

Hastings and randolph started entitle

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This made him think creatively about an idea to transform the movie rental model into a more innovative business.

In 1997, Hastings and Randolph started Entitle which was a DVD rental-by-mail business with no subscriptions. Later in 1999, and as a step further towards developing the business, Hastings launched the subscription-based business model which was based only on renting DVD's by mail with multiple plans dependent on the number of titles at a time.

Entitle offered its subscribers to choose from its extensive DVD library with more than 10,000 titles. To emulate monthly DVD rental without late fees and per title rental fees, it was very attractive for customers to make obstructions on the spot as they were tempted with the incredible Entitle service. For example, Blockbuster subscribers found Netflix's offers more appealing and it was easy for them to make the switch.

(Wispard, 2014) Entitle has been always open to new opportunities that Hastings believes it will sustain the company's competitive advantage.

A new opportunity was captured when the streaming service was introduced in January 2007 where it enabled Netflix's subscribers to instantly watch movies, TV-episodes, documentaries, series and much more on internet-connected devices such as smart TV's, PC's, DVD's, Blu-Ray players and special Entitle players. During that time, Entitle was leading the industry as it was the first company to offer paid streaming services to its subscribers in US, Canada and Latin America.

Today, Entitle is known as the largest provider of online streaming service with almost 44 million subscribers in more than 40 countries offered access to an ever-growing library of thousands of titles. (Entitle PR, 2014) Entitle executives were keen to devise flexible strategies accompanied by a profitable business model that gave them sustainable competitive advantages over their rivals. They constantly monitor their external environment and do the required amendments quickly and swiftly to leverage the emerging opportunities and tackle the upcoming threats.

Strategies ranging from growing its library content, service differentiation, very competitive DVD-by-Mail service, unique marketing plan and ambitious international expansion all made Entitle a leader in its industry. However, Entitle isn't the only player in the DVD-rental and streaming services market. Blockbuster and Redbook are one of the any competitors in the DVD-rental market that use different competitive models to outcome Nineteen's. Hull Plus, Amazon and HOBGO have fueled the competition in the streaming service market.

They all compete on acquiring more titles to expand their libraries and try to offer the best subscription plans in order to get more market share. Having this in mind, what should Entitle do next in order to outperform its competitors and sustain its competitive advantage ? External Environment Analysis Macro Environment We will start our assessment of the external environment by examining the PESTLE actors in the Macro (General) Environment of the movie renting industry. Political Factors Network Neutrality is the principle that preserves the internet to remain free and open for all users.

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It defends against discrimination of the internet use based on the content or website services (Ala, 2014). Major Internet Service Providers (Sips) would like to charge a company like Entitle more money because its website of online movie streaming is eating a lot of their internet bandwidth. According to the broadband internet service tracking firm Sandier, Entitle alone is consuming 32.

3% of the mainstream traffic in North America, much more than any other site or service. Promotional, 2013) Major Sips may well contemplate the idea of blocking Entitle from their service to release all that traffic or they might demand increased internet subscription fees from Entitle to continue hosting their website; this would be a disaster for Entitle who is facing increasing content obligation costs and if Sips opted for that step, they will have no other choice other than increasing the monthly fees of tenet streaming service which will tattletale not come to ten illegal AT tenet customers.

All of this is against the Net Neutrality rule, which states that all internet users will be under the same conditions to get space on the net whatever their website or content, is. " The possibility of regulations designed to mandate the neutrality of the Internet has been subject to fierce debate, especially in the United States" (Internet Cleaner, 2013) In an interview (Entitle Investor Relations, 2014), Ere Hastings says he is not concerned with the threat that Sips might block Entitle since " it will fuel the fire for more regulation and no one is interested in this".

Environmental Factors Historically, the video rental industry was built on the idea of reusing the same SST by different people over and over again and this concept is environment-friendly.

Moreover, switching to the soft copies of media and streaming it through the internet reduces energy consumption and pollution levels due to a decrease in delivering DVD's by mail and also less manufacturing of DVD's. Socio-cultural Factors People are expected to watch movies or play video games when they have more leisure time.

