

Dvd rental 41356



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## DVD Rental Essay

### Introduction

Netflix, the leading on-line Digital Video Disc (DVD) rental company, is the largest in the industry. Since the company's inception, it has offered a selection of tens of thousands of titles to its subscribers. Unlike Netflix competitors, the company promises DVD rentals without late and/or shipping fees and no due dates. After submitting required personal and payment information, customers can search or browse for movie titles, add them to account queues, and prioritize each selection. As movies are returned, Netflix automatically mails the next available title in the customer's queue. Customers receive movies within a few days.

This paper examines: the marketing environment within Netflix; the success and potential failures of its aggressive marketing approaches; its target market focus; SWOT; Netflix' competitors; and how the use of both mass marketing and mass customization have made Netflix the most formidable e-commerce organization in the world. A recommendation to improve Netflix' current marketing position will also be offered.

### Marketing Environment

Although Netflix doesn't subscribe to formal mission or vision statements, the marketing environment within Netflix is the base of the company's success. The marketing team has been lead by Leslie Kilgore, Netflix chief marketing officer (CMO), since 2000. Possessing more than ten years of e-commerce marketing and online retailing experience, Kilgore served in the

capacity of director of marketing for Amazon. com where she was " responsible for increasing the size, loyalty and profitability of the customer base". As Netflix CMO, Kilgore is responsible for " brand strategy, customer acquisition, advertising and the company's public relations activities". By 2006, Netflix purported a customer base of 4 to 4. 2 million customers. Under Kilgore's marketing team, the company estimates its customer base to be five times that at 20 million subscribers by 2014. (hubmagazine. com)

Under Kilgore's leadership, Netflix has been able to maintain its on-line presence by promoting a broad title selection without the usual video rental hassles customers face by patronizing local stores (e. g., out of stock titles, long lines, pressure to take advantage of rent specials and participate in rental clubs). Envisioning a strictly on-line and progressively web-based viewing experience for its subscribers remains the foundation of the Netflix marketing environment. In 2005, Netflix announced a partnership with NBC to launch the DVD premiere (six weeks in advance of television broadcast) of two full-length NBC dramas and other fall lineup programming premieres. (DeFelice, 2006) Customers will be permitted, through accounts previously setup by Netflix, to view streaming content dramas via the Internet using an Internet Explorer compatible software. Netflix plans to offer this service free to its subscribers, who pay a monthly fee which varies based on the number of titles they chose to rent each month.

### Target Market Approach and Mass Marketing

Netflix has aggressively focused its DVD mail-delivery service advertisements toward

the " stay-at-home" movie-goer for years. From mass mailings, print ads, television commercials and internet banner ads - Netflix has incorporated the masses in its advertising efforts. In 2000, Netflix had less than a thousand San-Francisco Bay area customers. (Tsao 2004) Today, with over 50 distribution centers nationwide and a secure, user-friendly website, Netflix has remained the highest-rated on-line retailer in customer satisfaction with millions of customers. (hubmagazine. com) Clearly, this aggressive and consistent marketing approach has made Netflix a household name.

Marketing of NBCs downloadable dramas and the advertising methods Netflix will employ, beyond mass customization, remains to be seen. Although this venture would not appeal to the average Netflix customer, Netflix may find the internet/technology savvy consumer intrigued at the very least by the possibility of downloadable dramas. It could also be that Netflix is preparing for the financial flux the company may soon experience this year. Eric Savitz of internet. seekingalpha. com points out rising postage costs, competition from emerging competitors, and increasing marketing expenses poses challenges for Netflix. These challenges could be motivating Netflix to branch out into mass customization and partnerships outside the scope of on-line DVD rental.

### Mass Customization

Critics of Internet Explorer report the potential lack of ease in use of the streaming content software. Carl Howe of Blackfriars. com (2007) points out two very important obstacles in the venture between Netflix and NBC. Specifically, customers who do not have the latest version of Windows or do

not browse via Internet Explorer would be unable to access the content. In addition, Howe recognizes the current incompatibility between streaming technology, televisions and hand-held devices. However, Netflix is working to customize streaming content for the heavy technology user - those consumers who currently watch movies on the computer, download music to MP3 players, and who constantly upgrade their technological "gadgets" to have the convenience of use today's technology offers.

