

Netflix case study

Business



Netflix's entrance in to the movie rental industry during the early nineties gave them a perfect position to capture the market. At the time of Netflix's founding many customers of normal video renting stores where becoming frustrated with the lack of service and late fees these video rental stores where providing. Netflix's original strategy of targeting the early technology users helped them gain a lead when the use of DVD players became the majority of what customers where buying.

As the company matured, they developed the business strategy of appealing to online customers.

This strategy paid off for the company boosting them from a beginning customer base of 107 in 1999 to 1, 487 customers in 2001. From the beginning Netflix has faced challenges and had to stand back and reconsider the business methods and strategies they were using. In this fast growing industry of online movie rental to remain on top Netflix has to be ahead of its competitors in innovation and customer satisfaction.

Netflix from the beginning was described as “ the company as the online destination for movie enthusiasts”. This was mainly due to the commitment to have not only new releases but to support smaller films that were not in the “ top ten”. The top manager of content acquisition even stated that he and Hastings, the founder, had agreed upon “ the promise of a business model that promoted lesser known movies”.

Netflix over the years developed different methods to promote these movies. A huge asset to Netflix is its customer personalization system that consists of a survey when you first subscribe to Netflix.

This helps with inventory management through suggesting movies that are not new releases and are definitely in stock. The most recent challenge Netflix has been faced with is the entrance into the Video On Demand (VOD) market. The two main issues in the early development of VOD were the connectivity to user's computers and the limitations in available content.

Netflix's core focus was not focused on these two issues, but with the fast pace of technology Netflix needed to develop a VOD program. Netflix's top management team reviewed three options to transition into the online video market.

The first option featured a licensing agreement with cable providers, cable subscribers could use the Netflix website for an additional fee to view movies on demand. The second option would essentially integrate a streaming online feature into the Netflix 's core offering. Finally, an option would be building a stand-alone online video business where customers would essentially pay exclusively for online video access.

In January 2007 Netflix decided to announce its entrance into the VOD market using the third option as its approach.

Although Netflix prides itself on its customer personalization system, customers recently have been disappointed with Netflix and its online catalog of movies. The approach they take of promoting smaller films is great for a certain target audience in America. What about the rest of movie lovers in America? Most Americans want instant access to the most recent movies that have been released in the past year or two. I am familiar with

Netflix's service and know that it is almost impossible to watch a newly released 'blockbuster' hit.

It is very convenient to have instant access on my television but not as useful when you want a certain movie and Netflix does not carry it.

Many nights my friends and I will check Netflix for a movie and if they do carry it we get frustrated and end up going to Redbox. Netflix came into this online movie rental at the right time to capture most of the market share, but they are having trouble maintaining the majority of the market share. Netflix is not competing with Blockbuster anymore, but more advanced business like Redbox.

Redbox is able to bring most new releases to its locations in a timely manner. Netflix needs to find a more advantageous way to carry new releases, whether its forming a partnership with Redbox or creating more relationships with major studios to get a hold of new releases first. Either way it is necessary that Netflix takes the next step to provide better movies for its customers.

Netflix's transition into the VOD industry seems like the perfect transition to growing the business. Netflix is a little late on its development though, many other competitors have already moved into this market.

Netflix is now competing with cable providers On Demand services, Hulu and other similar websites. Netflix was ahead in the area of user connectivity and customers can now link Netflix with their Xbox or Wii so that they can use their Netflix account on their television. This is great but the demand for new releases is still a huge factor in capturing new customers and retaining

current customers. Netflix has developed this great feature but customers get frustrated when there is nothing on Netflix to watch but television series, older movies and international movies.

All these factors lead to the same issue, how can Netflix provide better movies on demand? Netflix has a lot to consider in the next few years; should they partner with a company like Redbox, or maybe fight harder to have a better partnership with the major studios producing all of the new releases. If Netflix does not develop a new strategy soon they could fall behind in this market. They may have a large member base now but how are they going to capture new customers when other companies are offering the same products and services for about the same cost.