However nowadays, many people are having 2 jobs to support their families which basically means less leisure time and less watching movies. In addition to that, people are now becoming more convenient watching movies at their homes instead of going out to the theaters since it is cheaper, less time consuming and is ideal after having a long tiring day; this emerging trend will boost the volume of the streaming media subscriptions.

Moreover, the rapid acceptance of the socio for technological advancements greatly benefits the online movie rental industry, this is particularly correct due to the new educational and pedagogical systems that stress more on computer learning making people more convenient when dealing with technology. Technological Factors The rapid technological advancements and production of electronic products such as Blu-ray DVD players, Video game consoles, smart phones, smart TV's and many other devices that can connect to the internet, made the concept of online rental and video streaming easier and more adaptable.

As the internet services are becoming more popular and an important ingredient in people's daily life, companies like Entitle will be able to increase its operations especially in the video streaming service. Therefore, the advancement in technology is an opportunity and enabler for the industry as a whole. 4K streaming is a new high-quality video technology that reduces compression rate and produces output in 4K/Ultra HD format. (Burns, 2014) Entitle started offering some of its content in this format, which signals their aim to go side by side with technological advancement.

Of course, to be able to stream at this high resolution, you need to have a super speed internet (40-50 Mbps) so people now have a reason to upgrade and it means more profits to the Sips.

(Entitle Investor Relations, 2014) Economic Factors The industry depends on the consumers' spending power and real income, which is effected by employment rate, interest rate, tax rate and inflation rate. When consumers have more money, spending on entertainment facilities rises and this is an opportunity for the industry.

On the other hand, the spending power of households usually decrease in recession periods, so they will probably tend to sacrifice the theater ticket and may well reward themselves with some older movies available on streaming services such as Entitles Legal Factors There is a considerable potential for legal actions to be taken against companies operating in this industry, actions related to the use of licensed material and customers' privacy issues.

Moreover, any company that operates in the international market should study well the rules and regulations specific to that market or else it will shortly fall in trouble or lose valuable opportunities. Some legal actions might have a positive impact on companies in this industry such as the amendment of the PAPA law discussed earlier.

On the other hand, Entitle had some hard times in 2010 with lawsuits pertaining to privacy issues when an academic research suggested it exposed the movie preferences of its customers for the programmers who articulated in the Entitle prize to produce a better recommendation algorithm.

(Bully, 2010) The issue was later resolved and Entitle cancelled the sequel “Entitle Prize II” competition. Competitive Environment In order to determine nature and strength of the competitor pressures in the movie rental industry Entitle is operating in, we use Porter’s five forces model of competition.

Bargaining Power of Customers In the streaming market, customers have a high bargaining power; the reason behind this is that people are very well informed about other companies which are in the same line of business as Entitle. Customers are always in search for a better deal because buyers are very price sensitive when it comes to the video rental industry and they are always looking for the best quality, so they will leave Entitle as soon as a better offer is available since there is no switching cost.

Customers always expect product differentiation, and if Entitle does not give it customers this variety, they will simply leave.

Bargaining Power of Suppliers Bargaining power of suppliers is very high; Entitle relies on getting exclusive rights to certain television shows and movies so suppliers play a very big role in bargaining over what content is exclusively reserved for Entitle users. Also, there are only a number of studios who supply the movies and shows.

Another reason bargaining power of suppliers is high is that Entitle can only get its content from those studios and there is no substitute for that content, also contracts with those studios are usually for a short period of time (1-3 years) and expensive; a good example of this is when Entitle was unable to renew its contract with Start because they were demanding a much larger amount of money - \$300 million instead of the \$30 million paid in 2008.

(Kafka, 2011) **Threat of New Entrants** Although entering the online movie rental industry needs a huge initial investment to get content and secure exclusive copyrights, we can say that the threat of new entrants is moderately high since it remains a growing market with a growing demand, and huge rich companies like Apple and Google may be tempted by its growth potential and might well enter the play stage with generous budgets; and also the low exit costs in this market make this threat high.