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### Strengths

Netflix' strengths remain in the decision to maintain its mail-delivery system through a strong on-line presence. The DVD rental system provides convenience and fast delivery consumers simply do not experience with local video rental stores or Netflix on-line competitors. Having the DVDs of one's choice delivered straight to their home coupled with the added bonus of returning a movie at one's leisure is what makes Netflix hard to compete with. Furthermore, because Netflix does not sell DVDs (product is purchased in bulk from distributors), the company more than makes up the cost of each DVD bought after a few rentals by its subscribers. This would account for its 2005 increase of 60 percent in subscribers and 36 percent increase in revenues (ir. netflix. com)

Another strength Netflix possesses is its current focus on mass customization and venture partnerships. Global market access via the Internet allows Netflix the opportunity to reduce marketing costs, build strong business

relationships with NBC and its affiliates, and improve current customer service and communication. (Chan-Olmsted 2003).

By mid-January, 2007, Netflix will unleash its " Watch Now" feature which will allow select Netflix subscribers viewing access to approximately 1, 000 television shows and films from contributors which include NBC Universal, Sony Pictures, MGM, 20th Century Fox, Paramount Pictures, Warner Brothers, Lion's Gate and New Line Cinema. After downloading a streaming content program, subscribers will have between six and eighteen hours of on-line viewing free of charge. (www. techworldnews. com) This feature is exclusive to the Netflix web site and not part of the venture between Netflix and NBC.

### Weaknesses

Netflix' forge into the future of downloads and more highly technological ventures could prove to be a financial disaster. Currently, the venture between Netflix and NBC will be supported by Microsoft's digital streaming content rights. In Robert Godwin-Jones' 2005 Language, Learning & Technology article, he points out that Internet standards (created by the World Wide Web Consortium) are not supported by Microsoft's Internet Explorer. Despite the lack of support, however, Internet Explorer (the most popular browser) has set standards which web site creators use in order for their web sites to be displayed. In regards to streaming content and downloading broadcasts, this service will initially be available to a limited population of the web community. Because availability does not guarantee buy-in from Netflix customers, this venture could prove to be a weakness for Netflix.

## Opportunities

Ever-evolving technology and the potential for downloadable movies to become the next trend in entertainment viewing allows Netflix the opportunity to market its services globally. By doing so, Netflix has the opportunity and potential to eliminate its competitors. As the leader in the DVD rental industry, Netflix will be able to deliver independent, foreign films to domestic subscribers through overseas relationships with distributors. Conversely, Netflix' can offer overseas-based subscribers mainstream and independent domestic entertainment. The potential exists for Netflix to lengthen the list of current studio distributors by taking on the endeavor of marketing its services globally.

## Threats

Piracy is a major threat for Netflix today. In its June, 2006 press release, the Motion Picture Association (MPA) reported losses of \$2.3 billion to internet piracy. Internet piracy is defined as "obtaining movies by either downloading them from the Internet without paying or acquiring hard copies of illegally downloaded movies from friends or family". Through the use of data collected by a consulting firm that conducted telephone, internet and face-to-face interviews in 22 countries, the MPA discovered its losses were a direct result of the number of consumers who would have bought tickets to see movies or purchased DVDs and did not because pirated versions were available. ([http://www.mpa.org/press\\_releases/leksummarympa.pdf](http://www.mpa.org/press_releases/leksummarympa.pdf))

Netflix' on-line ventures, both with NBC programs and its own "Watch Now" project, have the potential to aid in the threat of piracy and prove to cost

Netflix and its studio distributors revenue. Even with anti-piracy encryption, DVD copying software is available. A simple Google search for 'DVD piracy software' yields hundreds of results, and at [www.dvdcopyingscams.com](http://www.dvdcopyingscams.com), three DVD copying software products are featured as infallible for copying DVD content, downloadable Internet movies and video games. It's not unimaginable that as on-line streaming content becomes more commonplace - as envisioned by Netflix, its partners, and subscribers - pirating downloadable films will also be a concomitant factor.

Other threats Netflix faces are those of computer viruses and worm programs. Barring malicious programs that could scramble the "stream" of streaming content, Netflix could face security threats which could compromise subscriber's financial information. Should Netflix find itself under the threat of malicious programs, customer loyalty will be vastly affected. Prevention of this type of threat could prove to cost Netflix the millions of dollars it currently has invested in mass customization, digital rights, and customer acquisition.

## Competitors

Netflix' competitors and a very brief synopsis including why these companies have a presence in the on-line DVD rental industry (what makes them different from Netflix and each other) are listed below:

GreenCine Found at [www.greencine.com](http://www.greencine.com), this company offers a very broad selection of independent films, B-movies and the option to rent or buy titles. In the even a title is listed "for sale" only, the option "request to rent" the title is available.



