

# [Netflix case study essay](https://assignbuster.com/netflix-case-study-essay/)

Your analysis is spot on. It is essential that Netflix rethink their business model this year.

Netflix’ greatest asset is also its’ greatest weakness. Netflix has an impressive collection of DVDs accumulated over the years. As the party moves away from DVDs and onto the net, they will lose their built-in advantage. As iTunes, and possibly other online competitors, fills in their catalog, there will be shift to online distribution. Netflix’ titles will be in an older static non-HD technology, where on line downloads can adapt more easily.

iTunes will have 2 competitive advantages. These are at both ends of the movie demand curve. First, when a movie first comes out, everyone with an AppleTV can download it the very first day. No running down to Blockbuster and having all copies checked out already or waiting for Netflix to get around to sending you a copy weeks later once the new release demand for that particular title has died down.

Second, online distribution is also ideally suited to fulfill the long tail of demand for low-volume niche movies in many genres. Netflix was able to exploit this advantage against Blockbuster and other bricks and mortar DVD rental shops, who were unable to stock as many titles as Netflix’ central distribution. Tunes can use the online advantage to outflank Netflix, as can any other online distributor with the resources and resolve to assemble a collection to rival Netflix’ DVD collection. The beauty of online distribution is that as soon as a digital copy of a title is catalogued, you have unlimited copies of that title to rent or sell forever. No lost disks, no damaged disks. I agree that the cost of set-top boxes is a barrier to consumer adoption of online services.

The advantage that the AppleTV has in this overcoming this barrier is that AppleTV also ties into the iTunes/Mac ecosystem. It not only allows movies-on-demand, it does so without the $50 a month or so cable/ satellite bill. $600 a year buys or rents a lot of content. AppleTV deals with your ease of use concern. Not only will you be able to push a virtual button and watch a movie in minutes as you suggest is important, but you’ll also have easy access to the Apple/ iTunes ecosystem. The AppleTV functions as the iPod connection for the home stereo and TV for their iTunes collection of music, music videos, TV shows, movies, podcasts, and for their photos in iPhoto and flickr, plus access to YouTube and other internet services that will be added over time.

I disagree that the entire movie needs to download in minutes. I do believe that for the movie-on-demand consumer, the movie needs to start playing in minutes and be able to play uninterrupted until end, except for any user-initiated potty break or snack run. Constant interruptions to allow for movie downloading and buffering will adversely impact the quality of the experience, and therefore reduce uptake of the service. With the increasing penetration of broadband, including fiber direct to consumer, this concern will diminish over time. In addition, with 30 day downloads, some people will download movies in advance for viewing later after dinner, or even download overnight in advance to have movies available for weekend viewing.

No need to worry if Blockbuster will have the movie available on busy Friday and Saturday nights. Also, no need to worry about the availability of the next Netflix movie in the queue, or the timing of the postal delivery of the physical DVD. The rate of uptake of online service vs the Netflix delivery model will be affected by the cost of service and the availability of movies. At the moment, Netflix has the cost advantage vs iTunes for households who consume a large number of titles on a constant basis.

They also have the long tail variety of title advantage at this moment. Both of these advantages can disappear when an online distributor, such as iTunes, builds their online catalog and offer a subscription service respectively. Blockbuster Total Access has similar characteristics to the Netflix subscription model, plus integrates with the bricks and mortar stores to adds bonuses. This battle between the two has led to a price war which gives these subscription services the price advantage but also cuts away most of the profit. Netflix will be around for a while, but your prediction of 5 more years of substantive growth is overly optimistic, unless as you say, they rethink their business model this year.

Apple is monetizing the their community by offering additional services to their installed base. Netflix is failing to do so by not building, on top of their dead-end low-profit commodity business, a community serviced by new original content created to differentiate their brand. Once, Netflix and Blockbuster move to online distribution, there will be a new level playing field. Each will have little or no advantage naturally arising from a consumer’s experience with the respective entity previous distribution business model. However, users of Apple technology will have an ecosystem of which AppleTV is but one part of the whole. There is a lot more stickiness to Apple’s business model than that of either Netflix or Blockbuster.

I would not own either stock right now. Tower Records had at least as good a customer experience as either of two. It is now a relic of the past because it failed to transition to the net. On the other hand, Apple is down about 35% from recent highs, even after having just announced a record quarter with historically high revenue, profit and cash flow, and with margins that are tending higher.

Further, Apple has four businesses with lots of room for growth for at least the next 2-3 years: Macs, iPods/internet appliances, phones, AppleTV/media distribution. It would be interesting to see if and when Apple gets into the content creation business to serve their much larger community, as you suggest Netflix do. There have been calls for Apple to start a record label. Jobs already did Pixar. It would not be a stretch to think that he could help Apple get into content creation.

As you can see, I agree with the market and don’t as much value in Netflix as you do unless something changes drastically. I would be looking to someone in a position to do well in the net sphere, like an Apple or an Amazon. Apple is making a lot of money, their products and business models look good, and their prospects for continued growth are solid. And as a value buyer Apple is back at a level that I can justify getting into.