But in order to be profitable in this industry, companies need to achieve economies of scale and try to estimate to have a large volume of subscribers, which in Netflix's case is how they achieve profitability, and also to have a large number of viewers if it is a video company. **Threat of Substitutes** The threat of substitutes is relatively high since substitutes are available, such as

Blockbuster on demand, Amazon Prime Instant Video and many other VOD streaming media.

Rather than having a subscription of unlimited views, customers can switch to a pay per view option. Another reason is that there is no switching cost.

In addition to that, the prices of substitutes are convenient and low which makes it relatively easy to switch. Customers might also choose to switch because companies working on a VOD bases have better features such as making certain television shows and movies available within a few hours of airing them on T. V, unlike Entitle where customers need to wait a few months.

Intensity of Competitive Rivalry Competition is very high in the video rental industry; Entitle has many current competitors which include Blockbuster on demand, Amazon, Apple, Hulu Plus and many others. Also Entitle has to keep scanning the environment for new competitors since it is easy for new rivals to enter the market for there are low barriers to market entry and exit.

Entitle must fear its competitors because they can easily lose customers to them since switching cost is very low and they have no loyalty programs to make it harder for customers to leave.

BRIO Analysis Entitle's top resources can be listed as follows: 1 . The variety and big selection of titles (comprehensive library of movies and TV-episodes) 2. The unique software for streaming and recommendation 3. Nationwide distribution network 4.

CEO Reed Hastings Resources must have enough competitive potential for the organization to outpace its rivals. By applying the BRIO framework (see table 1), one of the best strategic tools to evaluate the firm's resources, Entitle is shown to be at a moderate sustainable position.

Providing its subscribers a wide selection of titles has been always Netflix's primary strategy. During the year 2012, its library has reached over 120, 000 DVD-titles and more than 30, 000 titles ready for streaming (Wispard, 2014). This extensive library is definitely valuable for Entitle to attract more subscribers to watch from a wide variety of titles. Moreover, this resource is rare as not all competitors are able to offer its customers a huge number of titles for both DVD- rental and streaming services.

However, such a comprehensive library is not very difficult to imitate. Apple and Amazon, for example, are constantly working hard to gain license agreements to acquire new content and grow their library of titles. An obvious example on this is when Amazon won over Entitle and secured the streaming rights of the whole 8 seasons of Fox's award winning series '24' (Connotations, 2014). Entitle has shown to be organized to capture the value of its library by making it available for its subscribers when using both services.

Thus, having a big selection of titles places Entitle at a sustainable competitive advantage as long as no competitor grows a more extensive library.

Otherwise, it will become easy for Entitle subscribers to switch to another company that offers wider selection. Entitle had well developed and easy-to-

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use software that provides titles recommendations for each subscriber based on personalized ratings. This resource is an added value to Nineteen's business because it became convenient for subscribers to quickly view movies they like or place them on "instant queue" for watching them later. Entitle, 2014) Entitle algorithm that can beat its Cinematic system by at least 10% of enhanced accuracy (Interpretive, 2009). In 2009, three teams of talented programmers combined forces and developed that algorithm and Nineteen's system was given a major boost. Since the software is customized only for Entitle and consists of complicated algorithms, such a resource is considered rare.

Although Entitle had set the bars high for its rivals, another company can call for a competition or hire top programmers to develop their own software that may beat that of Nineteen's.

There is always room for improvement, ND for that reason, this software can be imitated. Nevertheless, Entitle is continuously prepared to capture the value out of its smart software and make the best use of it. As a result, the recommendation software positions Entitle on a sustainable competitive advantage as long as no competitor develops similar or improved software. For its DVD-by mail service, Entitle had largely invested in developing its nationwide distribution network by establishing as much distribution centers as possible.

Their strategy is to provide customers with the fastest shipping service by delivering ordered DVD's within one business day.

