

Netflix hbs case study essay sample

[Entertainment](#), [Movie](#)



Did Netflix do the same job for consumers that Blockbuster did? How did that evolve over time? When NetFlix entered the market, it sought to address voids left by brick and mortar video rental outlets. They focused on offering the first households to obtain DVD players with DVD rental content. Initially, Netflix adopted the pay-per-rental model. However, the online and mail format of Neflix's distribution model was less appealing to customers. It was less convenient - with only one distribution center located in Sunnyvale, CA, the majority of customers dealt with long delivery turn around times, plus the same frustrating late fees. Netflix eventually learned that they could not compete - and win - with incumbent video rental stores.

They experienced difficulty due to the high cost of acquiring the new/popular titles. They had no reputation or relationships to leverage. As a result, Netflix devised a profit sharing model with film distributors, and they developed a recommendation model to capitalize on the Internet platform, and deliver movies according to customer's preferences and Netflix's inventory. Brick and mortar establishments could not tailor the browsing experience the way an online rental outlet could (and Netflix learned from experience that the traditional retailing model was suboptimal on the net). Netflix changed from the pay-per-rental model to an unlimited rentals, subscription based model and eliminated late fees to drive their value proposition. Additionally, it ensured that subscribers always had a video at their home, which threatened Blockbuster's convenience factor. Compare Blockbuster's and Netflix's profit models. How might the difference affect the respective company strategies? Blockbuster's revenue stream was comprised of rental revenue, late fee revenue, and re-sales of former rental movies. Of the rental revenue, the

majority of rentals were the more expensive new and popular movies. They focused on being close in proximity to households, and having the most popular titles in stock.

Netflix's revenue stream consisted of subscription fees. For a flat rate per month, customers could hold a limited number of movies for an unlimited number of days. Blockbuster's strategy was to have high volumes of rental days - they aimed to be close in proximity to their customers to make this easy - and also received millions of dollars in late fees. Netflix's strategy was to drive value by conveniently bringing a wide selection of video content (new, old, major, and independent produced). Where will the money be in the VOD world?

VOD provides the best of what both brick and mortar video rental outlets and online renters bring. It represents a potential disruptive innovation because it abandons the need for customers to obtain some piece of physical to consume video content. It has the potential to render DVDs/Blue Rays obsolete by being available on demand, at home and on mobile devices. Currently, content owners are very powerful in that electronic media is governed by different rules than DVDs, and the content owners can set the price of popular titles prohibitively high limiting VOD content to less popular/older titles.

However, online rental retailers and communications companies (Verizon, Comcast, etc.) own the infrastructure and have established relationships with customers. The winner in the VOD market will be the entity or entities who strike a deal to get the most desired titles to the widest array of customers.