RentAnime Found at [www.rentanime.com](http://www.rentanime.com), RentAnime rents only Japanese Anime films.

Intelliflix Found at [www.intelliflix.com](http://www.intelliflix.com), this company offers video game console title rentals and annual membership plans/payment options.

Blockbuster Found at [www.blockbuster.com](http://www.blockbuster.com), Blockbuster offers " in-store exchanges" of titles, the option to rent movies on-line and return them to a local store, and a free monthly in-store rental.

Netflix and its competitors offer a minimum of three DVDs checked out at one time and a flat-rate monthly fee without late fees or shipping fees.

(<http://www.consumerreports.org>)

In 2004, Blockbuster began its " no late fee" policy, in an attempt to compete with Netflix. By February of 2005, Blockbuster found itself at the center of the attention of attorneys general in 36 states. Whether the policy deceives customers is being investigated, and Blockbuster is facing lawsuits as a direct result of its " fine print" policy.

The " no late fee" policy really isn't an exoneration of fees associated with returning movies after the due date, or an option for subscribers to keep DVD rentals as long as they would prefer. Rather, Blockbuster's " no late fee" policy allows a 7 day extension of the two-day or seven-day due date assigned for movies at customer checkout. During the extension, or grace period, the movie is considered " overdue" and the customer begins to receive " reminder" calls and postcards to return the rental.

After the grace period expiration, the customers' credit card is automatically charged the full price of the rental less the rental fee charge. If the customer returns the movie within 30 days, their credit card account is credited, less a \$1.25 restocking fee. (De Marco 2005)

In 2006, Netflix sought a patent infringement lawsuit against Blockbuster, claiming the company directly copied Netflix' system of storing subscriber DVD choices in a prioritized list or queues – a feature Netflix claims to have patented in 2003. (www.msnbc.com)

### Marketing Position Recommendation

To improve Netflix' current marketing position, I would recommend modifying the " Watch Now" project by mimicking Greencine's feature to allow subscribers the option to rent or watch available titles in their queues. Downloadable titles would include selections that subscribers who paid the highest flat-rate monthly fee had in common. Watching a movie, however, would be free of charge and available once a month, specifically when a subscriber has a movie(s) en-route through the mail-delivery system. This modification could prove to be advantageous for Netflix in two ways.

### Strategies

Firstly, subscribers who paid the highest monthly fee would feel as though they were getting something extra by being offered a free downloadable movie each month. This addition would also encourage moderate- to low-frequency renters to sign up for the highest monthly fee.

Modifying the " Watch Now" feature would include an opening message to subscribers allowing Netflix to download a program to subscribers' PCs that would search for and temporarily disable any DVD copying software, to which the subscriber would agree or disagree. If the subscriber chose to continue to download after agreeing, personal account information (name, address, phone number, title downloaded and whether or not DVD copying software was detected) would be tracked in a separate and confidential database.

To further protect against piracy, downloaded movies would be encrypted to " shut down" or run previews of the movie viewed and other popular films in a loop. Should the customer choose to disagree to DVD copying software detection, a subsequent message would encourage the customer to check out the DVD via the mail-delivery system.

This modification would deter or prevent pirates from attempting to download movies from the Netflix site and provide data as to the number of subscribers that would actually continue to use the " Watch Now" feature, frequency of use, and customer satisfaction. An added value exists in tracking the number of subscribers that do not wish to have an executable program downloaded onto their computer.

Although I do not recommend Netflix track the personal data of subscribers who choose not to agree to detection software download, it is my recommendation that the quantity of refusals and the geographical information of subscribers who refused detection software download would be valuable information for Netflix to pass on to the MPA and/or MPA

member studio contributors. Netflix would do well to share, where possible, information that could assist in the efforts to prevent internet piracy and illegal DVD copying.

As a future venture partner of many of MPA member studios, I would also recommend that Netflix participate in National Copyright Awareness Week. The Motion Picture Association is very proactive in piracy awareness and announces March 6th – 10th as “ National Copyright Awareness Week”. During this time of education outreach, the MPA encourages instructors, teachers and professors to hold classes, seminars, and discussion groups on copyright issues. The national campaign is an opportunity for the MPA and copyright industry professionals to work together to “ promote copyright protection”. (www. mpaa. org)

### Strategies

Simply linking to the MPA website for subscribers and potential costumers to view information including reports, statistics, etc. would be an effective way to begin supporting National Copyright Awareness Week.

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