This is of a big value for customers who used to wait several days to obtain a DVD. To make it more effective and efficient, Entitle utilizes a distribution network system (logistics system) that saves a lot of time looking for the closest center that has the ordered DVD in stock. The combination of wide-spread distribution centers and effective logistics software makes it a rare resource.

It's still almost impossible for competitors, such as Blockbusters, to deliver any of its DVD's within 1 business day. Furthermore, it's difficult to have a large number of shipping points close to every home. Therefore, this resource is considerably inimitable.

Obviously, Entitle is doing a great job in regards to quick delivery. It has promised its customer to ship DVD's anywhere within 1 business day. Today, by effectively employing the distribution network system, the company leveraged its capability to reach 98% of its subscribers.

Hence, Entitle is organized properly to capture the value of their distribution centers. It is worth noting that although this resource gives them an sustainable competitive advantage, the demand on this type of service (DVD's sent by mail) is on a continuous decline, ND the service might completely vanish in the next few years. Last but not least, Nineteen's CEO, President and co-founder Reed Hastings is considered one of the firm's most valuable resources.

In the most difficult times, this innovative and visionary man knew what he was doing and didn't lose the focus.

His vision was very clear since the very beginning back in 1997 when he named the company Net-Felix and not DVD-by-Mail (Fortune, 2009); he saw what the industry will be like in the future and believed in the powers of the internet. Such an intangible asset, as we are interested in his vision, education, expertise, know-how, innovation and skills, is considered a valuable one. If you take a quick glance on what has happened in the past few years, you'll find it clear how such influential people affect their organizations in every aspect.

For example, when Steve Jobs died, Apple's stock price went down by 5% immediately (College, 2011) which shows you how people believed that the tremendous success Apple had in the past few years was directly linked to the innovative out-of-the-box thinking of their ex-CEO, and future manifestations showed that that was extremely true. So these brilliant executives are so valuable to their firms and are also rare.

Blockbuster ex-CEO Jim Keyes had a ten percent chance to buy Entitle in year 2000 for as little as 50 million dollars (now it's worth more than 20 billion dollars! , but he was so arrogant and refused to give any recognition for Entitle's success claiming his firm can easily do anything Entitle does. (Sahara, 2013) Failing to see the opportunities, combined with many wrong assessments of the external environment led to the bankruptcy of Blockbuster in 2011. Many analysts were actually quite sure that Entitle will be sold after the 2011 missteps that caused the stock price to fall by about 80% ; however, at that same exact time Reed Hastings was confident and quite sure that Entitle " will not only survive but flourish" (Morrissey, 2013).

Those same analysts didn't see, at that time, anything of a value in Entitle other than its CEO, who previously won the "CEO of the year 2010" award (Hurting, 2013) and whom they had great respect for (Morrissey, 2013); and indeed he was able to turn on his company and return it back to the list of the most successful companies in the world and the stock prices went up by more than 700% between 2011 and 2014!

Google Finance, 2014) In an interview, Hastings clarified that he doesn't see his firm just competing with the other companies in the media-entertainment industry, but he believes to be competing with all companies that offer any kind of product or service that a person can enjoy during his leisure time, whether it is a soccer match, a newspaper, a video game or even hiking with friends or family (Entitle Investor Relations, 2014). This gives you an idea of the high mindset of this man which explains the success his company is now enjoying.

Such a resource is hard to imitate as they usually come through the hierarchy of the same many; that's what explains their full understanding of the industry they're working in and the core competences of their firms.

Just moving one brilliant CEO from one company to your company doesn't guarantee you any success at all since many complex factors take action in the whole mix-up. Proceeding from here, it is obvious that this resource is organized to capture value for the firm.

By setting the strategies and adjusting them whenever and wherever needed depending on the ever-changing environment, Mr.. Hastings is the captain who controls the helm to take Entitle to the island of success. Therefore, this <https://assignbuster.com/hastings-and-randolph-started-entitle/>

resource gives Entitle a sustainable competitive advantage as long as he's on the helm.

