Emerging streaming technologies like video on demand research paper example

Business, Company

Pose a Challenge to Netflix's DVD Rental Model.

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Abstract.

Till now the video content industry has been dominated by companies like Netflix, Blockbuster and Amazon. Their business model is rental of movie DVDs by various means, including movie downloads from their websites. Heretofore the product differentiation has been in the type of services provided by each company, and the extent of their reach to customers. Media streaming, also called Video on Demand (VOD) is a relatively new technology that poses a serious threat to the DVD rental model. Video on Demand or Audio and Video on Demand (AVOD) allows users access to their favourite movies, T. V. shows, or music immediately on demand without having to wait for delivery. Content streams directly on televisions, computers or mobiles applications.

Keywords: Video on Demand, Streaming, business model, digital distribution.

The Netflix Business Model.

Netflix is the biggest online video service provider with a comprehensive library of 100, 000 DVD titles, which include movies, television and other filmed entertainment. It has a subscriber base of ten million. Netflix is an aggressive marketer, and has developed algorithms to track customer choices, and now also makes personalized movie recommendations. Netflix began operations by shipping DVDs to customers through first class mail, with pre-paid return envelopes, thus involving no cost to the customer. A reason for the popularity of Netflix is it doesn't charge late fees.

The company has established an extensive network of distribution centers to ensure timely deliveries and returns. Recently the company introduced online DVD distribution and in-home content streaming of DVD content. Netflix acquires distribution rights by purchasing title from movie studios and profit sharing agreements with networks and other distributors.

Advent of Digital Distribution.

The in-home entertainment industry operates across a range of viewing formats and platforms, distribution networks, technologies, prices and service providers. Most viewers subscribe to a handful of competitors in the industry. Subscribers also not penalized for switching to different service providers, hence in this technologically evolving industry, subscriber loyalty cannot be overstrained. Currently the video distribution business operates under an unpredictable atmosphere of sudden changes, which requires a business model that has the flexibility to seamlessly adapt to emerging realities. Video streaming and Audio-Video on Demand are the current trends.

Streaming refers to the delivery of content, which a client media like television, computers, or mobiles can play even before the entire content has been transmitted. Other

media can also receive streaming content like live closed captioning, real time text and ticker tape. But its implications are particular significant for audio and visual streaming, particularly in the context of Netflix and similar players. At present streaming media such as audio-video on demand require a more complex technological infrastructure, and is thus presently cost-prohibitive for new players to advantage of the delivery process. However, advancements in technology will eventually reduce costs, and the present technical drawbacks can soon adjust themselves into creating a viable and profitable business model, thereby eating into the markets of traditional movie renters.

As Jefferson Graham writes in U. S. A. Today, “ For 10-year-old Netflix, what's next is Internet delivery. Netflix envelopes and radio ads tout " free" online movie viewing for subscribers. Netflix CEO and co-founder Reed Hastings doesn't think his 58 distribution centers are in immediate danger of becoming obsolete, but he knows that day will come.” (ABC News). However, Reed Hastings still considers DVD rentals a growth market, and there are other commentators, like Citigroup analyst Mark Mahaney who agree with him. The recession of 2008 has had a pre-emptive effect on streaming affordability.

Be that as it may but media streaming has come to stay and Netflix and its main competitors have also started offering video on demand, but as an add-on service. But streaming media like we have seen is expensive. In 2011, Netflix faced mass exodus of subscribers when he announced a 60% hike in subscription charges for DVD and streaming content. And since movie studios and cable operators demand huge licensing prices and cables revenue respectively to transmit content, Netflix’s streaming content is not as attractive as his DVDs or his competitors’, and subscribers are also complaining of receiving less for more. In the same year Netflix’s cable operator partner Starz decided to end its contract with Netflix. " There may be a renewed sense of urgency for Netflix to go out to acquire film and TV content to replace Starz," an online CNN article cites Anthony DiClemente, Internet and media analyst at Barclays Capital, which owns Netflix stock. (Pepitone & Smith, 2011). All this irrefutably demonstrates that the present Netflix emphasis on the DVD rental model will either be the beginning of the end for Netflix, or the company will have to enter the streaming arena in a big way, even though Netflix stock has gone up significantly.

