. The first thing that these websites have to come with is the easy, descriptive, attractive and interactive user display that they provide online on their websites. This is the most important factor for consumers because whenever we go to a barber shop, the first thing that we see is that is the shop actually looking good from the outside or is it just a normal sub standard shop and eventually having sub standard hair cutting facilities(Philip, 2008). Thus, these companies also have to leave a good lasting impression on their visitors in order to convince them to take a tour of their website. Moreover, there is a real price war going between the industries. Both of them are trying to reduce their costs to attract teenagers and families in order to provide with them with the best deals at attractive rates. For new customers, they do not actually know about the delivery status and competency of both the companies, that is they do not know much about who delivers faster, however the only thing that they can attract their customers is through attractive rates and then attractive facilities that are supposed to be enough to convince the users that their subscription is really worth it. All those consumers who are already customers of both the websites and are taking their services for quite a long

time are more concerned about the delivery time that each of the companies takes rather than the price itself. They actually see calculate the utility that they derive from the service rather than only relying on the price that they have to pay. For example if I have Block Buster's subscription, and I have ordered 3 movies for the weekend on Thursday, and I am also paying less, if the movies do not turn up in time, then what is the point of getting them on Monday and then keeping them for the next weekend with all those late return and late submission costs accumulating behind the scene. Even if there is no late charge or fee, still the movies cannot be brought into any use because I don't have time in my week days to sit and watch three full length movies. Moreover, customer services that we will talk about later down the paper are also very important to give me an experience that I might not get on the other website. Getting subscription of the other website is not that difficult at all which actually increases the level of competition involved between the two. If I am not satisfied from a particular website on a certain criteria then it is not that difficult or time consuming for me to switch to the other website. With this we can see how competitive is the industry environment in which the two companies are operating. A company can lose its subscribers at any point where they show a little inefficiency or wherever they do not take care of the preferences of their consumers (Arrington, 2008). Moreover if one company introduces a certain service, subsequently the other launches the same as well and tries to launch it in a much better way this time to win the heart of the customers and also retaining the existing customers from switching. As both of these companies are operating via their own official websites thus, information about new product, services,

blogs, and charts are available to each other all the time and there is maximum access to information for both of them.

Coming on to the critical issues, we see that there are a number of problems that both the companies have to face while competing in conditions of fierce competition. First of all we see that both of the companies have managed to acquire a large consumer to which they have to interact or serve on daily basis. The rental process is not that easy just as it seems like because first the companies have to be the first to upload all the latest movies and DVDs in order to be the first one to provide the service. In this regard, a company for which this is an issue that they are not the first one to upload, simultaneously, the other company buckets this factor as its strength to be the first one. For example, when surveyed, a large percentage of users of these websites were of the view that Netflix is able to upload the latest titles much quicker than Blockbuster which is still showing the older titles in the new arrivals. Therefore those users who prefer to get hold of copies as soon as the DVD is released, they mostly rely on Netflix rather than Blockbuster. Moreover, another issue that comes in this rental business is the geographic of the company from which it distributes the copies and posts to its users. Again here we see that Netflix is much reachable to their user as compared to Blockbuster which takes extra time to deliver the DVDs to the customers. This way, those customers who tend to order their products late prefer Netflix over Blockbuster because of that as discussed earlier that there is no use of a DVD title which is delivered late. Moreover, collection and receiving of rented DVDs on time is another problem for these companies because of the fact that they have to stock them back to rent them further and also

restrict their use by the user. Many users accidentally turn up with their copies late and thus create stock problems for these companies and both of the companies are affected by this particular factor in question. Moreover, it is almost impossible for customers to actually restrict the use of these copies to a single user and also restrict them to be copied. People do tend to pass them on to friends and family for further viewing which creates a potential loss of customers for these companies as those who watch them free of charge can be their potential customers as well. Also, reproduction of copies and DVDs through disc writers is also a problem for both of the companies because again they are unable to restrict the copying of the copies that they send their customers and cannot check whether they are being copied for further viewing or passing on or not (Netflix, 2008). Although there are laws in place in order to control copying of original material, however there are always loop holes which are often violated by irresponsible citizens.

One of the much debated issues that both the companies have in common is that if one decreases prices, the other one has to decrease prices too. Previously when Blockbuster was renting at \$30 per month, Netflix came up with a much cheaper offer of about \$20 per month which has now come down to \$15 dollars. Operating in the conditions of perfect competition, we can see that somehow Blockbuster had to reduce its profits as well and cut down its costs to almost \$17 these days that makes a difference around \$13 per month per customer.