In the future, will Entitle face the same difficulties Apple faced after their CEO was deceased? RESOURCE Valuable Rare Inimitable Is the company organized to capture the value of the resource?

Competitive Potential Big Selection of Titles YES NO Sustainable/Temporary
CA Title Recommendation Software Nationwide Distribution Network
Sustainable Competitive Advantage CEO Reed Hastings Table : Conducting
BRIO analysis on Entitle top resources Nineteen's Competitive Strength The
Entitle Strategy Nineteen's strategy so far hasn't been to just focus on one or
two aspects of their customer base, but to focus themselves in a number of
directions in order to build upon and capitalize on a growing subscriber base.

Their main strategy has been to build and maintain the most comprehensive selection of DVD titles in the industry, and they have done so by creating mutually beneficial relationships with a number of entertainment video providers. Their second main strategy has been focused on service differentiation- not only how customers receive content and consume it, but also how customers choose what to watch. Nineteen's number one competitive advantage over Amazon and Blockbuster is their unique software that takes what a customer has seen or rated, and based upon that information builds a list of suggested titles similar to ones they have just watched.

While other companies had begun to leak into the rent-by-mail niche category that Entitle had started, no other company had customer profiling software quite like Entitle.

Between 2006 and 2009, the film rental market underwent a major shift. The in-store rental market declined, while vending machine rentals increased and by-mail rentals nearly doubled. However, VOID (Video on Demand) services through cable, digital, and subscription also saw major increases.

All of these changes meant companies like Blockbuster had to either restructure and make a complete business model shift - or face bankruptcy. Meanwhile, the increases in by-mail rentals and online subscriptions, two services that Entitle offered, meant that the number of Entitle subscribers more than doubled in that same time frame.

Purchase decisions from customers were focused on convenient access, price, variety of DVD offerings, and ease of return/return fees. Customers like variety; a video rental store that only stocks the newest releases will not appeal to all markets.

Increasingly, customers are becoming more nostalgic in their movie preferences, searching for titles long past premiere. Customers have also become increasingly busy, often not having the time to go to a store to pick out a movie or remembering to return their rentals on time. We live in a world of instant gratification, where clicking a button to watch ten latest movies or an old classic is extremely important. Customers also do not like fees.

More and more companies today are offering free shipping/return shipping, and the same is true in the DVD rental industry.

Nineteen's third main strategy was to attract more subscribers using multiple marketing channels including online advertising, radio stations, regional and national television, direct mail, and print ads. One of these marketing strategies included participating in a variety of cooperative advertising programs with studios through which Entitle received cash for featuring a studio's movies in its advertising. Moreover, Entitle worked closely with the makers of Entitle-ready electronics devices to expand the number of devices on which Entitle subscribers could view Entitle-streamed content (Thompson, 2012).

This is considered Nineteen's second competitive advantage because it got ahead competitors by being the first to market with next-generation products. By 2012, with the aid of new technology, Entitle added another core strategy which was to grow its streaming subscription business domestically and globally.

By doing so, executives expected that the number of members with DVD-by mail subscription would decline, as subscribers migrated from renting DVD's to streaming online and as subscribers with both DVD-by mail and streaming subscriptions opted to only streaming online.

The company continuously improved its streaming experience by expanding the size of its content library, increasing the number of Internet-connected devices, and improving the ease of navigating Nineteen's website of locating and selecting content to watch. The result was a rapidly growing customer

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acceptance and interest in the delivery of TV shows and movies directly over the Internet. Finally, a central element of Netflix's long-term strategy was making Netflix's streaming service available outside the US, in countries like Canada, Latin America, the UK and Ireland. (Thompson, 2012) Although this international expansion was expected to temporarily depress the company's overall profitability and incur huge expenses of obtaining licenses from movie studios and owners of TV shows, Netflix's entry into such markets would launch a preemptive strike to secure an advantageous position of being market leaders with high-quality suppliers via exclusive partnerships or long-term contracts (Thompson, Apter, Gamble, Strickland, 2014).