But Netflix sees the threat perceptibly enough to engage Oasis Consultancy to investigate market conditions and provide strategic recommendations. The resulting report says that through Netflix seems to be gaining market share at the moment with its traditional rival Blockbuster facing possible bankruptcy, the video rental industry is clearly changing. Traditional DVD rentals are in direct competition with digital distribution of entertainment content. Relatively unknown, but innovative Internet companies like Hulu and Boxee are taking advantage of this trend and will prove to be a serious threat to Netflix. And since it is impossible to determine what technological and organizational factors will shape the future of digital distribution, Netflix cannot know what kind of competition it might be expected to face, and these rival companies may emerge with a long-term tactical edge. Thus there is a dual challenge in this transitional period, for Netflix. It has to stay competitive in the conventional DVD rental business, while at the same time position itself as an emerging in digital streaming. The report says, “ In light of this challenging industry landscape, Oasis has focused on providing business strategies that will enable Netflix to maintain short-term and long-term profitability (Carrol, Menenberg & Kwok, 2009). In addition to these new internet savvy companies, Netflix also has to contend with its traditional competitors like Amazon and Apple who already have a strong internet presence and greater technological adaptability.

When Oasis Consultancy applied Porter's Five Forces, which determine market share, Netflix, two of them emerged as posing the greatest dangers to Netflix's position in the video rental industry. The other three, internal rivalry, entry & exit and buyer power did not matter. But the forces of substitutes, complements and buyer powers will prove decisive for Netflix. The highest proves to be from substitutes since there are other entertainment viewing formats available, and growing in popularity. These formats are relatively interchangeable, easy to substitute including video on demand, online streaming, and pay-per-view, etc. Switching costs from one format to the other are low, and subscribers often use all formats simultaneously.

Netflix is particularly vulnerable to supplier power. It gets its video content via direct purchases, revenue sharing agreements and licenses. Hence it is the studios, network companies and distributors who control pricing. The First Sale Doctrine stipulates that once a copyright owner sells a copy of their work, purchasers may redistribute it as they wish. This protection does not extend to streaming content. Netflix is in an inherently disadvantaged position when it comes to price negotiations. Another dimension to supplier power is the time window after a movie's release, before DVDs are allowed to be released. Though DVDs are given priority over internet delivery or VOD, the studios still control these release windows and can determine who is the first to benefit from the video release. The Oasis report distinctly cites market forces as Netflix’s primary challenge. The market is constantly evolving, with new technologies, media innovations and changing customer loyalties.

Last year, Amazon clinched an on-demand deal with Viacom to bring a host of popular shows to its catalogue, which were previously offered by Netflix, as Viacom’s then distributing partner. Subscribers’ children were suddenly deprived of their favourite shows

like Dora the Explorer, Go, Diego, Go! Nickelodeon, Nick Jr., Comedy Central and MTC, which they were avidly following. Angry parents threatened to unsubscribe and join the next provider, who could offer these shows. Very damaging for a company whose revenues depend totally on the subscriber base.

Cases like these effectively demonstrate Netflix’s inability to adjust to the evolving market conditions, and its ineffectiveness in countering the growing influence of traditional rivals. Netflix is definitely slower than Amazon and apple in restructuring its policies, infrastructure and resources to the new home entertainment market dynamics.

Netflix’s business model of DVD rentals kept its focus more on logistics and library build-up. There will now have to be an organizational towards acquiring the technologies to create digital distribution platforms. A streaming video business model will also necessitate new strategic partnerships with movie studios, television networks, Internet Service Providers and with hardware and software suppliers. The VOD and streaming market involves operating in a multi-partnership environment, one in which

Netflix has a significant lesser leverage, than it had in the DVD rental business.

Finally, if it need be mentioned, Netflix's strength rests on the DVD format. Though DVDs are still popular, the rising appeal of digital content distribution means that DVDs will be all but obsolete in the near future. How well Netflix can adapt itself and maintain its supremacy in the post DVD home entertainment industry is something the world is waiting for to see, not least its subscribers and shareholders.

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