Although Netflix uses the mailing method mostly to serve its customers, however, Netflix is being criticized by major production companies that this is creating the problem of unauthorized viewing to a larger extent because

the passing on of copies cannot be restricted. Thus production companies are more comfortable with Blockbuster these days which allows direct downloads to customers so that as soon as the files is viewed, it cannot be transferred to other mediums for further viewing. Moreover as soon as the time for the rentals is over, the file itself becomes expired and does not remain as usable again.

Moreover, as we have seen that Block Buster also has physical stores as well, thus it is always reachable to those who are not connected to the internet and wish to get a copy of their title quickly by visiting the physical stores themselves. Whereas when we look at Netflix, they only provide services through their online store and do not actually have a physical chain of stores in service, thus not able to cater to those customers which are not connected to the internet. This does create issues for Netflix because operating in such a competitive environment, Netflix needs to cater all those customers which are accessible to Blockbuster.

Also as we have already discussed before, that both the companies have increased their customer base to a very large extent beyond their capacity, thus none of the two companies are able to serve their customers in one business day. Thus when customers get disappointed from their services by not getting a proper reply, they tend to switch over to other companies such as Intelflix and iTunes store for ordering. This is not just a onetime loss, but, once a company loses its confidence in the eyes of its customer, it is very difficult for it regain that confidence again because a bad impression lasts longer then a good one.

Coming to the part where we will discuss the upcoming threats and opportunities for each of the company we will discuss the scenario of both the companies separately but first of all we shall look into how these companies can overcome their basic common problems. First of all this is the time for opportunity for these companies to make a cartel among themselves in order to set a price floor at least. This is due to the fact that these companies do tend to lose out a lot just because one of them reduces the cost of service to attract more customers and the other company which already has the higher price has to reduce its costs as well in order to compete. This reason is one of the major reasons why especially Netflix is operating in negative net income level. Moreover, both of the companies should join hands in technological perspective in order to overcome the problem of passing over of DVDs and titles so that that there is minimum chance left for any sort of copyright violation in the industry (Rosenbloom, 2004).

Coming on to block buster we see that although it is operating on both physical and online strategic locations, still, it does need to work over its online services because as we can see in the figures below we can see clear difference in the user interface of both the websites. Netflix's website is more appealing, more interactive and has a user friendly interface as compared to block blockbusters. As soon as one logs on the website one can automatically see that yes this website really is meant for family entertainment and quality leisure time. Moreover, blockbuster can also expand its services globally in order to increase its customer base and sale out more titles at strategic locations by opening physical outlets and stores

which can also serve as the distribution centers for online customer. Same approach can also be adopted for onshore operations because blockbuster does lacks in its delivery services in farther regions and does lose out customers who are hoping to get quicker services. Also, removal of late fees and late charges are also another recommendation for blockbuster in order to reduce the exit of those customers who are fed up of paying such charges almost every week or even every alternative week. Coming on to the threats, Netflix has potential brand loyal customers because it was the pioneer in online DVD rentals, thus these loyalists do market for Netflix in friends and family. Moreover, Netflix's technological innovations like CineMatch is catering to consumer needs, preferences and tastes quite successfully which is one of the most important factors to success in such fierce competition.

Lastly, Netflix has a number of opportunities ahead of it as we can see that it has pioneered in the industry in technological advancement, yet there are many more initiatives that can lead it to the top level. First of all it can also open retail and rental stores across the country in order to cater to those who do not use internet or who prefer to get a copy themselves rather than waiting. Moreover, catering to children, teenagers and gamers, Netflix can come up with products like games and software as well just like blockbuster is already providing in the market. Moreover, one important service that Netflix has not yet catered to is the downloading service which is very important for a company today because high speed internet facilities are available almost everywhere and it is a great opportunity to reduce the cost spent on DVDs that are distributed physically. Coming on to the threats, we see that DVDs will soon become outdated in this era of technological

advancements and thus Netflix will need to have a major restructuring because all of its data and services depend on physical DVDs that it rents to customers. What if Customers in the future stop asking for DVDs and rather ask for direct downloading or other medium which does not need any physical material. Moreover, increasing competition from giants like Walmart and Disney who can potentially offer the same/similar service for less money to the consumer could mean the end of Netflix as it already is experiencing financial problems.

Personally, I would go for Blockbuster if I go to buy products of similar nature or even if I have to invest in the company simply because Blockbuster has so far explored a number of on shore opportunities and it just needs a little bit of sugar coating in its operations in order to become the market leader. The finances of the company also tell us about the bright future of the company as even in this competitive environment, the company has managed to have a positive net income unlike Netflix which is in the negative side of the picture (Laudon, 2007). Also being a gamer myself, Blockbuster offers games on DVDs and downloads as well which I can easily manage due to the fast internet services I have in my region.

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