"We have to win the bidding for a big set of content, and then market ourselves effectively to start the membership growth" (Save, 2013).

How long it takes for such a bold move to yield good results was not a major issue because Reed Hastings indicated that Netflix would take longer than eight quarters after initial entry to reach sustained profitability. How Does Its Competitive Strength Compare Against That of Blockbuster and Amazon Compared with Blockbuster and Amazon, Netflix operates within the highly competitive media streaming market that has been forecasted to increase to \$12.5 billion in 2017 (Banana, Deal, Aisha, & Johnson, 2013).

Netflix by far has the most comprehensive number of products and distribution channels, given that consumers can either rent DVD's by mail or stream them on their PC or TV. Its identity is valued greatly among consumers as a quick, easy, and available destination for streaming media.

Additionally, the value of their brand has risen recently after the strong media attention for the success of its first original series, House of Cards. When it comes to competitors, Netflix's main competitors were Amazon and Blockbuster.

Operating as Amazon Prime Instant Video, it has several advantages over Entitle; it offers crosscurrent as a prime member for \$79 a year which is \$6.59/month, less than Netflix's streaming price of \$7.99/month, subscribers get free 2-day shipping on millions of items and its users can buy or rent a movie/show just after a few hours of it being broadcasted on TV, while Entitle subscribers needed to wait a few months in order to view the same movie or show (McGrath, 2014).

However, Netflix's competitive advantage over Amazon is its library which has more variety and includes original content, thus making their library comprehensive in the streaming market.

They also offer all their content to their subscribers for streaming through a very user friendly personalized interface and effective recommendation system that boosts the watching experience; in comparison, Amazon's Prime Instant Video library has less categories and less straightforward search results, plus a significant portion of their online content cannot be streamed for free, you have to pay additional money to watch certain shows or movies. (Honor, 2014) Blockbuster's strategy was to keep expanding geographically by opening new stores in different locations, rather than switching to online streaming, thinking it would increase their market share. But due to the rise in competition from Entitle and Amazon, the company filed for bankruptcy in

2010 and in January of 2014 they permanently closed all their stores and only operated through “Blockbuster On Demand” on a pay per rental basis and operated only in the US (Entitle Alternative, 2013).

The competitive advantage Entitle had over Blockbuster is the number of titles they offered. Because Entitle did not operate from a physical store, it made it possible to store thousands of titles, both old movies and movies which were on high demand, and thus satisfying the preferences of much more customers than Blockbuster. Blockbuster was restricted in the amount and titles they had to offer in their stores because of its limited storage space.

Another advantage was convenience. Entitle made it very convenient for customers to get their DVD's without having to leave the house and having unlimited videos on a subscription basis without late fees, all of which are things Blockbuster lacked. With all this said, it is obvious that Entitle used offensive strategies that helped it build its reputation as a market leader and created a strong brand loyalty by binding customers to its service.

As a first mover, Entitle was able to move down the learning curve ahead of rivals, so it now knows exactly what customers are expecting and learned a hard lesson not to do sudden strategic changes as it did in 2011 missteps of price changes and split of service. As a first mover also, Entitle was able to set the technical standard for the industry by adopting the advanced streaming player and recommendation program that customers now can't imagine accessing huge movie libraries without it, and Entitle is ahead of its rivals in this and it's building it over time.

Back in its early stage of existence, Entitle had no chance to compete traditionally with the giant Blockbuster, so it chose a special kind of offensive strategy called “The Blue-Ocean Strategy” which dictates that a firm can “gain a dramatic and durable competitive advantage by abandoning efforts to beat out competitors in existing markets and instead inventing a new industry or distinctive market segment that renders existing competitors largely irrelevant and allows a company to create and capture altogether new demand” (Thompson, Apter, Gamble, Strickland, 2014) This is exactly what Entitle did as it didn’t go into the block and